

The Corporation of the City of Windsor

Service Provider and Outsourced Services Governance and Management Internal Audit

Internal Audit Report

02 June 2017

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Summary of Internal Audit Results

Background Information

The Purchasing Bylaw applies to all purchasing activities carried out by the City and any City Board using the Purchasing Bylaw. Certain exceptions, such as employer expenses and governmental charges to and from other governmental bodies, are included in the Purchasing Bylaw. The Purchasing Bylaw includes the following:

- A dispute resolution process available to the suppliers;
- Approval limits of City Leadership Team (“CLT”) Members, Department Heads, and Chief Administrative Officer;
- Purchasing methods, including Small Purchase Orders (“SPO”), informal and formal quotations, Request for Tender (“RFT”), Request for Proposal (“RFP”), Contract Renewals and Extensions, and Contract Amendments and Revisions; and
- Under the provisions of the Purchasing Bylaw, the City may, but is not obligated to, at the discretion of the Chief Administrative Officer (“CAO”), suspend a supplier from participating in the City’s purchasing activity by reason of poor past performance by the supplier.

Operating Department Management initiate the requirements for purchases and contacts the Purchasing Department with the specifications. The accuracy and suitability of the requirements and specifications for the procurement of goods or services is the responsibility of the Operating Departments.

Purchasing methods are determined based on dollar threshold amounts as defined in the Purchasing Bylaw. Service providers are selected following one of the purchasing methods under the Purchasing Bylaw. Service providers are used throughout the City’s operations ranging from Waste Collection to Parking Enforcement, Parks and Forestry Service, and Recreation and Culture.

Where a contract contains an option for renewal, the Department Head may request the Purchasing Department to exercise such option provided that the supplier’s performance, under the prior term of the Contract, has been satisfactory, and the dollar amount does not exceed \$150,000.

Service providers engage their own staff and are responsible for complying with municipal, provincial, and federal laws and regulations.

Internal Audit Objectives

The Internal Audit scope for testing the effectiveness of the selected key controls for the scope areas are:

- Governance and oversight of outsourced service providers and suppliers;
- Inventory/awareness of outsourced service providers and suppliers;
- Initial and ongoing risk management considerations for the use of external parties;
- Ongoing cost-benefit and contract compliance management activities;
- Issue identification and dispute resolution;
- CLT and Council reporting on the current, ongoing, and planned role/performance;
- Dependency on external parties; and
- Service renewal process and considerations.

The scope period considered was from January 1, 2016 to December 31, 2016.

Scope Exclusions

- Third party service providers engaged directly by the Agencies, Boards and Commissions of the City of Windsor.
- The effective design, implementation and operation of the enabling Information and Technology (“IT”) environment and IT general controls.
- The effective design, implementation and operation of the City’s IT system and application controls related to the capture, processing, storage, reporting/presentation, and exporting of information and data.
- Controls over the completeness, accuracy, reliability, and validity of the evidence, information and data provided by management during the course of this review.

Linkage to the Internal Audit Plan

The review of Service Provider and Outsourced Services Governance and Management Internal Audit is part of the risk based 2016-2017 City of Windsor Internal Audit Risk Assessment and Plan approved by the Executive Committee of Council on May 30, 2016. As part of the Internal Audit Plan development, the process areas and controls are associated with mitigating and managing the following corporate risks: changes in strategy, litigation, conflicting priorities/demands, legislative and regulatory, budget breach, economic factors, funding, service failure, third party performance, employee turnover, compliance, planning and resource allocation, governance natural disaster, transparency, accounting and reporting, inter-departmental coordination, treasury/liquidity, fraud and corruption, and material resources.

Report Classification

Management has designed and implemented controls for most of the in scope objectives. Throughout the Internal Audit, we noted:

Control Environment

In general, department controls in the Service Provider Governance processes are sufficiently reliable. There is a governing bylaw which provides guidance and direction for all participants in the process, including assignment of authority and responsibility. We also considered how processes were standardized, such as determining what reports and templates were in place to determine the level of consistency throughout the departments. The bylaw is enforced by the departments throughout the Governance process.

Risk Assessment

According to the Purchasing Bylaw, among other things, the City strives to meet and balance the goals of openness, improvement, and accountability. In general, controls are designed to ensure that there is:

1. Equal access to suppliers for opportunities to benefit from the expenditure of tax dollars by the City; and
2. Accountability through the ongoing exercise of openness and transparency.

The individual risks of engaging service providers are reviewed and analyzed by the Purchasing Department. The requesting departments consider the risks of each project during the term of the contract and/or while writing the risk analysis section of the Council Reports.

Control Activities

Control activities, up to and including the execution of the contract, follow the controls expectations of the Purchasing Bylaw and the Procedure Manual.

Upon execution of the contract, the supplier is engaged to provide services to the City. Control activities at this stage are generally effective, although there are areas to consider for improvement for ongoing monitoring of service providers.











Information and Communication

Internal training sessions are conducted to ensure that City staff are aware of their responsibilities in managing the purchasing and procurement risks for their own department. External training sessions are provided to suppliers who are interested in doing business with the City.

Monitoring

The Purchasing Department has clearly defined responsibilities throughout the procurement process. They oversee the function and day-to-day operations of the Purchasing Department, ensuring the methods of purchase follows the Purchasing Bylaw. The department monitors supplier performance on an ongoing basis and provides feedback on supplier performance to the Purchasing Department for appropriate action.

Based on the controls identified and tested as part of the Internal Audit of the City of Windsor Service Provider and Outsourced Services Governance and Management process, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No major concerns noted	Cause for concern	Cause for considerable concern
For the objectives related to Governance and oversight and inventory/awareness of outsourced service providers				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to Initial and ongoing risk management and ongoing cost-benefit and contract compliance management				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to Issue identification and dispute resolution				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to CLT and Council reporting				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to Service renewal process				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

Summary of Positive Themes

Governance and Oversight

- Operating departments monitor the vendors' services through informal and formal communication, work orders, and invoice reviews, as required.
- None of the vendors in the sample selected were identified by management as performing unsatisfactorily.
- Sampled vendors for products and services greater than \$5,000 are engaged with a contractual agreement.

Inventory Awareness

- The City has a system in place to list the names and number of suppliers and is aware of the nature and types of contracts.

Initial and Ongoing Risk Management

- The City has built qualitative requirements, as applicable, such as Change Management, Performance Meetings, Health and Safety, Customer Service, Insurance into the third party contracts and legal agreements.
- Provisions of the Purchasing Bylaw regarding solicitations are adhered to.
- Most City staff have undergone training on the Enterprise Risk Management ("ERM") framework and consults with the Corporate Initiatives Department to analyze the risks pertaining to the suppliers and contracts and write the risk analysis section of the Council Reports. Training will continue to be provided on an ongoing basis.

Ongoing Cost Benefit

- Contract revisions and amendments are performed in accordance with the Purchasing Bylaw.

Issue Identification and Dispute Resolution

- The RFT, RFP or contracts with suppliers shifts the onus on the suppliers to know the relevant provisions of the Purchasing Bylaw relating to dispute resolution mechanism.

CLT and Council Reporting

- Contract renewal processes are in accordance with the Purchasing Bylaw and are signed off by the appropriate City staff.

Summary of Findings

Finding #	Topic	Rating ¹			Management Action Plan
		Significant	Moderate	Low	
Objective #1					
1	Monitoring of Supplier Issue and Risks		X		Management will develop a procedure around the use of the Vendor Management System in accordance with the Purchasing By-Law 93-2012.

¹ See Appendix A for Basis of Finding Rating and Report Classification

Objective #2					
2	Establishing a Service Provider Risk Register		X		Corporate Initiatives staff will continue to conduct departmental risk assessments to develop risk registers for each department.
Total Audit Findings					

Summary of Significant Findings

No significant findings were noted within or during the scope of Internal Audit's work.

Management Comments

Overall governance of external contractors is managed throughout the procurement and implementation process. Management supports the importance of the existing Vendor Management System ("VMS") and the ability of the City to evaluate the performance of the supplier and supports efforts to further strengthen this system.

Name: Shelby Askin Hager

Title: City Solicitor and Corporate Leader, Economic Development and Public Safety

Date: 26 June 2017

Detailed Observations

1. <i>Monitoring of Supplier Issues and Risks</i> (Design and Operating Effectiveness)			Overall Rating: Moderate
Impact:	Medium	Likelihood:	Likely
<p>Observation: In 18 of the 19 samples selected, the required Vendor Management System (“VMS”) supplier assessment used to track supplier risks, issues and performance feedback was not available. We noted that the requirement to complete the VMS supplier assessment questionnaire is not a requirement but optional.</p> <p>The questionnaires enable the Purchasing Department to evaluate the performance of the supplier. The questionnaires are to be completed annually for multi-year projects or services and at the completion of shorter projects. Where the supplier provides services to multiple departments, the Purchasing Department generates a Report Card for the supplier comparing the supplier performance for various projects.</p> <p>The City has not developed a standard operating procedure to track the supplier issues and risks. The operating departments track their own supplier issues and risks on an informal and sometimes formal basis. We noted during the internal audit, that in 11 of the 19 contracts sampled, the departments had not formally documented the identification, tracking, and closing of the key supplier risks and issues.</p> <p>In September 2014, the Procurement, Purchasing and Payable Internal Audit raised a finding related to Vendor Performance Evaluation and Consideration (#7) which management provided evidence of the development and implementation of the control practice for closure as of November 30, 2015; however, the operational effectiveness testing of this remediated control conducted during the current Internal Audit has indicated that intended control is not operating effectively and consistently.</p>			
<p>Implication: If the supplier performance is unsatisfactory, a department may not engage the supplier in the future. However, the supplier may continue to provide satisfactory services to other departments. When questionnaires are completed, the Purchasing Department can compare supplier performance across multiple departments and analyze the reasons for the difference in performance. In other circumstances, a poor performing supplier could continue to participate in the City’s purchasing activities thereby affecting the City’s operational and strategic objectives.</p> <p>Informal procedures to track the supplier issues and risks could lead to different standards of resolving supplier issues, risks, and complaints across the City.</p>			
<p>Possible root cause: The City has not developed a standard operating procedure for tracking, aggregating, and closing supplier issues and risks by supplier, service type, and owners.</p> <p>VMS system exists to document vendor performance; however, the Operating Departments are not required to utilize the VMS questionnaires on a regular basis, as the City does not have a mandatory policy on completing the questionnaires.</p>			
<p>Recommendation: A standard operating procedure, including the mandatory use of VMS, should be developed to enable the departments to identify, track, and close key risks. The City should identify other matters to be incorporated in the standard operating procedures that would enable the City to reduce operational costs, increase revenues, and gain efficiencies in supplier management performance. Risks should be aggregated by service provider, by supplier, by service, and by owners/responsible City personnel.</p>			

Management Action Plan

<p>Action Plan: Management agrees to the importance of the Vendor Management System (“VMS”) and the ability of the City to evaluate the performance of the supplier.</p> <p>Management will develop a procedure around the use of the VMS in accordance with the Purchasing By-Law 93-2012. Increased compliance to the use of the VMS will enable the departments to identify and track performance.</p> <p>While resolving this finding, management may concurrently consider incorporating in the above procedure directions on how to reduce operational costs, increase revenues, and gain efficiencies in supplier management performance. .</p>	<p>Responsible Party:</p>	Purchasing Department
	<p>Due Date:</p>	2018 Q2

<p>2. Establishing a Service Provider Risk Register (Design/Operating Effectiveness)</p>			<p>Overall Rating: Moderate</p>
<p>Impact:</p>	Medium	<p>Likelihood:</p>	Likely
<p>Observation: The ERM Framework defines that Project Managers and Operations Manager should manage risks associated with projects and services using a Risk Register. During our testing we did not note the use of Risk Registers for our major sampled service providers; Gardaworld, Green for Life and Canadian Corps of Commissionaires. In some cases, management had not been trained on the ERM Framework or properly segregated the contracts according to the ERM Framework.</p>			
<p>Implication: When risks are not defined and managed within a Risk Register, management may miss an opportunity to mitigate the risks and maintain a record of the types of risks associated with the project or supplier. This could impact future learning opportunities at the City or result in risk exposure.</p>			
<p>Possible root cause: Green for Life and Canadian Corps of Commissionaires contracts were implemented before the ERM Policy and the ERM Framework was implemented and retroactive consideration was not required.</p>			
<p>Recommendation: Management should define major third party service providers in terms of risks and contract values and ensure that Risk Registers are developed for these services. The Risk Registers should identify the risks, risk owners, any mitigation strategies, and actions taken to mitigate the risks. Further, the Risk Registers and periodic risk status updates should be made available to the Enterprise Risk Management Working Committee. The Enterprise Risk Management Working Committee should review the Risk Registers and recommend further actions to mitigate the risks or document the rationale where no further actions were required.</p> <p>Risks should be aggregated by service provider, by supplier, by service, and by owners/responsible City personnel.</p>			

Management Action Plan

Action Plan:	Responsible Party:	Enterprise Risk Management Working Committee
<p>Management agrees that ideally major third party service providers should be defined in terms of risks and contract values and that risk registers should be developed for these services. It is our view, however, that such an endeavour outside of current processes would require additional appropriate dedicated resources to develop and manage.</p> <p>In order to avoid the added need for expenditures, it is noted that as part of the implementation of the ERM Framework and Policy, Corporate Initiatives staff are continuing to conduct departmental risk assessments to develop risk registers for each department. As part of the departmental risk assessment process, key risks related to departmental objectives and service delivery are identified, analyzed and evaluated. This process will capture any significant or critical risks related to major third party service providers. In compliance with the Risk Monitoring and Reporting Procedure, departmental risk registers and annual departmental risk reviews are reviewed by the ERM Working Committee for evaluation, recommendations and the referral of cross-corporate risks to the ERM Governance Committee.</p> <p>Given the various competing priorities and the current maturity of the Corporation's ERM program, administration will continue to capture key risks related to third party service providers through the departmental risk assessment process. Third party service provider risks will continue to be aggregated by department and identified under the third party performance enterprise risk. Any risks identified under the third party performance enterprise risk will be provided to the Purchasing Division for review. Further aggregation may be considered when the Corporation's ERM program maturity dictates the need.</p>	Due Date:	2017 Q4

Considerations for Improvement

1. *Execute Right to Audit as needed*

Observation:

Departments monitor the performance of the suppliers on an ongoing or as needed basis through ongoing supervision of the work performed. Although the RFT/RFPs provide the City with the right to audit the services of the supplier and the fulfilment of the supplier's obligations under the contract, we did not observe any rights to audit executed by the City for our samples selected.

Recommendation:

A standard operating procedure to initiate a right to audit of the supplier should be formulated. The standard operating procedure should specify the risks, value of the contract, or third party service providers that could have strategic implications for the City that may warrant a right to audit. Upon the conduct of an audit, the City should sign off on the Service Provider Risk Register indicating that the risk has been mitigated to an acceptable level.

Appendix A: Basis of Findings Rating and Report Classification

Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> History of regular occurrence of the event. The event is expected to occur in most circumstances.
Likely	<ul style="list-style-type: none"> History of occasional occurrence of the event. The event could occur at some time.
Unlikely	<ul style="list-style-type: none"> History of no or seldom occurrence of the event. The event may occur only in exceptional circumstances.

Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value ²	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgmental Assessment	<p>Internal Control Significant control weaknesses, which would lead to financial or fraud loss.</p> <p>An issue that requires a significant amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> · Failure to meet key strategic objectives/major impact on strategy and objectives. · Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> - Loss of key competitive advantage/opportunity - Loss of supply of key process inputs · A major reputational sensitivity e.g., market share, earnings per share, credibility with stakeholders, and brand name/reputation building. <p>Legal/Regulatory Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgmental Assessment	<p>Internal Control Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p>An issue that requires some amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> · No material or moderate impact on strategy and objectives. · Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives. <ul style="list-style-type: none"> · Moderate reputational sensitivity. <p>Legal/Regulatory Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgmental Assessment	<p>Internal Control Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> · Minimal impact on strategy. · Disruption to normal operations with no effect on achievement of corporate strategy and objectives. <ul style="list-style-type: none"> · Minimal reputational sensitivity. <p>Legal/Regulatory Regulatory breach with minimal consequences.</p>

² Dollar value amounts are agreed with the client prior to execution of fieldwork.

Audit Report Classification

Report Classification	The Internal Audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> • Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified. • Material losses have occurred as a result of control environment deficiencies. • Instances of fraud or significant contravention of corporate policy detected. • No action taken on previous significant audit findings to resolve the item on a timely basis.
Cause for concern	<ul style="list-style-type: none"> • Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Losses have occurred as a result of control environment deficiencies. • Little action taken on previous significant audit findings to resolve the item on a timely basis.
No major concerns noted	<ul style="list-style-type: none"> • Control design improvements identified, however, the risk of loss is immaterial. • Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. • Some previous significant audit action items have not been resolved on a timely basis.
No or limited scope for improvement	<ul style="list-style-type: none"> • No control design improvements identified. • Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial. • All previous significant audit action items have been closed.

Appendix B:

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

We have undertaken the Service Provider and Outsourced Services Governance and Management Internal Audit, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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