

City of Brampton Vendor Performance Management Audit– Final Audit Report
Private & Confidential

Audit Name	City of Brampton, Vendor Performance Management Audit		
Sponsor(s)	Michael Davidson, Commissioner, Corporate Support Services Gina Rebancos, Director, Purchasing Diane Oliveira, Manager, Purchasing Claudia Santeramo, Manager, Procurement Performance		
Business Unit	Purchasing, Corporate Support Services	Date Issued:	November 15, 2021

1.0 Executive Summary

Audit Report Rating: Processes and controls over Vendor Performance are rated as “Significant Improvement Required”. See **Appendix 2** for the criteria for Audit Report Rating.

Inherent risk was evaluated as high given the high dollar value of active and closed contracts during our review period.

During our review, we observed the following strengths across the organization:

- Contracts include clear obligation requirements and terms that allow the City to take appropriate action if goods or services are not delivered or provided.

Internal Audit discussed the following improvement opportunities with Management:

- Vendor Performance scorecards used to evaluate vendors are not being consistently filled out by contract managers within operating departments.
- Improved management oversight is needed to monitor overall compliance and effectiveness of the Vendor Performance Evaluation program.
- Integration of electronic workflows should be considered to streamline the data collection process and facilitate utilization of the information for management decisions.

In the other matters section, we note issues observed in the audit which pose no or low future risk, but should still be considered by Management.

These issues and associated management action plans are explained in more detail within the body of this report.

2.0 Background, Objectives, and Scope

Background

The 2021 Internal Audit work plan included an audit of Vendor Performance Management.

The City of Brampton (“City”) procures a wide range of goods and services in order to support both the City’s operations and to ensure delivery of services.

At a glance:

- As of May 12, 2021, there were 1,186 active contracts for a total contract value of \$1.14B (with total associated billing of \$814M).
- 383 contracts with a value of \$375M (with total associated billing of \$318M) were closed/completed during the audit review period of May 1, 2020 to April 30, 2021.

Effective vendor performance management is critical for ensuring vendors are delivering the goods or services required to meet budget, timeline and quality expectations while providing value for money to the City. In order to manage vendor performance, Purchasing introduced the Vendor Performance Evaluation Standard Operating Procedures (“VPE”, “SOP”), which serves as a formal tool to assess vendor performance, provide feedback, acknowledge satisfactory performance, and rectify any deficiencies.

The VPE process is managed at the Purchasing division level, while individual vendor evaluations for each contract is conducted by the respective department’s Contract Managers using “scorecards” at intervals defined within the SOP. Poor performance may result in the vendor’s suspension from future bidding opportunities for a one or three year period.

At the time of audit, the VPE applies to all construction and construction-related consulting contracts with a value of \$100,000 or greater. As of August 1, 2021, this has been expanded to include service contracts. Regardless of whether a contract falls under the application of the SOP, for all contracts, Contract Managers will monitor performance and evaluate vendors using their own methodology to ensure goods and services received are meeting their expectations.

Objectives

The objective of the audit was to evaluate the processes and controls in place over vendor performance management, to identify strengths and weaknesses, and provide recommendations for improvement.

The period under review includes all active contracts as of May 2021 and contracts closed during the period of May 1, 2020 to April 30, 2021.

This scope of our review included:

- Reviewing policies, procedures, and guidelines in place to manage vendor performance across the City
- Assessing compliance to existing policies and procedures over vendor performance
- Reviewing vendor management processes in place for contracts selected on a sample basis
- Assessment of processes in place to act on any performance issue

Scope Limitations

The scope of our review did not include:

- Procurement planning, contract negotiation, and contract awarding process
- Detailed review of the accuracy and completeness of vendor invoices (i.e. financial aspects)
- Contracts examined in detail in the past two years, such as Snow Removal, Contracted Cleaning, Transit Advertising, Employee Benefits

3.0 Detailed Audit Findings and Proposed Management Actions

Ref #	Audit Findings	Finding Rating	Audit Recommendations	Management Response and Due Date	Responsible Party
1	<p><u>Vendor Performance Evaluation Effectiveness</u></p> <p>The Vendor Performance Evaluation (VPE) is the City's internal tool for evaluating vendor performance, providing feedback, improving performance improvement and acknowledging satisfactory or above average performance when considering eligibility for future contract awards.</p> <p>The VPE SOP came into effect on July 1, 2018 and was applicable for construction and related consulting contracts. As of August 1, 2021, the scope of the VPE SOP was expanded to cover service contracts.</p> <p>To complete a VPE, Contract Managers (i.e. the employee primarily responsible for the project and evaluating performance) complete the scorecards based on frequencies defined in the VPE SOP.</p> <p>Internal Audit reviewed 40 active and closed construction and related consulting contracts (total value of \$110M) within three Public Works and Engineering divisions for compliance with the Vendor Performance Evaluation SOP, including whether vendor scorecards were completed based on required frequencies and whether the scorecards were forwarded to Purchasing for further action.</p> <p>Overall, the VPE scorecards are not being consistently completed based on the defined</p>	P1	<p>1a. Purchasing should conduct refresher training with Contract Managers on a regular basis to ensure the VPE SOP is complied with.</p> <p>1b. Operating Departments should ensure Contract Managers within their areas are aware of Vendor Performance Evaluation obligations.</p>	<p>1a. Agreed.</p> <p>Purchasing will establish VPE training program to be provided semi-annually to Contract Managers starting Q1 2022.</p> <p><i>Due date: Q1 2022</i></p> <p>1b. Agreed.</p> <p>See responses by division management below.</p> <p><u>Building Design and Construction</u></p> <p>1. Adopt the Corporate VPE SOP by creating a BDC Divisional SOP. This will identify BDC's additional tasks, establishing internal database for performance tracking and identifying Contract Manager's roles and responsibilities.</p> <p>2. Request Purchasing to provide updated training to BDC staff regarding Vendor Performance timelines and</p>	<p>Manager, Purchasing</p> <p>Business Advisor, Building Design & Construction</p>

Ref #	Audit Findings	Finding Rating	Audit Recommendations	Management Response and Due Date	Responsible Party
	<p>intervals within the SOP and they are not always forwarded to Purchasing where the information can be utilized for decision-making or further action.</p> <p><i>Detailed results from Public Works and Engineering:</i></p> <ul style="list-style-type: none"> For Building Design & Construction, 4 contracts (total value of \$11.5M) did not have a sufficient number of VPEs completed for the interim and final evaluation. 4 contracts (total value of \$4.9M) did not have any VPEs completed, although vendors had completed the work substantially and billed the City. For Road Maintenance Operations and Fleet, 4 contracts (total value of \$3.2M) did not have any VPEs completed although vendors had completed the work substantially and billed the City. There was 1 contract where the scorecard was not forward to Purchasing. For Capital Works, 2 contracts (total value of \$1.9M) did not have any VPEs completed although vendors had completed the work substantially and billed the City. 7 contracts (total value of \$8.5M) did not have a sufficient number of VPEs completed for the interim and final evaluation. In 5 out of 7 contracts, completed evaluations for these contracts were not forwarded to Purchasing. <p>We discussed with the operating departments the reasons for non-compliance with the SOP, which included:</p>			<p>responsibilities.</p> <p>3. BDC Hiring Managers to ensure new recruits receive information and training regarding Vendor Performance requirements. Upon completion, this training is to be documented for historical information purposes.</p> <p>4. Engage Purchasing to identify if we can receive from them, on a bi-annual basis, a report noting contracts over \$100,000 and # of VPEs received. This will allow BDC to review the contracts with no VPEs and rectify.</p> <p>5. VPEs have been included as part of our Mandatory Project Documentation SOP and will be audited on a bi-annual basis during BDC's Internal Mini Audit.</p> <p>6. Meetings with Purchasing will be scheduled to discuss effectiveness of the Corporate Performance Management program, specifically as it relates to concerns within PWE.</p>	

Ref #	Audit Findings	Finding Rating	Audit Recommendations	Management Response and Due Date	Responsible Party
				<p>issued and the Contract Managers will be including information when they complete the Vendor Performance Evaluation, including the date it is sent to Purchasing (sample attached). Also a meeting has been set up with Purchasing in October with divisions in Public Works & Engineering to see how to improve the SOP.</p> <p>A training session will also be set up with staff later in the year to discuss the SOP and the forms to ensure everyone is aware of the process.</p> <p><i>Due date: Q4 2021</i></p>	
2	<p><u>Oversight and Utilization of Vendor Performance Evaluation Data</u></p> <p>Management oversight of the vendor performance evaluation process is required to ensure it is operating effectively and allow full utilization of the data collected to inform procurement decisions.</p> <p>Currently, Purchasing does not systematically check for the completeness of scorecards against other sources (such as Purchase Order listings). As a result (and noted in Observation #1), scorecards that were completed by Contract</p>	P3	<p>2. Develop methods to monitor the adequacy of the Vendor Performance Evaluations.</p> <p>3. Implement an electronic workflow to manage Vendor Performance Evaluations to:</p> <ul style="list-style-type: none"> • incorporate automated reminders to increase compliance rate • improve timeliness of collecting evaluations from departments • enable monitoring effectiveness of the VPE process 	<p>2. Agreed.</p> <p>Management will establish central point of contact for submission of Vendor Performance Evaluations, and share access to VPE tracking report with departments.</p> <p>Management will explore interim process to verify completeness and</p>	Manager, Purchasing

Ref #	Audit Findings	Finding Rating	Audit Recommendations	Management Response and Due Date	Responsible Party
	<p>Managers were sometimes filed only within the Department's project files and not forwarded to Purchasing, or the scorecards were not completed entirely.</p> <p>Once scorecards are received by Purchasing, it is tracked in a master spreadsheet that is manually updated for scorecard data. Internal Audit did not identify any errors with the master spreadsheet. There is currently no reporting or analysis of vendor performance data once received, and the data that is currently collected is not shared amongst the organization.</p> <p>Based on our discussions with Departments, there is an assumption that Purchasing will inform them as needed if they are engaging with poorly performing vendors. Departments have also expressed an interest in being able to "look up" vendor scores and histories to assist them in evaluating bidders on future procurement opportunities.</p> <p><u>Potential exposure</u></p> <p>Without timely and complete vendor performance evaluation data, the City could be entering into contractual agreements that pose a higher business risk due to vendors with poor performance history.</p>		<ul style="list-style-type: none"> allow for overall reporting and analysis Facilitate sharing of information across the organization. 	<p>submission of scorecards against Purchase Orders.</p> <p><i>Due date: Q1 2022</i></p> <p>3. Implementation of electronic Vendor Performance module to automate, streamline and monitor evaluations for compliance with SOP. Automation will allow for analysis and reporting to inform decisions.</p> <p><i>Due date: Q4 2022</i></p>	<p>Manager, Procurement Performance</p>

4.0 Other Matters	
Ref #	Observations and Comments
1	Internal Audit reviewed the current scorecard templates, and discussed the experience of using the VPE scorecards with Contract Managers. This was done with the objective of gathering opportunities for improvement, which should in turn increase the likelihood that the VPEs are being conducted entirely, consistently, and in a timely manner. Feedback included: using electronic workflows that will automatically submit forms, flexibility to weigh rating categories based on importance, clarifying the scoring system (unclear if it was out of 9 or 10), and more in-depth guidance on scoring. Some of these points have been incorporated into the recommendations above.

Appendix 1 – Criteria for Evaluating Audit Findings

Priority Rating	Description
<p>Priority 1 (P1)</p>	<p>One or more of the following conditions exist that require immediate attention of the Senior Leadership Team. Corrective actions by senior management must be implemented.</p> <ul style="list-style-type: none"> • Financial impact of both actual and potential losses is material • Management’s actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remedy such deficiencies on a timely basis will result in the City being exposed to immediate risk and/or financial loss • One more of the following conditions is true: i) management failed to identify key risks, ii) management failed to implement process and controls to mitigate key risks • Management’s actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised • Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff • Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (Policy 2.14)
<p>Priority 2 (P2)</p>	<p>One or more of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.</p> <ul style="list-style-type: none"> • Financial impact of both actual and potential losses is significant • Management’s actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments etc.) to mitigate associated risks • Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not appropriate or adequate in design, ii) the processes and controls are not operating effectively on a consistent basis • Management’s actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised • Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments • Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties • Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs

Appendix 1 – Criteria for Evaluating Audit Findings

Priority Rating	Description
(Priority 3) P3	<p>One or more of the following conditions exist that require attention by management. Corrective actions by management should be implemented.</p> <ul style="list-style-type: none">• Financial impact of both actual and potential losses is insignificant• A non-key process or control, if compromised, may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks• Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively• Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.• Low impact to the City’s strategic or key initiative• Low impact to the City’s operations

Appendix 2 – Criteria for Audit Report Rating

Rating	Description
<p>Effective</p>	<ul style="list-style-type: none"> • Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks • Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes • One or more Priority 3 Findings • Insignificant cumulative financial impact when all audit findings have been considered • Audit findings would not be subject to a follow-up by Internal Audit
<p>Improvement Required</p>	<ul style="list-style-type: none"> • A few control weaknesses were noted that require enhancements to better support objectives and manage risks • One Priority 2 and Priority 3 findings • Priority 3 findings only where the cumulative financial impact is significant • Corrective action and oversight by management is needed • Audit findings could be subject to a follow-up by Internal Audit
<p>Significant Improvement Required</p>	<ul style="list-style-type: none"> • Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks • One Priority 1 finding or more than one Priority 2 findings and Priority 3 findings • Priority 2 and 3 findings only where the cumulative financial impact is significant • Corrective action and oversight by senior management is required • Audit findings will be subject to a follow-up by Internal Audit
<p>Immediate Action Required</p>	<ul style="list-style-type: none"> • Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks • More than one Priority 1 finding, combined with Priority 2 or 3 findings • Regardless of the type of findings, the cumulative financial impact is material to the City’s financial statements. • Confirmed fraud by management or staff • Corrective action and oversight by Senior Leadership Team is required immediately • Follow-up of such audit findings by Internal Audit would be of high priority

Report Distribution List	
David Barrick	Chief Administrative Officer
Michael Davidson	Commissioner, Corporate Support Services
Gina Rebancos	Director, Purchasing
Diane Oliveira	Manager, Purchasing
Claudia Santeramo	Manager, Procurement Performance
David Bottoni	Director, Building Design & Construction
Mike Parks	Director, Road Maintenance, Operations & Fleet
Tim Kocialek	Director, Capital Works

Internal Audit Team	
Richard Gervais	Acting Director, Internal Audit
Gurpreet Singh	Acting Director, Internal Audit
Mary Chu	Senior Internal Auditor