



**Office of the Auditor General: Report on Audit
Follow-ups, Tabled at Audit Committee –
November 9, 2017**



Office of the Auditor General

November 9, 2017

Mayor, Members of Audit Committee and Council,

I am pleased to present this report on follow-ups of audits carried out by the Office of the Auditor General of the City of Ottawa.

The report includes an overview and an executive summary for each of the follow-ups conducted.

Respectfully,

A handwritten signature in black ink that reads 'Ken Hughes'.

Ken Hughes

Auditor General



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Progress toward improvement

The Office of the Auditor General (OAG) conducts audit follow-ups two to three years after an audit is complete to afford management time to implement the recommendations. A follow-up may be conducted sooner if corrective action is complete. The OAG adheres to the best practices and professional standards of the international audit community by including the practice of audit follow-ups. The Audit Process includes the Planning Phase, the Fieldwork Phase, the Reporting Phase, and finally, the Follow-up Phase. In the follow-up, the OAG evaluates the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations. This evaluation ensures that the required measures, promised by management and approved by Council, have been implemented. Accordingly, the follow-ups in this report were conducted according to the OAG's 2015 Work Plan.

The audit follow-ups contained in this report include:

- Audit of Construction Supervision
- Audit of Specific Contracts and Processes in Fleet Services Branch
- Review of City Funding to Ottawa School of Speech and Drama

As can be seen in the next section, it is clear from the results of these follow-ups that management is committed to the audit process.

Summary and assessment of overall progress made to date on audit recommendations

Audits are designed to improve management practices, enhance operational efficiency, identify possible economies and address a number of specific issues. The Follow-up Phase is designed to identify management's progress on the implementation of recommendations from the audit reports. This report is not intended to provide an assessment of each individual recommendation. Rather, it presents our overall evaluation of progress made to date across all completed audits. Should Council wish to have a more detailed discussion of specific follow-ups, OAG staff are available to do so.

The table below summarizes our assessment of the status of completion of each recommendation for the above-noted audit follow-ups.

Table 1: Summary of status of completion of recommendations

Follow-up	Total	Complete	Partially complete	Not started	No longer applicable
Construction Supervision	13	10	3	-	-
Specific Contracts and Processes in Fleet Services Branch	8	5	1	-	2
City Funding to Ottawa School of Speech and Drama	3	2	1	-	-
Total	24	17	5	-	2
Percentage	100%	71%	21%	-	8%

We have categorized each of the audit follow-ups based upon the following criteria:

- **Solid progress** = 50% or more of the recommendations evaluated as ‘complete’.
- **Little or no progress** = 50% or more of the recommendations evaluated ‘not started’.
- **Gradual progress** = all others.

Solid progress:

- Audit of Construction Supervision
- Audit of Specific Contracts and Processes in Fleet Services Branch
- Review of City Funding to Ottawa School of Speech and Drama

With these audit follow-ups now complete, no further work to review the implementation of these recommendations is intended by the OAG. However, as a result of the annual work plan and/or Council requests, new audits in any of these areas may occur in the future.

Executive summaries – Audit follow-ups

The following section contains the executive summary of each of the audit follow-ups.

Follow-up to the Audit of Construction Supervision

The Follow-up to the 2012 Audit of Construction Supervision was included in the Auditor General's 2015 Audit Work Plan.

The original audit identified opportunities for the City to improve the effectiveness of its construction supervision processes. The key findings raised in the original audit included:

- The City's procurement is performed by Supply Services in accordance with the Purchasing By-law. The City did not have a policy, consistent practice or system to record and evaluate the performance of contractors on the delivery of construction related contracts for design, construction and contract administration services on previous City contracts. Consequently, this information was not used during the bid evaluations when awarding a new construction contract;
- A change order refers to work that is added to or deleted from the original scope of work of a construction contract and can alter the original dollar amount and/or completion date of a project. In some instances, part of, or the entire cost of the change orders were due to consultant's errors and/or omissions. We found that the City did not always attempt to recover these additional costs from the consultant; nor was there a consistent approach to encourage project managers to recover costs when warranted;
- In one project examined, Dunrobin Road culvert, procedures for the evaluation of renewal alternatives for bridges and bridge-culverts was not followed. Consequently, the road flooded causing the embankment to be washed out and repaired multiple times resulting in costs and impacts to residents which could have been avoided;
- A Real Time Control System (RTCS) is a custom-designed computer-assisted system used, in certain areas of the City, to manage the urban sewerage network. During a rainfall event, the RTCS is activated to control flooding, overflows or surcharges by redirecting the flow to storage areas. Before contractors can perform work on a section of the sewerage network (sanitary, storm, or combined sewers), they are required to submit to the City, for its approval, how they plan to manage the sewer flow (e.g., how they will by-pass the sewer section they are working on). The construction contract documents did not specify the constraint of the RTCS and the potential effects on the sewer system and so the contractor prepared a sewage by-pass plan not knowing the tunnel could flood.

Consequently, a major sewer surcharge caused by the operation of the RTCS resulted in additional costs of over \$200,000;

- Design and Construction use a Project Intake Form for projects originating from other departments and a Scoping Document for projects initiated by Asset Management. The Project Intake Form and the Scoping Document provide the description of the work that is expected to be performed under a particular contract. These documents did not include a section that explicitly detailed commitments made by all departments. As a consequence, a project was designed without knowledge of an existing agreement resulting in work having to be redone at an additional cost;
- The hourly rate for police assistance at intersections specified in the contract documents provided contractors excessive profit. The City paid contractors a substantially higher rate than the actual cost for police assistance. The City could decrease its costs by reducing the hourly rate in the contract documents, or by paying for the service directly to Ottawa Police Service;
- Water transmission mains convey large volumes of treated water over long distances from a water treatment plant to a water distribution system. The City did not have a program for inspecting its critical water transmission mains. Following a watermain failure, the City carried out an assessment of the pipeline condition and found that certain inspected pipes were damaged; and,
- Construction bidding opportunities were only available through the Ottawa Construction Association (OCA), unless the project required highly specialized contractors, in which case the City posted them on MERX (an electronic tendering service). By advertising tenders more extensively, the City would benefit from greater competitive exposure.

Table 2: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	13	10	3	-	-
Percentage	100%	77%	23%	-	-

Conclusion

Management has made good progress in fully implementing 10 of 13 recommendations.

The original audit recommended and management agreed to develop a policy or procedure to document the reason for a change order (i.e., work added to or deleted from the original scope of work of the contract) and to recover its costs when the change order was due to a design error or an omission made by a consultant.

Our work confirmed that Infrastructure Services department (ISD) has developed a Change Order Rationale form and has documented its required use in the ISD Project Delivery Manual. However, while project managers are aware of the new form and requirement, our testing demonstrated a lack of compliance with the requirement. Additional efforts are needed to ensure project managers complete the Change Order Rationale form to enable the City to recover costs when warranted.

The 2012 audit also recommended that the City document the performance of contractors on City contracts and use this information when awarding new work. To address this, since 2015, the City has monitored, evaluated and recorded contractor and consultant performance on the delivery of construction related contracts for design, construction and contract administration services through the Vendor Performance Management (VPM) module within the MERX website. We also found that there is currently no process to ensure that all applicable projects/contracts have been entered to VPM for evaluation. The process to document vendor performance is an important activity to ensure the best contractors are selected for future contracts. As the process relies on the Project Manager to provide the information, and a purchasing clerk to enter it into the VPM, there is no assurance that this information is being captured by the VPM each time it is appropriate.

The City is gathering and analysing contractor past performance and is reporting this information to Council. The City is planning to implement the use of vendor scores in bid evaluation when awarding construction contracts in Q1 2018. Having contractors' prior history of performance available to inform the contract award decisions is an important tool to prevent the renewal or award of contracts to contractors with poor performance records.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

Follow-up to the Audit of Specific Contracts and Processes in Fleet Services Branch

The Follow-up to the 2013 Audit of Specific Contracts and Processes in Fleet Services Branch was included in the Auditor General's 2015 Audit Work Plan.

The key findings of the original 2013 audit included:

Parts and Inventory Management Program Agreement

- NAPA was awarded a contract in accordance with pre-determined criteria in the RFP using fair and open process during the evaluation and the contract award. The average annual value of the parts issued was approximately \$6.9 million for the years 2012-2014.
- Fleet Services achieved budget savings of \$3.94 million as of 2013. However, approximately 35% of the savings came from items not identified in the initial ServiceOttawa - Fleet Management Transformation Initiative business case.
- The decision at an Executive Committee meeting to allow departments to use other adjustments to achieve the yearly budgetary reductions allocations was not well documented.
- Our analysis noted an 11.8% increase in the cost of parts including the fee payable to NAPA of 10% and no demonstrable improvements of equipment downtime. The Fleet Management Transformation Initiative had projected a 7% net increase once the 10% NAPA fee is included.
- Fleet Services' analysis indicates that parts delivery delays can be significant. As of November 2013, the service provider had incurred penalties for the months of May, June, and July 2012, as well as July, August and September 2013 of \$104,740 cumulatively for delays. However, under the current terms and conditions of the contract, penalties do not increase the longer the delays remain outstanding.
- NAPA utilizes City space for parts delivery. Future contracts that eliminate the requirement for this service provider to be on-site has the potential to save approximately \$100,000 per year.

Kal Tire Contract

- Standing Offer estimated at \$2.4 million for a three- year period to provide labour and materials for the provision of tire services, repairs, recaps, retreads and specialty tires not available through the National Accounts established with major tire providers. The tire inventory is not held on City property.

- RFP re-issued on September 21, 2010, and in our opinion the contracting process was conducted in a fair and open manner. Kal Tire was the successful proponent having the lowest price per point.
- Standing Offer has limited metrics to assist the City in assessing the vendor's performance, and the contract also does not provide for penalties in the case of non-performance.
- City lacks a method to collect the performance data required and must flag concerns to Kal Tire on a case-by-case basis. To-date, three default letters were sent to Kal Tire.
- Reliance is placed on Kal Tire to select, stock, track and utilize used tires. However, there is no data available for reporting on the status of the used inventory or on the disposal of used tires.
- A significant portion of the used tire inventory is kept outside in conditions that negatively impact their condition and usability.
- A significant volume of tire service work goes to non-Kal Tire vendors (29%; or \$425,000 of January to October 2013 expenditures of \$1.47 million) although there is no formal mechanism to allocate the work based on the results of the initial RFP.
- The City has for many years outsourced its roadside servicing related to tires; and as such, no savings were projected. However, it did project that better overall "program management" would save money.

Table 3: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	8	5	1	-	2
Percentage	100%	62.5%	12.5%	-	25%

Conclusion

Management has been proactive in addressing the recommendations as five out of six recommendations that are still applicable are complete. Two of the eight original recommendations are no longer applicable due to changes made to the service delivery approach. In 2016, the NAPA contract was cancelled and the fleet parts inventory program was brought back under City management.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

Follow-up to the Review of City Funding to Ottawa School of Speech and Drama

The Follow-up to the 2014 Review of City Funding to Ottawa School of Speech and Drama (OSSD) was included in the Auditor General's 2015 Audit Work Plan.

The original review was conducted as a result of a 2014 Fraud and Waste Hotline report regarding the City's funding to OSSD which ceased operations in February 2014.

The key findings of the 2014 review included:

- A site plan control application for 99 Parkdale approved by the City in April 2013 included the reference to a donation¹ in the amount of \$50,000 to be paid to OSSD by the developer.
- Management indicated they were only made aware in early 2014 that the community benefit contribution had already been paid by the developer to OSSD. While the Site Plan application was approved, management did not know the timing of the developer's payment as it was not made through the City's standard procedures for posting securities and making payments through the site plan approval process.
- Separately, the City also provided \$60,000 in loans/advances to OSSD, of which there was an outstanding balance of \$15,000 that was uncollectible. Despite OSSD having an outstanding loan and a significant deficit, more frequent interim progress reports towards achieving their deficit reduction plans and heightened review of their operations were not in place.

Table 4: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	3	2	1	-	-
Percentage	100%	67%	33%	-	-

¹ The Planning Act provides the authority for Municipalities to pass zoning by-laws to authorize an increase in the height and/or density of development in return for provision of community benefits. At the time the City handled these community benefits under Section 41 of the Planning Act as a Site Plan Approval. Such transactions are now handled under Section 37.

Conclusion

Management has been proactive in addressing the recommendations as two out of three recommendations are complete and the other recommendation is partially complete.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.