



**Office of the Auditor General: Follow-up to the
2013 Audit of Specific Contracts and Processes
in Fleet Services Branch, Tabled at Audit
Committee – November 9, 2017**

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Executive summary

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 1: 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.

Detailed report – Assessment of implementation status

The detailed section of this report is currently available in English only. The French version will be available shortly. For more information, please contact Ines Santoro at 613-580-2424, extension 26052.

La partie détaillée de ce rapport n'existe qu'en anglais. Elle sera disponible en français sous peu. Pour tout renseignement, veuillez communiquer avec Ines Santoro, 613-580-2424, poste 26052.

The following information outlines management's assessment of the implementation status of each recommendation as of November 30, 2016 and the Office of the Auditor General's (OAG) assessment as of March 20, 2017.

Recommendation #1

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City ensure for the Fleet Management Transformation Initiative and any future reports to Committee and Council that include business cases, that staff clearly outline risks and options associated with the business cases. This should include a clear statement on how savings that are not aligned to the savings identified in the original business cases will be reported to Council.

Original management response:

Management agrees with this recommendation.

In keeping with recently approved policies respecting Business Cases and Project Management, staff will provide more context including defining risks and options and clearly outlining how and when those will be communicated to Council.

A new Project Management Policy was approved by Executive Committee in December 2013 to ensure a common and consistent application of project management principles and practices while limiting the risks associated with projects.

This policy is supplemented by a Project Management Framework, which further defines the City’s project management approach to establish, manage and deliver projects at the City of Ottawa. The framework states that at a minimum, every project must be supported by a: Business Case; Project Charter; Project Plan; Mechanism to manage change; Status Report template and process; and, a Project Close-out Report.

Conditions for escalation of project decisions are to be described in the Project Charter.

In accordance with the Escalation Guidelines that form part of the Project Management Framework, Project Variances, including variances that impact the costs (including projected savings) or scheduling of the initiative would be candidates for escalation depending on the size and significance of the project.

Projects with a cost greater than \$10 million, including the ServiceOttawa efficiency program, would be candidates for escalation based on the significance of the overall initiative. Management commits to reporting out such project variances to Committee

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and Council including any adjustments that may be required as part of the annual budget process.

Management update:

Management considers this recommendation complete as per the original management response.

OAG assessment:

New guidelines have been put in place:

- i. Business case guidelines have a requirement to define risk and options associated with the case.
- ii. The Project Charter guidelines include an escalation clause for reporting variances including projected savings to Council.

To confirm application of the guidelines, we reviewed the Fleets Parts Program Improvement report submitted to Council on March 23, 2016 and the associated business case. The business case was not presented to Committee.

We noted that this initiative did not meet the conditions for mandatory escalation (e.g. cost was less than \$10 million) according the Project Management Framework.

We found that the business case clearly explained the options and associated risks and anticipated costs and source of savings.

The report to Council and Committee identified the source of savings from changing to an in-house fleet parts inventory program, and management indicated that the savings would be reported as part of the 2017 budget.

Recommendation #2

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City clearly documents any significant decisions made at EMC.

Original management response:

Management agrees with this recommendation.

The September 11, 2009 meeting referenced in the audit was a full-day Service Excellence Priority-Setting Session involving members of Executive Committee and Senior Management Committee. One of the items on the agenda involved a high-level discussion regarding the Corporate Service Excellence Plan and the efficiency projects. Meeting results from these sessions are not detailed as they are only intended to reflect a summary of the day's discussion however, for future sessions of this nature decisions will be documented more thoroughly.

Management update:

Management considers this recommendation complete.

Decisions made at Senior Leadership Team meetings are documented and stored in the City's records management system.

OAG assessment:

We reviewed three Senior Leadership Team Meeting minutes. Significant decisions were documented in the minutes of the two meetings that included major decisions. Due to the nature of the discussions, no major decisions were reported for third meeting.

Recommendation #3

Status	Management update	OAG assessment
	Complete	No longer applicable

Audit recommendation:

That the City ensure that (for future contracts entered into and for the option years covered by the NAPA contract if permitted under the existing contract) contractual key indicators are specific, measureable, achievable, realistic, and time-targeted. Key indicators should include an aging component to encourage the service provider to accelerate the part retrieval in order to minimize vehicle inoperability.

Original management response:

Management agrees with this recommendation.

Fleet Services will ensure key performance indicators that are specific, measureable, achievable, realistic, and time-targeted are included in any new or extended contract for the provision of parts. A key performance indicator that measures aging backorders will be explored and included, if practical. This recommendation will be implemented in Q3 2016 when the initial NAPA contract expires.

Management update:

Management considers this recommendation complete.

Council approved the re-establishment of an in-house parts program on March 23, 2016. There is no longer a service provider contract as the program is now managed by City staff and parts are procured through a small number of Standing Offer Agreements.

Fleet Services has included key performance indicators that are specific, measureable, achievable, realistic, and time-targeted in the Standing Offer Agreements. These include specifications for hours of service, delivery, emergency services and warehousing.

A performance indicator for aging orders is not practical given the variety of parts procured and the number of issues that can affect such a measure however, all part orders are tracked and monitored. The Standing Offer Agreements provide the City the right to purchase parts from another vendor in the case of a specific problem, or to

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discontinue the use of the standing offer in the case of a broader performance problem. Staff are able to accelerate part retrieval to minimize vehicle inoperability.

OAG assessment:

The recommendation is no longer applicable as the NAPA contract ended in 2016.

Recommendation #4

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City, as permitted under the contract, engage a third party expert to undertake a benchmark review of parts and services provided by NAPA to ensure the City is receiving fair market, best customer pricing to ensure savings are maximized.

Original management response:

Management agrees with this recommendation.

Fleet Services will engage a third party expert to undertake a benchmark review of parts and services provided by NAPA to ensure the City is receiving fair market, best customer pricing to ensure savings are maximized by the end of Q4 2015.

Management update:

Management considers this recommendation complete.

Fleet Services engaged Bronson Consulting to complete a pricing review of the parts provided by NAPA in Q2 2015 and the final report was completed in Q3 2015.

Bronson Consulting found that: *“for those parts where Net/Jobber/Discount pricing was available, NAPA pricing is generally consistent with industry Jobber pricing, although NAPA does subsequently add a net 10% mark up on part sales (separate from their administration fee).”*

OAG assessment:

A consulting firm completed a benchmark review of prices for a sample of parts and services supplied by NAPA and provided a report to Fleet Services in September 2015. The study found that NAPA prices were consistent with Net/Jobber/Discount pricing, before the NAPA mark-up, where comparators were available. Comparators were available for 72% of parts sampled.

Recommendation #5

Status	Management update	OAG assessment
	Complete	No longer applicable

Audit recommendation:

That the City substantiates the requirement to have the automotive parts service provider on-site to meet the needs of the City’s Fleet Services.

Original management response:

Management agrees with this recommendation.

The Request for Proposal for the On-site Fleet Parts and Inventory Management Program, RFP No. 18710-95841-P01, set out that the service provider would use the City’s existing parts management space at 2799 Swansea as part of the terms of the agreement. The agreement was then entered into on this basis. Although not all functions the service provider undertakes need to be housed at Swansea, there is a contractual requirement to provide the service provider with space. Fleet Services will review the option to have the service provider undertake more services or materials storage remotely in any extensions to the existing contract or as part of future Requests for Proposals.

It is noted that the space within the Swansea Garage is occupied by personnel and equipment from a number of Public Works branches as well as other City departments. The current space in use by NAPA, who service the City’s operations, is situated within the complex with no dedicated exterior exit or defining walls, which would make it difficult to put this space on the market.

The City conducted a Facility Rationalization Study in 2006, which outlined the need for additional covered space for seasonal storage of Public Works equipment. Currently there are a number of pieces of expensive equipment that are exposed to the elements. As part of its updated space review, Public Works will assess if the 9,500 square feet of space should be used for seasonal storage of equipment.

The Public Works department will conduct a space review by Q1 2016 in order to ensure that Parks, Buildings and Grounds Services staff will have enough time to gather the appropriate information on the need for City-wide covered storage space at all of the Public Works yards, which will include Swansea location.

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Management update:

Management considers this recommendation complete.

Council approved the re-establishment of an in-house parts program on March 23, 2016. There is no longer a service provider on site, and the terms and conditions of procurement do not allow for vendors to use space at 2799 Swansea.

OAG assessment:

The recommendation is no longer applicable as the NAPA contract ended in 2016.

Recommendation #6

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That Fleet Services develop the means to track and monitor vehicle unavailability (due to the service provider’s inability to deliver the necessary parts in a timely fashion) in order to optimize fleet availability.

Original management response:

Management agrees with this recommendation. Fleet Services will develop the means to track and monitor vehicle unavailability due to waiting for parts in order to optimize fleet availability by the end of Q3 2015.

Management update:

Management considers this recommendation complete.

Fleet Services developed the means to track and monitor vehicle unavailability due to waiting for parts (WFP) in order to optimize fleet availability.

Four performance measures have been defined and will be monitored to establish the current level of performance, they are:

1. Total number of units/equipment unavailable due to WFP status in a month.
2. Average number of units/equipment unavailable due to WFP status on a given day in a month.
3. Average time units were waiting for parts for a given month.
4. Total number of days units/equipment were unavailable due to waiting for parts in a month.

OAG assessment:

Fleet Services has developed performance measures to track vehicle unavailability where it is due to delays in obtaining parts. Although parts have been managed in-house since August 2016, Fleet Services has continued using these indicators on a monthly basis to monitor performance. We observed evidence of management analyzing the measures reported and reviewing additional sources of information to better understand specific delays.

Recommendation #7

Status	Management update	OAG assessment
	Complete	Complete

Audit recommendation:

That the City reconsider several aspects of its upcoming Standing Offer Request for Proposal for the provision of tires and related services including:

- a) Reassessing the point distribution for award to further emphasize service over reporting capabilities.
- b) Establishing meaningful and measurable KPIs, such as:
 - o Time to Dispatch;
 - o Time to site to service vehicle; and
 - o Time to complete work (through negotiation, agreed upon standards can be established).
- c) Making it mandatory for the proponent to use a handheld device to record service milestones noted above, or an acceptable alternative.
- d) Penalties for non-compliance which increase the longer they are unaddressed (i.e., the longer the vehicle is not operational the higher the penalty).
- e) Awarding standing offers to more than one supplier. This would provide the City with a systematic protocol for the allocation of work and approved vendor alternatives if the primary vendor cannot supply.

Original management response:

Management agrees with this recommendation.

The award structure for the most recent Tire Services Standing Offer was reworked to fully implement the auditor’s recommendations:

Service over reporting was achieved by ensuring reporting items necessary for the tracking of tire services and relevant KPIs were established as requirements in the Request for Standing Offer.

Performance indicators used in the current Tire Services Standing Offer were chosen to be meaningful to the operation, and independently verifiable. Time to dispatch and time to arrive on site are reported in the weekly summary invoices provided to Fleet Services.

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Handheld devices are not commonly used in the tire services industry, instead service call data is provided on weekly invoices – as this data can be verified against Fleet Management Information System work orders, this was deemed an acceptable alternative.

Performance and invoicing issues that may crop up will be addressed in cooperation with Supply branch through the non-performance clauses in the standing offer. A committee consisting of Fleet, Supply and critical clients came to consensus that liquidated damages would be less effective than directly penalizing the vendor by giving the business to their competitor. The new standing offer is based on lowest responsive offer per price schedule basis, per geographical area. The Tire Services Standing Offer has been changed to an eligibility list structure (for each geographical area) to address supply and non-compliance concerns.

The standing offer was awarded to more than one vendor. More specifically, the standing offer now divides the city into two (2) geographical areas (East and West) and it calls for a service provider in each of these areas. In the event the primary provider cannot supply, the City moves to the second provider on the list.

Management update:

Management considers this recommendation complete.

Meaningful performance indicators were put in place for the current Standing Offer.

KPIs established in the Standing Offer are independently verifiable using the Fleet Management Information System (M5).

Performance and invoicing concerns have all been resolved to the satisfaction of Fleet Services and our clients with very few issues being raised to the level of Supply.

Tire services continue to be provided by the two prime vendors in the East and West, with infrequent use of the list of alternate suppliers.

OAG assessment:

- a) The 2014 Request for Standing Offer (RFSO) for tire and services which expired in May 2017 established that the lowest compliant responsive bidders be selected as the prime service providers. Service capabilities were part of the compliance criteria.
- b) The standing offer defines performance standards for time to dispatch and time to site. However, no time standards have been established for the different

types of jobs. Management indicates that the variation in work involved for the different service calls makes it difficult to set a standard.

- c) The original management response to the recommendation demonstrates that handhelds were considered, but not included as a requirement in the Request for Proposal as they are not common in the industry.

We reviewed the results for service milestones on a sample of three weekly statements for both of the service providers. Both service providers included the time called in and time completed in their statements. However, one of the providers did not provide this information for after-hours calls. While, we believe it could be helpful to have times provided for these calls as well, overall, this represents reasonable progress.

- d) The penalty for non-compliance is that the standing offer allows the City to use an alternate supplier if the service provider is not able to deliver on the City's requirement.
- e) There are separate prime vendors service providers for the East and West service locations. Alternate suppliers are also in place for each region such that the City would have adequate options in event of service delays from the prime vendors.

Recommendation #8

Status	Management update	OAG assessment
	Complete	Partially complete

Audit recommendation:

That the City establish practices to better monitor and control all aspects of the tire program, including:

- a) The retention process and used tire inventory, and the value it is receiving through disposal of good but unwanted units.
- b) Assessing the condition of the tires before they are scrapped / removed by the supplier.
- c) Reviewing controls around the process to ensure only eligible expenditures are paid to the service provider.

Original management response:

Management agrees with this recommendation.

The most recent standing offer is supported by documented guidelines to fully implement the auditor’s recommendations. Tire storage and disposal guidelines have been published and distributed to our Tire Services providers to better control the disposal of used and/or damaged tires. Additionally, as part of the basis of award for the Tire Services Standing Offer, a fixed credit was assigned to surplus casings. This ensures the City receives fair market value for surplus heavy truck casings.

- a) Used tire inventory is tracked through up-to-date inventory reports provided by the Tire Services providers, available on request. This data is monitored, and utilized by Fleet Services staff to ensure the disposal value received is appropriate.
- b) Scrapping of tires is controlled through the storage and disposal guidelines, and any large scale disposal of tires is monitored by Fleet Services staff.
- c) Additional financial controls have been put in place, with call back requirements for Tire Services providers upon completion of work or change to estimate, and payment conditions are more stringently enforced by Fleet Services staff.

Management update:

Management considers this recommendation complete.

Fleet Services tire storage and disposal guidelines have been implemented by both prime vendors.

- a) A used tire inventory is maintained by service providers and quantities are available upon request with weekly updates.
- b) Scrapping of tires has been minimized through better usage and availability of used tire stock.
- c) Financial controls related to vendor call-back requirements continue to be effective. Only eligible, pre-authorized invoices are paid, with authorization recorded in the Fleet Management Information System (M5).

OAG assessment:

- a) Partial. Additional inventory controls have been established for the tire program. Management indicates that the City's used tires are kept by the two prime tire service providers, stored away from sunlight in enclosed spaces. The service providers provide used tire inventory reports on a weekly basis which staff consult when replacing tires.

While used tire inventory is monitored by Fleet Services, the review process is informal and inventory records and documentation of any physical counts are not retained. Improved documentation and retention practices are required.

- b) Partial. Guidelines for disposing of tires are in place and are being used by staff. Service providers also apply these guidelines independent of City staff. However, service providers are not required to report on tires that have been disposed and staff do not assess the condition of tires held by service providers before disposal, as was recommended.
- c) Complete. Procedures are in place to ensure that only eligible expenditures are paid to tire service providers and these are being followed by staff.

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Table 2: Status legend

Status	Definition
Not started	No significant progress has been made. Generating informal plans is regarded as insignificant progress.
Partially complete	The City has begun implementation; however, it is not yet complete.
Complete	Action is complete, and/or structures and processes are operating as intended and implemented fully in all intended areas of the City.
No longer applicable	The recommendation is obsolete due to time lapses, new policies, etc.