

## V.7. Preliminary Study on the Acquisition of Goods and Services



## V.7. PRELIMINARY STUDY ON THE ACQUISITION OF GOODS AND SERVICES

### 1. BACKGROUND TO THE PROCUREMENT FUNCTION

#### 1.1. LEGAL AND REGULATORY FRAMEWORK

The procurement function is subject to a certain number of laws and regulations, in particular the Charter of Ville de Montréal and the *Cities and Towns Act*. Section 573 of the Act deals with regulations governing purchasing methods. In other respects, the legal framework does not define any specific power or organizational structure in terms of procurement. Consequently, within the framework of their specific spending powers, the boroughs and central city are essentially autonomous.

In August 2006, the executive committee of the City of Montréal adopted its current procurement policy. It was approved through a resolution by six of the nine boroughs of the former City of Montréal and three of the ten boroughs created from former suburban municipalities. In its preamble, this policy states that *[Translation]* “the City of Montréal wishes to ensure the implementation of an effective, efficient and flexible procurement process.” In respect to performance, the policy declares that “the City seeks to [ . . . ] consolidate its purchases of goods, services and works both internally and with outside agencies whenever this can result in increased efficiency or significant savings [ . . . ] [and] to periodically reassess its procurement process.” In respect to accountability, the policy specifies that: “Corporate departments and partner boroughs are responsible for the application of the procurement policy principles in cooperation with the Direction de l’approvisionnement.” It adds: “Any deviation from this policy must be documented in decisions or recommendations presented for approval to the appropriate authorities.”

#### 1.2. ORGANIZATION AND MISSION OF THE DIRECTION DE L’APPROVISIONNEMENT

From a corporate point of view, the City of Montréal is endowed with a Direction de l’approvisionnement, whose mission is *[Translation]* “to ensure that corporate departments and boroughs have access to supplies, goods and state-of-the-art facilities enabling them to deliver quality urban services to citizens under the best conditions.” To achieve this goal, its management is “responsible for the development and application of regulations governing the acquisition of goods as well as general, technical, professional and construction-related services,

*in compliance with the legislation and regulations governing the municipal sector [ . . . ]. It collects, compiles and analyzes the consumption data of various client groups in order to identify opportunities for consolidating common assets.”*

The inherent values of the procurement process are based on the guiding principles set out on the intranet of the Direction de l’approvisionnement. One of these principles advocates effectiveness and efficiency with a view towards promoting the effectiveness of the municipal procurement process and measuring its contribution to the organization.

To put this guiding principle into action, the procurement function [Translation] “ensures [among other things] that it:

- *fosters healthy competition and enters into commercial agreements that benefit the City through favourable prices and conditions;*
- *promotes adherence to pre-negotiated corporate contracts, as well as group purchasing with boroughs, departments and other public agencies whenever doing so is economically beneficial;*
- *coaches clients on how to express their needs, using information concerning similar purchases [ . . . ];*
- *optimizes the use of public funds allocated to municipal purchases and maximizes the economic spin-offs for Montréal in compliance with the legislation.”*

### **1.3. PROCUREMENT MANAGEMENT FRAMEWORKS**

In January 2009, there was a total of seven Direction de l’approvisionnement management frameworks posted on the City’s intranet, all of which had been either released or revised at the end of 2005. These documents detail the various procurement steps and procedures and explain how to record the pertinent data into the City of Montréal’s integrated management system, known as SIMON, in order to ensure that suppliers are paid. Their control standards are limited to matching the various documents and performing the required approval process.

- Purchase requisitions (2005 12 09)

Purchase requisitions serve to express a procurement need. When a purchase requisition is entered into SIMON, the requisitioner is automatically informed of any standing offer that might meet this particular need.

Purchase requisitions are mandatory for the acquisition of goods and services exceeding \$10,000. They can only be initiated by authorized SIMON users who must select the item codes that correspond to their procurement needs from the goods and services classification (GSC) system. Once purchase requisitions are approved by the appropriate delegated authority level, they are sent to a buyer from the requisitioner's administrative unit or to the Direction de l'approvisionnement and the necessary funds are automatically reserved (or pre-allocated).

- Purchase orders (2005 12 09)

Purchase orders must be issued for all purchases, with the exception of those that are handled through a requisition for payment. Purchase orders must be approved by the appropriate delegated authority level.

- Receipt of goods, services or works (2005 12 09)

Receipt transactions are entered into SIMON without any formal authorization. This framework does *recommend* that the individuals who place orders not be the same as those receiving the goods or services. The purchase order number must appear on both the receiving slip and the invoice in order to record these transactions into SIMON. The Service des finances will issue payment to the supplier once the purchase order, receiving slip and invoice have been matched.

- Requisitions for payment (2005 12 09)

Requisitions for payment serve to record purchases that are made, received and used over a short period of time. They also allow for the reimbursement of fees as listed in the appendices to the *[Translation] Handling Invoices and Issuing Cheques* guidelines from the Service des finances. These fees include public utility costs, direct purchases of goods and services under \$1,000 as well as purchases made with acquisition or credit cards. Requisitions for payment must be approved by the appropriate delegated authority level.

- Internal purchase requisitions (2006 01 19)

Internal purchase requisitions are used exclusively for purchases from the municipal warehouse, i.e. the Centre de distribution Louvain. As of January 10<sup>th</sup> 2006, the intranet of

the Direction de l'approvisionnement listed some 115,000 products available from the warehouse with a total value of \$5 million.

- Internal billing (2006 01 09)

The City's central departments and boroughs can transact business with internal partners by entering purchase orders in SIMON. Once the goods are delivered or the services rendered, in-house suppliers prepare and send invoices for chargeback to the Service des finances without issuing any cheques.

- Standing offer and contractual agreements (2005 12 09)

Standing offer agreements cover certain goods and services whose unit costs are recorded in SIMON for a specified term. Requisitioners can enter calls for delivery in SIMON to request goods and services under these agreements. While calls for delivery are similar in many ways to purchase orders, they simplify the procurement process for users since most of the data required to create the calls for delivery is automatically generated by the system. In this case, the resulting supplier order number is comprised of the agreement number combined with the call for delivery number.

Contractual agreements provide for a negotiated discount on a set of goods and services that are based on a specified volume of business. Such goods and services are usually found in a catalogue. Requisitioners can enter purchase orders in SIMON to request goods and services under these agreements.

According to the information on the intranet of the Direction de l'approvisionnement, approximately 300 of these purchase agreements are currently active.

When SIMON was initially deployed, the Division des pratiques d'affaires of the Direction de l'approvisionnement issued a document entitled *[Translation] Procurement-related Management Principles and Internal Control Rules* on November 4<sup>th</sup> 2005. As its title suggests, this document includes a number of statements (12 in total) that govern internal procurement controls.

In particular, the third statement stipulates that *[Translation] "the segregation of duties pertaining to procurement documents (e.g., purchase requisitions, purchase orders and direct inventory purchases) is mandatory. A single person can request, issue, approve and receive purchases, but not on the same document and not for the same transaction."*

## 2. PRELIMINARY STUDY SCOPE

Management indicators reveal that a major portion of purchase orders, invoices and cheques are under \$100. This fact raises questions about the relevance and application of business practices and work methods concerning the procurement process for goods and services.

The objective of this study is to assess the relevance and scope of a detailed audit to determine whether existing business practices and work methods promote the acquisition of goods and services in the most efficient and cost-effective way possible. While doing so, it must respect the best industry practices and take into account current legislation and management frameworks.

The activities we examined cover the procurement process for goods and services – from placing orders to paying invoices – in both boroughs and central departments. Needs analysis and acquisition planning were excluded from our study. Information was collected mainly between December 2008 and May 2009. However, we were unable to submit this report to the Direction générale for comments prior to December 2009.

Our review consisted mainly in:

- listing and studying the legislation, regulations and management frameworks governing the acquisition of goods and services at the City of Montréal;
- documenting the key stages of the procurement process as well as any related business practices and work methods;
- meeting with representatives from the Direction de l'approvisionnement, the Service des finances, the boroughs and certain central departments;
- evaluating the control framework of the procurement function based on the gathered information.

## 3. FINDINGS

### 3.1. STRATIFICATION OF LOW-VALUE PURCHASES

Management indicators related to the finance or procurement components of the SIMON system were generated for 2007. They provided cumulative statistics on low-value purchases for the entire City, including the boroughs, as outlined below:

**Table 1—Cumulative Statistics for 2007**

	Total number	≤ \$100	≤ \$300	≤ \$1,000
		<i>In percentage</i>		
Cheques	160,812	23	41	62
Invoices <sup>1</sup>	353,427	35	56	77
Purchase orders <sup>2</sup>	115,304	23	48	71
Requisitions for payment <sup>3</sup>	37,110	n/a	n/a	n/a

<sup>1</sup> Invoices include those paid by requisitions for payment (37,110), i.e. without any purchase order, as well as invoices paid through subsystem interfaces (46,981).

<sup>2</sup> Purchase orders exclude those charged to inventory but include calls for delivery that generated a purchase order. They represent \$1.1 billion in purchases.

<sup>3</sup> The total number is 37,110. In all, 77% of invoices (i.e. 272,000) were under \$1,000.

**Table 2—Stratification of Acquisitions for 2007**

	Total	≤ \$100	≤ \$300	≤ \$1,000
Number of purchase orders	115,304	27,015	54,730	82,135
<b>Percentage in volume</b>	<b>100</b>	<b>23</b>	<b>48</b>	<b>71</b>
Value of corresponding acquisitions (in \$M)	1,076	1.3	6.4	21.6
<b>Percentage in value</b>	<b>100</b>	<b>0.1</b>	<b>0.6</b>	<b>2.0</b>

**Table 3—Volume of Purchase Orders by Business Unit for 2007**

	Total	≤ \$100	≤ \$300	≤ \$1,000
<b>Number of purchase orders</b>	115,304	27,015	54,730	82,135
<b>Volume percentage by business unit</b>				
<b>Affaires corporatives</b>	<b>26.3</b>	<b>43.4</b>	<b>36.2</b>	<b>31.4</b>
<b>SPVM<sup>1</sup></b>	<b>12.7</b>	<b>14.3</b>	<b>14.2</b>	<b>9.8</b>
SITE <sup>2</sup>	10.0	5.1	6.5	7.9
SMVTP <sup>3</sup>	7.4	3.9	5.2	6.4
SDCQMVDE <sup>4</sup>	6.4	4.6	4.8	5.2
Inventory	8.4	8.4	9.6	9.4
<b>Boroughs (former City)</b>	<b>21.3</b>	<b>16.5</b>	<b>18.6</b>	<b>19.7</b>
Boroughs (former suburban municipalities) <sup>5</sup>	0.6	0.0	0.0	0.1
Other business units	6.9	3.8	4.9	10.1
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Service de police de la Ville de Montréal

<sup>2</sup> Service des infrastructures, transport et environnement

<sup>3</sup> Service de la mise en valeur du territoire et du patrimoine

<sup>4</sup> Service du développement culturel, de la qualité du milieu de vie et de la diversité ethnoculturelle

<sup>5</sup> Some boroughs (former suburban municipalities) were not integrated into SIMON in 2007.



**Table 4—Value of Purchase Orders by Business Unit for 2007**

	Total	Total	≤ \$100	Rate of requisitions for payment <sup>1</sup>
	<i>In \$M</i>	<i>In percentage</i>		
<b>Affaires corporatives</b>	<b>74.9</b>	<b>7.0</b>	<b>43.4</b>	<b>5</b>
<b>SPVM</b>	<b>42.7</b>	<b>4.0</b>	<b>14.3</b>	<b>1</b>
SITE	314.9	29.3	5.1	5
SMVTP	199.2	18.5	3.9	4
<b>SDCQMVDE</b>	<b>59.3</b>	<b>5.5</b>	<b>4.6</b>	<b>48</b>
Inventory	11.9	1.1	8.4	n/a
<b>Boroughs (former City)</b>	<b>214.5</b>	<b>19.9</b>	<b>16.5</b>	<b>11</b>
<b>Boroughs (former suburban municipalities)<sup>2</sup></b>	<b>54.9</b>	<b>5.1</b>	<b>0.0</b>	<b>40</b>
Other business units	103.7	9.6	3.8	2
All business units	1,076.0	100.0	100.0	13.0

<sup>1</sup> Rate of requisitions for payment = number of requisitions for payment/number of paid invoices

<sup>2</sup> Some boroughs (former suburban municipalities) were not integrated into SIMON in 2007.

In May 2009, we obtained statistics on cheques, invoices and purchase orders issued in 2008. Essentially, they revealed trends similar to those observed in 2007.

### 3.2. OTHER INTERVIEW FINDINGS

#### 3.2.1. PERFORMANCE MEASUREMENTS, BENCHMARKS AND BUSINESS PRACTICE INTELLIGENCE

The Division des pratiques d'affaires of the Direction de l'approvisionnement was created in 2005 to promote consistency in city-wide procedures following the municipal mergers and demergers. Among others, it is responsible for gathering intelligence on best procurement practices and implementing performance indicators. However, the Division does not have access to any structured and systematic benchmarking studies. In other respects, it participates in more or less formal discussion groups with other cities in Québec regarding the use of ORACLE systems and acquisition cards.

The *Act to Amend the Charter of Ville de Montréal* (Bill 33) requires further decentralization from the City. As a result of these unique constraints, the Division does not see any value in collecting benchmark data on best practices and performance indicators from other cities.

At the present time, performance measurements are limited to user satisfaction surveys regarding certain master agreements. A project is currently underway with an outside firm to develop indicators that are more general. Although precise procurement process costs have not been assessed, the Division des pratiques d'affaires looked up some external studies that estimated the unit cost of processing an order to be in the range of \$80 to \$120. Interviews with representatives from other business units and the Service des finances suggested that they have virtually no procurement process analyses, measurements or mechanisms to track performance indicators, other than the statistics extracted from SIMON for 2007.

### **3.2.2. INTEGRATION AND CONSISTENCY OF THE PROCUREMENT FUNCTION**

The Direction de l'approvisionnement has no internal service contracts with its client units. The latter are not billed for order processing fees. There are no indicators, performance targets or formal action plans concerning interactions between the Direction de l'approvisionnement and its clients, except in respect to the consultation work conducted as part of the 2006 governance project.

Although most of the people we interviewed were key procurement stakeholders, they had limited knowledge of the cost issues associated with low-value purchases. They were also generally ill-informed about the solutions recommended by the Direction de l'approvisionnement to alleviate these costs, especially in respect to acquisition cards. The Direction is expending efforts to improve communications. Several projects are underway to increase the information available on its intranet and render it more user-friendly. A round table for procurement staff was created in 2008 to promote information sharing between those in charge of procurement for the boroughs and the Direction de l'approvisionnement. While this seems to be an interesting approach, it is likely to be overly complicated to function properly given the City's complex structure with its numerous boroughs.

As part of the vast review of activities, services, operations and programs (RASOP) performed in 2006, the executive committee entrusted the governance committee of the then Service des affaires corporatives with the optimization of the procurement function. Following two reviews of this function back in 2001 and 2003, some preliminary guidelines were established. The Direction de l'approvisionnement launched a consultation with its clients to fine tune and confirm these guidelines, the results of which were published in a November 2006 report.

This report uncovered a fragmented procurement function where the boroughs, the SITE, the Direction des immeubles of the SMVTP and the Direction des sports, des parcs et des espaces

verts of the SDCQMVDE tended to solicit bids on their own for required work. In fact, most boroughs that were created from the former suburban municipalities issued their own calls for tenders, with a few exceptions. Out of the \$1.2 billion in goods and services acquired for the City, only \$260 million worth was purchased centrally by the Direction de l'approvisionnement.

As for the procurement cycle, the report indicated that:

- there was a lack of consistency between the boroughs and the central city as they did not share a common vision for the planning of procurement needs;
- the procurement strategy was not a joint venture and there was no meaningful transfer of knowledge;
- tender documents were not standardized, thereby increasing the risk of claims;
- despite a number of existing master agreements, the procurement function was fragmented from a market standpoint and there was very little corporate solidarity;
- the lack of a systematic process meant that there was no way to ensure that all contractual conditions for the supply of goods were met, not to mention the complete lack of any formal user satisfaction survey mechanism as well as any performance indicators;
- the existing multiple inventory management systems did not provide a consolidated view of all items in stock, thus increasing locally established emergency stockpiles.

At the end of the consultation process, the Direction de l'approvisionnement developed three scenarios with varying levels of centralization. In November 2006, it finally recommended the mid-range scenario as offering the best option to consolidate and develop group purchases and strategic projects while giving boroughs and central departments greater autonomy for purchasing more specific goods.

### **3.2.3. PERFORMANCE OF THE SIMON SYSTEM**

The people we met were generally satisfied with SIMON as a procurement tool and would not revert to their previous systems. Some of them even feel like they now have better control over their budget. However, the system is clearly still in its stabilization and maturation stage. Certain users underscored problems in mastering specific processes (e.g., calls for delivery) and considered that they received insufficient training. Most of them knew about the 2007 report on management indicators and hoped for the release of systematic follow-up reports.

## 4. CONCLUSIONS, RECOMMENDATIONS AND ACTION PLANS

### 4.1. ISSUES WITH LOW-VALUE PURCHASES

#### 4.1.A. Conclusions

Business literature commonly discusses low-value purchases in large organizations. A study conducted by the Trésor public in France reveals that *[Translation]* “two thirds of order transactions represent approximately 4% of the total value of purchases in the public sector.” Furthermore, an American study indicates that, generally speaking, 80% of the total volume of transactions account for only 20% of their total value.

In the case of the City of Montréal, we know that **71% of all purchase orders (i.e. orders under \$1,000) represent only 2% of the total value of the corresponding purchases. These figures seem to indicate that the City has a greater problem than the norm.** However, we must be cautious when making any comparisons given the fact that the above statistics do not provide specifics about orders and that SIMON data includes internal orders.

Most of the people we met agreed with the contention that low-value purchases are primarily caused by the decentralization of the procurement function, the number of buyers and their geographic distribution, the incentives of local suppliers and the number of daily purchases. No one blamed shortages of stock in the warehouse or the non-existence of master agreements as possible causes. In addition, many of the orders used for internal purchases (between business units) generate a high number of low-value purchases that could skew the benchmarks. We were unable to isolate this type of purchase from the cumulative statistics.

There was no consensus on the causes of the lower frequency of requisitions for payment. One division head indicated that suppliers needed purchase orders so as to create order numbers in their billing systems. For its part, the Service des finances believes that managers encourage the use of purchase orders to facilitate the approval of purchases and to control the matching of documents.

Business-to-business (B2B) commerce with suppliers could help optimize the procurement process and reduce order processing costs. **This practice requires the ORACLE platform, but the City has still not implemented it.**

Finally, bulk billing (i.e. the production of a single monthly invoice for all deliveries to business units by the same supplier) is rarely used, even under master contracts. We were told that only one supplier employs this billing method.

In a nutshell, the methods to reduce the volume of low-value purchases or order processing costs are either:

- **poorly known:**
  - acquisition cards;
- **rarely or not systematically used:**
  - master contracts,
  - calls for delivery,
  - requisitions for payment,
  - bulk billing;
- **rarely available or simply unavailable:**
  - B2B transactions with suppliers,
  - management reports and indicators to follow up on purchases.

These methods and their implementation issues are known. To improve the situation, some more or less formal solutions are being put into action. **The main difficulty in conducting a detailed audit of these issues stems from the need to measure their financial impact. Order processing costs are not determined and the impact of mitigating actions has not been assessed nor quantified.** Consequently, even if we could demonstrate that certain practices should be implemented, we cannot assess their added value. Under these circumstances, we believe that it is irrelevant to further assess the efficiency of these solutions.

#### 4.1.B. Recommendations

**We recommend that the Direction de l'approvisionnement, jointly with the Service des finances, examine the relevance of assessing order processing costs as well as the economic justification for implementing or generalizing measures to reduce the volume of low-value purchases.**

#### 4.1.C. Action Plan for the Business Unit Involved

*[Translation] "As reiterated in section 4.2.C., given the governance framework established by Bill 33, we favour an awareness-building and persuasive approach to advance the adoption of best procurement and management practices.*

*Low-value purchases are intertwined with the daily operations of boroughs and departments. Consequently, any changes in processes necessarily imply changes in work methods, the sharing of responsibilities and duties, and other impacts specific to each business unit, and even each area of activity. For example, in the case of vehicle repairs that entail a high volume of low-value purchases, business units must create a link between the purchase of parts and the corresponding vehicles for potential billing (CSP-MRA) or the management of fleet maintenance costs (borough). The same principle applies to various projects for which business units want to track costs or maintain their procurement processes within an established sequence that includes various work.*

*As indicated in this audit report, a number of options are available to reduce the volume of low-value purchases, but their integration into daily business processes will require some time.*

*Consequently, the Direction de l'approvisionnement and the Service des finances will pursue their ongoing initiatives to raise awareness among managers about the importance of reducing low-value purchases and the options available to reach that goal." (Planned completion: December 31<sup>st</sup> 2010)*

## **4.2. CONTROL FRAMEWORK FOR THE PROCUREMENT FUNCTION**

### **4.2.A. Conclusions**

Given the risk factors that have been associated with the procurement function in recent years and the findings discussed earlier, an audit of the control framework for the procurement function was vital. We relied on the model that was designed by the Canadian Institute of Chartered Accountants (CICA), which determines the factors that might adversely affect the mission and business objectives of organizations. Our findings are summarized below. They are based on the documentation we reviewed, the testimonies we collected as well as accepted best practices in this area:

**Table 5—Evaluation of the Control Framework for the Procurement Function**

Criteria of control	Strengths	Weaknesses
<i>Goal</i>	<ul style="list-style-type: none"> <li>• The City has a procurement policy.</li> <li>• Some of the risks that could reduce effectiveness and efficiency are known.</li> </ul>	<ul style="list-style-type: none"> <li>• Half of the boroughs have not adopted the policy.</li> <li>• There are no formal risk analysis reports and limited action plans to address these risks.</li> <li>• The management frameworks are more descriptive than prescriptive.</li> <li>• Objectives and targets have not been formally determined.</li> </ul>
<i>Commitment</i>	<ul style="list-style-type: none"> <li>• The mission of the Direction de l’approvisionnement has been established and communicated.</li> <li>• Approval authorities have been adopted.</li> </ul>	<ul style="list-style-type: none"> <li>• The function is greatly decentralized, thereby weakening accountability.</li> <li>• Reporting is minimal.</li> <li>• The control culture is underdeveloped.</li> </ul>
<i>Capacity</i>	<ul style="list-style-type: none"> <li>• The intranet and round table for procurement staff promote communication.</li> <li>• Solutions to improve the effectiveness and efficiency of the procurement function have been identified and some are being implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• These solutions are being implemented, but their effectiveness is not being assessed effectively.</li> <li>• Very few management reports and indicators are available.</li> <li>• The organizational structure of the function does not foster the consistency and coordination of actions and objectives.</li> </ul>
<i>Monitoring and learning</i>	<ul style="list-style-type: none"> <li>• The Direction de l’approvisionnement has created a division that is responsible, among others, for gathering intelligence on best procurement practices and monitoring performance.</li> <li>• The new SIMON system can provide high quality management information.</li> </ul>	<ul style="list-style-type: none"> <li>• External intelligence gathering is poorly structured and is not being reviewed rigorously.</li> <li>• There are minimal performance indicators.</li> <li>• The SIMON system has not reached its maturity and management information is still rarely used.</li> </ul>

**Our first observation is that Direction de l’approvisionnement tends to assume a weakened leadership role, acting mostly as adviser and service provider to business units rather than being a standard-setter and an integrator.** This translates into minimal management frameworks and leads to issues with the implementation of efficient practices, which are left to the discretion of users.

Secondly, **we noted a serious limitation with the performance measurement tools.** There are no set targets, other than the desire to improve the quality of service to business units. Furthermore, performance indicators for the procurement function have not been formally established and few management reports allow for any such measurement. Finally, **there is no formal reporting mechanism from the Direction de l'approvisionnement and its clients to validate compliance with legislation and the procurement policy of the City of Montréal.**

Under these circumstances, it seems that **the City does not have an adequate control framework that would ensure the efficiency of the procurement function, let alone operational compliance with the principles as set forth in the procurement policy.**

#### 4.2.B. Recommendations

**We recommend that the Direction générale:**

- **identify the main risks for inefficiency and non-compliance with the procurement policy of the City of Montréal;**
- **determine management practices and performance indicators that should be implemented to monitor and mitigate these risks;**
- **evaluate the relevance and legitimacy of imposing risk mitigation practices and strategies on all business units, including the boroughs, and make them accountable for them.**

The Direction générale of the City would benefit from a control framework to ensure that it has an appropriate organizational structure as well as adequate, relevant strategies needed to implement the procurement policy and monitor its proper application. A successful control framework should meet the following criteria and sub-criteria based on the CICA's control model:

- Clear and adequate administrative guidelines are drafted, approved and disseminated that specify how to apply the procurement policy principles, including:
  - a code of ethics that defines situations of conflicts of interest and the consequences of any ethical breach,
  - a process for planning needs and soliciting bids with corresponding benchmarks to ensure the availability of goods, services and works that are essential to the organization under ideal conditions,
  - benchmarks for grouping purchases of goods, services and works, both in-house and with outside agencies, especially whenever group purchases would result in improved efficiency or significant savings,



- a process for the implementation of procurement methods that foster a healthy competition between suppliers,
  - information guidelines on how to clearly specify the City's technical, commercial and environmental needs and requirements to external suppliers,
  - a process that evaluates the performance of suppliers based on known criteria in order to guide future purchase decisions,
  - a process to enable quality control of the goods, services and works received by requiring suppliers to demonstrate their own internal quality control,
  - a process that promotes effective and efficient inventory management,
  - benchmarks for the maintenance of the City's environmental integrity, the improvement of social equity and the achievement of cost-effectiveness through the procurement process,
  - the ability to report any deviation from this policy in decisions or recommendations submitted for approval to the appropriate authorities;
- The roles and responsibilities for applying the policy are defined, approved and disseminated to support the decision-making process and ensure clear, risk-based accountability:
    - approval authorities were reviewed in relation to the risks inherent in the principles of ethics, quality and performance,
    - authorities for the establishment of benchmarks are defined, assigned and publicized to avoid conflicts of interest, to group purchases together, to promote healthy competition, to make purchases at the lowest cost and to ensure sustainable development,
    - inventory management, supplier performance evaluation, control and reporting responsibilities are well defined, assigned and understood;
  - The City's procurement strategies and practices were re-evaluated in light of the stated principles:
    - a risk analysis was conducted to identify the main risks of policy non-compliance,
    - an action plan was established to identify non-compliance situations or those areas in need of significant improvements and its implementation is being monitored,
    - risk mitigation measures have been identified and implemented to respect the risk level approved by the appropriate authorities;

- Information systems and analysis tools have been developed to ensure compliance with the principles set forth in the policy:
  - a list of suppliers is available and updated with the results of their performance evaluations to ensure that they are duly qualified and fully capable of meeting requirements,
  - Before-and-after controls are incorporated into information systems to mitigate the main identified risks,
  - reports are available and distributed to support the decision-making process, measure compliance with the principles and identify avenues for improvement,
  - benchmarks are used to measure the effectiveness and efficiency of the procurement function, and major discrepancies are identified and analyzed to review strategies and practices,
  - service clients are surveyed to measure their level of satisfaction and identify avenues for improvement;
  
- A follow-up process is implemented to pinpoint deviations from the policy and produce systematic and reliable compliance reports:
  - targets and objectives are determined to help improve strategies and practices based on the policy's directions in terms of effectiveness, efficiency and equity,
  - results are measured against targets and subsequently reported,
  - management is accountable for achieving set targets,
  - deviations from the policy's principles are reported,
  - independent parties are responsible for confirming the reliability of reports.

#### **4.2.C. Action Plan for the Business Unit Involved**

*[Translation] "The Direction de l'approvisionnement will coordinate a complete review of the City's 2006 procurement policy based, among others, on the principles set forth by the Organisation for Economic Co-operation and Development (OECD) to provide guidance for any procurement policy and highlight potential risks to be mitigated. As a result of this review, inefficiency and non-compliance risks will be identified. (Planned completion: June 2010)*

*The Direction de l'approvisionnement will coordinate a survey of all the procurement practices used by departments and boroughs. This survey will provide valuable knowledge on current management practices and give an overview of risk areas as well as practices in need of improvement. Indicators will be identified and reports will be produced in compliance with the new procurement policy. (Planned completion: October 2010)*

*Given the governance framework established in the Act to Amend the Charter of Ville de Montréal (Bill 33), we favour an awareness-building and persuasive approach to disseminating best management practices in this area.”*

#### **4.2.D. General Auditor’s Comments**

**Our recommendations target the implementation of governance and reporting mechanisms to strengthen compliance with the purchasing policy adopted by city council.**

**The action plan tabled by the Direction générale reiterates that, under the governance framework established by Bill 33, the boroughs will not be subject to centralized administrative mechanisms. This forms a major obstacle for asserting and ensuring compliance with the policy, particularly as only half of the boroughs have adopted this policy.**

**Furthermore, control measures intended for the City’s central departments do not differ from those proposed for the boroughs, even though the former are not targeted by Bill 33 and account for close to 70% of the City’s purchases of goods and services.**

**In another vein, the action plan states that reporting will be done in compliance with the new policy. However, there is no indication of any formal reporting mechanisms to the Direction générale or elected officials.**

**Although the action plan provides for certain improvements, there is a risk that, upon completion, the City will still be lacking a control framework to ensure and assert compliance with its adopted policy.**