

## V.3. Collective Purchase Agreement for the Provision and Distribution of Office Supplies



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## V.3. COLLECTIVE PURCHASE AGREEMENT FOR THE PROVISION AND DISTRIBUTION OF OFFICE SUPPLIES

### 1. INTRODUCTION

Montréal's Direction de l'approvisionnement, which is under the purview of the Service de concertation des arrondissements et des ressources matérielles, plays a strategic role in procurement to help the boroughs and central departments acquire quality goods and services at the lowest prices and under the best possible conditions.

The city's various business units may issue their own calls for tenders for purchasing goods and services and performing work. However, the Direction de l'approvisionnement develops and implements acquisition strategies for collective purchase agreements with suppliers. These acquisition strategies pool different groups' requirements in accordance with sound management practices, since most, if not all of the city's business units require multiple goods and services on an ongoing basis. All of the city's business units can then benefit from these purchase agreements and their favourable terms. Purchase expenditures come directly from their budgets.

The Direction de l'approvisionnement is responsible for purchase agreements negotiated on behalf of the city's boroughs and central departments, including the following tasks:

- Make all information about each of the active purchase agreements accessible via the intranet search engine and ensure that this information remains current.
- Monitor and renew active purchase agreements.
- Ensure that successful bidders comply with the terms of the agreements, particularly with respect to the prices charges and the suitability and quality of substitute items should a product be discontinued or changed.

In the summer of 2009, the Direction de l'approvisionnement renewed the collective purchase agreement for the provision and distribution of office supplies. Following a public call for tenders in which four bidders, all well known within the business community, submitted proposals, the contract was awarded to the lowest compliant bidder. The purchase agreement covered the five-year period from November 2, 2009 to November 1, 2014.

Based on the historic information we obtained, the current successful bidder will have been the supplier of office supplies to the city for at least 17 years by the end of the present purchase agreement.

Finally, the figures in the city's books show that, over the past four years (2007, 2008, 2009 and 2010), the total annual amounts paid to this supplier for office supplies were \$2,883,231, \$2,964,795, \$2,984,573 and \$2,818,477, respectively.

## 2. AUDIT SCOPE

This audit sought to ensure that a contract award for the 2009 renewal of a collective purchase agreement to provide and distribute office supplies took business unit needs into account, complied with all applicable contract-award rules and ensured a fair competitive bidding process for all potential suppliers. The audit also examined if the amounts subsequently invoiced to the city's business units matched those specified in the agreement.

Our audit primarily focused on 2008, 2009 and the first 10 months of 2010, as well as on the Direction de l'approvisionnement. However, to verify certain operational aspects of the purchases made under this purchase agreement, we also examined invoices issued by the administrative units of the following four business units:

- Saint-Léonard borough, Direction des services administratifs—Division des ressources financières, matérielles et informationnelles
- Ville-Marie borough, Direction des services administratifs, du greffe et des relations avec les citoyens—Division des ressources financières et matérielles
- Service des affaires juridiques et de l'évaluation foncière, Direction principale—Division de l'administration
- Service du développement et des opérations, Direction de l'administration—Division de l'administration

## 3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS

### 3.1. IDENTIFYING USER NEEDS

#### 3.1.A. Background and Conclusion

The products and services (e.g., expedited delivery) required by the city's various business units must be determined, before issuing a call for tenders for a collective purchase agreement.

The Direction de l'approvisionnement consequently conducted a customer satisfaction survey in the fall of 2008, one year before the previous purchase agreement for the provision of office supplies (also a five-year contract) was to expire. Prior to its renewal, users and non-users of the agreement were asked how well the agreement's objectives were being met, if there were problems with it (and what they were) and how it could be improved. The information we obtained revealed the purchase agreement for the provision of office supplies sought to:

- Supply city boroughs and central departments with office supplies, stationery and various office equipment at the best possible prices.
- Obtain fast and efficient distribution services.
- Cut red tape with modern order processing solutions (e.g., ordering portals, online tools, e-payment).

Thirty-five office supply purchasing representatives from 29 administrative units in five central departments and 19 boroughs were queried. The questionnaire was designed to examine the following aspects:

- If they did or not did use the agreement.
- Selection of items included in the agreement.
- Suitability of bid prices.
- Quality of store-brand products.
- Quality of supplier's customer service.
- Effectiveness of supplier ordering (e.g., online) and billing procedures.
- Delivery times, returns and inventory shortages.

Survey results demonstrate that the agreement is widely used by the central departments and the vast majority of boroughs. Those contacted said they are satisfied with the various issues covered in the questionnaire. The exercise did however provide the Direction de l'approvisionnement with feedback and flagged potential improvements, especially in the choice of items to be included in or excluded from the purchase agreement at renewal. We noted that these considerations were incorporated in the tender documents used for the contract's renewal in 2009.

In 2008, the Direction de l'approvisionnement also set up a committee known as the "[TRANSLATION] Supplier Review Group." This group, which includes representatives of the Direction de l'approvisionnement and the various boroughs, serves as a forum for the sharing of municipal procurement information. It covers such topics as new collective agreements and those up for renewal, results of calls for tenders, Direction de l'approvisionnement activities and

projects pertaining to sustainable development (e.g., green purchases). The committee meets every three or four months.

After reviewing the minutes of these meetings, we determined that various aspects of the tendering process to renew the purchase agreement for office supplies, as well as the new agreement ultimately concluded with Bidder #1, were aired and discussed at the meetings.

### **Conclusion**

**Overall, we find that the Direction de l'approvisionnement took the necessary measures to ensure that needs of the collective purchase agreement for office supplies users would be considered in preparation for its renewal.**

## **3.2. COMPLIANCE WITH CONTRACT-AWARD PROCEDURES**

### **3.2.A. Background and Conclusion**

Section 573 of the *Cities and Towns Act* (C.T.A.) defines the rules for municipal contract awards. A supply contract covering to an expenditure of \$100,000 or more may, under these rules, only be awarded following a public call for tenders issued by advertising in a newspaper distributed in the municipality. The call for tenders must also be published through the electronic tendering system approved by the Government of Québec (SEAO), and the deadline for receiving bids may not be less than 15 days. All tenders must be opened publicly on the date, time and place stated in the call for tenders, before at least two witnesses. The contract must be awarded to the lowest compliant bidder.

Our audit led us to conclude that the tender documents had been reviewed and discussed and that they had been authorized in writing by the appropriate level of management before the call for tenders was issued, in accordance with Direction de l'approvisionnement governance rules.

Since in this particular case the Direction de l'approvisionnement estimated the monetary value of the five-year contract at \$13 million (\$2.6 million per year), a call for tenders was issued on July 13, 2009 and suppliers were given 28 days to submit their bids. We confirmed that the call for tenders was published in *La Presse* and posted on the SEAO site. We also confirmed that tenders received were opened publicly in the presence of witnesses at Montréal's Direction du greffe.



As previously mentioned, four suppliers submitted bids from among the eight organizations that requested tender documents. Our review of the tenders received from the four bidders shows that all bidders received the same tender documents. We verified that the tenders received were evaluated as specified in the tender documents, based on the following groups of items: high-consumption products, store-brand products, catalogue products and products specific to the Service de police de la Ville de Montréal (SPVM). We will examine the composition of the pricelist forms in further detail in the next section of this report. We also confirmed that the data employed in preparing the table of tendered prices used for selecting the successful bidder accurately reflected the information that each bidder presented in its tender. We also checked their calculations. Our audit revealed no irregularities.

### **Conclusion**

**The contract was awarded to the lowest compliant bidder, once the required approvals were obtained (in September 2009) from city authorities (Executive Committee, City Council and Urban Agglomeration Council). The entire contract award process accordingly complied with C.T.A. requirements.**

## **3.3. PREPARATION OF TENDER DOCUMENTS**

### **3.3.A. Background and Findings**

The procurement contract award process must be fair and transparent, providing every potential bidder with access to all necessary information, while also ensuring that quality goods and services are obtained at the lowest possible cost, meet user needs and comply with applicable laws, by-laws and regulations. The city's procurement policy clearly indicates in this respect that one of its goals is to do business with qualified, dependable suppliers and to treat them in an equitable manner and in accordance with proper business ethics.

In the months preceding the call for tenders to renew the purchase agreement for the provision and distribution of office supplies, the Direction de l'approvisionnement re-evaluated its tendering strategy to broaden its selection of products, reduce costs, respond to user requests and help achieve the environmental targets set by the city's administration (e.g., reduce greenhouse gases) by adding eco-friendly or "green" products.

Unlike the previous call for tenders, which primarily focused on prices and quantities for a list of 200 items that were considered those most frequently purchased, interested bidders were asked to quote prices on four product categories:

- A new list of items considered “high-consumption” products. This list comprised 295 types of products (e.g., staplers, pencils, hanging folders) divided into 11 procurement categories (e.g., desk supplies, writing instruments and accessories, computer accessories). The total list contained 600 product codes corresponding with different sizes and colours of some products.
- A list of store-brand products.
- A list of catalogue products.
- A list of 51 products (not available through catalogues) specific to the SPVM (e.g., orange Crime Scene tape, bandages, dressings, nitrile gloves).

Bidders were also required to offer a discount on catalogue purchases of items that were not included in the pricelist form, but that fall under one of the categories specified in the purchase agreement.

Special provisions in the tender documents indicate that the contract would be granted to the bidder offering the lowest total price for the four product categories. The evaluation was accordingly to be based on the following information:

- The total price for the 295 types of high-consumption products. Bidders were required to complete the pricelist form for items in this group and indicate the unit price for each item, the total price based on the quantity indicated in the pricelist form, the percentage discount and, lastly, the net price.
- The total amount for a selection of 25 store-brand products. Bidders were required to use the appropriate pricelist form and indicate, for each of their store-brand products, the corresponding catalogue page number, the item code and description, the unit of measurement, the unit price, the percentage discount and the net price. The Direction de l’approvisionnement was then to select 25 similar products from the list submitted by each bidder.
- The total price for a selection of 100 catalogue products. Bidders were required to attach to their tender a pricelist form (in Excel) for all supplies offered in their catalogue, along with a product code, brand, complete description, catalogue page number, unit of measurement, retail price and net price after discount. The Direction de l’approvisionnement then performed the necessary comparative analyses to identify 100 identical products available through each bidder, to avoid biasing the process in favour of any one bidder. Although this procedure had no impact on the successful bidder’s selection, the Direction de l’approvisionnement’s desire to ensure that all bidders were able to offer identical products resulted in 92, rather than 100, products being chosen and used for evaluating the prices in this category.

- The total price for the list of 51 products specific to the SPVM. Bidders were required to use the designated pricelist form and indicate the unit price and total for the required quantity for each product on the form.

These same special provisions also indicate (section 28) that the eventual agreement would exclude the following items:

- Office furnishings (furniture, file cabinets, chairs, monitor stands, computers and keyboards).
- Computer products (PC, screens, printers, software, printer cartridges).
- Cleaning supplies.
- Paper.
- Photocopiers and fax machines.

#### High-Consumption Products

Based on our review of the table of prices received in response to this call for tenders, we determined that the successful bidder (in this case, Bidder #1) was awarded the contract in large part due to prices quoted for the group of items categorized as high-consumption products.

#### **FINDING**

**Although the prices quoted by the four participating bidders for the three other groups of products (store-brand products, catalogue products and products exclusive to the SPVM) are comparable, we noted that prices quoted by the successful bidder for the high-consumption product group were considerably lower than prices submitted by the next lowest bidder. The difference between the two is \$537,351 (before taxes), or 60% (see Appendix 4.1). It is worth noting that, during the previous call for tenders, the same successful bidder's prices for the list of 200 most frequently used products on the pricelist form were 34% lower than those of the next lowest bidder.**

#### Store-Brand and Catalogue Products

Bids were assessed based on a selection of items from the lists of all items submitted by bidders in each group, in the case of store-brand and catalogue product categories. The similar costs obtained for both categories can be at least partially explained by the fact that the bidders did not know in advance which products would be selected by the Direction de l'approvisionnement for the comparative price analysis. This helped ensure that the prices quoted were comparable. In our opinion, the evaluation procedure used for these two product categories offered the benefit

of being fair to all participating bidders. However, although prices were comparable for products exclusive to the SPVM, the low monetary value of these items had only a minimal impact on how the contract was awarded (see Appendix 4.1).

#### Method

We wondered about the method used for determining which items and quantities were used in the pricelist form for this category and how this information was analyzed to determine the annual purchase volumes of items in this group, given the significant difference in prices noted within the high-consumption product group. Our audit consequently focused on the high-consumption product group, although we also examined pricelist forms for the three other groups.

From the outset, we sought to determine the sources of information used by the Direction de l'approvisionnement to identify which items were most frequently used by the city's business units. Based on information obtained from those we interviewed, we learned that the city was no longer able to retrieve from its own computer systems a detailed history of the office supplies acquired by its various business units. In January 2007, an administrative decision was jointly made by the Service des finances and the Direction de l'approvisionnement (which at that time operated under the authority of the Service des affaires corporatives) to modify the purchasing processes for certain suppliers with high billing volumes. It was accordingly agreed that administrative units would submit their orders directly through the supplier's website instead of issuing purchase orders through the SIMON accounting system. Consequently, the supplier would, on a monthly basis, send the Service des finances an invoice for all of the purchases made by the city's various administrative units. For accounting purposes, the Service des finances would then allocate the various expenses to the corresponding budget accounts and business units. Consequently, the only amounts that can be obtained from the city's SIMON accounting system are the overall monthly expenditures for office supplies.

**FINDING**

**Although it offers numerous administrative and economic advantages (e.g., reduces the number of purchase orders to process, reduces the number of invoices to be paid, cuts the overall cost of processing purchases for the city), the Direction de l'approvisionnement now has no choice but to ask the incumbent supplier to issue regular usage reports on a product-by-product basis, as these details are no longer compiled in the city's own systems. The Direction de l'approvisionnement must therefore depend solely on usage reports issued by the incumbent supplier to conduct the analyses required to determine usage patterns within the city's various business units.**

Our audit included reviews of two monthly usage reports (in Excel) submitted by the supplier:

- A monthly report indicating usage by product code for the client accounts of the city's various city administrative units.
- A monthly report indicating cumulative usage in terms of costs and quantities by product code for each of the city's business units.

We made spot checks of invoices confirming purchases made by the teams responsible for administrative services within the four previously mentioned administrative services to corroborate these supplier-generated usage reports and to determine how reliable are. These units were the:

- Division des ressources financières, matérielles et informationnelles, under the authority of the Direction des services administratifs of Saint-Léonard borough.
- Division des ressources financières et matérielles, under the authority of the Direction des services administratifs, du greffe et des relations avec les citoyens of Ville-Marie borough.
- Division de l'administration, under the authority of the Direction principale of the Service des affaires juridiques et de l'évaluation foncière.
- Division de l'administration, under the authority of the Direction de l'administration of the Service du développement et des opérations.

Our tests focused on the 2008 data, since it was the primary source of information used by the Direction de l'approvisionnement in preparing the tender documents. We reconciled information on items (e.g., code, description, quantities ordered, price and total invoice) on the month's invoices (March, April or May 2008) with information in the report that breaks down usage by product code and administrative unit. We also conducted another test on a sample of 20 randomly selected product codes for April and May 2008 to check whether the quantities ordered

and delivered to the various administrative units were properly reported in the monthly cumulative report that compiles purchases by product code for all of the city's business units.

**FINDING**

Furthermore, we checked whether the totals billed for the four business units audited in the selected month equalled the total for invoices processed by the Service des finances. All of the tests demonstrated that they did. They cast no doubt on the reliability of the reports submitted by the incumbent supplier.

**FINDING**

Although the usage reports could have been altered to remove certain confidential data (e.g., prices billed), we found that none of them were included with the tender documents to provide prospective bidders with access to the same information on products used by city employees as that in the possession of the incumbent supplier. We feel that the Direction de l'approvisionnement did not in this respect adequately uphold principles of transparency and fairness. Consequently, the incumbent supplier, which has served as the city's supplier for the past 17 or more years, had an undeniable advantage over other bidders. It had access to a wealth of information on the city's usage patterns, so that it, unlike its competitors, could perform the analyses required to prepare its price submission.

When preparing the pricelist form for high-consumption products, the Direction de l'approvisionnement accordingly analyzed prior year purchases (specifically those in 2008) to develop a list of products ordered most frequently by the city's units and estimated the quantities to be included for high-consumption products on the form. The Direction de l'approvisionnement made a special request to the incumbent supplier to produce (in Excel) two specific reports covering September 1, 2007, to August 31, 2008, namely:

- The list of the top 1,000 product purchases in terms of volume (quantity).
- The list of the top 1,000 product purchases in terms of cost (quantity x price).

According to the information obtained from those interviewed, the figures in these reports were assumed to be reliable, because the city no longer has an easy way to verify the accuracy of such data.

Consequently, a file was created combining data from these two supplier reports: the list of high-consumption products from the previous call for tenders and a list of eco-friendly or “green” products. This electronic database was the main tool used by the Direction de l’approvisionnement in determining which 295 product types (comprising 600 product codes) would be included in the high-consumption product pricelist form.

The review of the documents supporting the analysis and the information obtained from the procurement officer assigned to the task gave us some insight into the effort involved and the methodology employed to select which products were placed on this list. Selection criteria included:

- Only choose products covered by the current purchase agreement. Products in the file that had been specifically excluded from the agreement were, accordingly, not used (e.g., office furniture, printer cartridges, 20-lb. letter-format paper).
- Choose products available in all potential bidders’ catalogues. In other words, when a selection involved a store-brand product exclusive to the incumbent supplier, it was replaced by a similar, national-brand product or eliminated from the analysis.
- Give preference to eco-friendly or “green” products for approximately 20% of selections (e.g., products made from recycled materials, products with low chemical content and biodegradable products).
- Give preference to new products on the market and exclude out-dated products.
- Incorporate products that may be necessary for the hiring of new employees. According to the designated procurement officer, roughly 65 types of products out of the selected 295 fall under this category (e.g., clocks, coat stands, desk lamps).

Overall, we feel that the selection criteria used to determine which items to include in the pricelist form seem to be appropriate. We also observed that each of the items selected for the pricelist form was clearly described and the desired brand specified so that all bidders would be assessed on the same basis.

The renewal of the purchase agreement was awarded to Bidder #1 a little over a year ago (the start date of the contract was November 2, 2009). A special provision (section 12) in the tender documents stipulates that every year, on the anniversary of the start date of the contract, the city may review its list of high-consumption products and make changes in up to 10% of the items on the list (e.g., add new products, replace out-dated items and opt for greener alternatives). Consequently, in November 2010, the procurement officer at the Direction de l’approvisionnement responsible for monitoring the agreement analyzed actual usage over the previous 12 months (November 1, 2009 to October 31, 2010) to determine which items could be

replaced. The analysis revealed that many of the items on the high-consumption product list are among the most heavily purchased products. The Direction de l'approvisionnement did not believe that it was necessary to replace some items with newer versions or older products with more current alternatives, since the agreement was relatively recent. The Direction de l'approvisionnement therefore decided not to change the list, but to reassess it in November 2011.

#### Usage Patterns

##### **FINDING**

**Despite the fact that the items on this pricelist form were selected to ensure fair competition among bidders, information related to consumption patterns within the city's business units may have worked in the incumbent supplier's favour, as it was the only bidder to have access to detailed purchase histories.**

More specifically:

- We determined that the city's business units seem to have developed the habit of purchasing store-brand products by reviewing two usage reports from the supplier for the top 1,000 product purchases in terms of volume and the top 1,000 product purchases in terms of cost. A significant proportion (roughly 20%) of the codes for these types of products can be found among the 1,000 codes that appear in the two usage reports. Out of a concern for fairness, none of these store-brand product codes were included in the high-consumption product pricelist form. This gave the incumbent supplier the unique advantage, however, of being able to offer very low prices in the high-consumption product category, knowing that it could offset the difference with the pricelist form for store-brand products. It should be noted that the successful bidder's tendered prices for store-brand products were quite similar to those of the next lowest bidder.
- The incumbent supplier was the only bidder able to compare actual historical purchase volumes against the quantities required for each type of product appearing on the high-consumption product pricelist form. We are aware that one of the special provisions (Section 4) of the call for tenders clearly stated that quantities on the pricelist form were provided for indicative purposes only. The tender document also stated that these quantities were based on past usage patterns and estimated needs and served solely to create a scenario for identifying the lowest price proposals as part of the contract award process. Although we believe the method used by the Direction de l'approvisionnement to determine the quantities entered on the pricelist form was acceptable from this perspective, it was



difficult to assess its overall effect, since the entire analysis involved a manual cross-referencing of files by the Direction de l'approvisionnement. However, we believe that the purchase volume information available exclusively to the incumbent supplier may have given it an advantage over the other bidders in setting prices and discount rates.

#### Difference in Bidders' Prices

As previously mentioned, our review of tendered prices (Appendix 4.1) reveals a significant difference in prices quoted by the successful bidder in the high-consumption product category. We wondered why this would occur and what kinds of analyses the Direction de l'approvisionnement conducted to determine actual purchase volumes of items in this category compared with the total volume of annual purchases from the incumbent supplier.

We asked the manager and employees in charge of this matter at the Direction de l'approvisionnement about this question. They replied that they had received similar questions about the results and attribute the situation to the likelihood that the contract with the city allows the incumbent supplier to cover its fixed costs and that it maximizes its profit margins with other clients. We nevertheless learned of a piece of correspondence from an external source that specifically alerted the Direction de l'approvisionnement's to the importance of examining the significant discrepancy in the prices quoted within the high-consumption production group. We therefore have some doubts as to the emphasis placed on pursuing issues identified in the correspondence, since we found no evidence that it resulted in a more detailed investigation.

#### **FINDING**

**Those we interviewed stated that they had not conducted any specific assessments of purchase volumes for the different product codes on the list of high-consumption products.**

#### Additional Audit Activities

In light of the above, we undertook the audit activities necessary to gather this information for the 12 months following the renewal of the purchase agreement (2009–2010) and the 12 months leading up to the issue of the call for tenders (2008). We relied on usage reports available from the incumbent supplier and, for each of the 600 product codes (295 types of products) appearing in the high-consumption products pricelist form, we calculated the actual monetary value of the purchases made during the designated periods.

**FINDING**

**The calculations performed since the conclusion of the purchase agreement for the period from November 2, 2009 to October 31, 2010, demonstrate that the actual purchase value of items in this category represents only 8% of total purchases (\$212,809/\$2,535,320).**

We acknowledge that this low percentage result can be explained, at least to some extent, by the very low prices quoted by the successful bidder for the contract renewal resulting in a purchase volume that is less significant in terms of the monetary value of all purchases.

**FINDING**

**The calculations we performed in reviewing purchases that would have been attributable to items on the high-consumption product pricelist form for the period leading up to the renewal of the agreement (January 1 to December 31, 2008), demonstrate that the new list of products on the pricelist form would have represented only 15.2% (\$449,845/\$2,964,795) of total purchases made from this supplier.**

We feel that this information is even more significant since the list of high-consumption products and the conditions of the agreement (e.g., the discount percentage) were not the same over this period.

**FINDING**

**Analyses were based on the October 31, 2010 usage report presenting cumulative usage figures dating back to the first year of the agreement. They revealed that the 600 product codes on this pricelist form account for only 8% of the total number of product codes ordered over the course of a year by the city's various business units (600/7,189 product codes). This information suggests that the number of items on this pricelist form and the monetary value associated with their purchase volume may not have been great enough to have a significant impact on the incumbent supplier's sales.**

Furthermore, to take our analysis even further, we asked the designated procurement officers whether any statistics had been compiled to obtain a better understanding of various municipal business unit usage patterns with respect to the types of goods they order from this supplier. They replied that no such analyses had been conducted, but that it was possible at any time to

ask the supplier to generate a report entitled *[TRANSLATION] Business Overview*, presenting a breakdown of municipal purchases. A request to generate a report covering the period from November 2, 2008 to November 1, 2009 and another covering the period from November 2, 2009 to November 1, 2010 was accordingly forwarded to the supplier. Through subsequent examination of the information in these reports, alongside our examination of usage reports featuring cumulative information on purchases made by product code, we determined that the city's business units obtain items from this supplier that are specifically excluded from the current purchase agreement (section 28).

**FINDING**

**The city received none of the discounts offered by the successful bidder under the current purchase agreement for such items. However, the Direction de l'approvisionnement negotiates and renews a large number of collective purchase agreements for various types of goods each year.**

**FINDING**

This information may also explain the very low prices quoted in the high-consumption product category. Specifically, we noted:

- Purchases of food and cleaning supplies (e.g., cups, plates, paper towels, bathroom tissue, various cleaning products, garbage bags, refrigerators and microwave ovens). According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 6.4% for the 12 months ended November 1, 2010 and 5.2% for the 12 months ended November 1, 2009.
- Purchases of office furniture (e.g., chairs, file cabinets and keyboards). According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 5.7% for the 12 months ended November 1, 2010, and 6.1% for the 12 months ended November 1, 2009.
- Purchases of electronic equipment (e.g., fax machines, printers and cameras). According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 10.8% for the 12 months ended November 1, 2010, and 9.3% for the 12 months ended November 1, 2009.
- Purchases of printer cartridges. According to the *[TRANSLATION] Business Overview*, the purchase volume for this type of product was 26.7% for the 12 months ended November 1, 2010 and 22.4% for the 12 months ended November 1, 2009. However, we were informed that the successful bidder for the current purchase agreement for this type of product was also the successful bidder chosen for another purchase agreement for original (new) cartridges for Hewlett-Packard-brand printers. This is why we found purchases for this brand of cartridge among the total purchases made from this supplier. However, an analysis of the total purchases of all types of cartridges for the year ending October 31, 2010 revealed that the city's business units also acquire cartridges other than Hewlett-Packard cartridges from this supplier. The proportion of these transactions is roughly 8% of total purchases from this supplier.

Based on these observations, purchases from this supplier for items not included in the current purchase agreement represent approximately 49.6% of the total purchase volume for the 12-month period ended November 1, 2010 (and 43% for the 12-month period ended November 1, 2009).

**FINDING**

For the period ending November 1, 2010, the purchase volume of items not covered by the agreement comes to a significant 31%, even excluding purchases of Hewlett-Packard cartridges.

**FINDING**

Because the incumbent supplier possessed all the historical data on the city's usage patterns, it was the only bidder able to conduct such analysis and use this knowledge to adjust its prices. The incumbent supplier could have substantially lowered its high-consumption product group prices to win the contract. In this case, the incumbent supplier could have assessed the possibility of offsetting the difference with other product groups included in the call for tenders (store-brand products, catalogue products, products exclusive to the SPVM), for which the quoted prices were comparable to market prices, or with other items not covered under the current purchase agreement, to which no discounts applied.

In our opinion, the Direction de l'approvisionnement, when renewing this purchase agreement or any other collective purchase agreement under its authority, would be best advised to revisit its tendering strategy to ensure that none of the product categories used to evaluate bids gives an advantage to one bidder over another.

**FINDING**

Considering the privileged usage history information that the incumbent supplier possessed, we feel that the method used to evaluate prices for the high-consumption product category was biased in the incumbent supplier's favour. The method used for the store-brand and catalogue product categories proved fair, since none of the bidders could have known in advance which products would be selected for evaluating the tenders.

Collective Purchase Agreement

We are aware that the city's business units are free to manage their office furniture purchases within their own budgets.

**FINDING**

**We feel that the Direction de l'approvisionnement should consider the possibility of including provisions in tender documents that would limit the types of goods that could be purchased from selected bidders. Doing so would save money and encourage business units to search for a collective purchase agreement for the specific goods they require (e.g., purchase agreement to procure office furniture or janitorial products).**

We also observed during our audit the existence of such provisions in the tender documents of other public bodies we contacted. For example, in one case, a provision specified the list of office supplies excluded from the agreement. While this provision is similar to the city's approach, it also stipulated that such supplies must not be accessible via online orders and that all items available through the supplier's Web site must belong to a discounted category. In another case, an exclusion provision indicated that, except for items included on the pricelist form, no office supplies with a unit value exceeding \$300 and no furniture or computer equipment, regardless of value, could be included in or purchased through the agreement. The provision also specified that the successful bidder was required to obtain the authorization of the contract administrator or an authorized representative before responding to purchase requisitions in these product categories from the organization. We believe that such provisions would help maximize savings for the entire city, although they would have to be tailored to the city's specific circumstances.

**3.3.B. Recommendations**

**To ensure the contract-award process's transparency and fairness whenever the current purchase agreement or any other collective purchase agreement under its authority comes up for renewal, we recommend that the Direction de l'approvisionnement:**

- A) Re-evaluate its practices for issuing tenders and identify all means that could serve in providing every potential bidder with access to all information required to submit a proposal, such as complete details regarding usage history.**
- B) Ensure pricelist forms are prepared in such a manner that prevents any product categories used in the bid evaluation process from favouring one bidder over another.**

**We also recommend that, for purposes of cost-effectiveness and as an incentive to the city's business units, the Direction de l'approvisionnement find the other collective purchase agreements specific to acquisition of other goods required and:**

- C) Include provisions in the tender documents stipulating measures that the successful bidder must take to restrict the types of purchases that can be made under the collective purchase agreement in question.
- D) Take the necessary measures to remind business units of the existence of the various collective purchase agreements and stress the importance of using these agreements to maximize savings for the city.

### 3.3.C. Action Plan of the Relevant Business Unit

- A) [TRANSLATION] “Ensure that all those who obtain the tender documents for the next call for tenders (July 2012) receive a copy of all the usage reports that are provided to us under the current contract so that every bidder is aware of the city’s usage patterns for this type of umbrella agreement.” **(Planned completion: May 2013)**
- B) [TRANSLATION] “Ensure that the high-consumption product pricelist form takes into account both the monetary value and quantities of these items, to ensure that no bidder is favoured over the others.” **(Planned completion: May 2013)**
- C) [TRANSLATION] “Include provisions that require the successful bidder to provide the city with a virtual catalogue including a section with our 300 standard products. **(Planned completion: May 2013)**

Obtain monthly reports from the successful bidder for all purchases covered by the agreement, as well as all purchases not covered by the agreement for verification purposes (being checked with the current supplier). **(Planned completion: June 2011)**

Establish a system to indicate that a purchase made outside the umbrella agreement must be authorized by a manager before the order can be processed.” **(Planned completion: June 2011)**

- D) [TRANSLATION] “Survey business units on our communication tools to understand their habits and needs. **(Planned completion: June 2011)**

Modify our communication tools in line with survey findings. **(Planned completion: June 2011)**

*Deploy the “Appro avancé de SIMON” advanced procurement modules in 2012 for using virtual catalogues. This will facilitate searches involving umbrella agreements and their use by business units.” (Planned completion: December 2012)*

### 3.4. MONITORING PRICES BILLED

#### 3.4.A. Background and Findings

Prices billed must be closely monitored following contract award to ensure these prices comply with the terms of the collective purchase agreement with the selected supplier.

As previously mentioned, prices are monitored in part by the Direction de l’approvisionnement because it manages collective purchase agreements and can ensure that successful bidders adhere to the terms of these agreements (prices billed, etc.). Furthermore, under the agreement (section 10 of its special provisions), the supplier may raise its prices by a percentage that is equal to or less than the Consumer Price Index, as published by Statistics Canada, every 12 months on the contract anniversary date. If the successful bidder anticipates a change in pricing, it must give written notification to the Direction de l’approvisionnement, which will then perform the necessary checks and consider the reasonableness of the proposed increases. The Direction de l’approvisionnement will subsequently advise the supplier if it approves the increases. We noted that the Direction de l’approvisionnement had approved the 1% increase in prices implemented by the incumbent supplier as of January 2011.

The city’s business units must also be able to monitor the situation and ensure that the prices they pay for products they order and pay for directly out of their own budgets match the prices appearing in the agreements. The Direction de l’approvisionnement therefore provides on its intranet site detailed information on the collective purchase agreements it has negotiated, including lists of agreed prices for each product category appearing on the pricelist form. The Direction de l’approvisionnement updates its price list annually, based on fluctuations in approved prices.

With respect to the current purchase agreement, access is accordingly available to three price lists for the following products:

- High-consumption products: illustrated list with colour photos, including descriptions and prices for all items included in the tender’s pricelist form.



- Catalogue products and store-brand products: list of all items covered in the tender, with descriptions and prices.
- SPVM products: Descriptions and prices for all items exclusive to this department.

Information on the intranet site also indicates that all catalogue-ordered products that do not appear on one of the aforementioned price lists are subject to a 68% discount (unless they are specifically excluded from the current agreement).

To assess how closely the successful bidder's prices matched those quoted in its bid, we performed a spot check on the prices invoiced to the four business units we audited.<sup>1</sup> Our sample contained eight invoices for each business unit, for a total of 32 invoices from the period covering the first year of the agreement (November 2, 2009 to October 31, 2010). We verified that the 213 items appearing in these invoices complied with prices quoted in the bid.

**FINDING**

**Discrepancies appeared between the prices billed and those quoted in the purchase agreement for 43% of the items checked (91/213). These discrepancies included both billed prices that were both higher and lower than quoted prices.**

Although the price differences could be higher and of opposite effect, the overall result of our audit shows that the total difference between these two sets of prices came to \$488.51 in the city's favour, given the small sample of items examined.

During a meeting with the manager and the procurement officer in charge of administering the agreement, we were told that the Direction de l'approvisionnement had also checked prices billed to ensure that the successful bidder's invoicing practices complied with the agreement. Based on the information obtained, prices were checked for the period of January to May 2010. Spot checks had reportedly been performed on store-brand products, catalogue products and exclusive SPVM products. It would however, appear that a more comprehensive review was conducted for high-consumption products. We asked to obtain details on the sampling practices used to check the prices, but this information was not available because the process had not been documented.

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<sup>1</sup> Saint-Léonard borough, Ville-Marie borough, Service des affaires juridiques et de l'évaluation foncière and Service du développement et des opérations.

**FINDING**

**Based on information obtained from those we interviewed, the Direction de l'approvisionnement's checks enabled it to detect a number of price discrepancies.**

Consequently, a representative of the supplier was contacted to make the necessary adjustments and to issue a credit to the city for price errors. In total, the discrepancies (overcharged and undercharged amounts combined) represented a credit of \$2,086.69 for the city.

To better determine the extent to which adjustments requested by the Direction de l'approvisionnement helped improve the accuracy of the amounts invoiced following the audit (January to May 2010), we eliminated from our sample the results obtained for the invoices selected from the months of June through October 2010.

**FINDING**

**Although there were discrepancies in 31% of the items ordered during this period (33/105 items), we ascertained that these discrepancies primarily applied to products that were ordered by catalogue and that did not appear in any of the pricelist forms.**

**FINDING**

**Although the city's various business units are partially responsible for ensuring the compliance of the prices invoiced by the supplier, it is nevertheless surprising to discover that the invoices examined were paid despite discrepancies in price observed and that no flags were raised.**

In our view, this situation may possibly be due to the fact that business units must search each of the items ordered on three lists posted on the procurement site, to validate the accuracy of the prices quoted by the supplier. The complexity of the process and the time it requires may at least partially explain why some business units are not particularly diligent in checking prices and are more reliant on checks by the Direction de l'approvisionnement.

Since the Direction de l'approvisionnement is the main authority for collective purchase agreements, we feel that, for greater efficiency and to realize the savings these agreements are intended to produce for the city, the Direction de l'approvisionnement should:

- Employ a documented, structured method based on a statistically representative sample of the surveyed population to ensure that periodic checks of billed prices can guarantee the city's business units that the prices invoiced by the successful bidder comply with the agreement.
- Establish effective communication mechanisms to ensure that any discrepancies in price detected by the business units are systematically brought to the attention of the designated manager at the Direction de l'approvisionnement and the necessary measures can be taken with the supplier to rectify the situation.

#### **3.4.B. Recommendations**

To make the process more efficient and realize savings expected from the city's various collective purchase agreements, we recommend that the Direction de l'approvisionnement:

- Use a documented, structured methodology based on a statistically representative sample of surveyed users to ensure that a periodic check of the prices invoiced can guarantee the city's business units that the prices invoiced by the successful bidder comply with those in the agreement.
- Establish effective communication mechanisms so that any discrepancies in price detected by the business units are systematically brought to the attention of the designated manager at the Direction de l'approvisionnement and the necessary measures can be taken with the supplier to rectify the situation.

#### **3.4.C. Action Plan of the Relevant Business Unit**

*[TRANSLATION] "Implement a documented method for spot checking bills to ensure that they are based on the same prices as those specified in the contract, as part of the management process for this umbrella agreement. (Planned completion: May 2011)"*

*Develop a monthly tracking report to document actions taken to check prices and requests to the successful bidder for adjustments. (Planned completion: May 2011)*

*Establish up a single contact in each business unit to channel information more effectively (recommendation from the team in charge of revamping procurement operations)." (Planned completion: September 2011)*

#### 4. APPENDIX

##### 4.1. TABLE OF PRICES RECEIVED

Table 1—Prices Received from Each Bidder

Product Category	Bidder			
	#1*	#2	#3	#4
High-consumption products	\$358,860.85	\$896,211.55	\$896,353.27	\$1,039,230.52
House-brand products	\$6,559.00	\$6,549.00	\$5,165.00	\$9,006.00
Catalogue products	\$567,974.00	\$500,244.00	\$597,562.00	\$611,280.00
Products exclusive to the SPVM	\$737.11	\$839.76	\$887.81	\$989.43
Comparative amount (before tax)	\$934,130.96	\$1,403,844.31	\$1,499,968.08	\$1,660,505.95
Comparative amount (after tax)	\$1,054,400.32	\$1,584,589.26	\$1,693,088.97	\$1,874,296.09

\* Successful bidder.

# The difference between the price obtained from the successful bidder and the price obtained from the next lowest bidder is \$537,350.70, a difference of 60%.