



Report of the Auditor General of the Ville de Montréal to the City Council and to the Urban Agglomeration Council

For the Year Ended December 31, 2014

4.6

MANAGEMENT OF PURCHASE AGREEMENTS



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List of Acronyms

SÉAO Système électronique d'appel
 d'offres

4.6. Management of Purchase Agreements

1. Introduction

The Ville de Montréal (the City) is a major stakeholder in matters of procurement, considering the diversity of the goods and services required for the daily management of its activities and its numerous business units (the boroughs and the central departments). Considering the fact that the City commits approximately \$1.7 billion each year to acquire goods and services, it is important that procurement activities take place within the scope of a structured market solicitation process that encourages an economic use of public funds.

For several years now, the City has encouraged the boroughs and the central departments to achieve economies of scale by pooling their needs and consolidating their purchase volumes. In fact, after issuing public calls for tenders, the Service de l'approvisionnement¹ signs various purchase agreements with suppliers setting out the clauses and conditions (e.g., pre-established pricing, delivery terms) that apply to the goods and services to be ordered. These agreements, negotiated for all of the City's business units, are generally for terms ranging from one to five years. They cover goods or services (general or professional) that may be required on an ongoing basis by several or all of the City's business units (e.g., office and stationery supplies, de-icing salt, fuel and chemical products, services for the transportation of valuables). As of September 30, 2014, the Service de l'approvisionnement had a total of 759 purchase agreements in effect, including 518 covering the acquisition of goods representing a potential purchase power of \$554 million over the terms of the purchase agreements in question.

In 2010, the executive committee instructed the Direction générale to restructure the procurement function, among other things. A diagnosis of the situation, intended to define corrective measures to be taken, highlighted certain possibilities for improvement, specifically:

- The business units do not all systematically use the negotiated purchase agreements for their purchases, and acquisitions made under these agreements represent only 50% of the value of the agreements estimated by the City. Therefore, the City was not fully benefitting from the savings inherent in the leverage effect of pooling purchases and was not maximizing the volume discounts that this should have provided;

¹ Formerly known as the *Direction de l'approvisionnement* reporting to the *Service de la concertation des arrondissements et des ressources matérielles*. This department now reports to the Direction générale adjointe aux services institutionnels.

- Responsibility for the tasks involved in the purchaser function was shared by too many stakeholders scattered among the City's various business units. This situation diluted the specific responsibilities and competencies of an informed purchaser with respect to market knowledge and the ability of purchasers to understand the needs of users and respond to the organization's requirements. Not to mention problems with the transmission of information, training and the provision of adequate support to all of the stakeholders;
- The computer application used (SIMON²) was not used for processing information in an optimal manner so as to ultimately provide adequate support for procurement management and decision-making.

This initiative revealed a need to implement common governance among the City's business units in order to develop strategies and processes that will ensure a consistent and economic management of acquisitions. A new business model³ for the procurement function and a revised Procurement Policy were proposed and both were adopted by City council and the urban agglomeration council on October 24 and October 27, 2011, respectively.

The City specifies the guidelines for the new business model for sharing roles and responsibilities in its revised Procurement Policy, which applies to all boroughs and central departments. It specifically states that:

- The Service de l'approvisionnement is responsible for ensuring the application of the new guidelines and providing "leadership" with respect to market solicitation. In addition to developing and implementing strategies for acquiring the common goods and services required for the operations of the City's business units, the Service de l'approvisionnement is also responsible for signing contracts and purchase agreements and implementing the mechanisms to ensure that they are honoured. The City views the use of purchase agreements as a preferred tool that will enable each business unit to make the most of grouped savings and to act consistently in its business relations with the market;
- The City's business units continue to be responsible for managing their construction or work contracts. Nevertheless, with respect to the procurement of goods and services, [TRANSLATION] "the business units have an obligation⁴ to use the purchase agreements, to ensure equity to the parties with whom the agreements have been signed, to monitor cost increases for future tenders, and to ensure the City's credibility with

² SIMON is the integrated management system used by the City to manage all processes, which integrates several functions, including procurement, finances and human resources.

³ This business model was initially adopted for a period of two years and later extended for an additional period of five years as of January 1, 2014.

⁴ Our underlining.

respect to the markets.”⁵ In this way, the business units benefit from purchase accessibility when required and the power of associating with a major purchasing community.

The Service de l’approvisionnement has taken steps to promote the increased use of purchase agreements. Specifically, in order to facilitate communication and cooperation between the business units, it implemented consumer and expert committees composed of representatives of the business units; their role is to identify new grouping possibilities, with a view to making the most of the City’s purchasing power. Moreover, it defined a certain number of projects, including a project entitled “Harmonisation et automatisation du processus d’achat.” Among other things, this project will result in the upgrading, in stages, of the procurement component integrated in the SIMON application (Advanced procurement); the first phase, concerning the purchase of goods and services, was deployed from September to December 2014.

2. Purpose and Scope of the Audit

The purpose of the audit was to evaluate the effectiveness of measures intended to ensure compliance with the Procurement Policy in terms of the obligation of the City’s business unit’s to use purchase agreements. We also wanted to evaluate the extent to which steps taken in 2014 as part of the “Harmonisation et automatisation du processus d’achat” project had served to achieve the policy’s objectives.

Although our audit, which started in October 2014, principally concerned the purchase agreements in effect in 2013 and 2014 with respect to the procurement of goods, it also took into account information we received up until January 2015. For certain aspects, data obtained prior to these years were also taken into consideration.

Our audit concentrated on the Division de l’acquisition de biens et services and the Division des pratiques d’affaires, which both report to the Service de l’approvisionnement. For certain aspects, we also questioned various administrative units within the Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie and Saint-Laurent boroughs.

⁵ Extract from the City’s Procurement Policy, October 27, 2011, pages 4 and 5.

3. Summary of Findings

Our audit allowed us to identify sectors where improvements should be made. The following sections of this audit highlight shortcomings with respect to:

- Follow-up on the use of purchase agreements and accountability (Section 4.1):
 - The Service de l’approvisionnement is not able, based on the management reports currently in its possession, to ensure the purchase agreements in effect are used and to periodically report on performance indicators;
 - The designated purchasers do not always use the purchase agreements negotiated by the Service d’approvisionnement when purchasing the goods needed for the operations of their business unit, as required by the City’s Procurement Policy.

- Mechanisms for disseminating information about purchase agreements in effect (Section 4.2):
 - The mechanisms for disseminating information about the purchase agreements do not always ensure that the various procurement stakeholders within the City’s business units are systematically informed about the existence of a purchase agreement for the goods or services to be ordered.

- The “Harmonisation et automatisation du processus d’achat” project (Section 4.3):
 - The measures implemented as part of the Advanced procurement project do not ensure that the purchase agreements are strictly honoured by all of the City’s business units;
 - The Advanced procurement project has not been the subject of official accountability intended to report on the progress of the measures deployed and to evaluate the extent to which the objectives have been achieved.

4. Detailed Findings and Recommendations

The Service de l’approvisionnement is responsible for tasks pertaining to the pooling of needs for purchases of goods and services required by the City’s business units to provide services to the citizens. By signing purchase agreements for all of the business units, the City is aiming at consistency and ease of procurement, as well as on obtaining the best prices and, ultimately, economies of scale.

The Division de l’acquisition de biens et services, which reports to the Service de l’approvisionnement, is the administrative unit that has been designated to implement procurement and market solicitation strategies and to sign purchase agreements with

suppliers. Each of the purchasing agents working for the Division de l'acquisition de biens et services is responsible for managing a certain number of purchase agreements. Their responsibilities include:

- making all of the information concerning purchase agreements in effect available to the business units and updating that information;
- making sure that the purchase agreements are honoured by the suppliers retained, specifically with respect to the prices invoiced and the appropriateness and quality of the products offered;
- making sure that the purchase agreements are honoured by the business units and identifying new group purchase opportunities that could be beneficial for the City;
- implementing the renewal process, in a timely manner, for purchase agreements that are expiring.

Employees who perform the functions of purchasing agents⁶ (hereinafter called “purchasers”) within most of the City’s boroughs and central departments are responsible for purchasing the goods and services needed for the operations of their business unit. When the goods and services required are covered by a purchase agreement with a supplier, these purchasers are required to use that agreement to make their purchases, in accordance with the City’s Procurement Policy.

The Division des pratiques d'affaires, which also reports to the Service de l'approvisionnement, provides procurement support. Specifically, it:

- makes sure that the tools available to the employees assigned to make purchases and the processes they are required to follow facilitate the acquisition of the goods and services required;
- is responsible for managing the databases contained in the SIMON application;
- monitors the information to be published in the Système électronique d'appel d'offres (SÉAO) when a public call for tenders is issued for a contract.

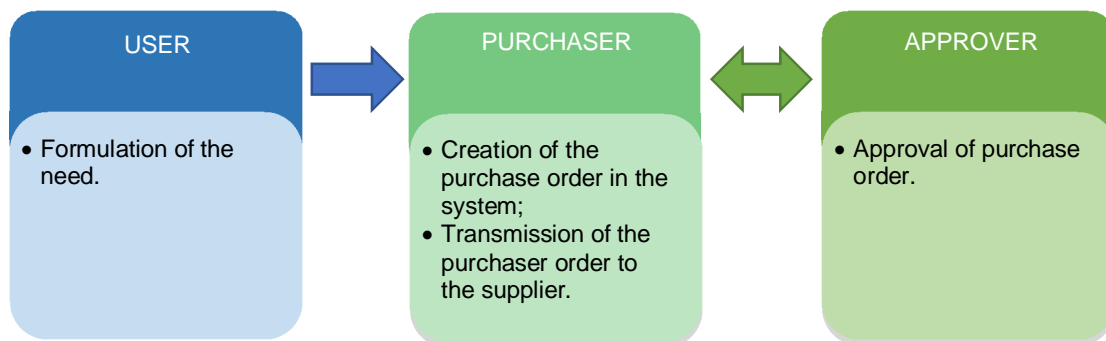
In terms of operations, in order to obtain access rights to the procurement component of the SIMON application, each of the City’s purchasers must have a license. In June 2014, the information obtained indicated that 667 City employees had a purchase license, including 88 who report to the Division de l'acquisition de biens et services of the Service de l'approvisionnement.

⁶ These employees primarily comprise secretaries, office clerks, administrative support clerks and a few procurement agents.

From the outset, we believe that it is appropriate to provide a brief description of the procurement process in effect within the City’s business units at the time of our audit, at which time the deployment of the first phase of the “Harmonisation et automatisé du processus d’achat” project, mentioned earlier, had not been completed. The first phase of this project introduced an additional step compared with the procurement process described below and changes have been made to the procurement module of the SIMON application. The impact of this project will be covered in greater detail in Section 4.3 of this report.

First, the management of the procurement process, from the requisition (creation of a purchase request) to the reception of the merchandise, is handled within each of the City’s business units using the procurement component integrated in the SIMON application. The purchasers in each of the business units are responsible for purchasing the goods and services required and creating the appropriate purchase orders in the SIMON application. The purchasing process that was in effect at the time of our audit is described in Figure 1.

Figure 1 – Procurement Process in Effect in September 2014



This purchasing process may vary from one business unit to another and even from one division to another but, generally, as shown in Diagram 1, it starts with the formulation of a need by a business unit stakeholder (the “user”), using an internal form. This purchase request, for which the expense must first have been approved by a supervisor, is received by the designated purchaser. Prior to issuing a purchase order, the purchaser must determine whether a purchase agreement exists for the product in question before searching on the market for another supplier able to provide the desired product. The purchaser then creates a purchase order by entering all of the information about the purchase in the SIMON application: product description, item code, price, desired quantity, name of the supplier and the number of the corresponding purchase agreement, if applicable. A person designated in keeping with the rules for delegating authority then approves the purchase order, after having

verified certain elements (e.g., the prior approval of the expense, the budgetary item). Finally, the purchaser sends the purchase order to the chosen supplier.

Note that it is important to enter the number of the purchase agreement, if any, corresponding to the good or service to be ordered, in the field reserved for this purpose, when creating the purchase order. Indeed, based on the link created in this manner between the purchase order and the purchase agreement, it may be possible, at a later date, to generate management reports, from the databases contained in the SIMON application, that could be used to monitor the actual quantities consumed through the negotiated purchase agreements.

In this audit report, we will first examine the extent to which the tools made available to the Service de l'approvisionnement allow it to monitor and provide an account of the use of the purchase agreements by the City's business units. Following that, we will examine the mechanisms used to disseminate information about purchase agreements in effect to the purchasers. Finally, we will evaluate the extent to which certain aspects of the "Harmonisation et automatisation du processus d'achat" project may be able to contribute to promoting the use of the purchase agreements in keeping with the Procurement Policy.

4.1. Follow-up on the Use of Purchase Agreements and Accountability

4.1.A. Background and Findings

Although the responsibilities concerning the use of purchase agreements are shared by the Service de l'approvisionnement and the City's business units, the City's Procurement Policy acknowledges that the Service de l'approvisionnement is responsible for soliciting markets and signing purchase agreements with suppliers in order to meet the community's needs. The boroughs and the central departments are required to procure the goods and services needed for their operations through the negotiated purchase agreements.

The above responsibilities assigned to the Service de l'approvisionnement require the implementation of follow-up and monitoring mechanisms and tools, and even the establishment of performance indicators for periodically determining whether the procurement strategies implemented are effective and identifying potential sources for improvements, specifically with respect to the use of purchase agreements in effect.

Ultimately, accountability mechanisms must be implemented with respect to the results obtained in order to be able to compare them to the objectives established and provide support for making informed decisions.

That said, our audit initially focused on an examination of the tools used by the Service de l’approvisionnement to evaluate the extent to which purchase agreements were effectively used by the business units. We also wanted to assess the scope of the related accountability mechanisms.

In a more targeted manner, we then sought to evaluate the extent to which certain boroughs used purchase agreements in effect for managing their operations. To do that, we selected the three following boroughs: Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie and Saint-Laurent. Moreover, we also selected a sample of three categories of goods likely to be used by most of the City’s business units, namely: “asphalt blends” used for road work, “chlorine” used to disinfect the water in public swimming pools, and “office supplies and stationery” required on a routine basis. For these three types of goods, we were able to identify 11 purchase agreements that were in effect in 2013 and 10 in 2014 (see Table 1).

Table 1 – Number of Purchase Agreements in Effect in 2013 and 2014 for the Goods Sampled

	2013	2014 ^[a]
Asphalt blends	4	3
Chlorine	5	5
Office supplies and stationery	2	2
Total	11	10

^[a] The purchase agreements for office supplies and stationery were the same in 2013 and 2014. For the other goods in our selection, however, the purchase agreements for 2014 were new agreements, compared with those for 2013.

First, we were informed that the Service de l’approvisionnement has management reports for analyzing the goods and services consumed by the City’s business units through purchase agreements. Some of these reports are standardized and can be generated in real time from the SIMON application whereas other specific reports can be generated upon request from the “Bureau d’affaires”⁷ database.

In order to evaluate the extent to which the purchase agreements targeted by our audit were used by the three boroughs selected, we initially wanted to examine the information provided in the standardized management reports generated by the SIMON application. However, staff at the Division de l’acquisition de biens et services warned us that these reports were of little use to them since they do not provide a faithful and complete portrait of the actual amounts consumed by the business units through purchase agreements. In the opinion of the people

⁷ The *Bureau d’affaires* is a computerized warehouse database that contains the data from the SIMON application. This database produces tailor-made management and operation reports based on the user’s specific needs. (Source: Service de l’approvisionnement intranet site)

we met, the incomplete nature of the portrait provided by these reports is the result of a lack of thoroughness with respect to entering the data in the SIMON application, namely when the business unit purchasers enter the purchase orders. Indeed, it appears that, when a purchase order is entered, the field reserved for entering the purchase agreement number is not mandatory and might therefore be left blank by the user. As a result, since the goods or services to be ordered are not systematically linked to the corresponding purchase agreements, it becomes very difficult to identify all of the purchases made by means of negotiated purchase agreements, thereby reducing the usefulness of the management reports generated. In this respect, we noticed that the standardized reports produced by the SIMON application, which can be accessed on the Service de l'approvisionnement intranet site, clearly state: [TRANSLATION] "The completeness of the information provided in this report depends on the correct use of SIMON in terms of linking the purchase orders to the purchase agreements."

Not only are the purchase orders not systematically linked to a purchase agreement, we were also informed that, in other cases, they are linked incorrectly to agreements to which they do not correspond, which also affects the reliability of the reports produced.

We then tried to obtain, from the Division des pratiques d'affaires, a more reliable data extraction illustrating the purchases made in 2013 and 2014 using the selected purchase agreements. However, the representatives we met were able to confirm only that, given the problem concerning the recording of the purchase orders, it would be impossible to obtain an exhaustive and reliable portrait of purchases made using purchase agreements.

Moreover, the representatives we met from that same division informed us that data extractions generated from the database with respect to the use of purchase agreements include data fields which they are unable to precisely define and which are therefore open to interpretation. For example, there are fields which are apparently the result of calculations programmed in the system, with which the representatives of the Division des pratiques d'affaires are not familiar. As a result, it is at the very least difficult to produce management reports that respond perfectly to the users' needs.

Given the lack of reliable management tools, it is very difficult for the Service de l'approvisionnement to monitor the purchases made by the business units, whether made through purchase agreements or otherwise. The shortcomings identified above inevitably affect the reliability of the reports produced and most certainly have an impact on the analyses and decisions that may result. This is an even greater concern since the Division des pratiques d'affaires has stated that it regularly produces reports at the request of managers.

A division manager we met from the Service de l'approvisionnement informed us that, under the circumstances, when he has to respond to specific requests from senior management, he has no choice but to complete the portrait by making a manual search and compilation of the purchase transactions concerning a particular good. Although it is very labour intensive and is not necessarily exhaustive, this search through the thousands of transactions entered in the SIMON application is, in many cases, the only means of allowing stakeholders to prepare a consumer portrait that is more representative of reality. Nevertheless, one of the limits of the reliability of the portrait established in this way is the fact that the search is based primarily on the description of the goods entered when the purchase order was created, and that description is not always sufficiently clear or detailed and is occasionally inadequate.

Considering the lack of reliability of the management reports that can be generated by the SIMON application, in order to be able to monitor the purchase agreements for which they are responsible, certain procurement agents with the Division de l'acquisition de biens et services have said that they prefer to use consumer reports provided by suppliers. In certain respects, these consumer reports certainly are an accessory means that can be used to globally monitor the evolution of the purchases made through a specific purchase agreement, or even to determine the nature of the goods most frequently purchased by the business units through such an agreement. Using this means alone, however, leaves the number of purchases made outside of the agreements by the business units unknown. In our opinion, it is imperative for the Service de l'approvisionnement to have this information in order to be able to search for the reasons for such purchases and take appropriate action (e.g., the products covered by the purchase agreement do not meet the users' needs, poor knowledge of existing purchase agreements, lack of a purchase agreement for a recurrent need on the part of the business units).

Based on these findings and in order to determine whether the three boroughs targeted by our audit use the purchase agreements covering the three goods selected (asphalt blends, chlorine and office supplies and stationery), we extracted the data from the SIMON application. The extraction was intended to identify, for 2013 and 2014, all of the purchases entered in the City's books with respect to the accounting expenditure items (expenditure items and sub-items) corresponding specifically to the three types of goods in our sample. The objective was to determine the proportion in which the purchases recorded as expenditures for these goods had been made from suppliers other than those with which the City had signed a purchase agreement.

First, this procedure revealed certain shortcomings concerning the transactions recorded in the books. Specifically, we noted that the expenditure related to the purchases made was not

always attributed to the appropriate accounting expenditure item, in keeping with the City's accounting plan. For example, we noted that:

- expenditures pertaining to the purchase of furniture were recorded under “office supplies and stationery”;
- the purchase of chlorine was recorded under “maintenance products” instead of being recorded under “chemical products – chlorine”, provided specifically for that purpose.

Moreover, we noted not only that the accounting entries were not consistent from one business unit to another for the same type of purchase but also that certain business units use general accounts to record expenditures of various natures. Under these circumstances, it would have been too labour intensive to isolate the transactions for purchases concerning the goods targeted by our audit since, as we indicated earlier, the transactions recorded do not always provide sufficient details for us to be able to accurately establish what was purchased. That said, the results of the data extraction we performed were not conclusive.

Nevertheless, the Service de l'approvisionnement representatives we met stated that they are aware of various situations that have occurred, enabling them to identify deviations on the part of certain business units. The business units, on the other hand, offer the following justifications for occasionally making their purchases outside the agreements:

- The agreements signed do not always meet their needs and they legitimately purchase their goods from a supplier with which the City has not signed an agreement;
- The shipping times are too lengthy in situations that require emergency purchases.

All in all, given the inherent shortcomings in the entry of the data in the SIMON application, we cannot but notice that the Service de l'approvisionnement was unable to provide an exhaustive and reliable portrait illustrating the extent to which the City's business units use the negotiated purchase agreements to make their purchases. Moreover, with respect to the use of the negotiated purchase agreements, we noted that no performance indicator had been provided and that no accountability mechanism is regularly used to evaluate, as should be done, the effectiveness of the procurement strategies implemented. Based on the information obtained from the individuals we met, it appears that accounting is performed in a more informal manner or in response to specific requests.

Under the circumstances, we believe that, on the one hand, it might be appropriate to evaluate the possibility of making the necessary modifications to the SIMON application so as to make it mandatory, when recording a purchase order, to enter information in the field provided for the number of the corresponding purchase agreement (no optional field). For example, in the event that no purchase agreement has been negotiated for the good to be ordered, the system could include a requirement to enter a code or note indicating that fact.

This would at the very least limit the occurrence of situations in which an empty field is attributable to an oversight on the part of the purchaser. In this manner, when data are extracted from the system, it would be easier for the Service de l'approvisionnement to isolate the cases in which the business units entered information indicating a purchase made outside of the agreements and undertake an examination to identify the reasons justifying the result obtained (e.g., the existing agreement does not meet a need, willing deviation on the part of the purchaser).

On the other hand, we are also of the opinion that the Service de l'approvisionnement and each of the business units must take the necessary measures to remind the procurement agents of their obligation, under the City's Procurement Policy to use the negotiated purchase agreements and to be more vigilant in terms of recording the expenditure under the appropriate item, in keeping with the City's accounting plan.

4.1.B. Recommendation

We recommend that the Service de l'approvisionnement take the necessary measures to provide exhaustive and reliable management reports so that it can ensure its ability to monitor whether purchase agreements in effect are honoured and periodically report on performance indicators it has established. Specifically, it should:

- **assess the possibility of making modifications to the SIMON application in order to make it mandatory to enter information in the field provided for the number of the purchase agreement concerned when a purchase order is created;**
- **clarify the meaning of the data fields provided in the SIMON application database so as to avoid an incorrect interpretation of the information provided in the management reports produced and to be able to generate reports that adequately respond to the needs of the managers.**

Business unit's response:

[TRANSLATION] A change request is being studied to evaluate the possibility of making changes to the SIMON application in order to make it mandatory to enter information in the field provided for the number of the corresponding purchase agreement when creating a purchase order.

*This change request will make it possible to enter the agreement number, if it is available, or to indicate one of two other options: there is no agreement or the unit requesting the goods or services does not feel that the purchase agreement is suitable for their occasional needs. **(Planned completion: June 2016)***

A review of the "Bureau d'affaires" database reports was initiated at the end of 2014. The Division des pratiques d'affaires started to review certain priority reports

pertaining to goods consumed under the purchase agreements, including the clarification of certain fields. Moreover, the quality of the information depends on the accuracy of the information entered in the system. A major training effort was made in 2014 and is continuing in 2015. Furthermore, structural changes are planned for 2015 to reinforce the training provided to users. When they are more familiar with the system, users will be better prepared to enter the appropriate information in the system. (Planned completion: June 2016)

4.1.C. Recommendation

We recommend that the Service de l’approvisionnement and the Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie and Saint-Laurent boroughs take the necessary measures to remind all of the employees about the importance of:

- purchasing goods and services through purchase agreements in effect and taking care to systematically link the purchase orders to the corresponding purchase agreements, so that the City can make use of the benefits inherent in using purchase agreements, in keeping with the Procurement Policy adopted;
- allocating the purchase to the appropriate expenditure item, in keeping with the City’s accounting plan, so as to ensure a faithful representation of the financial results, to be able to analyze the actual amounts consumed by type of good and cost increases.

Business units’ responses:

SERVICE DE L’APPROVISIONNEMENT

[TRANSLATION] Prepare, in collaboration with Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie and Saint-Laurent boroughs, a communication plan to reinforce:

- *the appropriate use of the business procedures for purchasing goods or services through purchase agreements in effect, if any are available, and for making sure that purchase orders are systematically linked to the corresponding purchase agreements.*

This initiative must include reinforcing the correct use of the purchase categories so that actual consumption can be analyzed according to the type of good.

- *In collaboration with the Service des finances and the Direction de la comptabilité et des informations financières, reinforce the allocation of purchases to the appropriate expense items, in keeping with the City’s accounting plan, so as to ensure the most reliable representation possible of the financial results and an analysis of cost increases. (Planned completion: December 2015)*

MERCIER-HOCHELAGA-MAISONNEUVE BOROUGH

[TRANSLATION] A note will be sent, by the end of April, to all borough employees concerned, to ensure that:

- they purchase goods or services through the purchase agreements in effect and to make sure they systematically link the purchase orders to the corresponding purchase agreements so that the City can derive the greatest benefit from using purchase agreements, in keeping with the procurement policy adopted;
- they allocate the purchase to the appropriate expense item, in keeping with the City's accounting plan, so as to provide a faithful representation of the financial results, provide for an analysis of actual consumption by type of good and provide for an analysis of cost increases.

Follow-up will be ensured. **(Planned completion: May 2015)**

ROSEMONT-LA PETITE-PATRIE BOROUGH

[TRANSLATION] Drafting and distribution of an internal memo to all of the employees concerned by the problem (buyers, foremen and first-line managers). **(Planned completion: April 2015)**

Organization of an awareness-raising meeting with the administrative support staff and the section manager for general support. **(Planned completion: May 2015)**

Random monitoring on a quarterly basis using the list of recently approved purchase orders to identify issues and ensure adequate support and training for employees assigned to purchases. **(Planned completion: May 2015)**

SAINT-LAURENT BOROUGH

[TRANSLATION] We will identify the individuals asked to make purchases, we will transmit a message from the Division des ressources financières et matérielles, we will post a message on the Intranet and we will raise the awareness of the teams.

The manager of the Services administratifs will inform the managers at the management table. They will meet with their division managers, who will, in turn, meet with their respective teams. **(Planned completion: May 2015)**

On a different note, these shortcomings noticed with respect to the failure to link a purchase order with the corresponding purchase agreement and to errors in the attribution of the expenditure to the appropriate accounting item also led us to question the repercussions they might have with respect to the regulatory obligations of the Service de l'approvisionnement to disclose all of the information concerning the contract awarded to the supplier of the purchase agreement to the SÉAO.

In fact, as of April 1, 2011, new provisions were included in the *Cities and Towns Act*⁸ with respect to the City's obligation to publish a list of all contracts entailing an expense of \$25,000 or more on the SÉAO site approved by the Government of Quebec. Moreover, with respect to the information concerning, among other things, the purpose and the price of the contract, the name of the party receiving the contract and the expected amount of the expense, the City has an obligation to publish, with the SÉAO, the total amount of the actual expense, once the contract has been fulfilled.

As previously mentioned, the Division des pratiques d'affaires of the Service de l'approvisionnement is the administrative unit responsible for publishing the information required with the SÉAO. In order to validate the conformity and completeness of the information to be published, we targeted, in our sample, the purchase agreements signed after April 2011 that expired before December 31, 2014. We thus identified four purchase agreements concerning "asphalt blends" and five purchase agreements for "chlorine," for a total of nine purchase agreements.

Our examination of the SÉAO revealed that the information concerning the calls for tenders for each of the nine contracts underlying the purchase agreements signed were in fact published with the SÉAO, but that the actual expenses for the "chlorine" contracts were not disclosed. In our opinion, the Service de l'approvisionnement must take the necessary measures to comply with its legislative requirements.

4.1.D. Recommendation

We recommend that, in order to comply with its legislative obligations, the Service de l'approvisionnement take the required measures to be able to publish in the Système électronique d'appel d'offres the amount of the actual expenditures incurred at the end of the underlying contracts for the purchase agreements.

Business unit's response:

[TRANSLATION] All of the business units that make purchases through the purchase agreements must compile statistics on their consumption so as to be able to consolidate this information (at present, it is not possible to compile this information directly from the integrated system). A document will be prepared and distributed to the business units so that they know exactly what information to compile and to whom it should be sent. The Service de l'approvisionnement will then consolidate the information and publish it in the SÉAO. (Planned completion: January 2016)

⁸ RLRQ, Chapter C-19, Section 477.5.

The individual responsible for the purchase agreement will follow up with the business units that use the agreement in order to obtain consumer information from each business unit. (Planned completion: January 2016)

An annual verification will be made by the Division des pratiques d'affaires in order to determine the contracts whose final expense is not compiled (once the purchase agreement has expired). This information will be given to the Division des acquisitions so that it can ensure adequate follow-up. (Planned completion: January 2016)

4.2. Mechanism for Disseminating Information About Purchase Agreements in Effect

In order to promote the achievement of the City's Procurement Policy objectives, specifically with respect to making the most of the savings generated by the consolidation of purchases, it is understood that the Service de l'approvisionnement must implement all of the necessary measures so that the stakeholders concerned within the various business units are systematically informed of the existence of the purchase agreements in effect.

Within the Service de l'approvisionnement, the procurement agents who report to the Division de l'acquisition de biens et services are responsible for disseminating information about purchase agreements. They currently use two means to do this: the distribution of information newsletters, called "Info-achats" and a computerized search engine that can be used to identify purchase agreements in effect, available on the Service de l'approvisionnement intranet site.

As part of our audit, we sought to evaluate the extent to which the designated purchasers within the selected boroughs were adequately informed of the existence of purchase agreements. First, we examined the "Info-achats" newsletters distributed; following that, we examined the extent to which the search engine enables the business units to determine whether there is a purchase agreement that covers the goods or services to be ordered.

4.2.1. "Info-achats" Newsletters

4.2.1.A. Background and Findings

According to the representative we met from the Service de l'approvisionnement, all of the stakeholders involved in the purchasing process are expected to be systematically informed, through the distribution of "Info-achats" newsletters, when a new purchase agreement goes into effect. To do this, the Division de l'acquisition de biens et services procurement agents must complete a distribution request form for each new purchase agreement and submit it to the person responsible for the email broadcast of "Info-achats" newsletters.

In the case of the purchase agreements in effect in 2014 for the goods included in our selection, our audit entailed determining whether an “Info-achats” newsletter had been distributed. Our audit revealed that “Info-achats” newsletters were distributed for all of the purchase agreements covering “asphalt blends” and “office supplies and stationery.” Of the five purchase agreements in effect in 2014 for “chlorine,” however, we were able to track down the distribution of an “Info-achats” newsletter for only one. In response to this, the procurement agent responsible for these agreements stated that the distribution of the newsletter is not systematically requested for each new purchase agreement signed. In our opinion, it is imperative for all of the stakeholders concerned in the City’s business units to be systematically informed of the new agreements signed in order to attenuate the risk of purchases being made outside the agreements. A purchaser we met from the Mercier–Hochelaga-Maisonneuve borough confirmed that this risk is real: in 2013, a portion of the “chlorine” supplies was apparently purchased outside the agreements because he did not know that a new purchase agreement had been negotiated.

Considering this finding, we extended our analysis to all of the 92 purchase agreements for goods and services that went into effect in 2014. We found that information was provided for only 31 of those purchase agreements by means of 18 “Info-achats” newsletters that were broadcast throughout the year. We can only conclude that, despite the fact that the Service de l’approvisionnement expects its procurement agents to ensure that information about the new purchase agreements signed is broadcast by means of the “Info-achats” newsletters, this is not done systematically. In our opinion, measures must be taken to correct this, particularly when these findings are considered alongside others that highlight weaknesses in the dissemination of information about purchase agreements to users in the City’s various business units.

Indeed, as part of our audit, we looked for assurances that, when the “Info-achats” newsletters are broadcast they are received by all of the stakeholders concerned. In this respect, the people we met from the Service de l’approvisionnement informed us that the 25 existing distribution lists (lists of email addresses), including the one used for broadcasting the “Info-achats” newsletters, were partially out-dated or incomplete. Also, although this situation is known, it appears that no corrective measures had been taken at the time of our audit to update these distribution lists.

Moreover, we were informed that, in order to be included on the distribution list and receive the “Info-achats” newsletters, users in question had to voluntarily subscribe and provide their email address by means of the Service de l’approvisionnement intranet site. In the event that someone refuses to subscribe or in the case of a new employee who is unfamiliar with the procedure, this approach inevitably creates a risk that the key people within the business

units are not informed of the existence of the purchase agreements in effect. In this respect, we also noted that two purchasers for the Mercier–Hochelaga-Maisonneuve borough did not receive the “Info-achats” newsletters because they were not included in the distribution list. They told us that they were not aware of such a procedure for subscribing to “Info-achats” newsletters. Also, a stakeholder from the Saint-Laurent borough confirmed that, although he knew about the broadcast of the “Info-achats” newsletters, he did not see the need to subscribe.

Other comments received also highlight the fact that certain purchasers within the business units do not necessarily read the “Info-achats” newsletters, either because they do not think they are important or because they do not think the content concerns them. For example, it is legitimate to think that a purchaser within a sports and leisure business unit does not feel affected by a purchase agreement that covers the purchase of “asphalt blends.” For this reason, one of the procurement agents we met from the Division de l’acquisition de biens et services mentioned that he communicates directly by email with those in charge of the business units affected to make sure that they are aware of the new purchase agreements signed. The manager of the Division de l’acquisition de biens et services, on the other hand, maintains that such a “voluntary” practice cannot be expected on the part of all the procurement agents since it is not easy to maintain an up-to-date distribution list as a result of personnel turnover in the business units and the large number of types of goods covered by purchase agreements. For this reason a generalized distribution to all stakeholders concerned within the City is preferred.

Nevertheless, all of these findings raise questions about the effectiveness of the distribution mechanisms currently implemented by the Service de l’approvisionnement to promote the acquisition of the goods and services needed for the operations of the business units by means of the purchase agreements, in keeping with the City’s Procurement Policy.

Under the circumstances, we are of the opinion that the Service de l’approvisionnement should re-evaluate its approach. Specifically, we believe that the targeted distribution of the “Info-achats” newsletters to the people directly concerned (e.g., those who hold a purchase license for the SIMON application to acquire goods and services covered by a purchase agreement) should be an option that should be reconsidered, particularly for the purchase agreements covering specific products (e.g., “chlorine”) and those for which consumption is not generalized (e.g., “office supplies and stationery”). This would help, at least partially, to attenuate the risk that the stakeholders concerned within the various business units lose interest in the “Info-achats” newsletters broadcast as they already receive a vast amount of information by email.

4.2.1.B. Recommendation

We recommend that the Service de l'approvisionnement make the necessary corrections to the process for broadcasting "Info-achats" newsletters, specifically by:

- re-evaluating its approach so that the broadcast of the "Info-achats" newsletters is more targeted and focused on the stakeholders within the business units that are directly concerned by the signing of a new purchase agreement;
- issuing a directive to ensure that each of its purchasing agents systematically distributes an "Info-achats" newsletter after a new purchase agreement is signed, as required;
- periodically making sure that the distribution lists for the "Info-achats" newsletter are complete and up-to-date;
- reminding the people responsible for purchases within the various business units about the importance of signing up for the "Info-achats" newsletter distribution lists;

in order to make sure to reach all of the stakeholders concerned, at the appropriate time, when a new purchase agreement is signed.

Business unit's response:

[TRANSLATION] Design and deploy business procedures to achieve maturity in the management of purchase agreements, particularly with respect to communication with clients throughout the term of a purchase agreement. (Planned completion: June 2016)

A directive may be issued to reinforce the use of the procedures, if management of the Service de l'approvisionnement considers this pertinent. (Planned completion: June 2016)

Reinforce the communication activities with a communications manager who will identify and monitor the distribution lists with the target audience concerned (stakeholders within the business units directly concerned by any new purchase agreement). (Planned completion: June 2016)

Insist, to those who are responsible for purchases within the various business units, on the importance of signing up for the "Info-achats" newsletter distribution lists. (Planned completion: June 2016)

4.2.1.C. Recommendation

We recommend that the Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie and Saint-Laurent boroughs make sure that all of the stakeholders concerned within their business unit:

- are signed up for the “Info-achats” newsletter distribution lists;
- read all of the “Info-achats” newsletters sent to them by the Service de l’approvisionnement;

in order to promote the use of the purchase agreements in effect, in keeping with the City’s Procurement Policy.

Business units’ responses:

MERCIER–HOCHELAGA-MAISONNEUVE BOROUGH

[TRANSLATION] A memo will be distributed by the end of April to all borough employees concerned to ensure that they:

- are signed up for the “Info-achats” newsletter distribution lists;
- read all of the “Info-achats” newsletters that are sent to them by the Service de l’approvisionnement;

in order to promote the acquisition of goods and services through the purchase agreements in effect, in keeping with the requirements of the City’s Procurement policy.

Follow-up will be ensured. (Planned completion: May 2015)

ROSEMONT–LA PETITE-PATRIE BOROUGH

[TRANSLATION] Systematic registration of all stakeholders concerned (buyers, foremen and first-line managers) for the “Info-achats” newsletter distribution list. This will be done by the Direction des relations avec les citoyens, des Services administratifs et du greffe for all of the borough’s business units. **(Planned completion: April 2015)**

Distribution of an internal memo to the stakeholders concerned to stress the importance of taking note of developments concerning purchase agreements. (Planned completion: April 2015)

SAINT-LAURENT BOROUGH

[TRANSLATION] We will identify the stakeholders, we will transmit a message from the Division des ressources financières et matérielles, we will post the message on the Intranet, we will raise awareness among the teams. The manager of the Services administratifs will inform the managers at the management table. They will meet the division managers, who will, in turn, meet with their respective teams. **(Planned completion: May 2015)**

4.2.2. Search Engine

4.2.2.A. Background and Findings

As another means for informing users about the existence of the purchase agreements in effect, the Service de l'approvisionnement makes a search engine that can be accessed from its intranet site available to the City's business units. All of the stakeholders in the boroughs and the central departments have access to it.

This tool can be used to search:

- by key word (e.g., Chlorine, Asphalt blends or Office supplies and stationery);
- by product category (e.g., Energy and chemical products, Public works and outdoor work, Office supplies or Stationery and printing);
- by entering the number of the purchase agreement.

The search produces a list of the purchase agreements in effect for the goods and services to be ordered.

In order to evaluate the extent to which this search engine allows stakeholders to find the purchase agreements in effect that correspond to their needs, we used keywords to search for purchase agreements concerning the goods covered by our audit, namely: "chlorine," "asphalt blends" and "office supplies and stationery." We expected the searches made to produce a list of the 10 agreements in effect in 2014 which we knew about. As shown in Table 2, the search engine indicated that there was no agreement.

Table 2 – Key Word Identification in the Search Engine of Purchase Agreements in Effect in 2014 for the Goods Sampled

	Asphalt blends	Chlorine	Office suppliers and stationery
Actual number of purchase agreements in effect in 2014 ^[a]	3	5	2
Search engine result	0	0	0

^[a] Information from an inventory provided by the Service de l'approvisionnement.

The people we met from the Service de l'approvisionnement informed us that the search engine is not very user friendly and that it is even sometimes difficult to find a purchase agreement using this tool if the search is launched using a keyword that is not in the title of the agreement. In fact, the titles of the purchase agreements, as created by the Division de l'acquisition de biens et services procurement agents, determine the ease with which the agreement can be subsequently located by the search engine. For example, the title of one

of the purchase agreements for chlorine is as follows: [TRANSLATION] “Bulk supply and delivery of 12% sodium hydrochloride.” Thus, for a search using the word “chlorine,” the search engine indicates that no agreement has been found. Under the circumstances, we can only conclude that an unsuccessful search by the search engine could clearly lead the purchaser to conclude that there is no purchase agreement for the good or service in question, when that is not the case.

Given the considerable variety of goods and services that may be required during the normal course of daily activities, the search engine is an essential tool for the business units for quickly determining whether there is an agreement. This search tool must be user friendly and provide accurate information in order to promote the use of the purchase agreements negotiated for the acquisition of goods and services, as recommended by the City in its Procurement Policy.

4.2.2.B. Recommendation

We recommend that the Service de l’approvisionnement take the necessary measures to ensure that the search engine made available to the City’s business units can be used to easily identify the purchase agreements in effect, so as to promote greater use of the agreements by all of the business units and enable the City to benefit from the expected savings.

Business unit’s response:

[TRANSLATION] Since the technology used for the “Purchase agreement search engine” is coming to the end of its life (out-of-date), we will evaluate the increased use of the SIMON application’s iProcurement module search engine to identify products covered by purchase agreements and, if possible, direct the requestors from all the business units to the contractual agreements based on the purchase categories of the agreements. (Planned completion: June 2016)

4.3. The “Harmonisation et automatisé du processus d’achat” Project

4.3.A. Background and Findings

As part of the initiatives for achieving the objectives of the City’s Procurement Policy, the Service de l’approvisionnement undertook the implementation of a large-scale project, the “Harmonisation et automatisé du processus d’achat” (hereinafter the “project”). The project specifically aims to harmonize procurement business practices within the City through

the implementation in the SIMON application of various modules included in the Advanced procurement, including the iProcurement module.

The findings that informed the implementation of this project are as follows:

- The purchase licenses held by those who issue purchase orders in the system were under-used compared with the targeted use threshold;⁹
- A significant number of purchase licenses were granted to people who did not have the right profile in terms of training, effectiveness and skills for making purchases;
- For the “procurement” function, the SIMON application was not used to process the information in an optimal manner to adequately support management and decision-making.

In order to resolve these problems, following planning and preparation undertaken in 2012, the initial phase was deployed progressively between September and December 2014 in all of the City’s business units. This initial phase entailed the simultaneous implementation of the following measures:

- reducing the number of purchase licenses;
- harmonizing the procurement processes;
- implementing the iProcurement module.¹⁰

First, the Service de l’approvisionnement decided that the number of licenses should be reduced because the licenses were under-used and the City was in a default situation, the license user fees¹¹ having never been paid to the system suppliers. It therefore planned to reduce the 830 licences that had been counted in 2010 to 200 by the end of 2014. This elimination of 630 purchase licenses should save \$12.6 million in user fees and \$2.8 million in annual fees for maintaining the under-used purchase licenses. Table 3 shows the inventory of the purchase licences for the boroughs covered by our audit and for all of the City’s business units.

⁹ A minimum target threshold of 650 purchase orders processed annually by those holding a purchasing license in the SIMON application, compared with an average of 187 purchase orders processed annually by each of the individuals holding a purchase license based on the statistics compiled for 2011 and 2012.

¹⁰ The iProcurement module is used to create and manage purchase requests and receive purchases.

¹¹ Each of the purchase licences entailed a cost of \$20,000 as well as \$4,400 in annual service fees.

Table 3 – Inventory of the Purchase Licenses Before and After the Reduction Measures Taken

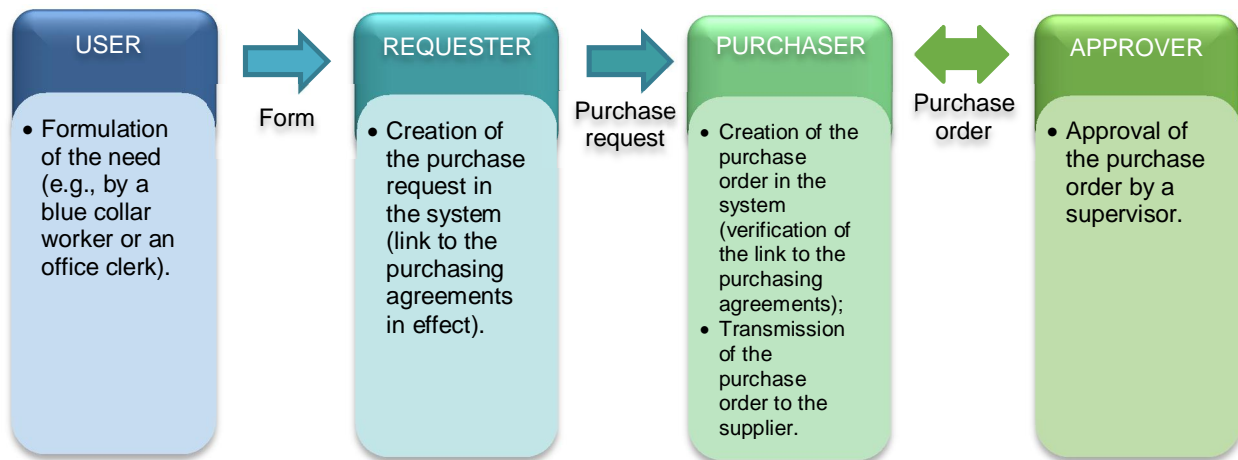
Business units	2010 inventory	Inventory as of June 2, 2014	Inventory in December 2014
Mercier–Hochelaga-Maisonneuve	n/r	27	3
Rosemont–La Petite-Patrie	n/r	17	3
Saint-Laurent	n/r	2	2
All of the City's business units	830	667	200

n/r: Information not requested.

At the end of December 2014, the purchase license reduction goal had been reached. In the opinion of the Service de l'approvisionnement managers we met, this license reduction concentrates the purchasing expertise in a more limited pool of purchasers, which will serve to ensure better development of skills and, consequently, promote the consumption of goods and services through the purchase agreements in effect.

Second, it was necessary to harmonize the purchasing processes used by all of the City's business units in order to optimize the use of the purchase licenses and implement better practices along with the implementation of the new iProcurement module. Thus, when compared with the procedure in use before the project was implemented (see Figure 1, presented earlier), the review of the procurement process introduced an additional step, namely the intervention in the system of a person acting as a "requester" in addition to those already acting as the "purchaser" and the "approver" (see Figure 2 below). A purchase request must now be created by a requester before it is converted into a purchase order by a purchaser. In an effort to improve business practices, the new purchase process is intended to separate the tasks of the requesters and the purchasers.

Figure 2 – Revised Purchasing Process



Thus, based on the needs for goods or services reported by a user, the requester must create the purchase request in the system. The requester must specifically:

- determine whether there is a purchase agreement that has been negotiated by the Service de l’approvisionnement for the good or service required;
- enter the information concerning the specifics of the good or service to be acquired (e.g., the specifications of the good or service, the price, the quantity, the number of the corresponding purchase agreement);
- enter the appropriate accounting item according to the category of goods or services to be acquired, in keeping with the City’s accounting plan;
- have the expenditure approved and allocate the necessary budget.

The purchaser is responsible for managing the pool of purchase requests created by the business unit’s requesters. Before converting purchase requests into purchase orders, he must, among other things, make sure that the information entered by the requester is accurate (e.g., accounting item, number of the purchase agreement in question).

As part of this new process, we note, therefore, that the responsibility for making sure that purchases are made using purchase agreements in effect is shared by the requester and the purchaser. The former must search for a purchase agreement and use it when creating the purchase request whereas the latter must, before creating the purchase order, confirm that the purchase agreement corresponding to the goods and services to be acquired, if any, was used.

Finally, in order to support this procurement process, the Service de l’approvisionnement implemented the iProcurement module, which is similar to the Internet purchase model (e.g.,

Amazon). The iProcurement module integrates a catalogue including a series of items covered by purchase agreements in effect into the system. For each of these items, the catalogue presents the features and prices, per category of goods. Thus, whereas, in the past, the designated purchasers had to enter a description of the product manually, they can now do a search by keyword or category of goods and services to select a product code from the catalogue. Once the good or service to be ordered is selected, the system automatically creates the link between the purchase order and the corresponding purchase agreement.

In short, while the managers we met from the Service de l'approvisionnement stated that the measures deployed as part of the implementation of the project were not solely intended to resolve the problem pertaining to the use of purchase agreements, the expected outcomes are nevertheless as follows:

- Maximization of the goods and services consumed by means of purchase agreements resulting in economies of scale for the City;
- Improvement of the quality of the purchasing data entered in the SIMON application serving ultimately to produce more reliable management reports that can be used to make informed decisions.

That said, we would like to point out that our audit was conducted principally from September to December 2014, while the first phase of the project was being deployed, and that the deployment ended in December 2014. As a result, we were not able to fully evaluate the expected outcomes with respect to the use of the purchase agreements. Moreover, we are aware that the recently deployed measures will require a certain adaptation period before all the benefits are fully apparent. Nevertheless, considering the shortcomings we reported in Section 4.1 of this report, we did make an effort to evaluate the extent to which the actions taken would promote an increased use of the negotiated purchase agreements, in keeping with the Procurement Policy.

From this perspective, the project managers initially insisted on the fact that, even if the new procurement process involves a shared responsibility (requesters and purchasers), the purchaser, upon creation of the purchase order in the system, is still ultimately responsible for making sure that the goods or services are acquired through the purchase agreements in effect.

Nevertheless, based on the information we received from stakeholders¹² we met from the boroughs audited, we noticed a certain amount of confusion with respect to this sharing of roles and responsibilities. In fact, some of the purchasers we met stated that they were not

¹² Employees acting as requesters or purchasers.

responsible for making sure that goods or services are acquired through agreements in effect. Instead, they are of the opinion that the requesters are responsible for this since they are in a better position to determine whether the goods and services covered by the negotiated purchase agreements precisely meet the needs, given their knowledge and expertise in their sphere of activity (e.g., sports and leisure, electricity, plumbing, computers, roads). In this sense, some of the purchasers we met asserted that it is difficult for them to make such a judgement considering the diversity of the goods and services that may be needed for the operations of their business unit.

Given the differences of opinion noted, we made an effort to determine whether the roles and responsibilities of stakeholders in the procurement process had been clearly defined when the project was deployed within the City's business units. However, although the stakeholders within the Service de l'approvisionnement stated that they had transmitted the information verbally during information sessions, we found that the documentation supporting the launch of the project in 2014 was not very explicit with respect to who, the requester or the purchaser, should make sure that the purchases are actually made in keeping with the purchase agreements in effect. We are of the opinion that the roles and responsibilities concerning the use of the purchase agreements should have been more clearly defined and communicated from the outset, so as to avoid any potential confusion. This is all the more important since the City's *Procurement Policy* counts on generating economies of scale through this means of procurement. In fact, we found that it was only in January 2015, after the new measures deployed throughout the City had gone into effect, that the Service de l'approvisionnement produced a document concerning requester and purchaser roles and responsibilities. According to the information obtained, this document was transmitted by email to all of the users of the new procurement module in the SIMON application. When reading the information in the document, we noted that it specifically stated that: *[TRANSLATION] "before creating a purchase order, the purchaser must make sure that the information contained in the purchase request is adequate, specifically with respect to purchase categories and the link to existing contracts."* Nevertheless, considering the fact that this document was produced quite late in the process, we were unable to evaluate its effect on the stakeholders concerned within the audited business units. Consequently, we are of the opinion that the Service de l'approvisionnement should follow up to ensure that the principal stakeholders in the process understand their roles and responsibilities.

As for the new iProcurement module, although the Service de l'approvisionnement expected that the product catalogue integrated in the module would facilitate acquisitions through existing purchase agreements, it appears that it does not guarantee that the purchase agreements will be strictly used by all of the City's business units.

In fact, the managers we met from the Service de l'approvisionnement stated, on the one hand, that the business units can continue to make their purchases outside the agreements if they wish to do so, since there is no way at present to limit that possibility. Compliance with the Procurement Policy in this respect is ensured solely by the good will of requesters and purchasers. In this respect, as we noted earlier in Section 4.1 of this report (see Recommendation 4.1.B), we believe that it would be a good idea for the Service d'approvisionnement to evaluate the possibility of making it mandatory, when a purchase order is recorded in the system, to enter information in a field provided for the number of the agreement covering the goods or services to be ordered.

On the other hand, we were also informed that the product catalogue integrated in the system does not include all of the goods covered by the purchase agreements in effect. In fact, only the so-called permanent¹³ purchase agreements are currently included. This type of purchase agreement represents 31% of the 518 purchase agreements inventoried as of September 30, 2014, and concerns solely the acquisition of goods for a potential purchase of approximately \$58 million (11%), out of a total of \$554 million for all of the purchase agreements for goods in effect. The remaining 69% includes so-called contractual purchase agreements,¹⁴ and the goods they cover are not currently integrated in the system. As a result, for the so-called contractual purchase agreements, the purchaser will continue to manually enter the information concerning the goods they cover (e.g., supplier's name, description of the good, product code, agreement number) in the system, instead of this being automated.

Since the product catalogue promotes consumption through the use of the purchase agreements, we are of the opinion that it would be pertinent to consider integrating the products covered by the so-called contractual agreements in it, whenever possible, so as to reduce the occurrence of situations in which purchases are made outside the agreements.

All in all, we noted that the measures taken as part of the deployment of the Advanced procurement project tend to promote the acquisition of goods and services through purchase agreements. Nevertheless, these measures do not guarantee that the City's business units will make its acquisitions strictly by means of these agreements. In fact, the observations reported earlier raise questions as to the persistent, non-negligible risk that purchases will be made outside of the existing agreements. Under the circumstances, in order to take full

¹³ Permanent agreement: purchase agreement for which the products are identified using the City's standardized code, the price is determined, the duration of the agreement has been determined (start and end date) and the limit amount for the agreement has been determined.

¹⁴ Contractual agreement: purchase agreement for which the products are not identified using the City's standardized codes, but rather by the manufacturer's or distributor's codes; the prices may vary during the period covered by the agreement or may be subject to different discount rates.

advantage of the measures deployed, we are of the opinion that additional risk mitigation measures must be taken, specifically to:

- make sure that the key stakeholders involved in the procurement process adequately understand and fulfil their roles and responsibilities;
- enhance the investment already made with respect to the deployment of the iProcurement module by integrating all of the purchase agreements (permanent and contractual) in the system's product catalogue, whenever possible.

4.3.B. Recommendation

We recommend that the Service de l'approvisionnement take the measures it deems appropriate to ensure that the stakeholders involved in the purchasing process adequately understand and fulfil their roles and responsibilities, in order to provide the required monitoring with respect to the use of purchase agreements within their business units.

Business unit's response:

[TRANSLATION] See that the corrective actions of Recommendation 4.1.C. are applied more fully throughout all of the business units by reinforcing communication activities so that those who take part in the purchase process understand and fulfil their roles and responsibilities in order to provide the necessary monitoring with respect to the use of purchase agreements within their business unit. (Planned completion: June 2016)

4.3.C. Recommendation

We recommend that the Service de l'approvisionnement take the necessary measures to ensure that the product catalogue for the iProcurement module includes, inasmuch as possible, all of the permanent and contractual purchase agreements in effect so as to promote greater use of the agreements, thereby allowing the City to benefit from the savings expected from this mode of procurement.

Business unit's response:

[TRANSLATION] Analyze the permanent and contractual purchase agreements in effect, giving priority to the agreements that significantly reduce total costs or have a potential for savings, in order to integrate their items in the iProcurement module catalogue.

Determine the purchase agreements for which information is available by item code and price so that we can enhance the SIMON application's iProcurement module catalogue.

Analyze purchase agreement information, where available, in order to confirm whether it is adequate and can be included in the SIMON application's iProcurement module catalogue.

Integrate this undertaking within the project that will handle the optimization of the SIMON application. (Planned completion: June 2016)

With respect to a different matter, as part of the deployment of the new measures inherent in this project, we also wanted to investigate the mechanisms implemented by the Service de l'approvisionnement to ensure follow-up with respect to the use of the purchase agreements. In our opinion, it is imperative that the new procurement module be able to easily generate management reports that meet users' needs. In this respect, the project managers we met told us that there is a desire to improve the management reports and that, to this end, a working committee made up of users had a mandate to gather information about user needs. At the time of our audit, the review of the management reports had not been started. For this purpose, we refer the reader to Recommendation 4.1.B. already formulated in this respect in Section 4.1, "Follow-up on the Use of Purchase Agreements and Accountability" of this audit report.

Also, given the scope of the project's deployment and its effect on procurement throughout the City, it is essential for measures to be implemented to evaluate both the achievement of the goals set and the accountability mechanisms, in order to ensure:

- on the one hand, that the required authority can undertake the necessary follow-up and evaluate the extent to which the modifications made to the procurement process specifically contribute to promoting the achievement of the objectives set in the City's Procurement Policy; and
- on the other hand, that it can react quickly to implement the necessary corrective measures.

Consequently, following the deployment of the first phase of the Advanced procurement project, we examined the evaluation and accountability mechanisms implemented.

The representatives we met from the Service de l'approvisionnement informed us that the change management team for this project provided support to each of the business units, in terms of both the system and the business needs, throughout the re-organization of the purchase process and the deployment of the iProcurement module. Moreover, it appears that, during the deployment of the first phase of the project, the project team held meetings to inform the project steering committee about the progress of the project and to make the necessary decisions to ensure coordination and make sure that the project proceeds smoothly.

We read a project progress report, covering the situation as of November 30, 2014, which was submitted to the project steering committee in December 2014. It should be noted that this 12-member steering committee includes the Service de l’approvisionnement manager as well as representatives from the Service des technologies de l’information, the Service des finances, the Service de la police de Montréal, the Service de la performance organisationnelle and three boroughs.

According to the information obtained from the people we met, following that meeting, it was specifically decided that the project team would continue to provide support to the business units until March 2015. A member of the project team stated that an administrative report will be submitted to the steering committee in March 2015, at the time of the “official project closing” phase.

In our opinion, the Service de l’approvisionnement should make the necessary arrangements to be able to present an official report to senior management illustrating the results obtained from the measures deployed throughout all of the City’s business units.

4.3.D. Recommendation

We recommend that the Service de l’approvisionnement prepare a report on the results obtained following the measures implemented within all of the business units and submit it to the City’s senior management so that the latter can evaluate the extent to which the efforts deployed contributed to achieving the objectives set out in the Procurement Policy and make any required decisions.

Business unit’s response:

[TRANSLATION] Prepare a report on the activities and the results obtained following the deployment of the “Harmonisation et automatisation du processus d’achat” project.

Present the report on the activities and the results obtained to the project steering committee, which includes the managers of the central departments (Service de l’approvisionnement, Service des technologies de l’information, Service des finances and Service de police de la Ville de Montréal) as well as the borough managers (Mercier–Hochelaga–Maisonneuve, Rosemont–La Petite-Patrie and Saint-Laurent).

Present the report of the activities and results obtained to the Direction générale adjointe – Services institutionnels. (Planned completion: June 2015)

5. General Conclusion

Managing procurement within an entity the size of the City is a major issue when it comes to maximizing the value of every dollar spent to acquire the goods and services needed to ensure smooth operation and provision of services to citizens.

In this respect, the City encourages economies of scale through the pooling of needs and the consolidation of purchase volumes for the boroughs and the central departments. To do this, the Service de l'approvisionnement signs purchase agreements which all of the City's business units are required to use to purchase goods and services in keeping with the City's Procurement Policy.

Our audit highlighted the fact that the Service de l'approvisionnement is not currently able to evaluate and give an account of the extent to which the purchase agreements are used by the City's business units. Indeed, as a result of various shortcomings in the current process, it is very difficult for the Service de l'approvisionnement to inventory all of the data needed to prepare reliable management reports. Specifically, we noted that the integrity of the data system concerning the purchases made is compromised by the inappropriate use of the SIMON application; as a result, on the one hand, purchase orders are not linked to purchase agreements and, on the other, the wrong accounting codes are attributed within the business units. This lack of rigour affects the reliability of the management reports that can be generated to follow up on operations and to help with decision making.

Moreover, we noted that the mechanisms for disseminating information about new purchase agreements to the business units, as well as the search engine made available to them to help them identify purchase agreements in effect, are deficient. These shortcomings increase the risk that the business units will make their purchases outside the agreements.

We are of the opinion, however, that the efforts made by the Service d'approvisionnement as part of the deployment of the Advanced procurement module, which is included in the "Harmonisation et automatisation des processus" project will certainly contribute to promoting acquisitions of goods and services through the purchase agreements. The efforts should nevertheless continue in order to further consolidate the corrective actions taken, specifically through clarification of the roles and responsibilities of key stakeholders in the procurement process and improvement of the product catalogue that is part of the iProcurement module, as well as to provide reliable management reports that meet user needs.

In conclusion, these findings require that corrective measures continue to be implemented so that the City can take full advantage of the economies of scale to be generated by pooling

purchases through the signing of purchase agreements for the benefit of the community. Ultimately, it would be a good idea for the Service d'approvisionnement to provide for the production of a report illustrating the results obtained from the implementation of the project to be submitted to senior management, so that it can evaluate the extent to which the measures deployed have contributed to achieving the objectives of the City's Procurement Policy and make any necessary decisions.