



Office of the Auditor General / Bureau du vérificateur général

AUDIT OF PROCUREMENT PRACTICES - GENERAL

2011

**VÉRIFICATION DES PRATIQUES D'APPROVISIONNEMENT -
GÉNÉRALES**

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EXECUTIVE SUMMARY

Introduction

The Audit of Procurement Practices - General was included as part of the Auditor General's 2011 Audit Plan approved by Council on April 13, 2011.

Background

The Audit of Procurement Practices - General deals with the review of specific procurement areas of interest at the City of Ottawa. They are:

- Strategic procurement practices with sub-categories of co-operative purchasing programs;
- Snow haulage;
- Vehicle standards;
- IT notebooks and desktops; and,
- Strategic purchasing and sustainable purchasing practices.

The City is desirous of continually improving its procurement methods and practices with a view to improving service and reducing costs where possible.

Audit Scope and Objectives

As per the Audit Plan, it was identified that the focus of the audit will be on the areas of highest risks and where the most value can be gained.

The scope of the audit encompasses the sub-sets of the strategic procurement activities, namely:

- Co-operative purchasing programs;
- Snow removal haulage;
- Fleet vehicle standards;
- IT hardware procurement;
- Strategic purchasing; and,
- Sustainable purchasing practices.

The audit included a review of the governance, the risk management and the control processes in place for the strategic planning, prioritizing and management of the development of new procurement documents, processes and practices. Particular attention was given to the controls surrounding the elements of contracting under review, established to oversee the definition of the requirements, and the procurement planning strategy as well as the oversight surrounding the identification, tracking, monitoring, and reporting on the associated cost savings (value-for-money) of the strategic procurement initiatives.

Summary of Key Findings

Co-operative Purchasing

Co-operative purchasing is not the initiative it once was prior to the City's amalgamation in 2001 as the larger players were consolidated in the City. Since then, Purchasing has not been pursuing co-operative procurement actively. Previously there were approximately 35 to 40 items bought co-operatively but now the list is down to about six. The City does however take advantage of several other federal, provincial and police related procurement instruments.

There may be an opportunity to achieve some savings through participation in co-operative procurement with other local members of the Broader Public Service (BPS). Marginal investments in this area may help reduce costs and contribute to the City's long term sustainability agenda. While there may be some limited additional work for Supply Branch initially, this could be offset by having BPS partners accept a greater role in the co-operative purchasing initiatives.

Snow Removal Haulage: Dump Trucks

Historically, the City has entered into annual negotiated price agreements achieved through an established process with the Greater Ottawa Truckers Association (GOTA) for snow removal and miscellaneous haulage. However, the true market rates have never been competitively established and the City is not benefiting from market forces.

Discussion with another large municipality with similar snowfall indicated that the average price of the bids received for 20 and 25m³ trucks was \$72.82 per hour for the 2011/12 season. In comparison, the City of Ottawa has a negotiated price of \$87.90 per hour for the same category of trucks.

The City has an opportunity to achieve significant savings, in the range of 17% or \$680,000, in hourly rates for snow removal and other haulage requirements against its annual \$4,000,000 estimated budget.

Vehicle Standards

The City's Fleet Management Transformation Project which began in September 2010 with the objective to "Save approximately \$3.94 million per year across the three fleet functions.....". "Potential benefits include a 3% reduction in parts costs, savings associated with inventory carry costs, along with 30% reduction in stores labour." Management has confirmed that they are on track to achieve the above-noted stores / inventory labour related savings. We have not audited the overall progress to achieve these savings but may do so as part of our 2013 audit work plan.

One of the initiatives aimed at reducing the cost of the fleet was the single Light Vehicle Tender procurement process. The evaluation considered anticipated residual

values to assess the total cost of ownership. The rationale for acquiring a higher level vehicle was that the expected proceeds of the disposal exceeded the initial price differential in comparison to the entry level vehicles.

Our analysis of the Manufacturer's Suggested Retail Price (MSRP), and resultant residual "Black Book" values for entry level and mid-level vehicles, similarly equipped, did not identify any savings. This means that there are potential savings available in the range of \$4,000 per vehicle (pick-up truck) at the time of purchase and there are approximately 40 such vehicles acquired annually, representing annual savings of \$160,000. These savings could be augmented by minimizing the option packages to include only necessary items.

IT – Notebooks and Desktops

The City currently has a complex computing environment with over 100 lines of business, 340 physical locations, 700 applications to run and approximately 12,000 computers to support in a large number of sites. Approximately 1,750 units are replaced in a typical year.

The City has established, through a competitive process of their own, a Standing Offer Agreement for their desktop and laptop computers. Published pricing from PWGSC and Carleton University is comparable to costs paid by the City. Big Box Store prices with comparable features and warranty are higher than the prices offered to the City.

The City's competitive processes for the acquisition of laptops and desktops was conducted with due regard to operational requirements and cost avoidance. Prices are consistent with other major public sector entities.

For telecommunications services contracts, independent consultants with specialized knowledge of the telecom industry and tariff regulations imposed by the CRTC are utilized to verify that contractual prices reflect current market rates. At the time the audit was substantially completed, there was no similar practice implemented to verify the currency of prices paid for laptops and/or desktops.

Strategic Purchasing (Clothing and Uniforms)

The City of Ottawa's Supply Branch has created the Strategic Sourcing Group within the Branch to analyse current supply chain operations. Corporate Uniform Stores (CUS) operation was selected for a review of its operations, policies and procedures.

Supply Branch initiating the Corporate Uniform Stores Project is a good first step in the review of opportunities to identify possible savings. At this time Supply Branch has not quantified savings but has stated that two full time staff will be eliminated. The project was approved for implementation in the Fall of 2011.

The Strategic Sourcing Group has started work on its next initiative: “E-procurement”. This will result in enhanced electronic document creation, maintenance and storage, work flow, on-line bidding, e-approvals, enhanced reporting and spend analysis, and supplier performance measurement. There may be efficiencies from this project which could result in a reduction of permanent FTEs in Supply Branch.

Sustainable Purchasing

The City’s long term planning considerations include the importance of Sustainability. Until as recently as February 2012, the City had a Department of Community Sustainability to help realize Ottawa’s potential as a model, sustainable, capital city by providing leadership, expertise and support for integrated long-term planning and decision-making across the four dimensions of sustainability: Economic, Cultural, Social and Environmental.

In our opinion, participation in the Canadian Municipal Collaboration for Sustainable Purchasing initiative is a logical step that dovetails with the overall corporate approach to sustainability. An independent firm has assessed progress against targets set by the Canadian Municipal Collaboration for Sustainable Purchasing and indicated that overall the City is progressing well in implementing the 10 best practice program elements.

Recommendations and Management Responses

Recommendation 1

That the City enter into communication with the “Broader Public Service”, and specifically the Ottawa Community Housing Corporation, in the Capital area to determine what opportunities are available for additional co-operative purchasing and associated potential savings.

Management Response

Management agrees with this recommendation.

Supply Branch communicates regularly with other Canadian municipalities, universities, colleges, school boards, hospitals, the Provincial government and the Federal government.

In addition, on June 22, 2012, a six-month pilot project Memorandum of Understanding was executed between the City and Ottawa Community Housing Corporation (OCH) under which Supply Branch will assist OCH plan, organize and initiate procurements for the acquisition of goods, services and construction on behalf of OCH.

This recommendation has been fully implemented. No further action is required.

Recommendation 2

That Supply Branch initiate a competitive tender process to establish a list of suppliers to provide snow removal and general haulage services.

Management Response

Management agrees with this recommendation.

The practice of direct negotiations with the Greater Ottawa Truckers Association (GOTA) was carried over from the former City of Ottawa, and has continued since amalgamation. The decision to continue with this practice was based on an assessment of more than just price alone, and included an assessment of supply chain risk, and the need to ensure that vehicles are available in sufficient numbers to remove snow in heavy snowfalls. A competitive procurement process for snow removal and general haulage will need to appropriately mitigate these risks.

Supply will initiate a competitive procurement process for snow removal and general haulage for the 2013-14 winter season. Management expects this recommendation to be fully implemented by end of Q3 2013.

Recommendation 3

That the City conduct a study on purchasing entry level vehicles with only the base work-related options.

Management Response

Management agrees with this recommendation.

Fleet Services lifecycle management principles and industry experience leads management to believe this issue merits closer scrutiny. As a result, Fleet will complete a review of standard client needs, such as air conditioning and towing capacity, versus standard trim packages to determine the feasibility of moving to base work-related options. This review will be complete by mid Q4 2012 and Fleet will report back to Committee and Council on the results and the implications for this recommendation.

Recommendation 4

That the City conduct a study on the trade in allowance when acquiring vehicles to determine the most economical vehicle.

Management Response

Management agrees with this recommendation.

Fleet Services lifecycle management principles and industry experience leads management to believe this issue merits closer scrutiny. As a result, Fleet will complete an analysis of auction results over the past year involving like City vehicles for both base and higher trim models, comparing the black book forecasts against the actual value received at auction. This review will be complete by mid Q4 2012 and Fleet will report back to Committee and Council on the results and the implications for this recommendation.

Recommendation 5

That the Fleet Services Branch ensure that they realize and document all of the savings achieved through the Fleet Management Transformation Project.

Management Response

Management agrees with this recommendation.

Fleet Services will ensure the Fleet Transformation savings are realized and tracked within the Public Works Balanced Scorecard by Q2 2013.

Recommendation 6

That the City develop a means to review and revise prices for laptops and/or desktops during the contractual period as items approach end-of-life and value diminishes.

Management Response

Management agrees with this recommendation.

Current practice provides a means to review and revise prices for laptops and desktops during the contractual period of the standing offer. Meetings are held with the supplier before bulk purchases are made (2,000 to 3,000 units) in order to review and negotiate unit pricing as well as technical specifications. In support of these negotiations, Supply Branch consults other governmental published standing offer agreements (e.g., PWGSC) and the system's OEM (original equipment manufacturer) published public sector price lists to ensure consistency with the standing offer rates. Following these negotiations, unit pricing is revised to reflect the current market rate, which ensures the best possible pricing for the City of Ottawa.

This recommendation has been fully implemented. No further action is required.

Recommendation 7

That Supply Branch seek approval for a more pro-active approach, and the functional authority to permit them to identify and dictate where it is beneficial to standardize clothing items and save money.

Management Response

Management agrees with this recommendation.

A Consolidated Clothing Committee was established in November 2011 to define the requirements of their respective stakeholder groups in the development of uniform and service level specifications. The Consolidated Clothing Committee is led by Supply Branch and representation includes Fire Services, By-law and Regulatory Services, Ottawa Paramedic Services, Transit Services, Environmental Services, Parks, Building & Grounds Operations & Maintenance Branch, Fleet Services and Health and Safety.

In addition, as a result of a 2011 investigation into alternative uniform supply chain models, Supply Branch has initiated a Request for Proposal for an externally managed uniform solution; services to include the successful vendor identifying opportunities to standardize clothing items and cost savings.

The functional authority would retain control over the technical specifications, while Supply Branch/the successful vendor would pro-actively bring recommendations on design, fabric and standardization to the committee for consideration when savings opportunities are identified.

This recommendation has been fully implemented. No further action is required.

Recommendation 8

That Supply Branch develop a plan to continue to identify additional areas where inventory reductions and other savings can be gained and provide quarterly updates on progress against savings forecast.

Management Response

Management agrees with this recommendation.

Supply Branch pro-actively brings recommendations to client departments on opportunities to achieve inventory reductions and/or other savings; however, in accordance with Article 5, Responsibilities and Authorities of the Purchasing By-law, Directors/General Managers are responsible for achieving and reporting on the specific objectives and outcomes of the procurement project, including progress against savings forecast in their financial quarterly reports.

This recommendation has been fully implemented. No further action is required.

Conclusion

The City has several major initiatives underway to review operations for possible savings; Fleet Management and the Strategic Sourcing Group which will undoubtedly accrue savings over the long term. There are good practices related to IT procurement in place.

We believe that the City's Fleet Management Transformation Project is a worthy idea with a well-documented process to monitor progress. One concern relates to the noted exception of the purchase of mid-level pick-ups and the use of the residual value in acquisition cost calculations. This would also assist the City in avoiding any perception issues of extravagant options in their fleet standards.

Additional savings will likely be gained through implementing a competitive process for the acquisition of haulage and snow removal requirements.

The City's competitive process for the acquisition of laptops and desktops was conducted with due regard to operational requirements and prices are consistent with other major public sector entities.

The City's participation in the Canadian Municipal Collaboration for Sustainable Purchasing initiative is a logical step that dovetails with the overall corporate approach to sustainability. The opportunities for the City to achieve some savings through participation with 14 other municipalities to share lessons learned and best practices is difficult to gauge but hard to deny. We believe the membership fee of \$4,000, and limited staff time, are appropriate investments for contributing to the City's long term sustainability agenda.

Acknowledgement

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

RÉSUMÉ

Introduction

La vérification des pratiques d'approvisionnement - générales fait partie du plan de vérification de 2011 présenté par le vérificateur général et approuvé par le Conseil le 13 avril 2011.

Contexte

La vérification des pratiques d'approvisionnement - générales porte sur une série de points d'intérêt particulier pour la Ville d'Ottawa :

- Pratiques d'approvisionnement stratégique, et plus particulièrement programmes d'achats en commun;
- Transport de la neige;
- Normes régissant les véhicules;
- Ordinateurs portatifs et de table des Services de TI;
- Achats stratégiques et pratiques d'approvisionnement viables.

La Ville souhaite améliorer de manière continue ses méthodes et pratiques d'approvisionnement dans le but d'offrir de meilleurs services et de réduire ses coûts, le cas échéant.

Objectifs et portée de la vérification

Conformément au plan de vérification, il a été déterminé que la vérification porterait essentiellement sur les points qui présentent les plus grands risques et qui sont les plus susceptibles d'être améliorés.

La vérification s'étend à toutes les sous-catégories des activités d'approvisionnement stratégiques, c'est-à-dire :

- programmes d'achats en commun;
- déneigement et transport de la neige;
- normes régissant le parc automobile;
- achat de matériel informatique pour les Services de TI;
- achats stratégiques;
- pratiques d'approvisionnement viables.

La vérification comprend l'examen de la gouvernance, de la gestion des risques et des processus de contrôle en place destinés à la planification stratégique, l'établissement des priorités et la gestion de l'élaboration des nouveaux documents, processus et pratiques liés à l'approvisionnement. Une attention particulière a été accordée aux mesures de contrôle établies pour valider les énoncés d'exigences qui touchent les contrats en cours d'examen. La vérification insiste également sur la

stratégie de planification des approvisionnements, la supervision des pratiques de recensement, de suivi et de surveillance et la préparation de rapports sur les économies de coûts attribuables aux initiatives d'approvisionnement stratégique.

Sommaire des principales constatations

Achats en commun

Les achats en commun ont perdu de leur importance depuis la fusion de 2001, les principaux acteurs ayant été regroupés dans la Ville. Depuis, le secteur des achats ne s'implique plus activement dans les programmes d'achats en commun. Ceux-ci, qui atteignaient auparavant environ 35 à 40 articles, ne se réduisent plus désormais qu'à quelque six articles. La Ville profite toutefois de plusieurs autres outils d'approvisionnement issus de programmes provinciaux et fédéraux ou nés de politiques particulières.

La Ville pourrait réaliser certaines économies en participant aux initiatives d'achats en commun avec des intervenants locaux du secteur public élargi. De modestes investissements dans ces initiatives pourraient contribuer à réduire les coûts et faire avancer le plan de viabilité à long terme que s'est fixée la Ville. Il se peut que, dans un premier temps, ces initiatives augmentent quelque peu la charge de travail de la Direction de l'approvisionnement, mais ce surplus de travail pourrait être contrebalancé par une plus grande participation des partenaires du secteur public élargi.

Déneigement et transport de la neige : camions à benne

Traditionnellement, la Ville conclut avec la GOTA (Greater Ottawa Truckers Association) des ententes de déneigement, de transport de la neige et de travaux connexes dont elle négocie le prix chaque année. Toutefois, la Ville n'a jamais étudié les prix pratiqués par d'autres entreprises et ne bénéficie pas par conséquent des avantages que peut offrir le marché.

Des entretiens avec une grande municipalité recevant des précipitations de neige semblables indiquent que le tarif moyen proposé dans les soumissions reçues en 2011-2012 pour les camions de 20 et de 25 m³ se chiffre à 72,82 \$ de l'heure. Or, la Ville d'Ottawa a négocié un tarif horaire de 87,90 \$ pour la même catégorie de camions.

En négociant de meilleurs tarifs horaires pour ses activités de déneigement et de transport de la neige, la Ville pourrait réaliser des économies importantes de l'ordre de 17 % ou 680 000 \$ sur le budget estimé de 4 millions de dollars qu'elle consacre chaque année à ces activités.

Normes régissant les véhicules

En septembre 2010, la Ville a lancé le projet de transformation de la gestion du parc automobile dans le but de réaliser des économies annuelles d'environ 3,94 millions

de dollars pour les trois parcs. Parmi les retombées potentielles figuraient une réduction de 3 % des coûts de pièces, les économies liées aux coûts de stockage et une réduction de 30 % des coûts de main-d'œuvre dans les magasins. La direction a confirmé qu'elle est en voie de réduire les coûts de la main-d'œuvre affectée à la tenue des stocks et aux magasins. Nous n'avons pas vérifié dans quelle mesure ces épargnes ont été réalisées, mais nous le ferons probablement dans notre plan de vérification de 2013.

Le processus de soumission relatif à l'acquisition de véhicules légers figure parmi les initiatives prises pour réduire les coûts de gestion du parc. L'évaluation a tenu compte des valeurs résiduelles prévues pour calculer le coût total de l'acquisition. Les raisons invoquées pour acquérir un véhicule plus haut de gamme portaient sur le fait que le produit de l'aliénation du véhicule était supérieur à la différence de prix initiale entre un tel véhicule et un véhicule d'entrée de gamme.

Notre analyse du prix de détail suggéré par le fabricant (PDSF) et des valeurs de revente des véhicules d'entrée de gamme et des véhicules de gamme intermédiaire dotés des mêmes équipements ne permet pas d'entrevoir des possibilités d'économies. De ce fait, des économies de l'ordre de 4 000 \$ par véhicule (camionnette) seraient possibles au stade de l'achat. Étant donné que la Ville acquiert environ 40 véhicules de ce type par année, les économies annuelles s'élèveraient à 160 000 \$. La Ville pourrait accroître davantage ces épargnes en réduisant les options disponibles et en s'en tenant aux seules fonctions nécessaires.

Ordinateurs portatifs et de table des Services des TI

La Ville s'est dotée d'un environnement informatique complexe regroupant plus de 100 secteurs d'activités, 340 emplacements, 700 applications et quelque 12 000 ordinateurs nécessaires à l'appui de nombreux sites. En règle générale, elle remplace chaque année environ 1 750 appareils.

La Ville a, par l'entremise d'un processus concurrentiel qui lui est propre, conclu une entente d'offres à commandes pour ses ordinateurs portatifs et de table. Les prix publiés par TPSGC et l'Université Carleton sont semblables à ceux que paie la Ville. Les prix pratiqués par les magasins à grande surface pour des produits dotés de fonctions et de garanties similaires sont plus élevés que ceux qu'obtient la Ville.

Le processus concurrentiel adopté par la Ville pour acquérir ses ordinateurs portatifs et de table a été soigneusement préparé en fonction des exigences opérationnelles et des possibles réductions de coûts. Les prix obtenus s'apparentent à ceux que paient les autres grands groupes du secteur public.

En ce qui concerne les contrats de services de télécommunications, la Ville fait appel à des consultants spécialisés dans le marché des télécommunications et la réglementation tarifaire imposée par le CRTC pour s'assurer que les prix stipulés dans les contrats concordent avec les prix effectifs du marché. Alors même que la

vérification touchait à sa fin, on ne notait encore aucune pratique semblable pour évaluer la pertinence des prix payés pour les ordinateurs portatifs et de table.

Achats stratégiques (vêtements et uniformes)

La Direction de l'approvisionnement de la Ville d'Ottawa s'est dotée d'un Groupe des sources stratégiques d'approvisionnement qui analyse les activités reliées à sa chaîne d'approvisionnement actuelle. L'exploitation des magasins d'uniformes pour employés a été sélectionnée afin d'examiner ses opérations, politiques et procédures d'approvisionnement en uniformes.

En lançant ce projet, la Direction de l'approvisionnement s'attaque avec détermination à l'examen des possibilités d'épargnes. Pour l'instant, la Direction de l'approvisionnement n'a pas quantifié les épargnes réalisées, mais a indiqué qu'elle supprimerait deux postes à temps plein. Le déploiement du programme a été approuvé à l'automne 2011.

Le Groupe des sources stratégiques d'approvisionnement a lancé une autre initiative : l'approvisionnement par voie électronique. Cette initiative facilitera la création, l'entretien et le stockage des documents électroniques, l'organisation du plan de travail, la soumission en ligne, les approbations par voie électronique, la production de rapports, l'analyse des dépenses et l'évaluation du rendement des fournisseurs. Les promesses que recèle ce projet pourraient entraîner la réduction du nombre de postes équivalents temps plein à la Direction de l'approvisionnement.

Approvisionnements viables

L'importance de la viabilité fait partie des sujets d'étude de la Ville sur la planification à long terme. Jusqu'en février 2012, la Ville comptait un Service de la viabilité des collectivités dont le but était d'aider Ottawa à se réaliser comme capitale viable et modèle en lui fournissant direction, expertise et soutien au regard de la planification et la prise de décision à long terme dans les quatre principales dimensions de la viabilité : économie, culture, société et environnement.

Selon nous, la participation de la Ville à l'initiative de collaboration des municipalités canadiennes pour des approvisionnements durables en est une étape logique qui s'inscrit naturellement dans son approche globale de la viabilité. Une entreprise indépendante a évalué les progrès accomplis par rapport aux objectifs visés dans le cadre de cette initiative et en a conclu que, dans l'ensemble, la Ville progresse dans la mise en œuvre des dix pratiques de gestion exemplaire du programme.

Recommandations et réponses de la direction

Recommandation 1

Que la Ville établisse des relations avec les groupes du secteur public élargi de la capitale nationale, notamment la Société de logement communautaire d'Ottawa, pour étudier les possibilités d'achats en commun et les économies qu'elle pourrait en tirer.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La Direction de l'approvisionnement communique régulièrement avec d'autres municipalités, universités, établissements collégiaux, conseils scolaires et hôpitaux du Canada, ainsi qu'avec les gouvernements provincial et fédéral.

Le 22 juin 2012, la Ville a également signé un protocole d'entente relatif à un projet pilote de six mois avec la Société de logement communautaire d'Ottawa (SLCO). En vertu du protocole, la Direction de l'approvisionnement aidera la SLCO à planifier, organiser et recevoir les approvisionnements nécessaires à l'acquisition de produits, services et matériaux de construction.

Cette recommandation a été pleinement mise en œuvre. Aucune autre action n'est requise.

Recommandation 2

Que la Direction de l'approvisionnement instaure un processus de soumission concurrentielle pour se doter d'une liste de fournisseurs en services de déneigement et de transport de la neige.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Les négociations directes avec la GOTA (Greater Ottawa Truckers Association) sont une pratique héritée de l'ancienne Ville d'Ottawa qui s'est poursuivie après la fusion. La décision de conserver cette pratique était fondée sur une évaluation qui dépassait les considérations de prix et englobait les risques de défaillances de la chaîne d'approvisionnement et la nécessité de disposer d'un nombre suffisant de véhicules de déneigement en cas de précipitations de neige abondantes. Le facteur d'atténuation des risques devra être pris en considération dans tout processus de soumission concurrentiel pour le déneigement et le transport de la neige.

La Direction de l'approvisionnement lancera un processus d'approvisionnement concurrentiel pour le déneigement et le transport de la neige en prévision de l'hiver 2013-2014. La direction prévoit que cette recommandation sera pleinement mise en œuvre à la fin du troisième trimestre de 2013.

Recommandation 3

Que la Ville mène une étude sur l'acquisition de véhicules d'entrée de gamme équipés des seules options nécessaires à l'exécution des tâches.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Au vu des principes de gestion du cycle de vie d'un parc automobile et de son expérience de l'industrie, la direction estime que ce point mérite un examen plus minutieux. En conséquence, les Services du parc automobile entreprendront un examen des besoins généraux du client, tels que les besoins en climatisation et en chargement, comparativement aux besoins en garnitures standard pour déterminer dans quelle mesure les véhicules pourraient être uniquement dotés d'options de base reliées à la seule nature du travail à exécuter. Cet examen prendra fin au milieu du quatrième trimestre de 2012. Les Services du parc automobile rendront compte des résultats et des conséquences de cette recommandation au Comité et au Conseil.

Recommandation 4

Que la Ville mène une étude sur la valeur de reprise lors de l'acquisition de véhicules afin de déterminer lequel est le plus économique.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Au vu des principes de gestion du cycle de vie d'un parc automobile et de son expérience de l'industrie, la direction estime que ce point mérite un examen plus minutieux. En conséquence, les Services du parc automobile entreprendront une analyse des résultats d'enchères de véhicules semblables à ceux de la Ville qui ont été vendus au cours de la dernière année. L'analyse portera tant sur les véhicules de base que sur les véhicules dotés de garnitures et s'appuiera sur une comparaison entre la valeur résiduelle prévue et la valeur réelle obtenue aux enchères. Elle prendra fin au milieu du quatrième trimestre de 2012. Les Services du parc automobile rendront compte des résultats et des conséquences de cette recommandation au Comité et au Conseil.

Recommandation 5

Que la Direction des services du parc automobile réalise et consigne toutes les économies qui découlent du projet de transformation de la gestion du parc automobile.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Les Services du parc automobile veilleront à ce que les épargnes promises par le projet de transformation de la gestion du parc automobile soient réalisées et consignées dans le tableau de bord équilibré de Travaux publics au deuxième trimestre de 2013.

Recommandation 6

Que la Ville mette sur pied un processus d'examen et de révision des prix d'ordinateurs portatifs et de table durant la période contractuelle, au vu du fait que les appareils atteignent la fin de leur cycle de vie et que leur valeur diminue.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Les pratiques actuelles permettent d'examiner et de réviser les prix des ordinateurs portatifs et de table pendant la période contractuelle de l'offre à commandes. Des réunions ont lieu avec le fournisseur avant les achats en gros (2 000 à 3 000 unités) pour étudier et négocier les prix unitaires et passer en revue les caractéristiques techniques. Aux fins des négociations, la Direction de l'approvisionnement étudie d'autres ententes d'offres à commandes publiées par les services gouvernementaux (TPSGC, p. ex.), ainsi que les listes de prix du fabricant de pièces d'origine destinées au secteur public, pour s'assurer que les prix proposés dans l'offre à commandes concordent avec les prix publiés. À l'issue des négociations, le prix unitaire est révisé en fonction du prix courant, ce qui permet à la Ville d'Ottawa d'obtenir la meilleure tarification possible.

Cette recommandation a été pleinement mise en œuvre. Aucune autre action n'est requise.

Recommandation 7

Que la Direction de l'approvisionnement fasse approuver une approche plus proactive et cherche à obtenir l'autorité fonctionnelle qui lui permettra d'examiner et d'indiquer quand il est profitable de standardiser les vêtements pour réaliser des économies.

Réponse de la direction

La direction est d'accord avec cette recommandation.

En novembre 2011, un comité des achats consolidés de vêtements a été instauré pour définir les exigences des différents groupes en matière d'uniformes et de niveaux de service. Le comité des achats consolidés de vêtements, dirigé par la Direction de l'approvisionnement représentait le Service des incendies, la Direction des services des règlements municipaux, le Service paramédic d'Ottawa, le Service du transport en commun, les Services environnementaux, la Direction des opérations et de l'entretien relatifs aux parcs, aux immeubles et aux terrains, les Services du parc automobile et le groupe Santé et Sécurité.

De plus, à l'issue de la recherche sur les solutions d'approvisionnement en uniformes réalisée en 2011, la Direction de l'approvisionnement a lancé une demande de propositions pour la gestion des uniformes par des parties tierces. Parmi les services demandés figuraient les propositions de standardisation des uniformes et les économies de coûts subséquentes.

Dans le cadre de cette demande, l'autorité fonctionnelle continuera de dicter les spécifications techniques, tandis que la Direction de l'approvisionnement et le fournisseur choisi adresseront au comité des recommandations proactives sur la conception, les tissus et la standardisation lorsqu'il y aura possibilité d'épargne.

Cette recommandation a été pleinement mise en œuvre. Aucune autre action n'est requise.

Recommandation 8

Que la Direction de l'approvisionnement se dote d'un plan pour continuer à localiser les domaines où des réductions de stocks et autres types d'épargnes peuvent être réalisées et qu'elle fournisse des mises à jour trimestrielles sur les progrès accomplis par rapport aux prévisions.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La Direction de l'approvisionnement adresse aux services clients des recommandations proactives sur les possibilités de réduction de stocks et d'autres types d'épargnes. Toutefois, conformément à l'article 5 du Règlement municipal sur les achats, Responsabilités et pouvoirs, il incombe aux directeurs et directeurs généraux de réaliser et de consigner les objectifs et les résultats précis du projet d'approvisionnement, et notamment de faire état des progrès réalisés par rapport aux prévisions d'épargnes dans leurs rapports financiers trimestriels.

Cette recommandation a été pleinement mise en œuvre. Aucune autre action n'est requise.

Conclusion

La Ville s'est lancée dans plusieurs initiatives d'envergure pour examiner ses opérations à la lumière des réductions de coûts, notamment la Gestion du parc automobile et le Groupe des sources stratégiques d'approvisionnement qui permettront sans aucun doute d'accroître l'épargne à long terme. Les pratiques reliées à l'approvisionnement de matériel de TI sont également encourageantes.

Nous sommes convaincus que le projet de transformation de la gestion du parc automobile qu'a entrepris la Ville est une initiative louable, soutenue par un solide processus de suivi des progrès. L'achat de camionnettes de gamme intermédiaire et le recours à leur valeur résiduelle pour calculer le coût de l'acquisition suscitent toutefois certaines réserves. L'abandon de ces pratiques atténuerait également la perception de la Ville comme un employeur qui dote les véhicules de son parc d'options extravagantes.

D'autres économies pourraient être réalisées en instaurant un processus concurrentiel pour l'obtention de services de déneigement et de transport.

Le processus concurrentiel adopté par la Ville pour acquérir des ordinateurs portatifs et de table a été soigneusement préparé en fonction des exigences opérationnelles. Les prix obtenus s'apparentent à ceux que paient les autres grands groupes du secteur public.

La participation de la Ville à l'initiative de collaboration des municipalités canadiennes pour des approvisionnements durables est une étape logique qui s'inscrit naturellement dans son approche globale de la viabilité. Les possibilités d'économies qui se présentent à la Ville du fait de sa collaboration avec quatorze municipalités qui partageront leurs expériences et leurs meilleures pratiques sont encore difficiles à évaluer, mais ne peuvent être niées. Nous sommes convaincus que les frais d'adhésion de 4 000 \$ et le temps d'utilisation limité de la main-d'œuvre sont des investissements qui favoriseront les plans de viabilité à long terme de la Ville.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance qu'elle a accordées à l'équipe de vérification.

1 INTRODUCTION

The Audit of Procurement Practices – General was included as part of the Auditor General’s 2011 Audit Plan approved by Council on April 13, 2011.

2 BACKGROUND

The Audit of Procurement Practices – General deals with the review of specific procurement areas of interest at the City of Ottawa. They are:

- Strategic procurement practices with sub-categories of co-operative purchasing programs;
- Snow haulage;
- Vehicle standards;
- IT notebooks and desktops; and,
- Strategic purchasing and sustainable purchasing practices.

The City is desirous of continually improving its procurement methods and practices with a view to improving service and reducing costs where possible.

3 AUDIT SCOPE AND OBJECTIVES

The scope of the audit encompasses the sub-sets of the strategic procurement activities, namely:

- Co-operative purchasing programs;
- Snow removal haulage;
- Fleet vehicle standards;
- IT hardware procurement;
- Strategic purchasing; and,
- Sustainable purchasing practices.

The audit included a review of the governance, the risk management and the control processes in place for the strategic planning, prioritizing and management of the development of new procurement documents, processes and practices. Particular attention was given to the controls surrounding the elements of contracting under review established to oversee the definition of the requirements, and the procurement planning strategy as well as the oversight surrounding the identification, tracking, monitoring, and reporting on the associated cost savings (value-for-money) of the strategic procurement initiatives.

4 APPROACH

The City has a process and procedures in place to identify, assess and recommend the necessary procurement methods and practices that should be utilized to ensure the optimum balance of price, holding costs, and client service for the acquisition of

goods, while ensuring a timely review and assessment of procurement methods and practices performed to ensure that anticipated benefits are being achieved.

5 DETAILED FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

5.1 Co-operative Purchasing

Supply Branch staff, as well as some school boards and university staff interviewed, indicated that co-operative purchasing is not the initiative it once was a few years ago. A major reason is that many of the key players from a decade ago are now part of the amalgamated City of Ottawa. There used to be about 35 or 40 items bought co-operatively but now the list is down to about six.

In the opinion of Supply staff, the current players are smaller and look to the City to essentially perform the purchasing work, rather than the City participating in these arrangements in order to benefit. Some school boards and university staff interviewed recognise that they are the prime beneficiaries of such arrangements. At the same time some indicated a willingness to take the lead on a few files to help distribute workload.

Several historical cooperative arrangements are still put in place by the City with input from other public entities for the provision of the following:

- Electrical supplies;
- Lamps and ballasts; and,
- Plumbing hardware and power tools.

There are also co-ordinated approaches to the purchase of road salt and natural gas as well as diesel and bulk petroleum products (such as fuel and oil) with some school boards.

Although there is no formal mechanism, the City has access to, and takes advantage, of the Catholic School Board small appliance Standing Offer Agreement (SOA).

The City uses a Province-wide SOA for Microsoft products which includes the Broader Public Service (BPS). BPS includes schools, colleges and hospitals as authorized users when it competes for requirements among approved re-sellers.

The City also successfully requests suppliers to the Federal Government to honour established standing offer prices. They have been able to secure competitive-based pricing for a number of products utilizing this approach. The City also participates in; the Police Cooperative Purchasing Group for clothing and vehicles, with Toronto for ammunition, occasional construction projects with other levels of government or colleges as the opportunity arises, collection services with Hydro Ottawa, a natural gas consortium and rough paper with the University of Ottawa.

Local school boards contacted make use of Ontario “vendor of record” (SOA) where applicable, as does the City (Note: The City uses relatively few “vendor of record” as it can achieve better pricing through direct purchase based on its volume.) as well as Ontario Educational Collaborative Marketplace (OECM) for art supplies, classroom supplies & furniture, first aid kits, paper as well as working with other local school boards for most commodities and major appliances.

We also contacted the Ottawa Hospital for input. They, as well, make use of Ontario “vendor of record” (SOA) where applicable (e.g., computers), work with the University of Ottawa for laboratory supplies, use Health Pro (Hospital related buying Group) and the Champlain Health Supply Service for the 17 or so local hospitals (courier services, travel, hospital transfers).

Procurement managers at Carleton University strongly believe that the active co-operative group of the past could lead to savings in some instances. Consequently, they would be willing to take the lead on one or two commodities to reduce work for the City. They recognize there would be advantages to Carleton University in pricing and service as suppliers would be more responsive for fear of losing the big customer as well.

Other major municipalities contacted believed it was very demanding to coordinate requirements with their participating local smaller municipalities (who want more flexibility to spend locally) and public entities such as school boards. Difficulties range from contractual clauses, to shipment sizes, to agreement on specifications. As such, they do not actively pursue this issue due to the administrative burden.

The Federal Government department responsible for purchasing indicated that the only commodities (now referred to as ‘categories’) they consider for co-operative purchasing are vaccines bought in co-operation with the provinces.

Although it appears that in the intervening years, school boards and hospitals have forged their own network of co-operative purchasing, we believe it is still worth pursuing by the City as all entities contacted indicated they were willing to consider opportunities presented. Through other audit work we are aware of opportunities for the City of Ottawa to assist the Ottawa Community Housing Corporation by extending them access to our standing offers, and potentially providing guidance on complex procurement activities.

The opportunity for the City to achieve savings through participation with other local members of the BPS is difficult to gauge. However, minimal investments here could help reduce costs and contribute to the City’s long term sustainability agenda. While there may be some limited additional work for Supply Branch initially, this could be offset by having BPS partners accept a greater role in co-operative purchasing initiatives.

Recommendation 1

That the City enter into communication with the “Broader Public Service”, and specifically the Ottawa Community Housing Corporation, in the Capital area to determine what opportunities are available for additional co-operative purchasing and associated potential savings.

Management Response

Management agrees with this recommendation.

Supply Branch communicates regularly with other Canadian municipalities, universities, colleges, school boards, hospitals, the Provincial government and the Federal government.

In addition, on June 22, 2012, a six-month pilot project Memorandum of Understanding was executed between the City and Ottawa Community Housing Corporation (OCH) under which Supply Branch will assist OCH plan, organize and initiate procurements for the acquisition of goods, services and construction on behalf of OCH.

This recommendation has been fully implemented. No further action is required.

5.2 Snow Removal Haulage: Dump Trucks

It is a generally accepted principle that the best possible price can be obtained through a fair, open and competitive process. This is supported by the City’s own practices of going out for bids for virtually all its requirements. Historically, however, the City has entered into annual negotiated price agreements achieved through an established process with the Greater Ottawa Truckers Association (GOTA) for snow removal and miscellaneous haulage. This was a practice of the former City of Ottawa which has continued since amalgamation. The City has been quite successful in negotiating rates that have year over year increases that are half of the published Consumer Price Index (CPI). However, the true market rates have never been competitively established.

We contacted a major Ontario municipality, experiencing similar snowfall volumes and inquired about their approach to engaging trucks for snow removal and other haulage requirements. They confirmed that all requirements are tendered and that their procurement team solicits bids through a public tendering process. The process utilized for the 2011 season resulted in the acceptance of 90 successful bids (suppliers were able to bid in various categories). A review of successful proponents offering haulage capacity in the range comparable to the City of Ottawa, that is 20/25m³, indicates that 19 bids were received with a price distribution from \$62.00 to \$85.00 per hour. The distribution is as follows:

- 3 bids were received in the price range of \$62.00 - \$64.99 per hour
- 8 bids were received in the price range of \$70.00 - \$74.99 per hour

- 5 bids were received in the price range of \$75.00 - \$79.99 per hour
- 3 bids were received in the price range of \$80.00 - \$84.99 per hour

The average price of the bids received was \$72.82 per hour with a median of \$71.99 per hour. For the sake of comparison, the City of Ottawa has a negotiated price of \$87.90 per hour for 20 and 25m³ trucks.

Using this average price of bids, in our opinion, the City may have an opportunity to achieve savings in hourly rates for snow removal and other haulage requirements in the range of 17%. Such a reduction could result in savings of \$680,000 per year based on the current Standing Offer whose value is estimated at \$4,000,000 for the upcoming 2011/12 season. During the course of our audit, Supply Branch did their own analysis of the haulage rates in comparison to other municipalities. They determined that savings in the range of 10-15% could be obtained through a competitive process.

We believe that Supply Branch appreciates the importance of the competitive process in achieving best overall value to the City as the negotiations with GOTA are an anomaly in their standard practice. We also believe that an open competitive process will yield benefits to the City.

Recommendation 2

That Supply Branch initiate a competitive tender process to establish a list of suppliers to provide snow removal and general haulage services.

Management Response

Management agrees with this recommendation.

The practice of direct negotiations with the Greater Ottawa Truckers Association (GOTA) was carried over from the former City of Ottawa, and has continued since amalgamation. The decision to continue with this practice was based on an assessment of more than just price alone, and included an assessment of supply chain risk, and the need to ensure that vehicles are available in sufficient numbers to remove snow in heavy snowfalls. A competitive procurement process for snow removal and general haulage will need to appropriately mitigate these risks.

Supply will initiate a competitive procurement process for snow removal and general haulage for the 2013-14 winter season. Management expects this recommendation to be fully implemented by end of Q3 2013.

5.3 Vehicle Standards

The City's Fleet Management Transformation Project began in September 2010. The Project Charter states that its objective was to "Save approximately \$3.94 million per year across the three fleet functions through the development and implementation

of a new fleet management strategy, a procurement strategy based on Life Cycle Management principles, a preventative maintenance strategy optimizing internal as well as available external resources, a parts management strategy that will involve a third party logistic partner and improving fleet operation activities”.

The Fleet Services Branch manages 2,315 non-revenue generating vehicles, including fire trucks, ambulances, snow ploughs, and light vehicles and trucks along with approximately 1,024 vehicle equipment such as plow blades, sand/salt spreaders, snow blowers, sweepers, loader buckets and mowers. Fleets Services also performs maintenance on some of the 621 police vehicles (such as cruisers, pick-ups, vans, and motorcycles).

The required one-time investment was \$2.4 million across 2010 and 2011 for the above initiative. Savings, expected to begin in 2010, were estimated at \$300,000, growing to \$3.94 million per year by 2013. The Project Charter anticipated “payback on the investment to be achieved by 2012”. Potential benefits include a 3% reduction in parts costs, savings associated with inventory carry costs, along with 30% reduction in stores labour.

The Project initiative will be substantively complete within two years. Inventory management of spare parts was a function of Supply Branch in the Finance Department, not Fleet Services. Transformation of Fleet Services required the transformation of the Parts Stores processes. This process started with the transfer to Fleet Services of all General Stores and Parts Stores operations on June 1, 2010.

Of the \$3.97 million in projected savings opportunities, \$1.7 million are related to labour costs for parts inventory management. The years that savings will be achieved are detailed in the table below.

PROJECTED COSTS SAVINGS TO BE REALIZED						
Function	2010	2011	2012	2013	2014	Total in Million
Inventory Management	-	\$210	\$300	\$600	\$600	\$1,710

Management has confirmed that they are on track to achieve the stores / inventory labour related savings.

One of the initiatives aimed at reducing the cost of the fleet was the single Light Vehicle Tender procurement process. The Tender opted to reduce the number of vehicle types purchased by grouping the requirement within a class of single vehicle type. As part of this competitive process the City acquired pickup trucks. In addition to base cost and fuel economy, the evaluation encompassed the consideration of the vehicles anticipated residual values in efforts to assess the cost

of ownership. Part of the rationale for acquiring a higher than entry level vehicle (as opposed to the base model) is an analysis that utilizes “Black Book” information on the expected valuations of the future expected proceeds of disposal for the higher-end vehicles. The analysis demonstrates that, on paper, the selection of the higher-end vehicles more than recoups the price differential in comparison to the entry level vehicles.

Our analysis of the MSRP and resultant residual “Black Book” values for entry level and mid-level vehicles, similarly equipped, did not corroborate with this initial hypothesis (see table below). Although the City would receive a better price due to bulk purchasing, this would apply to both entry and mid-level models. When the time value of money concept is factored in there is no appreciable benefit to the City.

COMPARISON OF VEHICLE ACQUISITION COST				
	Chevrolet Silverado		Ford F Series	
	Entry Level Model: WT	Mid-Level Model: LT	Entry level Model: LT	Mid-Level Model: XLT
Original MSRP	\$29,995	\$34,510	\$30,099	\$34,099
Residual Value	\$7,490	\$11,090	\$10,140	\$11,540
Variance / Cost	\$22,505	\$23,420	\$19,959	\$22,559

This means that there are potential savings available in the range of \$4,000 per vehicle (pick-up truck) at the time of purchase and there are approximately 40 such vehicles acquired annually (2009 - 33, 2010 - 72, 2011 - 36), representing annual savings of \$160,000. These savings could be augmented by minimizing the option packages to include only necessary items.

While not all options may be available on all entry level vehicles, we have confirmed that the options related to air conditioning, horsepower, towing packages and mobile offices are available on the Ford LT, the entry level model. The only options not available are power seats, power mirrors and heated mirrors which, in our opinion, do not substantiate the additional costs of not acquiring entry level vehicles.

We noted from discussions with another municipality that base model trucks are consciously acquired simply to avoid criticism over the appearance of wasting taxpayer’s money on an unnecessarily high-end vehicle.

Given that a working truck even after a five year life may have little appreciable value, we believe that the use of residual values has the potential to unduly skew the price assessment process. Additionally, the standard means of disposal is now through auctions and prices are no longer as predictable as in prior circumstances, and are largely based on the condition of the vehicle.

We believe that the City's Fleet Management Transformation Project which began in September 2010 with the stated objective to "save approximately \$3.94 million per year across the three fleet functions ..." is a worthy idea with a documented process to monitor progress. Our concern relates to the noted exception of the purchase of mid-level pick-ups and with the use of the residual value in acquisition cost calculations.

Recommendation 3

That the City conduct a study on purchasing entry level vehicles with only the base work-related options.

Management Response

Management agrees with this recommendation.

Fleet Services lifecycle management principles and industry experience leads management to believe this issue merits closer scrutiny. As a result, Fleet will complete a review of standard client needs, such as air conditioning and towing capacity, versus standard trim packages to determine the feasibility of moving to base work-related options. This review will be complete by mid Q4 2012 and Fleet will report back to Committee and Council on the results and the implications for this recommendation.

Recommendation 4

That the City conduct a study on the trade in allowance when acquiring vehicles to determine the most economical vehicle.

Management Response

Management agrees with this recommendation.

Fleet Services lifecycle management principles and industry experience leads management to believe this issue merits closer scrutiny. As a result, Fleet will complete an analysis of auction results over the past year involving like City vehicles for both base and higher trim models, comparing the black book forecasts against the actual value received at auction. This review will be complete by mid Q4 2012 and Fleet will report back to Committee and Council on the results and the implications for this recommendation.

Recommendation 5

That the Fleet Services Branch ensure that they realize and document all of the savings achieved through the Fleet Management Transformation Project.

Management Response

Management agrees with this recommendation.

Fleet Services will ensure the Fleet Transformation savings are realized and tracked within the Public Works Balanced Scorecard by Q2 2013.

5.4 IT – Notebooks and Desktops

The City has established, through a competitive process of their own, a SOA for desktop and laptop computers. The resulting SOA prices appear higher than typical big box offerings. However, it is important to note that the City computers are of a commercial grade with upgradable flexibility, are fully loaded with all necessary applications, include any necessary server connections and security features. The base line big box store offers these features at an additional cost. Furthermore, the computers purchased include full on-site service and replacement possibility in select circumstances and offers in-house technician training by the supplier. Extended warranties (four years) were also obtained for the life-cycle of the product. When viewed as a whole, cost recoveries are experienced.

The City currently has a complex computing environment with 100+ lines of business, 340+ physical locations, and 700+ applications to run. The hardware specifications, determined by these and other factors, include business and technical justifications. Moreover, the City currently has approximately 11,976 computers to support in a large number of sites. Specifications were developed to support all applications; a “one size fits all” concept in order to capitalize on the cost savings and the reduction of operating costs when upgrading network compatible computers.

In our discussions, it was noted that the hardware specifications, or standards, for desktops and laptops are designed to provide a one easy to support baseline. Furthermore, it is industry best practice for a corporation to have a limited number of hardware configurations/standards in order to have a baseline to support. Several industry publications and research firms and accepted wisdom support this.

The industry lifecycle¹ of hardware is;

- 3 years for laptops
- 4 years for desktops

However, we were advised that City funding translates into computers being kept for 7 to 8 years. This reality supports the need for higher specification in order to extend the life of the computers. Dependent upon available funding approximately 1,750 units are replaced in a typical year.

¹ Gartner Research: Publication Date December 3, 2007

Past experiences have provided *lessons learned* from purchasing through a “white-box” scenario (in other words, purchasing the necessary hardware components individually in order to capitalize on the lower price and assembling the unit in-house or via the external supplier). In particular, there are consequences to purchasing a limited supply part in order to enjoy the cost savings: For example, replacement parts may not be available at all or within a reasonable time frame; compatibility of new options may result in serious configuration challenges or the need to incur additional costs to obtain an acceptable final product; etc.

The current Standing Offer, following a publicly tendered RFP, was won by Nova Networks.

The current hardware specifications include, among other things:

- The consideration of planned specification changes (e.g., the City needs to plan ahead to avoid a mega overhaul based on upcoming software requirement change such as the upgrade of Windows XP to Windows 7 which requires minimum system requirements);
- Guaranteed availability and forecasting (e.g., exact hardware specifications are available for up to 18 months, including advance warning of unavailability to allow the City to capitalize on bulk purchasing if the need arises);
- Bulk buy ability; and,
- Spare parts availability (parts available for 5 years).

The standard hardware specifications for desktops/laptops are selected to ultimately manage risk, for their ability to support the systems, and to control the cost of supporting hardware and software. The cost of the computers include all necessary hardware, all software including the necessary licence rights, as well as network ready requirements to allow the user to be up and running in a secure, manageable, and supportable fashion. Worthy of note, the computers are equipped with Microsoft Business Suite, which would be offered at an additional cost by price-conscious vendors such as the big box stores.

The cost of the computers charged to the various cost centres does not include an overhead element, a “profit” mark-up, to support the computers in the event of required assistance.

We reviewed PWGSC and Carleton University published pricing for like equipment and found it to be comparable to the City.

Comparison of Computer Hardware Pricing (with comparable specifications)				
	City of Ottawa	Carleton University	Future Shop	PWGSC
Desktop	\$1,262	\$1,233*	\$1,281*	\$1,251*
Laptop	\$1,372	\$1,518*	\$1,480*	\$977*

* Note: Price does not include required business software but does include Windows 7 Professional operating system.

We conducted a price review of a big box store using on-line shopping for comparable machines. Once the necessary similar specifications including comparable warranty coverage is included (which is a critical feature for the City as funding levels require maximizing life expectancy), it was noted that the resulting prices are generally in-line with the prices offered to the City. However, other prices obtained exclude the necessary software and licence requirements which carry a significant cost.

We were advised by Supply Branch staff that for telecommunications services contracts, independent consultants with specialized knowledge of the telecom industry and tariff regulations imposed by the CRTC, are utilized to verify that contractual prices reflect current market rates. At the time the audit was substantially completed, there was no similar practice implemented to verify the prices paid for laptops and/or desktops.

We believe that the City’s competitive process for the acquisition of laptops and desktops was conducted with due regard to operational requirements and cost avoidance. Prices are consistent with other major public sector entities. Our only concern relates to the noted exception of the capacity to adjust prices during the life-cycle of the associated Standing Offer.

Recommendation 6

That the City develop a means to review and revise prices for laptops and/or desktops during the contractual period as items approach end-of-life and value diminishes.

Management Response

Management agrees with this recommendation.

Current practice provides a means to review and revise prices for laptops and desktops during the contractual period of the standing offer. Meetings are held with the supplier before bulk purchases are made (2,000 to 3,000 units) in order to review and negotiate unit pricing as well as technical specifications. In support of these negotiations, Supply Branch consults other governmental published standing offer agreements (e.g., PWGSC) and the system's OEM (original equipment manufacturer) published public sector price lists to ensure consistency with the standing offer rates. Following these negotiations, unit pricing is revised to reflect the current market rate, which ensures the best possible pricing for the City of Ottawa.

This recommendation has been fully implemented. No further action is required.

5.5 Strategic Purchasing (Clothing and Uniforms)

The City of Ottawa's Supply Branch has created the Strategic Sourcing Group within the Branch to analyse current supply chain operations.

Supply Branch identified the Corporate Uniform Stores (CUS) operation as a candidate for a review of its operations, policies and procedures. This group is responsible for purchasing and managing inventories of uniforms and related items for several City departments.

It is believed that opportunities exist for standardization of specifications and procedures and the adoption of more effective and efficient supply chains.

CUS manages the receipt, warehousing and distribution of all uniform items to approximately 6,000 uniformed City staff (does not include Police Service). This includes an inventory of over 2,000 unique items. The average inventory value in 2010 was approximately \$1.7 million and annual issues were \$1.9 million, a low turnover rate as is standard for clothing inventories. The operation is currently staffed by three FTEs including a Materials Administrator, a Materials Management Clerk and a Storekeeper. The facility is located at 1221B Cyrville Road in the east central part of the City and occupies 8,000 square feet.

The uniform requirements of staff are dictated by six different collective agreements negotiated by Corporate Labour Relations (LR). Issues being reviewed include; Garment Specifications, Quality Assurance, Distribution and Standardization.

We believe that the City has documented its requirements and options and recently received senior management approval to proceed with a mix of short and long term initiatives that are intended to improve service and save money. At this early stage of the initiative Supply Branch has not quantified savings but has stated that two full time staff will be eliminated.

Therefore we will limit our comments to standardization. Each department identifies its own requirements and determines its own specifications for uniforms. The CUS or Purchasing Unit may suggest comparable items available through existing contracts but the final decision on purchases rests with the departments.

As Supply Branch research has identified, models exist where uniforms are standardized across the organization as much as possible. For example, the City of Calgary uniform program has the right to veto departmental requests for unique items if standard alternatives are readily available. The Ottawa Police Service participates in the Police Cooperative Purchasing Group of Ontario (PCPG) to reduce costs as much as possible by identifying common requirements and to take as much advantage of economies of scale.

The Supply Branch Strategic Sourcing Group has suggested it can begin to develop options for standardizing uniforms across the City as much as possible. If a standard garment can be used, the cost differential between it and other options under consideration should be presented for review by the client department. In the longer term, the adoption of an externally managed system will allow the City to use standardized uniforms already in use by other users and standardize as much as possible across the City.

The Strategic Sourcing Group's plan calls for staff to be able to order uniforms on-line starting March 31, 2013.

The Strategic Sourcing Group has started work on its next initiative; "e-procurement". While the project charter and business case for this initiative have not been finalized, it is anticipated that "e-procurement" will result in enhanced electronic document creation, maintenance and storage, work flow, on-line bidding, e-approvals, enhanced reporting and spend analysis, and supplier performance measurement which could lead to efficiencies being identified in Supply Branch.

We believe that Supply Branch initiating the Corporate Uniform Stores Project is a good first step in the review of opportunities to identify possible savings. However, there may be other areas where Supply Branch could identify potential inventory reductions and related savings.

Recommendation 7

That Supply Branch seek approval for a more pro-active approach, and the functional authority to permit them to identify and dictate where it is beneficial to standardize clothing items and save money.

Management Response

Management agrees with this recommendation.

A Consolidated Clothing Committee was established in November 2011 to define the requirements of their respective stakeholder groups in the development of uniform and service level specifications. The Consolidated Clothing Committee is led by Supply Branch and representation includes Fire Services, By-law and Regulatory Services, Ottawa Paramedic Services, Transit Services, Environmental Services, Parks, Building & Grounds Operations & Maintenance Branch, Fleet Services and Health and Safety.

In addition, as a result of a 2011 investigation into alternative uniform supply chain models, Supply Branch has initiated a Request for Proposal for an externally managed uniform solution; services to include the successful vendor identifying opportunities to standardize clothing items and cost savings.

The functional authority would retain control over the technical specifications, while Supply Branch/the successful vendor would pro-actively bring recommendations on design, fabric and standardization to the committee for consideration when savings opportunities are identified.

This recommendation has been fully implemented. No further action is required.

Recommendation 8

That Supply Branch develop a plan to continue to identify additional areas where inventory reductions and other savings can be gained and provide quarterly updates on progress against savings forecast.

Management Response

Management agrees with this recommendation.

Supply Branch pro-actively brings recommendations to client departments on opportunities to achieve inventory reductions and/or other savings; however, in accordance with Article 5, Responsibilities and Authorities of the Purchasing By-law, Directors/General Managers are responsible for achieving and reporting on the specific objectives and outcomes of the procurement project, including progress against savings forecast in their financial quarterly reports.

This recommendation has been fully implemented. No further action is required.

5.6 Sustainable Purchasing

Sustainability ranks high in the City's long term planning considerations.

Initiatives include "Choosing Our Future" is a tripartite initiative that brings together the City of Ottawa, the City of Gatineau, and the National Capital Commission (NCC) in a collaborative partnership for the purpose of creating a long-term, integrated plan for sustainability in the National Capital Region.

Additionally, the Official Plan is one of the most important tools the City has and it has the sustainability concept as a primary goal, where sustainable development is defined as “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.”

Until as recently as February 2012, the City had a Department of Community Sustainability to help realize Ottawa’s potential as a model, sustainable, capital city by providing leadership, expertise and support for integrated long-term planning and decision-making across the four dimensions of sustainability – economic, cultural, social and environmental.

Responsibility for making sustainable choices is now shared amongst all City departments. In our opinion, participation in the Canadian Municipal Collaboration for Sustainable Purchasing initiative is a logical step that dovetails with the overall corporate approach to sustainability. The concept of sustainable purchasing is that it can drive a number of corporate sustainability initiatives such as waste diversion, energy conservation and carbon emission reduction. The City is currently participating with up to 14 other municipalities to share lessons learned and best practices. There are minimal costs (approx. \$4,000 for the annual membership and the need for internal resources) associated with an undertaking that fits well with overarching City emphasis on environmental, social, and financial sustainability.

The initiative originally started in western Canada and the City of Ottawa sought to contribute to the movement. Given the minimal cost and possible benefits of “lessons learned” from other municipalities, Supply Branch joined the other 14 or so municipalities. Major municipalities involved include; Vancouver, Edmonton, London, and Halifax. An independent firm has assessed progress against targets set by the Canadian Municipal Collaboration for Sustainable Purchasing and indicated that the City is progressing well in implementing the 10 Best Practice Program Elements (which include a documented action plan, policy, supplier code of conduct tools and monitoring among others), although it identified the need for additional work in some areas. Given the City’s fairly recent involvement, it is progressing well in relation to its peers.

6 AREAS OF POTENTIAL SAVINGS

Areas that are not already under consideration by City staff that could lead to meaningful and measurable savings are:

1. Initiating a competitive tender process for suppliers to provide dump trucks for snow removal and general haulage has the potential to save the City \$680,000 annually; and,
2. Purchasing of entry level vehicles without consideration of trade in allowances has the potential to save the City \$160,000 annually.

7 CONCLUSION

The City has several major initiatives underway to review operations for possible savings; Fleet Management and the Strategic Sourcing Group which will undoubtedly accrue savings over the long term. There are good practices related to IT procurement in place.

We believe that the City's Fleet Management Transformation Project is a worthy idea with a well-documented process to monitor progress. One concern relates to the noted exception of the purchase of mid-level pick-ups and the use of the residual value in acquisition cost calculations. This would also assist the City in avoiding any perception issues of extravagant options in their fleet standards.

Additional savings will likely be gained through implementing a competitive process for the acquisition of haulage and snow removal requirements.

The City's competitive process for the acquisition of laptops and desktops was conducted with due regard to operational requirements and prices are consistent with other major public sector entities.

The City's participation in the Canadian Municipal Collaboration for Sustainable Purchasing initiative is a logical step that dovetails with the overall corporate approach to sustainability. The opportunities for the City to achieve some savings through participation with 14 other municipalities to share lessons learned and best practices is difficult to gauge but hard to deny. We believe the membership fee of \$4,000, and limited staff time, are appropriate investments for contributing to the City's long term sustainability agenda.

8 ACKNOWLEDGEMENT

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