



**Office of the Auditor General: Review of the
City's Practices for the Procurement of
Commercial Vehicles, Tabled at Audit Committee
– June 28, 2018**



Table of Contents

Executive Summary 1

 Purpose..... 1

 Background and rationale 1

 Findings 3

 Conclusion 6

 Potential savings 7

 Recommendations and responses..... 7

Acknowledgements

The team responsible for this review, comprised of PricewaterhouseCoopers LLP and Louise Proulx from the Office of the Auditor General (OAG), under the supervision of Sonia Brennan, Deputy Auditor General and the direction of Ken Hughes, Auditor General, would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this review.

Original signed by:

Auditor General

Executive Summary

Purpose

This review was conducted in response to concerns raised through the City of Ottawa's (City) Fraud and Waste Hotline in 2015 and 2016 in relation to the City's purchase of light fleet vehicles and the use of rental vehicles.

Background and rationale

In late 2015, a report was filed to the City's Fraud and Waste Hotline inquiring as to the reason for the City's procurement of "the most expensive commercial van on the market" (Mercedes Sprinter), whether a cost-benefit analysis was conducted to ensure "the most cost-effective purchase", and why the City does not purchase Canadian-made vans.

The City is a major purchaser of goods and services in the region, and purchases are governed by the *By-law of the City of Ottawa Respecting the Procurement of Goods, Services and Construction* (Procurement By-law) and established policies and procedures.

The Fleet Services branch (Fleet Services) at the City is responsible for procuring, maintaining, administering and the repair and replacement of the City's diverse fleet of vehicles and equipment in support of snow removal, municipal operations, police, paramedic and fire services. Fleet Services maintains a fleet of 4,700 vehicles/equipment. Fleet Services is also responsible for arranging vehicle rentals for City staff.

The City's Transit Operations branch (Transit) of the Transportation department acquires and maintains its own fleet vehicles. Transit's Fleet and Facilities Maintenance branch provides engineering and consulting services for procuring non-revenue¹ vehicles, develops acquisition strategies and manages the inventory replacement cycle and provides technical support for non-revenue fleet.

¹ Non-revenue vehicles include vehicles that support operations but do not directly generate revenue such as an OC Transpo bus.

The City's Supply Services branch (Supply Services) oversees the application of the City's Procurement By-law including preparation of bid solicitations, evaluation, negotiations, contract award and reporting to City Council. Supply Services' role is to ensure the City's procurement process is fair, open and competitive.

During the period from 2011 to 2015, the City purchased 71 Mercedes Sprinter vans and leased one Mercedes Sprinter van, which overlapped with a spending freeze that was in effect from July 24, 2015 to December 31, 2015. As per the City Manager's direction, a freeze was implemented on all staffing and discretionary spending. Guidelines were circulated by the City Manager to all managers, which defined discretionary spending as any expenditure that was not associated with the direct delivery of service to customers or clients. Business travel expenditures were deemed discretionary with the exception of business travel associated with staff training and development.

The Mercedes Sprinter is a full-size, premium high-roof van that is available in cargo, passenger and cab chassis. During the period from 2011 to 2015, the Mercedes Sprinter became a common vehicle procured by the City to upsize an older vehicle, downsize an older vehicle or add a growth vehicle to the City's fleets.

Between 2011 and 2015, the cost per van for the 71 Mercedes Sprinter vans purchased by the City ranged from approximately \$46,000 to \$64,000 per van (before applicable taxes and up-fitting costs). Other costs may be capitalized for each van in the fleet management system to customize the van for the City's use after delivery of the vehicle. Between 2011 and 2014, customization (up-fitting) costs ranged from \$350 to \$54,000 per vehicle. Customization costs vary depending on the purpose of the van.

The review focused on two key areas which were selected based on the concerns raised in the report filed through the City's Fraud and Waste Hotline.

- To determine whether the City's acquisition of Mercedes Sprinter vans between 2011 and 2015 was cost effective and is supported with an adequate cost-benefit analysis to support the purchase of these vans; and
- To determine the extent of the City's rental costs for vehicles and whether these rentals complied with the City's spending freeze in 2015.

Findings

The review findings are as follows:

1. Cost effectiveness of the acquisition of Mercedes Sprinters

We found that the procurement of Mercedes Sprinter vans was not always a cost-effective solution, and there was no supporting documentation to demonstrate that a value analysis was conducted to justify the purchase of the Mercedes Sprinter prior to bid solicitation based on the following:

- As part of the City's Procurement By-law, for each growth or replacement vehicle, in order to provide assurance that the van will provide best value, it is expected that procurement documentation would include a value analysis that compares vehicles, prices and vehicle options that meet the needs of the client (City department/branch). Based on our review of the available procurement documentation, there was no evidence on file that a value analysis comparison was performed and submitted to Supply Services prior to the bid solicitation for the procurement of Mercedes Sprinter vans.
- In January 2015, the Director of Fleet Services prepared a briefing note which estimated that the City's purchase of 29 Mercedes Sprinter vans resulted in net capital savings of approximately \$462,000. For the same 29 vehicles, we calculated a net capital savings of \$159,000 which is significantly lower than the net capital savings of \$462,000 reported in the briefing note. Based on our calculations on a per vehicle basis, we noted that 12 Mercedes Sprinter vans incurred a total capital savings of approximately \$555,000 while 14 Mercedes Sprinter vans incurred a total capital loss of approximately \$396,000.
- The briefing note also referred to anticipated operating savings for fuel of approximately \$20,000 annually on the first 15 Mercedes Sprinters purchased by the City. No supporting documentation could be provided for these projected annual fuel savings. We found the average fuel cost for Mercedes Sprinters was \$0.17 per km compared to the replaced vehicles that had an average fuel cost of \$0.25 per km.
- Between May 2015 and August 2015, Fleet Services purchased seven Mercedes Sprinters when a more economical option existed, the Ford Transit high-roof cargo van. The Ford Transit is a vehicle that was purchased in April 2015 at a lower cost. The City could have saved \$167,000 had it purchased seven Ford Transit vehicles instead of the Mercedes Sprinter.

- For a number of Transit vehicles, the vehicle replacement forms did not provide sufficient explanation or justification for the change to Mercedes Sprinters.
- The lease of one Mercedes Sprinter to support the Light Rail Transit did not go through a formal lease or buy analysis to support the decision to lease a Mercedes Sprinter van rather than purchase the van through the City's existing standing offer. The purpose and use of the vehicle was not documented nor was the justification of the requirement for this specific type of vehicle. The leased vehicle was in a major collision part way through the lease term and was not replaced. The approval decisions to lease and buyout the lease were not supported with any type of financial analysis. The decision to enter into a four-year lease when the vehicle was not needed for more than two years appears to lack diligence and due regard for economy.

2. Rental of vehicles

The report through the City's Fraud and Waste Hotline indicated concerns over the increased renting of vehicles in lieu of purchasing new vehicles in light of the spending freeze implemented in 2015. The spending freeze was implemented on all staffing and discretionary spending effective July 24, 2015 to December 31, 2015.

Based on our review of the discretionary spending freeze guidelines circulated to all managers, discretionary spending was defined as any expenditure that was not associated with the direct delivery of service to the customers or clients. It is our understanding that vehicle rental expenses for operational activities did not form part of the discretionary spending freeze guidelines. Based on the work performed, the use of rental vehicles in 2015 did not contradict the guidelines of the 2015 discretionary spending freeze.

3. Other observations related to the acquisition of Mercedes Sprinters

During our review, other observations were noted including:

- In late 2014, Fleet Services performed an investigation to respond to questions raised in a report filed to the City's Fraud and Waste Hotline inquiring as to the reason for the City purchasing expensive Mercedes Sprinter commercial vans, whether a cost-benefit analysis was conducted to ensure best value for taxpayers and why the City does not purchase Canadian-made vans. Fleet Services reported the results of their investigation to the City Manager's Office in a Fraud and Waste Hotline Investigation Review Report (the "Investigation Review") which concluded that the acquisition of Mercedes Sprinter vans was completed in

accordance with the City of Ottawa's Procurement By-law and procurement practices and procedures. We noted that the Investigation Review included Fleet vehicles only and excluded 35 Mercedes Sprinters acquired by Transit. The fact that Fleet Services reviewed its own decisions raises the potential for bias and may have implications on Fleet's conclusion as to whether the purchase of Mercedes Sprinter vans provided the best value for the City.

- When compared to two other Canadian municipalities, between 2011 and 2015, the City of Ottawa purchased a significantly greater number of Mercedes Sprinters than the other municipalities.
- Based on our review of a sample of invoices for Mercedes Sprinter vans purchased by Transit, it was noted that itemized options on each invoice could not always be agreed to the pricing table in the standing offer. Based on discussions with Transit staff, it was noted that the particulars of the options listed on the invoices for Mercedes Sprinters are not thoroughly verified before approving the invoice for payment. This presents a risk that the City may be paying for items that should be included in the base price of the vehicle or a higher rate than agreed to in the original contract.
- For 15 of the Mercedes Sprinter vans acquired between 2011 and 2015, the associated bid solicitation documents specified the vehicle model only (i.e. Sprinter). The brand was not specified in the bid solicitation; however, during this time frame, Mercedes was the only manufacturer of Sprinters. The City's issue of a Request for Tender specifically requesting Sprinter vans contravenes the Procurement By-law subsection 12(3) that states "*procurement documentation shall avoid the use of specific products or brand names*". However, subsection 12(5) states that a Director² (of Fleet) "*may specify a specific product or brand name for essential functionality purposes to avoid unacceptable risk or for some other valid purpose*" as long as the Director and Supply Services manage the procurement to achieve a competitive situation. However, without documentation of a value analysis comparison conducted to provide assurance that the vehicle specifications were required, the Director does not provide a valid purpose in the procurement documents for the specific need for Mercedes Sprinters as being essential for City operations. Specifying a brand or model restricts access to other potential suppliers with viable solutions and/or products for the City and increases the risk of driving prices up if there is limited competition.

² Based on our enquiries with Fleet Services, "the Director" refers to the Director of Fleet Services.

- In 2005, Motion 27-139 carried by City Council directs staff to provide pre-budget reports in advance of the draft budget for the acquisition of any growth or replacement fleet vehicles. The motion also specifies that *"for the purposes of these reports 'fleet' be defined as any vehicle purchased by any branch of the Corporation of the City of Ottawa"*. While Council is informed of replacement and growth vehicles that are planned to be acquired, there is no subsequent reporting on the actual vehicles purchased and their costs. We also noted that Transit's Fleet and Facilities Maintenance branch is not included in Fleet Services' Municipal Vehicle and Equipment Capital Replacement Plan and the Annual Vehicle Growth reports tabled to the Transportation Standing Committee (the "Standing Committee") and City Council. Transit's Fleet and Facilities Maintenance branch confirmed they were not aware of the motion and did not provide this information to Standing Committee and Council.
- Another concern submitted through the Fraud and Waste Hotline requested the City to provide an explanation as to why it has decided to purchase foreign-made vehicles (i.e. Mercedes Sprinters) over Canadian-made vehicles. Based on the Ontario Discriminatory Business Practices Act and the City's Procurement By-law, there is no restriction to the City from purchasing foreign-made vehicles.

Conclusion

Based on our review, we conclude that the procurement of Mercedes Sprinter vans was not a cost-effective solution in at least 14 instances out of 26 cases examined, and in fact, represented an unjustified higher cost vehicle in these cases. There was no evidence on file that a value analysis comparison of options or choices was performed prior to the purchase of any Mercedes Sprinter vans within Fleet Services or Transit Fleet.

Our conclusion is supported with additional examples which include the following:

- Fleet Services purchased seven Mercedes Sprinters for \$419,000 when the comparable Ford Transit van existed that would have cost approximately \$252,000, for a difference of \$167,000.
- Transit purchased four Mercedes Sprinter vans for \$324,000 instead of the initially recommended Ford Transit vehicles that would have cost approximately \$184,000, for a difference of \$140,000.
- A lease or buy analysis to support the decision to lease one Mercedes Sprinter was not performed by Fleet Services.

OAG will consider further review of the City's fleet operations including Transit.

Potential savings

Potential savings were identified in this review based on individual examples where Mercedes Sprinters were purchased at a higher cost than the vehicles they replaced without an underlying value analysis or other sufficiently detailed justification to support the additional expense. These costs cannot be recovered. The following recommendations were developed with the intent to encourage improved decision making with strong consideration that the delivery of service should be carried out in the most cost-effective and financially responsible manner.

Recommendations and responses

Recommendation #1

That the City ensure for each growth or replacement vehicle an adequate value analysis comparison is conducted to provide assurance that the fleet vehicle specifications required will meet operational requirements at the lowest lifecycle cost vehicle in cases where:

- a) for a replacement vehicle, the proposed vehicle differs from the original; OR
- b) for a growth vehicle, the proposed vehicle differs from existing vehicles used for the same or similar purpose.

Management response:

Management agrees with the recommendation.

Fleet Services is reviewing its procedures and required documentation in this area. By the end of Q4 2018, procedure updates will be completed and the changes will be communicated to clients as part of the normal discussions held whenever replacements or growth are being contemplated.

Recommendation #2

That the City ensure for each leased vehicle a formal, adequate lease or buy analysis is conducted and stored in files to provide assurance that the decision to lease a fleet vehicle is a cost-effective solution.

Management response:

Management agrees with the recommendation.

Fleet Services and Transportation Services will ensure that a lease versus buy analysis is conducted and documented prior to any existing lease contracts being extended and prior to entering into any new equipment lease contracts. The process of completing and documenting the lease versus buy analysis has now been put into place.

Recommendation #3

That the City issue bid solicitation requests without the use of specific brand names in accordance with the Procurement By-law to achieve the most competitive situation possible. Should it be determined that a specific brand name is required, adequate analysis and documentation should be retained as evidence that the product is essential for operational requirements to avoid unacceptable risk or for some other valid purpose.

Management response:

Management agrees with this recommendation.

Supply Services will update its procedures manual to clarify the information required to support the inclusion of specific brand names and how this information is to be documented. This update will be completed by the end of Q4 2018.

Recommendation #4

That the City Manager's Office, Clerk's Office and OAG review and consider changes to the Fraud and Waste Procedures to address reports related to waste.

Management response:

Management agrees with this recommendation.

Management has met with the Auditor General's Office and will be updating the Fraud and Waste Procedures to provide direction to staff with respect to the disposition of reports related to waste, by Q3 2018.

Recommendation #5

That the City ensure that all departments comply with Motion 27-139 carried by City Council in January 2005 and that the Municipal V&E Capital Replacement Plan and Annual Vehicle Growth reports include all vehicle acquisitions from across the City for effective decision making.

Management response:

Management agrees with this recommendation.

Fleet Services already complies with Motion 27-139 for all City departments with the exception of Transportation Services. Transit Fleet and Facilities Maintenance is currently working on developing an internal Standard Operating Procedure (SOP) for the procurement of non-revenue vehicles that will address this recommendation. The anticipated timeline for completion is Q3 2018. Once approved, the SOP will be communicated to staff and posted on Ozone under the Transit Service Business Practices policy repository.

Moving forward, Transportation Services will bring forward an annual Transit Vehicle and Equipment Replacement and Growth Plan report to Council, which will include a detailed list of upcoming requests for non-revenue vehicle replacements and non-revenue growth in advance of the fall budget tabling.

Recommendation #6

That the City ensure each staff responsible for approving each invoice verify all options itemized on the invoice to ensure that all amounts agree to the contract before submitting the invoice for payment.

Management response:

Management agrees with this recommendation.

Fleet Services will continue to comply with this recommendation. Transit Fleet and Facilities Maintenance currently has a method in place to approve and validate invoices as part of an internal process, found in the "New Vehicle Acceptance Report". This report is a checklist that is verified against the invoice prior to approval for payment.

A new operational Standard Operating Procedure (SOP) for the procurement of non-revenue vehicles (referenced above in recommendation #5) will be implemented. The SOP will include an enhanced version of the "New Vehicle

Acceptance Report” and will formalize the process for how the invoices will be approved. The anticipated timeline for completion of the SOP is Q3 2018.

All records will be stored in the Transit Fleet and Facilities Maintenance records management system (Fleet Management Information System M5).

Recommendation #7

That the City ensure that when a more economical vehicle solution enters the market, it reevaluates its current procurement options to ensure the City is purchasing vehicles that are a cost-effective solution and will provide the lowest overall lifecycle cost for the City.

Management response:

Management agrees with this recommendation.

The City will ensure that when a new procurement process is initiated [i.e. Standing Offer (SO) or Request for Tender (RFT)], all procurement options are evaluated so that Fleet is purchasing vehicles that are cost-effective for the lowest overall lifecycle cost. The value analysis identified in response to Recommendation #1, will ensure the optimal contract length is considered to enable best value to be realized when the RFT or SO is being created.

Recommendation #8

That the City develop corporate-wide policies and procedures for fleet procurement and management. Included in these policies and procedures should be direction to establish responsibility, accountability and guidance for value analysis, vehicle leases, etc.

Management response:

Management agrees with the recommendation.

Fleet Services and Transportation Services will work together with the assistance of our Business Support Services groups to establish corporate-wide policies and procedures for the areas noted above. These policies and procedures will be completed and communicated to those affected by the end of Q4 2018.