



Office of the Auditor General

**Follow-up to the 2018 Review of the City's
Practices for the Procurement of Commercial
Vehicles**

**Tabled at Audit Committee
April 27, 2021**



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Executive summary

The Follow-up to the 2018 Review of the City's Practices for the Procurement of Commercial Vehicles was included in the Auditor General's 2020 Audit Work Plan.

The key findings of the original review are identified below.

- 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.
- Between May 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 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 Sprinters.
- The lease of one Mercedes Sprinter to support 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 decisions to lease and buyout the lease were not supported with any type of financial analysis.
- Fleet Services' investigation of its own decision to purchase the Mercedes Sprinters in response to a Fraud and Waste Hotline report raised the potential for bias and may have impacted the investigation's conclusion that the acquisition of the Sprinters was completed in accordance with the City's Procurement By-law and procurement practices and procedures.
- Based on our review of a sample of invoices for Mercedes Sprinter vans purchased by Transit, itemized options on each invoice did not always agree to the pricing table in the standing offer. Transit staff confirmed that the particulars of the options listed on the invoices for Mercedes Sprinters were not thoroughly verified before approving the invoice for payment.
- The City's issuance of a Request for Tender requesting Sprinter vans contravened the Procurement By-law subsection 12(3) that states "procurement documentation shall avoid the use of specific products or brand names". The Director, Fleet did not provide a valid reason in the procurement documents that the Sprinter vans were essential to the City's operations.

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- In 2005, Motion 27-139 carried by City Council directed 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". Transit’s Fleet and Facilities Maintenance branch was not included in Fleet Services’ Municipal Vehicle and Equipment Capital Replacement Plan and the Annual Vehicle Growth reports tabled to the Transportation Standing Committee and City Council.

Table 1: Summary of status of completion of recommendations

Recommendations	Total	Complete	Partially complete	Not started	No longer applicable
Number	8	8	0	0	0
Percentage	100%	100%	0%	0%	0%

Conclusion

Management has made significant progress, completing all eight recommendations. Although value analysis comparisons and lease versus buy assessments are being conducted, we identified opportunities for management to improve their effectiveness.

Acknowledgement

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

Detailed report – Assessment of implementation status

The following information outlines management's assessment of the implementation status of each recommendation as of April 1, 2020 and the Office of the Auditor General's (OAG) assessment as of September 30, 2020.

Recommendation #1

Table 2: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. Fleet Services ensures that for each replacement vehicle an adequate value analysis comparison is conducted, per the Value Analysis (Appendix B) referenced in the Vehicle and Equipment Acquisition Procedures approved and effective June 13, 2019.

OAG assessment:

The implementation of this recommendation is complete. We found that value analysis comparisons were completed for replacement vehicles. However, we noted several opportunities to improve their effectiveness through:

- Reference to source data and documents to support cost estimates;
- Consideration of multiple replacement options where the existing vehicle is no longer available on the market; and

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- Costing and rationalization of hybrid options.

We were unable to assess whether value analysis comparisons were completed for growth vehicles (where the proposed vehicle differed from existing vehicles used for the same or similar purpose) as there have been no acquisitions of this type since the Vehicle and Equipment Acquisition Procedures came into effect.

Recommendation #2

Table 3: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. Fleet Services ensures that for each new lease, a formal, adequate lease or buy analysis is conducted per the Lease Versus Buy Decision Checklist (Appendix C) referenced in the Vehicle and Equipment Acquisition Procedures approved and effective June 13, 2019.

OAG assessment:

The implementation of this recommendation is complete. We found that lease versus buy analyses were completed. However, we noted several opportunities to improve their effectiveness through:

- Consistent use of the approved lease versus buy decision checklist;
- Identification of source data or documents used to prepare the analysis;
- Documentation of the decision to lease or buy, the date of the decision and its approval; and
- Quantification of the savings (i.e. deferral of capital outlays) that can result from leasing.

Recommendation #3

Table 4: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. Supply Services updated its procedures manual to clarify the information required to support the inclusion of specific brand names and how this information is to be documented.

OAG assessment:

The implementation of this recommendation is complete. The Supply Services procedures include guidance on the use of brand names in bid solicitations. In the sample of tenders we reviewed, where brand names were used, they were provided as base references with the phrase "or equivalent", which is not considered a violation of the Procurement by-law.

Recommendation #4

Table 5: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. The Fraud and Waste Procedures have been updated (revision date October 4, 2018) and posted on Ozone to include text under the "Process Overview" section to clarify that if conflict of interest conditions exist, the City Manager provides direction as to the most appropriate lead for the investigation, in consultation with the Auditor General and City Solicitor and Clerk, as required before an investigation is initiated. Where an identified lead becomes aware that they may have an actual or potential conflict of interest, it is incumbent upon them to disclose such to the CMO and recuse themselves from the investigation.

OAG assessment:

The implementation of this recommendation is complete. The most recent version of the Fraud and Waste Investigation Procedures includes additional guidance related to actual or potential conflict of interest.

Recommendation #5

Table 6: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. Fleet Services and OC Transpo continue to comply with Motion 27-139. Fleet Services has taken over acquisition of non-revenue fleet for OC Transpo and Fleet Services provides pre-budget reports in advance of the draft budget for the purchase of any new fleet.

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OAG assessment:

The implementation of this recommendation is complete. The Vehicle and Equipment Replacement and Growth Plans for 2019 and 2020 included operational support / non-revenue vehicles for Transit Operations in addition to replacement and growth vehicles and equipment for Fleet Services.

Recommendation #6

Table 7: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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).

Management update:

This recommendation is complete. Fleet continues to comply with this recommendation. The process has been further formalized with the implementation of the Vehicle and Equipment Acquisition Procedures approved and effective June 13, 2019 (Checking Invoices).

Effective December 2018, all procurement of OC Transpo’s operational support vehicles (formerly non-revenue vehicles) is coordinated and procured through Fleet Services. As a result of this change, the Standard Operating Procedure described in the

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management response, is no longer required. Fleet Services' vehicle acquisition policies and procedures will incorporate the Transportation Services Department's requirements moving forward.

OAG assessment:

The implementation of this recommendation is complete. The requirement to verify invoices is identified in the Vehicle and Equipment Acquisition Policy and Procedures. Based on discussions with staff, Procurement ensures that the pricing in the purchase order (PO) matches the contract, while Fleet ensures that the pricing in the invoice matches the PO prior to invoice approval. These checks help mitigate the risk of pricing discrepancies between the invoice and the contract.

Recommendation #7

Table 8: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. Fleet Services ensures that when a more economical vehicle solution enters the market, it is considered by procuring vehicles with Requests for Tender or Requests for Standing Offer that expire after one year. Fleet Services no longer has multi-year standing offers for the purchase of vehicles. The only scenario where a contract exceeds one year, is a tender for heavy vehicles that take more than a year to build from issuance of purchase order. Should Fleet Services exercise the clause to buy additional vehicles from an existing tender beyond the first year, the Project Officer will first check the market to see if conditions and options have changed to the extent that a retender would be in the City's interest, and Supply Services verifies the price justification. In this way, the market is revisited to review all available options and determine best value.

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OAG assessment:

The implementation of this recommendation is complete. Management provided examples of publications and subscriptions received by Fleet Services staff, which keep them informed of new market offerings.

Although management indicated that vehicles are procured using Requests for Tender or Requests for Standing Offer that expire after one year and that a Project Officer checks the market when the one-year time frame is exceeded, we were unable to confirm that these activities are occurring.

Recommendation #8

Table 9: Status

Management update	OAG assessment
Complete	Complete

Audit recommendation:

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.

Original 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.

Management update:

This recommendation is complete. The City has developed corporate-wide policies and procedures for fleet procurement and management that includes direction to establish responsibility, accountability and guidance for value analysis, vehicle leases, etc.

Fleet Services completed the Vehicle and Equipment Acquisition Policy and the Vehicle and Equipment Acquisition Procedures both approved and effective on June 3, 2019.

OAG assessment:

The implementation of this recommendation is complete. The Vehicle and Equipment Acquisition Policy and Procedures were developed and posted to Ozone. The Policy applies to all to all City employees involved in preparing documentation and making decisions for purchasing fleet vehicles and equipment, effectively rendering it corporate-wide. We confirmed that the topics identified in the recommendation were covered within the Policy and Procedures.

Table 10: Status legend

Status	Definition
Not started	No significant progress has been made. Generating informal plans is regarded as insignificant progress.
Partially complete	The City has begun implementation; however, it is not yet complete.
Complete	Action is complete, and/or structures and processes are operating as intended and implemented fully in all intended areas of the City.
No longer applicable	The recommendation is obsolete due to time lapses, new policies, etc.