



Office of the Auditor General

Audit of the Competitive Procurement Process



December 2021



Table of Contents

Acknowledgement 1

Introduction 2

Background and context..... 2

Audit objective and scope 5

Conclusion 5

Audit findings and recommendations 6

Opportunities for continuous improvement..... 13

Appendix 1 – About the audit 14

Acknowledgement

The team responsible for this audit was comprised of Rhea Khanna, Louise Proulx and Marlon Perez from the Office of the Auditor General, under the supervision of Ed Miner, Deputy Auditor General and my direction. My colleagues and I would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this audit.

Respectfully,

A handwritten signature in blue ink that reads "N. Gougeon".

Nathalie Gougeon, CPA, CA, CIA, CRMA, B.Comm
Auditor General

Introduction

The Audit of the Competitive Procurement Process was included in the 2021 interim audit work plan of the Office of the Auditor General (OAG), approved by City Council on April 27, 2021.

Background and context

The City of Ottawa (or “the City”) spends approximately \$1 billion per year on a wide variety of goods, services and construction. The City awarded \$1.08 billion and \$983 million in contracts under the delegation of authority (purchases of \$15,000 or more) in 2019 and 2020, respectively. \$873 million (or 81 per cent) in 2019 and \$832 million (or 86 per cent) in 2020 was awarded using a competitive solicitation process.

One of the key challenges across municipal governments is establishing procurement policies and practices that ensure fairness, openness and transparency, while also allowing flexibility to meet business needs (ultimately leading to better operational and financial outcomes). City contracting and purchasing activities are governed by Procurement Bylaw No. 50 of 2000 (or “Procurement By-law”) and established policies and procedures. The guiding principle of the Procurement By-law is that all purchases be made using a competitive process that is open, transparent and fair to suppliers.

Solicitation Types

The complexity of the procurement process depends on the nature of the good, service or construction being procured. The City issues the following types of solicitations as part of the competitive process:

- Request for Quotations – a formal bid solicitation (using electronic advertising, the receipt of sealed bids by a given date and time and a public opening) whereby quotes are obtained from suppliers to procure goods or services for which the requirement can be described in very specific terms, minimum qualifications can be clearly defined, and best value is achieved by selecting the lowest responsive bid.
- Request for Qualifications – a formal bid solicitation used when suppliers are invited to present their qualifications, résumés and past experience with similar projects.
- Request for Tenders (RFT) - a formal bid solicitation (using electronic advertising, the receipt of sealed bids by a given date and time and a public opening) used for the procurement of goods or services, for which the

requirement can be described in specific terms, minimum qualifications can be clearly defined, and best value is achieved by selecting the lowest responsive bidder.

- Request for Proposals (RFP) - a formal bid solicitation used when suppliers are required to propose a solution to a problem, requirement or objective and the selection of a supplier is based on the effectiveness of the proposed solution rather than on price alone.
- Request for Information (RFI) or Request for Expression of Interest (REOI) - informal processes used when bidders are invited to express interest in proposing a solution and to provide a brief outline of the types of solutions they could provide if contracted. They are used to better define requirements and needs, to establish budgets, or to explore alternative solutions.
- Request for Standing Offer (RFSO) - used to acquire frequently purchased goods and/or services when the specifications can be predetermined but the timing of the requirement or the quantity required are not known at the outset, and delivery is only made if, and when, a requirement arises.

The following table provides a breakdown of the number of solicitations by type in 2019 and 2020¹:

Type	# of solicitations in 2019	# of solicitations in 2020
Request for Quotations	166	93
RFTs ²	351	305
RFPs	68	51
Request for Pre-Qualifications	25	18
RFIs or REOIs	5	7
RFSOs	69	49

¹ Please note that this breakdown was provided by Supply Services and has not been verified for accuracy or completeness. These statistics are being provided to give the reader a sense of the volume of competitive solicitations run by the City.

² This number includes tenders that were posted with the Ottawa Construction Association within the scope period.

Roles and Responsibilities

The responsibility for procurement and contracting activities are shared between Supply Services (in the Innovative Client Services Department) and City departments. In addition to developing procurement-related policies, procedures and guidelines, Supply Services advises and supports departmental representatives throughout the procurement process while ensuring compliance with the Procurement By-law, policies and regulations. Departmental representatives are responsible for identifying the need for the specific goods/services that are required, developing key specifications or requirements based on the needs, evaluating the bids received, and finally administering the contracts.

Sustainability Objectives

Based on Council's key strategic priorities, the City's objectives and efforts related to sustainable procurement include the following five factors of sustainability:

- *Environmental* – conducting procurement in ways that reduce greenhouse gas (GHG) emissions, toxicity, energy, and waste as well as support clean and renewable industries and technologies.
- *Ethical* – including the Supplier Code of Conduct as the minimum labour standard for City of Ottawa suppliers and their sub-contractors.
- *Economic* – conducting procurement in ways that promote inclusive local or regional economic development and contributing to the prosperity of Ottawa residents.
- *Social* – conducting procurement in ways that promote building healthy, diverse, and inclusive communities, which includes creating training and employment opportunities, promoting diverse workforces and supply chains, combatting poverty, and enhancing social inclusion.
- *Cultural* – conducting procurement in ways that promote artistic expression and contributing to the heritage of the City of Ottawa.

Sustainability in procurement focuses on planning, decisions and actions that lead to positive, long lasting results at an affordable price. Sustainable purchasing incorporates the assessment of total cost of ownership into the procurement decision-making process in the same manner as price, performance, quality, accessibility and availability in order to determine best value.

Audit objective and scope

The objective of this audit was to provide reasonable assurance regarding the City's competitive procurement process. More specifically, the audit assessed whether:

- Procurement processes are conducted in a fair and transparent manner;
- Procurement processes are conducted in accordance with policies and regulatory requirements;
- Procurement processes provide value for money; and
- Where feasible, procurement processes align with sustainability objectives.

The scope of the audit included all contracts awarded through the competitive procurement process for the period from January 2019 to December 2020. The scope of the audit did not include an assessment of contract administration activities or individual vendors' performance as part of the contract. Additionally, call-ups against Standing Offers, once established, were not a part of the audit scope.

Please see Appendix 1 for detailed audit criteria.

Conclusion

Based on the work conducted, we found that the City's competitive procurement process generally adheres to the principles of openness, fairness and transparency and is conducted in accordance with the City's Procurement Bylaw and related regulatory requirements.

The audit noted opportunities to improve and increase the effectiveness of certain procurement processes. These include documenting the rationale of how sustainability is considered and/or incorporated within a specific procurement and formalizing a conflict-of-interest process and guidance. We also observed that the City faces several challenges in developing requirements and specifications.

To support the City's continuous improvement efforts, we also highlighted opportunities for management's consideration with regards to conducting more robust data analysis and reporting as the City continues to implement SAP Ariba (i.e., procure to pay system).

Audit findings and recommendations

Procurements are generally conducted in accordance with the Procurement Bylaw and established processes

We selected 30 procurement files, comprised of different solicitation types, for detailed file review and testing to assess the City's competitive procurement process. File testing focused on several areas within the procurement lifecycle. This included activities related to bid preparation, solicitation, evaluation, and contract award.

Based on the files reviewed and our audit work, we found that:

- Procurement strategies used were appropriate based on what was being procured, were in accordance with the Procurement Bylaw and were reasonable to support the City in obtaining the best value.
- Scope of work and requirements/specifications were easily identifiable and defined in solicitation documents (e.g., within terms of reference, statement of work, etc.).
- Review and evaluation of bids followed a consistent and systematic process and were performed in alignment with solicitation documents.
- Procurement files demonstrated that all required activities were followed and generally included documentation to provide a full audit trail of all key decisions.
- Where required, the City asked vendors to provide their qualifications and experience or additional price support as part of conducting its due diligence.
- The City has established a formal Comprehensive Complaints Process to investigate and address complaints from vendors.

Limited documentation to support or demonstrate how sustainability considerations are incorporated within procurements

"Sustainable Procurement" is the integration of social, environmental, ethical, economic, and cultural considerations along with quality, price and availability into the procurement process from planning to disposal. It also encompasses working with suppliers to improve environmental and socio-economic performance across supply chains from point of manufacture to final delivery of product or service.

The City's Sustainable Procurement Guidelines are currently being updated to support the achievement of the City's sustainability objectives. The Guidelines provide advice on sustainable procurement practices and tools for departmental staff to support business and procurement activities. Additionally, there are several initiatives underway to build

social procurement within the City (e.g., conducting consultations with community partners, establishing a Social Procurement Advisory Group, etc.)

The 2019 and 2020 Procurement Year in Review Reports provided by Supply Services indicate that 98 and 94 per cent of the value of all procurements awarded under delegation of authority in the respective years included sustainability criteria. These statistics are based on whether the procurer (i.e., the departmental representative) indicates that a sustainability factor (e.g., economic, social, cultural, ethical, environmental) has been incorporated. Supply Services does not require any rationale or documentation from Departments to support the identification of sustainability criteria and does not validate if and how sustainability considerations were incorporated given that they are not the technical subject matter expert.

As part of testing, we reviewed Contract Approval Request (CAR) forms³ and solicitation documents to assess if and how sustainability considerations are being incorporated within the development of requirements/specifications and decision-making. In 13 of the 30 files we reviewed, while the CAR form had sustainability objectives checked off, it was not clear from the information contained on the form or within solicitation documents how they were considered or incorporated and/or if there were missed opportunities. We did not expand our testing to determine if sustainability options could/should have been incorporated or to assess how the various departments had considered or incorporated sustainability criteria as it was beyond the scope of this audit.

Representatives, from both Supply Services and from comparable/peer municipalities that the audit team reached out to, shared the sentiment that procurement cannot be the main driver or expert of sustainability. Sustainability considerations need to be incorporated within the development of the specifications and type of goods/equipment being procured. It was noted that while departments have policies and operational mandates to support overarching City objectives and plans, a knowledge gap has been identified with regard to understanding sustainable solutions and how to incorporate sustainability considerations into specifications and requirements to support operational needs.

³ The CAR provides a summary of the operational requirement; procurement process; proposed supplier, contract value and contract period; and other important information related to the recommended contract.

Conclusion

Sustainability considerations may be missed, thereby delaying the City's ability to meet its sustainable development goals.

RECOMMENDATION 1 –RATIONALE TO SUPPORT SUSTAINABILITY CONSIDERATIONS

The Chief Procurement Officer should work with management from all service areas to ensure departmental representatives are documenting the rationale of how sustainability was considered and/or incorporated within the procurement. This will help the City understand and demonstrate the efforts being undertaken to achieve its sustainable development goals.

Where there is expertise within Supply Services with regard to the solution, service or good, staff should play a challenge function in their review of what departments have documented as rationale.

MANAGEMENT RESPONSE 1

Management agrees with this recommendation.

Supply Services will develop a new procedure to clarify the information required to support the identification of sustainability considerations and how this information is to be documented. This update will be completed in early Q2 2022.

Challenges in developing requirements and specifications

Requirements, specifications and the scope of work need to be clearly defined in solicitation documents to support an effective competitive procurement process and ensure the City procures goods, services or construction that meet operational needs.

The onus is on vendors to ensure they understand what is being asked for in the solicitation documents and ask questions where they need additional information or clarification. During testing, the audit observed several instances where multiple addendums within the procurement inquiry period (the period where vendors can ask the City questions regarding the solicitation) were issued to either:

- modify or remove specifications/requirements based on what vendors indicate the market could provide and/or industry standards;
- provide clarity and additional information where there were ambiguities in the wording of the specifications and requirements; and/or

- include the wording “or equivalent” to allow for alternative elements that could meet the specification if and where possible (e.g., materials, thresholds, methodologies, etc.).

Management indicated that specifications and requirements is an area that can create risks within the procurement. Specifications and requirements need to:

- provide clear and defined expectations to vendors so they understand what is required to ensure the City obtains what it ultimately needs;
- be reflective of what the market dictates; and
- encourage vendors to work with the City and, where possible, foster innovation.

The audit noted that departments face several challenges with respect to developing their requirements and specifications. These can include: difficulties with having the knowledge of what is available in the market, current industry practices or technology; limited internal resources who have the subject matter expertise in what is being procured; inconsistencies within specifications given several individuals can be developing them; and insufficient capacity in operational workloads to write clear and understandable solicitations in sometimes short timeframes.

Management indicated that the use of output-based specifications may alleviate certain challenges or risks related to detailed specifications. With output-based specifications, the department defines, at a minimum: what the ultimate objective of the good, service or solution is; what the item needs to do based on operational requirements; and the environment the good or solution will work in/the service will be provided in (including the parameters and operational considerations that need to be accounted for). Vendors could then propose how they would meet the defined objectives enabling the City to see what the best product/service is for their needs without being too prescriptive.

Conclusion

If the scope of work, requirements and specifications are not clearly defined in solicitation documents, it can result in the City obtaining low quality bids or low number of bids; incurring additional costs during the contract; and/or receiving solutions, goods and services that do not meet the needs of the project or City. Additionally, overly prescriptive or limiting specifications can create opportunities for vendors being non-compliant in their bids and/or limiting competition.

RECOMMENDATION 2 – ASSESSMENT TO DETERMINE TYPE OF SPECIFICATIONS

As part of developing the strategy and approach for each procurement, the Chief Procurement Officer should incorporate an assessment process to support Supply Services and departments in determining whether the procurement should be based on detailed technical specifications or output-based specifications based on the good, service or construction being procured. This assessment should be performed on a case-by-case basis to determine the best approach to obtain a high-quality good, service or solution that meets operational requirements and does not discourage viable solutions.

In instances where the procurement of a good or service would benefit from output-based specifications, Supply Services should work with departmental representatives to translate their requirements into output-based specifications and evaluation criteria to ensure the City is not limiting their ability to obtain the best product/service.

MANAGEMENT RESPONSE 2

Management agrees with this recommendation.

Supply Services has begun assessing whether a procurement should be based on detailed technical specifications or output-based specifications on a case-by-case basis. A formal procedure will be developed to support this assessment process based on the good, service or construction being procured. This update will be completed by the end of Q3 2022.

RECOMMENDATION 3 – TRAINING AND GUIDANCE MATERIALS REGARDING OUTPUT-BASED SPECIFICATIONS

The Chief Procurement Officer should develop training and guidance materials to support departments in understanding what output-based specifications are, when they should be used, the benefits, and how to develop them.

MANAGEMENT RESPONSE 3

Management agrees with this recommendation.

Supply Services will develop new training material and associated procedures to support departments in understanding what output-based specifications are, when

they should be used, the benefits, and how to develop them. This update will be completed by the end of Q3 2022.

Limited documentation and guidance related to Conflict of Interest outside of the City's Employee Code of Conduct

All individuals involved in the procurement process are responsible to ensure that bids/proposals are assessed and evaluated in a fair and transparent manner, while exercising their best judgment. To mitigate risks related to conflict of interest (COI), collusion, and impartial decision-making, the City has implemented a practice whereby the evaluation team meets to come to a consensus on scoring vendors (referred to as an evaluation consensus meeting). At the end of a consensus evaluation meeting, all evaluators are required to sign-off on a Consensus Evaluation Meeting Declaration Form. As part of this form, evaluators sign-off that they were asked to declare any real or perceived conflicts of interest (and if a COI exists, attest that it was submitted to the Contracting Authority for appropriate mitigation).

Notwithstanding, the audit noted that there is limited guidance or documented processes related to COI within the operational context of procurement. Reliance is placed on employees to adhere to the City's overall Employee Code of Conduct. It is expected that all COI matters will be avoided and/or disclosed in alignment with the Code of Conduct. We were told that if a COI is declared, Supply Services will document it and will work with the client department to determine the appropriate action (e.g., recuse the evaluator, redirect how items will be approved to mitigate the conflict, etc.). However, these practices are not formalized or documented and are applied based on the discretion/judgement of Supply Services and the client department.

Conclusion

Given the operational landscape, COI situations will occur, and some are more complex than others. Formally documented processes and guidance would support a clear and consistent understanding among staff regarding how COI matters need to be disclosed and addressed, and help demonstrate the City's efforts to be open, transparent and accountable.

**RECOMMENDATION 4 – FORMALIZE AND DOCUMENT CONFLICT OF INTEREST
PROCESS AND GUIDANCE**

The Chief Procurement Officer should formalize and document the conflicts of interest process, and any relevant guidance, related to how conflicts of interest within the procurement process will be managed and addressed once disclosed to ensure an open and transparent process.

MANAGEMENT RESPONSE 4

Management agrees with this recommendation.

Supply Services will formalize the process for managing conflicts of interest, both real or perceived. This update will be completed by the end of Q1 2022.

Opportunities for continuous improvement

This section outlines opportunities for continuous improvement for management's consideration as the City continues to implement and enhance procurement-related business processes.

Opportunities to improve data collection and analysis to support data driven decisions

Over the last five (5) years Supply Services has been on a transformation journey to build its capacity to provide departments with more strategic supports. Currently, Supply Services has prioritized the following areas in where it wants to have a greater role in supporting departments from a strategic perspective: improving supplier performance, contract administration, complex negotiations, and sustainable procurement.

In Q4 of 2020, the City implemented SAP Ariba (Ariba), a cloud-based procure-to-pay (P2P) solution with the aim to streamline the City's purchase order, invoicing, and accounts payable processes. Under the City's SAP Modernization initiative, purchasing/ procurement-related capabilities and functions in the City's existing eProcurement and Vendor Performance Management (VPM) solution will be addressed in future releases of SAP Ariba.

It was noted that prior to the implementation of SAP Ariba, procurement-related data and information was stored in various systems and modules requiring manual tracking and reporting. This placed limitations on the City's ability to leverage data to support analysis and reporting. However, one of the goals with the implementation of SAP Ariba is for the City to obtain more robust data and reporting to inform planning, actions and decision-making to better support outcomes and value for money.

As such, the City should consider collecting and leveraging data to:

- Obtain a holistic understanding of spend across departments to identify opportunities for cost savings, efficiencies, or economies of scale;
- Inform longer term procurement planning; and
- Identify and analyze contracts that have large discrepancies between the amount at contract award vs. at the end of a project to obtain insights, etc.

Conclusion

Collecting and leveraging pertinent procurement related data should enable the City to conduct analyses and obtain insights to inform planning, actions and decision making to better support outcomes (e.g., data driven insights to support cost savings, efficiencies, innovation, economies of scale, effective engagement with vendors, etc.).

Appendix 1 – About the audit

Audit objectives and criteria

The objective of this audit was to provide reasonable assurance regarding the City’s competitive procurement process. More specifically, the audit assessed whether:

- Procurement processes are conducted in a fair and transparent manner;
- Procurement processes are conducted in accordance with policies and regulatory requirements;
- Procurement processes provide value for money; and
- Where feasible, procurement processes align with sustainability objectives.

Criteria listed below have been developed from the City’s Procurement Bylaw, policies and procedures in combination with our research of best practices public competitive procurement.

Bid Preparation and Bid Solicitation	
1.1	Procurement and selection (basis of award) strategies are appropriately selected based on the nature and complexity of goods, services and construction being procured.
1.2	Provisions/clauses related to the selection (basis of award) strategy are clearly documented in solicitation documents (in alignment with the principle of transparency).
1.3	Scope of work, requirements and specifications are clearly outlined in solicitation documents and are written in a concise, non-biased and understandable manner to allow for an effective and competitive process.
Evaluation of Bids	
2.1	Evaluation of bids: <ul style="list-style-type: none"> • follow a consistent and systematic process; • Are based on clearly defined and are measurable evaluation criteria; • are performed in alignment with the provisions outlined in solicitation documents; and • are completed by evaluators with an appropriate level of competency and experience, (where applicable).

2.2	Procurement files demonstrate that all required activities were followed and provide a full audit trail of all key decisions.
2.3	A formal process is established to investigate and address complaints from vendors.
2.4	Sufficient due diligence is completed during the evaluation process to verify qualifications and experience of vendors and obtain reasonable assurance that project needs/requirements can be met.
2.5	Evaluation of bids are based on impartial decision making. Formal processes and guidance have been established to disclose and address conflict of interests (from the perspective of both City staff and vendors) within the procurement process.
Sustainability Objectives	
3.1	Sustainability objectives and considerations are included in bid requirements and within evaluation of bids (where feasible).

Audit approach and methodology

The audit work in this report was conducted in accordance with the standards and practices of the *Institute of Internal Auditors*.

The audit involved the following activities:

- Review of relevant policies, procedures, guidelines, and regulations related to procurement;
- Interviews with stakeholders from Supply Services and comparable/peer municipalities;
- Detailed review and testing of 30 randomly selected procurement files to assess whether processes were conducted in a fair and transparent manner, in accordance with policies and regulatory requirements; and
- Additional analysis and tests, as deemed necessary.

Visit us online:

www.ottawa.ca/en/city-hall/accountability-and-transparency/office-auditor-general

The **Fraud and Waste Hotline** is a confidential and anonymous service that allows City of Ottawa employees and members of the general public to report suspected or witnessed cases of fraud or waste 24 hours a day, seven days a week.

www.ottawa.fraudwaste-fraudeabus.ca / **1-866-959-9309**