



**STAFF REPORT  
ACTION REQUIRED**

**Toronto Water Division  
Review of Wastewater Treatment Program – Phase Two**

<b>Date:</b>	September 21, 2007
<b>To:</b>	Audit Committee
<b>From:</b>	Jeff Griffiths, Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

**SUMMARY**

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The objective of this audit was to assess whether the City’s wastewater treatment program was being managed economically, efficiently and in compliance with City policies and legislative requirements. Due to the scope of the work involved, this audit was divided into two phases. In Phase One, reported to the September 24, 2007 meeting of Audit Committee, we reviewed controls over payroll processing, overtime and attendance management, as well as the use of technology in managing maintenance activities. Phase Two, which is the focus of this report, includes a review of purchasing, contract management, payment processing and compliance with legislative requirements.

Our review identified supervisory and financial control weaknesses in processing payments, managing contracts and maintaining inventory. In addition, wastewater plants, in many circumstances, have not complied with City purchasing policies in spite of specific directives from the City Manager. The recommendations in this report will improve controls over purchasing, contract management and payment processing. The implementation of the recommendations will also help Toronto Water achieve cost savings through more competitive procurement.

**RECOMMENDATIONS**

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**The Auditor General recommends that:**

1. The General Manager, Toronto Water Division, take appropriate steps to ensure compliance with the City’s purchasing policies such as:

- a. discontinue the practice of using DPOs for repetitive purchases where the use of a blanket contract would be more appropriate;
  - b. ensure that DPOs are prepared prior to ordering goods and services;
  - c. ensure that three quotes are obtained where required;
  - d. discontinue the practice of splitting DPOs to keep the purchase amount below the maximum of \$7,500 for a DPO or below the \$3,000 limit for three quotes; and
  - e. take steps to identify areas of continued non compliance and impose a appropriate discipline for non compliance with City policies.
2. The General Manager, Toronto Water Division, ensure that reasons for not obtaining competitive quotes are documented on departmental purchase orders and that written evidence and approval is available to substantiate the need to sole source the purchase.
3. The General Manager, Toronto Water Division, in consultation with the Director, Purchasing and Materials Management and the Executive Director, Policy, Planning, Finance and Administration, devise a procurement plan to ensure blanket contracts are issued for repetitive purchases.
4. The General Manager, Toronto Water Division communicate procurement needs of the wastewater plants to the Purchasing and Materials Management Division on a timely basis. The procurement needs should include priorities and expected timelines for the completion of purchase requests.
5. The General Manager, Toronto Water Division and Director, Purchasing and Materials Management, monitor the completion of purchase requests and follow up the reasons for delays in meeting established deadlines.
6. The General Manager, Toronto Water Division, review the feasibility of centralizing purchasing for common goods at the wastewater plants.
7. The General Manager, Toronto Water Division, assign a contract lead to all contracts and ensure that all staff participating in contracts are aware of the relevant contract provisions and their responsibilities in managing the contract. These responsibilities include:
  - a. ensuring that goods delivered and payments comply with contract provisions; and
  - b. obtaining and retaining relevant contract documents.

8. The General Manager, Toronto Water Division, ensure that all staff involved in managing and developing contracts receive appropriate training to effectively carry out their responsibilities.
9. The General Manager, Toronto Water Division, require that supervisory staff with contract management responsibilities evaluate and document vendor performance both during a contract and at its conclusion.
10. The General Manager, Toronto Water Division, ensure that staff responsible for approving purchases are aware of their responsibilities to determine the appropriateness of the services rendered or goods ordered by reviewing appropriate supporting documentation.
11. The General Manager, Toronto Water Division, require that detailed checking of invoices and receiving documents be performed for high value and complex contracts to ensure that amounts billed to the City agree with the contract terms.
12. The Deputy City Manager and Chief Financial Officer ensure that contract and bid documents require that vendors provide sufficient detail on invoices to support charges billed to the City.
13. The General Manager, Toronto Water Division, ensure that there is a segregation of duties between ordering, receiving and the recording of goods and services. Where feasible, the same individual should not both order and receive goods and record these transactions in the accounting system.
14. The General Manager, Toronto Water Division, develop a consistent approach to maintaining purchasing records in the wastewater plants such as centrally in each work area.
15. The General Manager, Toronto Water Division, in consultation with the Deputy City Manager and Chief Financial Officer and the Executive Director, Policy, Planning, Finance and Administration, assess whether the centralized inputting of departmental purchase orders by administrative staff in the wastewater plants would improve the efficiency and effectiveness for processing of purchasing documents.
16. The General Manager, Toronto Water Division, perform a risk analysis on inventory at the wastewater treatment plants. Such analysis to include determining the levels of inventory, annual spending on inventory items and risk of loss for these items.

17. The General Manager, Toronto Water Division, in consultation with the Director, Purchasing and Materials Management Division monitor changes made as part of the of the Stores/Warehouse Rationalization Project and if appropriate implement relevant changes to the Stores function in the wastewater treatment plants. Subject to the results of the inventory risk analysis, the General Manager, Toronto Water Division, consider inventory controls such as:
  - a. maintaining inventory of significant value on a computerized information system;
  - b. conducting periodic physical counts of inventory by staff independent of inventory functions;
  - c. valuing and recording of inventory items of significant value on the City's accounting records; and
  - d. identifying and removal of obsolete inventory.
18. The Deputy City Manager and Chief Financial Officer require estimated energy consumption data in business case information for capital budget submissions that impact ongoing energy usage.

## **FINANCIAL IMPACT**

The implementation of recommendations in this report will improve financial controls over purchasing, contract management and payment processing. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

## **DECISION HISTORY**

This report provides the results of Phase Two of the Auditor General's review of Toronto Water's wastewater treatment program. This review was conducted as part of the Auditor General's Annual Work Plan.

## **COMMENTS**

The Auditor General's report entitled "Toronto Water Division, Review of Wastewater Treatment Program – Phase Two", contains 18 recommendations and is attached as Appendix 1. Management's response to each of the recommendations contained in this report is attached as Appendix 2.

## **CONTACT**

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## **SIGNATURE**

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Jeffrey Griffiths, Auditor General

## **ATTACHMENTS**

- Appendix 1: Toronto Water Division, Review of Wastewater Treatment Program – Phase Two
- Appendix 2: Management's Response to the Auditor General's Review of Toronto Water Division, Review of Wastewater Treatment Program – Phase Two