



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

**Toronto Community Housing Corporation –
Procurement Policies and Procedures Are Not Being
Followed**

Date:	February 25, 2011
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

Attached is the Auditor General's report entitled "Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed". This review was conducted as part of the Auditor General's 2010 Annual Work Plan.

The objective of this review was to assess the extent to which the Toronto Community Housing Corporation's (TCHC) administrative structure and control framework supported sound financial management and compliance with purchasing policies and procedures.

Our review identified that significant changes need to be made to the procurement and accounts payable processes at the TCHC. While we recognize the initiatives recently introduced by the current Chief Executive Officer to strength controls at the TCHC, significantly more work is required in order to address the recommendations in this report.

The attached report contains 31 recommendations along with a management response to each of the recommendations.

RECOMMENDATIONS

The Auditor General recommends that:

1. Recommendations in the attached Auditor General's report entitled "Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed" be adopted.
2. This report be forwarded to the City's Audit Committee for information.

FINANCIAL IMPACT

Significant cost savings are likely possible if the recommendations contained in this report as well as the City Auditor General's previously issued audit reports are implemented. Procurement at the TCHC is in the range of \$200 million. Savings as a result of increased competition could in our view be anywhere from two to five per cent of this amount. Conservatively, cost savings of approximately \$4 million to \$10 million may be possible. In addition, significant savings are possible as a result of increased coordination of operations between the TCHC and the City.

COMMENTS

The review was included in the Auditor General's 2010 Audit Work Plan. This is the Auditor General's first review of TCHC.

CONTACT

Jerry Shaubel, Director, Auditor General's Office
Tel: 416-392-8462, Fax: 416-392-3754, E-mail: JShaubel@toronto.ca

Anne Cheung, Senior Audit Manager, Auditor General's Office
Tel: 416-392-8439, Fax: 416-392-3754, E-mail: ACheung1@toronto.ca

SIGNATURE

Jeffrey Griffiths, Auditor General

ATTACHMENT

[Appendix 1](#): Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed

[Appendix 2](#): Management's Response to the Auditor General's Review of Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed

APPENDIX 1

Toronto Community Housing Corporation

Procurement Policies and Procedures Are Not Being Followed

December 7, 2010



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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EXECUTIVE SUMMARY

The City is TCHC's sole shareholder and in 2009 provided operating subsidies totalling \$304 million

The Toronto Community Housing Corporation (TCHC) is Canada's largest social housing provider. The City is TCHC's sole shareholder. In 2009, the City provided operating subsidies totalling \$304 million to TCHC for administering various housing and community programs.

City Council, at its February 2007 meeting, designated the Auditor General to be the City's representative under the Shareholder Direction for TCHC and its subsidiary companies, such representative to be permitted full access to the corporation's records for audit purposes.

First Auditor General review carried out on TCHC

This is the Auditor General's first review of TCHC. The objective of this review was to assess the extent to which TCHC's administrative structure and control framework supported sound financial management and compliance with purchasing policies and procedures.

Increased coordination with City is required-recommended by Auditor General in many reports

While the focus of this report has been on the procurement process at the TCHC, it has been evident throughout this review that one of the major issues that needs to be addressed is the requirement for increased operational coordination and co-operation between the TCHC and the City. The coordination of various City functions at Agencies, Boards, Commissions and Corporations has been a concern raised in a number of audit reports issued over the past number of years by the Auditor General. In a similar vein in a 2009 report entitled "Blue Print for Fiscal Stability and Economic Prosperity" (the Mayor's Fiscal Review Panel Report) one of the highlights contained in the report related to the need for:

Mayor's Fiscal Review Panel made similar recommendations

"a plan for much more alignment, cooperation, and increased oversight of the 119 Agencies, Boards, Commissions, and Corporations, creating more opportunities for savings and joint initiatives."

Opportunities for cost savings

While we recognize that the TCHC is a separate and independent entity, there are significant opportunities for cost savings in many areas including the procurement process as a result of closer cooperation and coordination by the TCHC with the City. This matter should receive immediate priority and is an issue that should be reviewed by both the Chief Executive Officer of the TCHC and the City Manager.

We also acknowledge that City Council established TCHC as a business corporation to operate at arms length from the City to ensure flexibility on service delivery models to meet the needs of tenants and the portfolio. This mandate needs to be balanced with the need for greater alignment with the City in order to achieve savings.

Madame Justice Bellamy's report addressed best practices in procurement

One of the leading resources on procurement best practices is the Madame Justice Bellamy Report. Madame Justice Bellamy issued her four-volume report in 2005 after leading two separate public inquiries into certain procurement practices at the City of Toronto. In the section of the report entitled "Good Government", Bellamy states, "*sound procurement is a crucial aspect of sound governance. If City government does not spend taxpayers' money well, it simply is not governing well. Therefore, procurement is one of the most important tasks a government performs.*"

Based on the findings contained in this report, it is our view that TCHC is not "governing well."

Although the Chief Executive Officer has initiated improvements in the process, it is our view that more work must continue to meet the "governing well" standard.

Bellamy recommendations relevant to TCHC

Although the Bellamy Report recommendations are aimed at the City of Toronto, it is clear that most of the recommendations are relevant to any organization in the business of procurement, whether in the public or private sector. Of the 250 recommendations contained in the Bellamy Report, 111 pertain to the procurement process.

Auditor General issued a report “Procurement Processes Review”

In addition to the Bellamy Report, the Auditor General issued a report in 2003 entitled “Procurement Processes Review.” This report contained 43 recommendations, many of which are aligned with certain parts of the “Good Government” section of the Bellamy Report.

External resources engaged to implement recommendations

In response to the Auditor General’s report, the City of Toronto initiated a major project in connection with improvements to its procurement process. As a part of this process the City engaged external resources to address and assist with the implementation of the recommendations.

Recommendations not addressed

In view of the many issues identified in this report, it is clear that the recommendations contained in both the Bellamy Report and the Auditor General’s report received little attention from previous management at the TCHC.

Policy and Procedures routinely ignored

TCHC has a clearly articulated Procurement Policy as well as Procurement Procedures. Our review found many instances where the Policy and the Procedures were routinely ignored. While we are not able to quantify the financial implications in connection with non-compliance, they are likely significant.

Recommendations must be addressed

In general terms, there is an immediate need to designate staff or external resources to address the recommendations in the Bellamy Report, the Auditor General’s report and the recommendations contained in this report.

Senior management commitment needed

The need to address the recommendations is important. However, the implementation of recommendations by themselves will not improve the procurement process unless there is a commitment at all levels of management to comply with policies and procedures. Many of the issues which we have identified were either a result of decisions made by management or were undertaken with the concurrence of management.

Strategic Procurement Unit has limited authority

Further, the Strategic Procurement Unit, responsible for overseeing the procurement process at TCHC, either chose to condone many of the issues identified, were not aware of instances of non-compliance or, did not have and were not given the authority or support to effect change. There is an immediate need to re-evaluate the roles and responsibilities of the Unit with a particular emphasis on developing an effective monitoring role.

Certain current contracts require review

There is also a need to revisit the award of certain TCHC contracts particularly those that were "single tendered" to ensure that they represent value for money. In cases where contracts do not represent value for money, or in fact have been awarded inappropriately, consultations be held with legal counsel to determine an appropriate course of action. Such action include the cancellation of contracts if contractually possible and the tendering or retendering of such contracts.

Issues identified as a result of a fairly limited sample of transactions

It is important to keep in mind that an audit is always conducted on a fairly limited sample selection of transactions. Many of the issues identified in our sample related to circumstances where the procurement policy and procurement procedures were not complied with. Based on our sample we identified the following issues:

Specific concerns identified

- Procurement procedures state that the Strategic Procurement Unit, which reports to the Chief Financial Officer, is responsible for the implementation of TCHC procedures and the Procurement Policy. It is clearly evident based on the contents of this report that the Strategic Procurement Unit has been ineffective.
- The open tendering process for the procurement of goods and services is not always used. Open tendering is the process whereby all interested suppliers are given adequate notification of requirements and are given an equal opportunity to submit a tender.
- Single tendering was common and in some cases inappropriate. Single tendering is the procurement of goods and services from one particular vendor rather than through solicitation of bids from multiple vendors who can provide the same product or service. In these circumstances it is not possible to determine whether or not the goods or services procured were at the best value. The total value of single tendered contracts is not possible to quantify.
- In many cases there is no documentation supporting the decision to single tender. In a number of instances the single tendering procurement did not meet the conditions in the procedures document for single tendering.

- Purchase orders were routinely "split" to circumvent procedures. Certain of these purchase orders in total were significantly in excess of those allowed under procedures. Certain transactions that required the approval of the Board of Directors were processed without approval.
- Where multiple price quotations or proposals were obtained, there was not always sufficient documentary evidence to justify the selection of the proponent awarded the contract.
- Tenders need to be issued for the supply of small value items where the cumulative cost of these small value items is significant. Controls over purchases below \$10,000 are inadequate.
- In certain cases, contracts were awarded to multiple vendors with no evidence to support why this was done.
- Conflict of interest declaration in one major procurement we reviewed was not in writing.
- Tender results are not read in public as required by procedures.
- Criteria for evaluating bids was often not disclosed in proposal documents.
- Vendors responding to proposal calls were requested to accept new conditions during the evaluation process or as a condition of award.
- For the most part, bid and proposal evaluations were made by business units without the involvement of Strategic Procurement staff.
- There is no policy relating to unsolicited proposals.
- Management controls were inadequate to ensure invoices were paid in accordance with agreed terms authorized by management and supported by details and receipts.

Review did not include TCHC subsidiary companies or the procurement of consulting services

This review was restricted to the procurement process at the TCHC. It did not include a review of the procurement process at TCHC's subsidiary companies. We also did not review the process relating to the procurement of external consulting services. Future reviews by the Auditor General will likely include each of these areas.

Employee expense review subject of separate report

During this review, we identified certain concerns pertaining to employee expenses even though this was not the focus of our review. In view of these concerns, we have issued a separate report pertaining to the management of employee related expenses.

Conclusion

Significant changes required

Significant changes need to be made to the procurement process at the TCHC. Certain single tendered contracts require further review in order to determine whether they represent value for money and also to ensure that they were awarded appropriately. Where appropriate and where contractually possible, they should be retendered.

While TCHC policies and procedures for the most part are adequate and complete, there is little point in having policies and procedures if they are routinely ignored.

Even though our review was conducted on a sample basis, we identified significant instances of non-compliance.

Initiatives introduced by Chief Executive Officer

The new Chief Executive Officer was appointed in 2010 and we recognize the initiatives recently introduced by the Chief Executive Officer to strengthen controls at the TCHC including the establishment of a Compliance and Ethics Unit in April 2010. Other initiatives include:

- The creation of an internal audit function within the Compliance and Ethics Unit
- The creation of an investigative function within the Compliance and Ethics Unit
- The development of a Fraud Policy as an extension to the Code of Conduct
- A proposal to establish an Ethics Hotline
- The establishment of an Enterprise Risk Management System which is a continuous process to identify risks throughout the Corporation
- The engagement of consultants to review various controls within the organization
- The hiring of a Chief Financial Officer with procurement and audit experience with a mandate to rebuild the Strategic Procurement Unit and improve financial controls.

Initiatives should have been introduced a number of years ago

While each of these initiatives is an important step in improving controls at the TCHC, it is disconcerting that they were not introduced a number of years ago, particularly at the time the Bellamy Report was issued. In this context, while the TCHC is an independent entity of the City, the extent of its independence must be balanced with the best interest of the City.

Many existing City policies would be of relevance to the TCHC

Policies and procedures which have been in effect at the City for a considerable time are only just being introduced at the TCHC. Closer relationships need to be developed between the City and the TCHC. There is no need to "reinvent the wheel" in areas such as the development of new procurement policies and the implementation of an Ethics Hotline which have been in existence at the City for a number of years. In addition, there are many other established policies particularly in regard to procurement at the City which would be of relevance to the TCHC.

Cost savings between \$4 million to \$10 million may be possible

Finally, significant cost savings are likely possible if the recommendations contained in this report as well as other Auditor General reports are implemented. Procurement at the TCHC is in the range of \$200 million. Savings as a result of increased competition could conservatively be anywhere from two to five per cent of this amount. Consequently, cost savings of approximately \$4 million to \$10 million may be possible.

Closer relationships with the City in terms of information technology, human resources, financial management, fleet management, building maintenance and real estate management are other areas which require further review. Significant savings will be likely as a result of the closer alignment of similar functions.

Auditor General intends further work at TCHC in 2011

In view of the issues identified in this review, we intend to conduct further work at the TCHC in 2011. In this regard, we will coordinate our work with the newly established internal audit unit. The nature and extent of this work have not yet been identified.

BACKGROUND

<i>Mandate of TCHC</i>	The City created TCHC in January 2002 by bringing together the former Toronto Housing Company and the Metropolitan Toronto Housing Corporation. The mandate of TCHC is “ <i>to provide affordable housing, connect tenants to services and opportunities and work together to build healthy communities</i> ”.
<i>The Shareholder Direction and accountability to City Council</i>	The City is TCHC’s sole shareholder. The Shareholder Direction, adopted by City Council in October 2001, defines the principles, objectives and accountability requirements of TCHC and its relationship with the City. Broadly speaking, TCHC is responsible for managing its housing portfolio and making all policy and operational decisions.
<i>The Community Management Plan sets strategic directions</i>	Once every three years, TCHC’s Board of Directors sets corporate strategic directions, priorities and performance targets in its <i>Community Management Plan</i> . Actual performance is measured and reported annually to City Council and the public.
<i>Board governance</i>	<p>TCHC is managed by a 13-member Board of Directors which is made up of the Mayor (or designate), three City Councillors and nine citizens including two TCHC tenants.</p> <p>The Board is responsible for:</p> <ul style="list-style-type: none">• Managing the housing portfolio• Employing staff• Making policy and operational decisions• Leading shareholder direction, and• Following related legislation and regulations.

Financial information

TCHC manages a \$6 billion housing portfolio that accommodates over 160,000 tenants. Most of the tenants are households with low or moderate family income, seniors, refugees and people with special needs. With 1,400 employees serving tenants out of 13 operating units across the City, TCHC and its subsidiaries spent over \$600 million on operations in 2009. Most TCHC's capital projects are managed by a separate company, Housing Services Inc., one of its wholly owned subsidiaries.

TCHC's main revenue sources are tenant rent and City subsidies. Funding is calculated based on criteria set out in an Operating Agreement between TCHC and the City.

In 2009, the City's subsidies accounted for nearly 50 per cent of TCHC's annual revenue. Details of City funding are as follows:

Table 1:

City Funding – Operating

	\$ (in millions)
Mortgage subsidy	\$ 95.3
Property tax subsidy	\$ 79.7
Operating subsidy and subsidies for other programs administered on behalf of the City	\$129.4
Total City Funding	\$ 304.4

Capital grants received from three levels of government

Nearly \$140 million in federal, provincial, and municipal grants were received in 2009 to finance certain building revitalization capital projects. These projects include the refurbishment and upgrades of bathrooms and kitchens at costs totalling over \$110 million since 2007, and the installation of various energy-saving systems since 2009 at anticipated total project cost of nearly \$100 million.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

***The Auditor
General is the
City's
representative***

City Council, at its February 2007 meeting, designated the Auditor General to be the City's representative under the Shareholder Direction for TCHC and its subsidiaries; such representative to be permitted full access to the corporation's records for audit purposes.

The Auditor General's 2010 Audit Work Plan included a review of TCHC's procurement and financial control processes. This is the first audit conducted by the Auditor General at the TCHC.

Audit objectives

The objective of this review was to assess the extent to which TCHC's administrative structure and control framework supported sound financial management and the adequacy of, and compliance with, purchasing policies and procedures.

Our review focused on, but was not limited to, controls exercised by TCHC over purchases of goods and services, contract management and payments.

This review did not cover procurement practices of TCHC's subsidiary companies.

This audit covered the period from January 1, 2009 to June 30, 2010.

Audit methodology

Our audit methodology included the following:

- review of City Council, TCHC Board of Directors and various board committee minutes and reports
- review of documents, management reports, policies, procedures and related records
- review of internal control reports by external consultants
- review of audited financial statements
- review of internal audit reports
- interviews with the Chief Executive Officer, TCHC
- interviews with TCHC staff
- site visits at various TCHC locations
- evaluation of management controls and practices
- review of the Honourable Madam Justice Denise E. Bellamy's Toronto Computer Leasing Inquiry and the Toronto External Contracts Inquiry report issued in 2005
- benchmarking practices and review of audit reports of other jurisdictions in Canada and the U.S.

***Separate Auditor
General report on
employee expenses***

While this review was restricted to procurement practices at the TCHC we did identify a wide range of employee related expenses which we considered inappropriate. As a result, we have issued a separate report on these findings along with a number of recommendations.

***Compliance with
generally accepted
government
auditing standards***

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

1. Closer Coordination with City Operations Would Result in Savings

Toronto Community Housing Corporation is incorporated under the Ontario Business Corporation Act with the City of Toronto as its sole shareholder.

Relationship with the City governed by "Shareholder Direction"

The relationship between the TCHC and the City is governed by a Shareholder Direction agreement adopted by City Council at its meeting of October 2-4, 2001. Subject to the provisions in the Direction, TCHC operates independently from the City. The Board of Directors is responsible for the supervision of the management of the business and affairs of the TCHC.

While recognizing the independence of the TCHC there are areas where the operations of the TCHC should be more closely aligned with the City.

Audit reports recommend closer cooperation

A recurring theme in a number of audits conducted at the City by the Auditor General is the need for closer co-operation and coordination between the City and its local boards. In 2009, a report prepared by the Mayor's Fiscal Review Panel entitled "Blueprint for Fiscal Stability and Economic Prosperity – a Call to Action" endorsed this theme. One of the recommendations contained in the Mayor's Fiscal Review Panel report related to the need for:

Mayor's Fiscal Review Panel has similar recommendations

"a plan for much more alignment, cooperation and increased oversight of the 119 Agencies, Boards, Commissions and Corporations creating more opportunities for savings and joint initiatives."

Savings likely significant

The Mayor's Fiscal Review Panel does not quantify the extent of savings possible from such an initiative. However, the savings are likely significant.

Other potential areas for coordination and/or consolidation

While the focus of this report has been on the procurement process at the TCHC, it is clear that there are a number of other areas at the TCHC which would likely benefit from closer coordination and cooperation with the City. These areas include:

- Information Technology
- Human Resources
- Policy Development
- Compliance and Ethics (Ethics Hotline and Audit)
- Fleet Management

Policies already exist at the City

There is little point in “reinventing the wheel” if certain policies and processes already exist at the City. For example, the City has had in place a Fraud Policy since 2003 while a Fraud and Waste Hotline (Ethics Hotline) has been in existence at the City since 2002.

Recommendation:

- 1. The Chief Executive Officer in consultation with the City Manager review areas where opportunities exist to consolidate or coordinate operations at the TCHC and the City in order to achieve cost savings. The Chief Executive Officer be required to report to the Board of Directors by September 30, 2011 on the results of these consultations. Further, the City Manager be requested to report to City Council at the same time.**

2. Recommendations in Previous Reports Not Addressed

2.1 The Bellamy Report

***Bellamy Report
cost \$17 million
and contained
over 240
recommendations***

Any review of procurement at the City and its Agencies, Boards, Commissions and Corporations should be considered in the context of the 2005 report issued by Madame Justice Bellamy pertaining to the Computer Leasing Inquiry and the Toronto External Contracts Inquiry. The cost of the Inquiry was in excess of \$17 million and as such, the Bellamy Report contained valuable information and over 240 recommendations. Many of these recommendations pertained to procurement practices.

The Bellamy Inquiry report in its “*Good Government*” section provides a basic roadmap for procurement processes at the City, its Boards, Agencies, Commissions and Corporations. The chapter entitled “*Procurement: Recommendation and Commentary*” clearly articulates what “*happens before, during, and after procurement and recommends best practises at the City.*”

Also included in the Bellamy Report is a statement by Madame Justice Bellamy which says “*sound procurement is a crucial aspect of sound governance. If City government does not spend taxpayers’ money well, it simply is not governing well. Therefore, procurement is one of the most important tasks a government performs.*”

Based on the issues identified in this report, it is our view that the TCHC is not “governing well.”

Although the Chief Executive Officer has initiated changes, more work must continue as identified in this report in order for TCHC to meet the “governing well” standard.

2.2 The Auditor General's Report – Procurement Processes Review

Procurement Processes Review contained 41 recommendations

The Auditor General issued a 71-page report as far back as 2003 entitled “Procurement Processes Review”. This report contained 41 recommendations, many of which were similar to those contained in the Public Inquiry “Good Government” section of the Bellamy Report issued in 2005.

Recommendations from Bellamy and Auditor General's report ignored

It is clear from our review that many of the recommendations in the Bellamy Report pertaining to procurement were for the most part ignored by previous management. Likewise there is little to suggest that the Auditor General's report received any consideration.

If the recommendations in both of these reports had been implemented, many of the issues which we have identified would not exist.

Other parts of Bellamy report require attention

While there is a need to focus on the recommendations relating to the procurement process, the Bellamy Report also contains a chapter entitled “*Ethics: Recommendations and Commentary.*” In view of the issues identified in this report, attention should also be given to the implementation of recommendations contained in the Ethics chapter. The Ethics chapter includes information on:

- Developing an Ethical Culture
- Ethics in Government
- Leadership: The Tone at the Top
- Reinforcing and Promoting Ethics
- Code of Conduct
- Training, Ongoing Education and Monitoring
- Conflict of Interest and Apparent Conflict of Interest

2.3 Other Auditor General Reports

Previously issued audit reports have received minimal attention

Further, the Auditor General, over the past number of years, has issued a significant number of other audit reports, a sample of which is listed in Exhibit 1. While many of these reports were specific to certain City divisions, the recommendations in many cases have relevance to other City divisions and City Agencies, Boards, Commissions and Corporations. A consistent theme in many of these reports is a requirement that all recommendations be reviewed and, where appropriate, implemented throughout the City.

Other Auditor General's reports likely received minimal attention

We have not reviewed the implementation of recommendations contained in other Auditor General reports at the TCHC. Based on the lack of attention given to the Bellamy Report and the Procurement Processes Report by previous management, we would suggest that all other reports have likewise not received appropriate attention.

3. Immediate Action is Required

Implementation of Recommendations requires immediate attention

The implementation of the recommendations contained in the Bellamy Report, the Auditor General's Procurement Report, and this current report requires immediate attention. However, this is not a project that can be addressed on a part-time basis with existing staff resources. While we appreciate that a separate consulting firm has been retained to provide advice in developing an Enterprise Risk Management System, there is an immediate need to evaluate the resources required to address the deficiencies identified in this report as well as implement the recommendations from other reports.

Designated resources should be assigned to implementation of recommendations

In response to the Auditor General's report on the City's procurement process in 2003 the City Manager initiated a comprehensive action plan to implement the recommendations contained in the report. In this context there is a need to take similar action at the TCHC to implement the wide range of recommendations pertaining to the procurement process. The City dedicated specific resources to an implementation plan and regularly reported to the Audit Committee its action plan and its progress in addressing the plan.

Further, the City has a number of senior level staff who were involved in the implementation plan. Consultations with these staff would be beneficial as the TCHC moves forward.

The need to address the recommendations is important. However, the implementation of recommendations by themselves will not improve the procurement process unless there is a commitment at all levels of management to comply with policies and procedures. Many of the issues which we have identified were either a result of decisions made by management or were undertaken with the concurrence of management.

Evaluation of previous procurement decisions be determined

We would further suggest that the internal audit unit evaluate the impact of TCHC's past major procurement decisions in order to determine that they are appropriate and represent value for money. In circumstances where procurement decisions have not been in the best interest of the TCHC, immediate consultations be held with legal counsel to determine an appropriate course of action. Such action to include the cancellation of current contracts where contractually possible and, where appropriate, the tendering or retendering of all such contracts.

Recommendations:

- 2. The Chief Executive Officer review the 2005 Report of Madame Justice Bellamy and the Auditor General's report entitled "Procurement Processes Review." The purpose of the review should be to develop a work plan to implement all appropriate recommendations.**
- 3. The Chief Executive Officer, give consideration to the hiring of outside expertise to address all recommendations, including those contained in this report, as well as to provide ongoing advice on the management of the procurement process. Resources at the City be used where possible.**
- 4. The Chief Executive Officer ensure that all of the issues identified in this report are addressed during any external review of the procurement process.**

5. **The Chief Executive Officer be required to report to the Board of Directors on a quarterly basis the progress made in implementing all such recommendations.**
6. **The Chief Executive Officer in consultation with the Internal Audit Unit review all major procurement decisions to determine whether contracts were awarded appropriately and in the best interest of the TCHC. Where this is not the case, consultation be held with legal counsel to determine an appropriate course of action.**
7. **The Chief Executive Officer review all reports issued by the Auditor General in order to determine the applicability of the recommendations contained in the reports. The reports to be reviewed include, but not be limited to those contained in Exhibit 1.**
8. **The Chief Executive Officer report back to the Board of Directors by September 30, 2011 on the implementation progress of all relevant recommendations contained in each one of the reports included in Exhibit 1.**

4. Board Approved Procurement Policy and Procedures Are Clear

Staff at the Toronto Community Housing Corporation are required to operate within Board approved directives contained in the following documents.

Procurement Policy

Procurement Policy

The policy sets out guiding principles, outcomes and requirements governing the “procurement of goods, works and services”.

***Procurement
Procedures***

Procurement Procedures

The purpose of this document is to “set out ways to implement the Procurement Policy and manage the purchasing of goods, works and services at TCHC.”

Procurement procedures state that the Strategic Procurement Unit is charged with the responsibility to implement these procedures and the procurement policy.

***Financial Control
By-law***

Financial Control By-Law

Supplementing the procurement policy and procedures is a financial control by-law, which outlines the authorities and responsibilities for the commitment of TCHC funds and the payment of accounts.

Each one of these documents is very clear in terms of administrative requirements. Unless there are compelling reasons to the contrary, the provisions of each document should be complied with. Any compelling reasons should be thoroughly documented and authorized by senior staff.

We have been advised that current policy and procedures are being revised. In this context any revision should take into account the many policies and procedures available at the City.

5. The Strategic Procurement Unit Has Been Ineffective

Madame Justice Bellamy makes the point that procurement should be overseen and managed by one City department.

“Central oversight of procurement is necessary to limit abuse where responsibility is delegated and to ensure openness and consistently high standards. It is also essential in order to remove from the procurement decision-making process those individuals in the various departments who have direct relationships with vendors or suppliers.”

Structure of procurement process is decentralized

The structure of the procurement process at the TCHC is for the most part decentralized with many procurement decisions made by the various operating units. There is little oversight by the Strategic Procurement Unit even though procurement procedures assign the Unit responsibility to implement the procedure and procurement policy.

Justice Bellamy also indicates that since effective procurement is essential to good governance the head of the central procurement department should be a very senior position. Bellamy states that:

Head of procurement process should be a senior position

“Procurement should be approached as a strategic function rather than as simple transaction management, and therefore the position should be as close to the executive as possible. The head of the department should be qualified to serve as a policy adviser to Council on large procurements.”

The Strategic Procurement Unit has a staff complement of six, reports to the Chief Financial Officer and has been managed by an Acting Manager for a number of years. The Acting Manager has limited authority in terms of ensuring ongoing compliance with TCHC policy and procedures.

There is a need for regular reviews of procurement activities

The TCHC Board approved policies also require that *“TCHC shall conduct regular reviews of its procurement activities, procedures and practices to ascertain compliance with policy.”* The procedures document also makes reference to procurement monitoring and review as well as internal auditing.

Reviews not conducted

In view of the many issues of non-compliance identified in this report, it is apparent that regular reviews or internal audits have not been conducted or if they have been, they were ineffective. We have not been able to determine when the last review or internal audit was conducted or even whether either has ever been conducted.

Roles and responsibilities should be re-evaluated

There is a need to re-evaluate the roles, responsibilities, reporting relationships and staffing of the Strategic Procurement Unit. Such a review should include the development of a procurement monitoring role.

Recommendations:

- 9. The Chief Executive Officer ensure that any revision of Board approved policies and procedures take into account current policies and procedures at the City.**
- 10. The Chief Executive Officer review the management structure, reporting relationships, the roles and responsibilities of the Strategic Procurement Unit and assign clear accountability for each step in the procurement process, including the responsibility for ensuring compliance with various policies and procedures.**
- 11. The Chief Executive Officer, as required by the Board approved Policy, implement a structured and ongoing program of procurement reviews. Such reviews should address ongoing compliance with policies and procedures and where instances of non-compliance are identified appropriate action be taken.**

6. Board Approved Policy and Procedures Have Been Routinely Ignored

Non-compliance with Board Policy and Procedures

The extent of non-compliance with Board policy and procedures is significant. Based on our review it is not possible to determine whether or not the non-compliance is intentional, staff were not aware of instances of non-compliance or the non-compliance was due to a lack of knowledge of the policy and procedures. In any event, staff should be immediately directed to comply with policy and procedures. Failure to do so should result in disciplinary action.

We have also reviewed a report prepared by an external consultant who was engaged for the purpose of "Testing Compliance to the Procurement Policy at the Toronto Community Housing Corporation."

***Policy and
Procedures be
communicated to
all staff***

Both the policy and the procedures documents should be forwarded to all operating units with a directive that compliance is mandatory without exception. Directives be clear that non-compliance will be subject to appropriate discipline up to and including termination of employment. In addition, if necessary, staff training be considered.

Specific tender requirements are outlined in TCHC procurement procedures. Tender requirements at various dollar levels are outlined as follows:

Procurement Levels	Requirement
Over \$100,000	Open Tender
\$20,000 to \$100,000	Minimum three written quotes even if covered by price agreement or local, selective or open tender
\$10,000 to \$20,000	Written quotes not required if covered by price agreements. Otherwise three written quotes or local, selective or open tender
Under \$10,000	Written quotes not required if covered by price agreements. Otherwise at least one written quote, or local selective or open tender

At each level we identified instances of non-compliance. In the case of purchases below \$10,000 the impact of the requirement essentially is to permit sole sourcing for all such transactions. In effect, staff are free to procure supplies and services from anyone they choose. Such a process is not appropriate and needs to change.

By comparison, a similar policy at the City allows staff to use informal procedures where requirements for the goods or service are less than \$50,000, are not complex, and no blanket contract exists. In all cases, a minimum of three quotes are required. Where the purchase is for less than \$10,000, staff are permitted to obtain quotes by telephone. Purchases in excess of \$10,000 must follow procedures for obtaining written quotes. In circumstances where the purchase is going to be sole sourced, (i.e., competing quotes are not obtained) staff are required to follow a separate set of procedures.

Recommendations:

- 12. The Chief Executive Officer direct all staff to comply with procurement policies and procedures and advise them that non-compliance will result in disciplinary action. If necessary, training be provided to staff involved in the procurement process.**
- 13. The Chief Executive Officer amend the tender requirements contained in the procedures document particularly as they pertain to transactions below \$10,000.**

7. The Open Tendering Process is Not Always Used

Open tendering required if procurement value is to exceed \$100,000

Board Approved Procedures require TCHC to conduct an open and competitive tendering process if the estimated procurement value is expected to be equal or exceed \$100,000. Open tendering is required so that all interested suppliers or contractors are given adequate notification of contract requirements and an equal opportunity to submit a tender.

Our review of a sample of procurement transactions processed from January 1, 2009 to June 30, 2010 identified purchases where open, transparent and competitive procurement practices were not used.

For example, tender opportunities were publicly advertised in only 15 of the 23 tender or proposal requests available from January 1, 2009 to June 30, 2010. There were instances where certain firms were selectively invited to submit bids or proposals. It was unclear how the selection was made.

Recommendations:

- 14. The Chief Executive Officer direct staff that all future tenders be required to comply with the TCHC's open tender policy. The Internal Audit Unit conduct regular and random reviews of all future tenders to ensure compliance. Where instances of non-compliance are identified appropriate disciplinary action be taken.**
- 15. The Chief Executive Officer review all instances where the open tendering process has been circumvented. In instances where value for money has not been obtained consultations be held with legal counsel to determine an appropriate course of action.**

8. Single Tendering is Not Justified in Many Cases and Does Not Meet the Requirements of TCHC Procedures

Single tendering should be the exception

TCHC Procedures provide situations where exceptions to open tendering are permissible. One of the exceptions is a practice known at the TCHC as "Single Tendering."

Single tendering may be used in exceptional cases in a number of circumstances such as:

- there has been an unsatisfactory response to a tender
- a product can only be provided by a single supplier
- it is a case of extreme urgency or emergency.

In each of these cases, TCHC may invite a single firm to present its tender without prior public notification. This should be the exception rather than the rule. In all cases there should be an appropriate level of documentation supporting the single tendering.

***In some cases
single tendering
was inappropriate***

The TCHC has, in a number of transactions that we reviewed, used the single tendering process inappropriately. In these cases it is not possible to determine if the product purchased was procured at the lowest price.

Examples are as follows:

***Single tendering
restricts open
competition***

- Nearly \$5 million of goods have been purchased since 2006 from a supplier in China through an agent based overseas. Products purchased include toilets, sinks, faucets, ceramic tiles, light bulbs and lighting fixtures, all authorized by the Chief Financial Officer. Documentation was inadequate to demonstrate that the supplier and the agent were selected based on open and thorough competitive pricing solicitation from local suppliers.

The original approval to purchase through an overseas based agent was in June 2006 and pertained only to the bulk purchase of compact fluorescent lights. The original acquisition cost was in the range of \$415,000. While there are references to a number of quotes obtained there is no documentation supporting these quotes.

We have not been able to determine how the approval for the acquisition of fluorescent lights evolved to the purchase of a wide range of other nonrelated products.

In addition to product cost and agency fees, TCHC is also responsible for other related charges such as shipping, brokerage, insurance, duties, warehousing and delivery to various TCHC buildings. We were not able to locate documentation indicating that proper and appropriate price comparisons were reviewed.

Contracts with both the supplier and the agency do not exist. The arrangement with both appears to be completely informal. In these circumstances, there are obvious risks in the context of warranty and security requirements.

***Conflict of Interest
not declared in
writing***

- A single sourced procurement of solar panels totalling over \$500,000 was ordered from a supplier in China through an overseas-based agent. In this particular case staff recommending this agency advised us that he was a long-term friend of the agent. There is no documentary evidence on file indicating that this conflict or perceived conflict was declared prior to the procurement. We were advised that a verbal declaration was made to the Chief Financial Officer.

***Nearly \$25 million
in work awarded
based on
unsolicited
proposal***

- A three-year refurbishment contract totalling over \$25 million was awarded based on a vendor's unsolicited proposal and subsequent contract negotiations. Other vendors were not provided the opportunity to submit competing proposals and pricing.

While we have been advised that this particular vendor brought certain benefits, such as the use of the vendor's proprietary workflow system, guaranteed tenant employment opportunities and shorter completion turnaround time, the question of whether the best price was received remains since no competitive proposals were obtained. Other contractors may have been able to provide similar or in fact additional benefits. It is not possible to determine this without a competitive process.

The City has a specific policy relating to unsolicited proposals. The purpose of the City's policy is to respond to unsolicited proposals in a manner that ensures transparency, fairness, best value and to provide guidance to vendors on the submission of unsolicited quotations or proposals.

***Documentation
inadequate***

- Documentation in support of single tendering was often lacking or inadequate. Consequently, it is not possible to determine whether the single tendering was appropriate. It is also not possible to determine the extent of single tendering throughout the corporation as this information is not readily available.

Recommendations:

- 16. The Chief Executive Officer review all major single tendered contracts to ensure that they represent value for money. Future single tender procurements should be approved by the Chief Executive Officer.**

 - Single tendering be approved only under the circumstances contained in TCHC policy.**
 - Detailed documentation be made available in support of any single tender procurement.**
 - The extent and details of single tendered contracts be tracked in the financial information system and be reported to the Board of Directors on an annual basis.**
- 17. The Chief Executive Officer review the propriety of current arrangements related to the overseas procurement of products such as kitchen and bathroom fixtures. Competitive pricing be obtained to determine whether the current procurement arrangements represent the best value for money taking into account all ancillary costs including brokerage, agency fees, transportation, storage, security and warranty fees.**
- 18. The Chief Executive Officer communicate to staff the requirement to comply with the TCHC Conflict of Interest Policy. Conflicts be declared prior to and not subsequent to procurements. All declarations be in writing.**
- 19. The Chief Executive Officer review the City policy pertaining to unsolicited quotations or proposals and give consideration to the development of such a policy.**

9. Purchase Orders Were “Split” or Divided to Circumvent Procurement Procedures

Commitments greater than \$50,000 need Board approval

The financial control by law allows the Chief Executive Officer to make commitments up to the level of \$500,000 if funds have been provided in the operating or capital budget. Board approval is required for commitments in excess of \$500,000.

Procedures prohibit the "splitting" of procurements

Procurement procedures indicate that no “procurement shall be divided with the intent of reducing the value of the resulting contract below these thresholds with the purpose of circumventing these rules.”

Our review identified instances where these rules were circumvented. For example, a series of separate purchase orders were issued at values below the amount requiring approval by the Board of Directors. In total these purchases were in excess of \$500,000 and related to the procurements from China.

- Specifically, 37 separate purchase orders totalling nearly \$3 million were issued over a span of 18 months for procuring various kitchen bathrooms and lighting fixtures from the China-based supplier. In one month, six purchase orders with a value of over \$700,000 were issued and two months later a further \$700,000 in purchase orders were issued.
- A flooring replacement tender for nearly \$2 million was awarded in the form of 20 separately issued purchase orders.
- In some instances, once a contract award was approved by the Board of Directors, subsequent board approval on renewing the contract was not sought.

Finally, there is currently no process in place within the financial information system to identify and subsequently address situations where policies and procedures have not been followed.

Recommendations:

- 20. The Chief Executive Officer direct staff that procurement or purchase order transactions not be “split” in order to circumvent procedures. Staff be advised that failure to comply will be subject to discipline.**
- 21. The Chief Executive Officer establish a process whereby unusual procurement transactions are identified and reviewed on a regular basis. Appropriate action be taken on those items identified. The financial information system be adapted to provide ongoing exception reports.**

10. Procurement Policy and Procedures Supporting Transparency Were Not Followed

Policy and Procedures are clear

TCHC’s procurement policy states that procurement practices “*will demonstrate values of transparency and public accountability.*” The procedure includes clear protocols on tender opening requirements, tender evaluations, contract awards and documentation requirements.

Any contraventions of these policies has the potential to compromise the integrity of the procurement process and opens TCHC to potential litigation risks.

Procurement procedures require tenders to be opened and the bids read out in public. There is also a requirement that the evaluation criteria be disclosed in tender documents. In addition, tenderers should not be “*allowed or asked to change their tender nor required to accept new conditions during evaluation or as a condition of award.*”

Instances of non-compliance

Our review identified instances of non-compliance with TCHC procedures as follows:

- Tender results were not generally read in public, and internal records did not contain information such as tender price and the requirement for surety bonds. In addition, the public has no access to contract award information. At the City contract awards are publicly available on the City’s Web site.

- Documentation was insufficient to demonstrate evaluation criteria used, rationale supporting the selection of the winning bid or candidate, disqualifying bidders or proponents, and reasons why more than one contract was awarded on the same tender call.
- Formal protocols do not exist to ensure consistent handling of bid irregularities in tender documents such as mathematical errors, incomplete information, insufficient financial security and disqualification of bids.

Call documents should clearly disclose how TCHC deals with mathematical errors, and under what circumstances such errors cause a bid or proposal to be declined.

Evaluation criteria not disclosed

- Proposal calls did not always disclose evaluation methodology, evaluation, criteria and the relative weighting of the criteria.
- In the case of overseas contracts, the Fair Wage Policy was not complied with. In such circumstances, the policy is extremely difficult, if not impossible to enforce.

New criteria added

- New evaluation criteria were added or vendors responding to tender calls were asked to accept new conditions during the evaluation process or as a condition of award.

On one bid, separate contracts were awarded to two bidders after the negotiation of pricing and other contract terms. The bidder with the highest total evaluation score received significantly less work than the second bidder. There was no documentation supporting this decision.

Little involvement of purchasing staff

- For the most part, bid and proposal evaluations and selection were made by business units without the involvement of Strategic Procurement staff. For certain high dollar value, high risk and/or complex request for proposals, quotations or tenders, participation of procurement staff or a third-party fairness consultant would provide senior management with an increased level of assurance on the fairness of the process.

Recommendations:

- 22. The Chief Executive Officer direct all staff to comply with TCHC procedures regarding tender openings. Tenders should be opened in public and in the presence of tenderers or their representatives who wish to attend. The name of the tenderer and the total amount of each tender should be read aloud and recorded when opened. A complete record of the tender opening should be maintained. Consideration be given to recording the results of tender openings on TCHC's Web site.**
- 23. The Chief Executive Officer ensure that tender documents are complete and prepared in accordance with procedure. Complete evaluation criteria information should be included in all tender documents.**
- 24. The Chief Executive Officer in consultation with Legal Counsel develop protocols and procedures for addressing bid irregularities such as correction of mathematical errors. The Chief Executive Officer communicate with vendors on a regular basis to emphasize the importance of ensuring tender responses are accurate and complete and include all mandatory information.**
- 25. The Chief Executive Officer maintain on file documentation supporting the results of the vendor selection process including information pertaining to disqualified respondents, evaluation results of each individual on the evaluation team and information pertaining to any conflicts of interest declared by staff.**
- 26. The Chief Executive Officer develop protocols in connection with circumstances when the Strategic Procurement Unit or a third party Fairness Commissioner should be involved in the tender evaluation process.**
- 27. The Chief Executive Officer review the process relating to TCHC's Fair Wage Policy in order to ensure that the policy is enforceable.**

11. Financial Security Requirements Were Sometimes Bypassed

TCHC has formal guidelines requiring vendors to submit bid bonds, performance bonds and payment bonds based on contract value. These security instruments protect TCHC against potential financial loss in the event of the bidder not honoring its bid price or non-performance on the part of the contractor.

Bidders did not always comply with tender requirements

In practice, our review found that staff involved in the procurement process determine the level of financial security required. At times, tenders received from bidders failing to provide the required bonding amount were not disqualified from the tender process although very clearly they should have been.

Recommendation:

- 28. The Chief Executive Officer, direct all staff that financial security requirements in all tender documents must be complied with. Where required financial security is not provided in response to a tender then the tender should be disqualified. Under no circumstances should staff be allowed to negotiate terms and conditions which are different from the tender document.**

12. Re-evaluate the Propriety of the Existing Vendor Pre-qualification Process

In order to meet operating staff's recurring need for low dollar purchases of certain goods and services and provide a basic level of management control, the Strategic Procurement Unit has established a pre-qualified vendors list and various pricing agreements.

Low dollar purchases not subject to competitive process

In 2009 over \$80 million was spent in the form of low-dollar purchases of less than \$10,000 per transaction. This amount represents almost 40 % of all procurement at the TCHC and is the area where staff have the most flexibility to acquire goods and services.

Low dollar purchases totalling over \$17 million were made from nine firms in 2009. For one of these firms, purchases relating to general building maintenance and renovation services totalling nearly \$6 million were made during a 12-month period.

Pricing is not a factor

Our review identified that most of the low-dollar purchases were made from organizations on a pre-qualified vendor list. Inclusion on this list is based on the organization's submission of a pre-qualification package, which consists solely of Workers Safety Insurance Board and insurance coverage, Statutory Declaration For Fair Wage Policy, Release and Indemnity Agreement, Health and Safety Policy and three references. Pricing does not appear to be a factor and, in fact, price is negotiated on a project-by-project basis.

Savings possible through a competitive process

In addition to the pre-qualified vendor list the Strategic Procurement Unit has established pricing agreements with 31 vendors for procuring a variety of goods and services such as safety boots, appliances, and electrical supplies. In the case of two suppliers for two different products there are price differences of 34% and 18%. These differences are significant and savings are possible through a public tendering process which will reflect volume purchasing.

Recommendation:

- 29. The Chief Executive Officer review the current process for establishing and maintaining the current vendor list. Where significant purchases are made from one supplier an open competitive tender process be initiated. Consideration be given to establishing common terms and conditions and pricing for the duration of the contract and the regular monitoring of vendor performance.**

13. Management Control Over Accounts Payable Processing is Inadequate

The improvement of management controls over the accounts payable process requires immediate attention. While our review focussed on the procurement process we did identify significant issues pertaining to the accounts payable process.

Invoices paid without supporting documentation

In some cases, invoices were paid without documentary evidence that goods or services had been received, and no proper supervisory review and invoice sign-off prior to approving payments. In these circumstances there is no assurance that TCHC actually received the goods and services it is paying for. This is a significant issue which requires senior management attention. Under no circumstances should cheques be issued without appropriate supporting documentation.

The corporate Finance Policy and Procedures requires invoices to be entered in the corporate financial management information system as soon as possible after receipt, even if payment will not be released for some time. Prompt entry ensures that corporate financial records are updated in the appropriate period are accurate, and that duplicate invoices do not get processed.

Delays in processing information

Our review identified that supplier invoices were not recorded in the corporate financial management information system on a timely basis. During the period from January 1, 2009 to June 30, 2010, nearly 4,500 invoices with a value of \$4.5 million were recorded in the corporate financial system more than six months after the billing date. Nearly 32 per cent of these invoices or \$1.5 million were only recorded more than one year from the billing date.

Recommendations:

- 30. The Chief Executive Officer, during her review of the procurement process ensure that an appropriate level of attention is also given to the Accounts Payable system. In particular, internal control deficiencies relating to the payment of invoices be immediately addressed.**

- 31. The Chief Executive Officer take appropriate steps to ensure compliance with the Corporate Finance Policy and Procedures. Supplier invoices be recorded in the financial information system on a timely basis.**

CONCLUSION

It is clear from our review that the procurement process as well as the accounts payable process requires significant improvement. If properly trained staff implemented policy and procedures on a consistent basis and audits were conducted to ensure compliance, the procurement process would significantly improve.

Any improvements to a procurement process has to recognize the balance between operational efficiencies and an appropriate level of controls. The recommendations in this report recognize the need for this balance. However, operational expediency should never override basic management controls.

Significant Audit Reports Issued

Subject	Date of Issue
1. Department Purchase Orders- Enforcement and Compliance Measures	November 6, 2001
2. Investment Policy Compliance	June 22, 2001
3. Selection and Hiring of Professional and Consulting Services Review	June 19, 2001
4. Review of Departmental Purchase Orders	May 8, 2001
5. Management Controls: A Basic Departmental Responsibility	March 30, 2001
6. Contract Management Procedures	March 22, 2001
7. Corporate Absenteeism/Attendance Management Review	January 22, 2001
8. Information Security Framework	January 26, 2001
9. Fleet Operations Review – Phase One	November 18, 2003
10. Contract Compliance Review	September 4, 2003
11. Payroll Processing Review	October 27, 2004
12. Corporate Absenteeism/Attendance Management Follow-up Review	October 15, 2004
13. Maintenance and Administrative Controls Review- Facilities and Real Estate	September 16, 2005
14. Fleet Operations Review – Phase Two	April, 2005
15. Treasury Services Review – Corporate Finance Division, Finance Department	March 1, 2005
16. Telecommunication Services Review	January 31, 2005

Subject	Date of Issue
17. Management of City Information Technology Assets	January 26, 2006
18. Employee Benefits Review	October 16, 2007
19. Internet Usage Review	July 31, 2007
20. Improving the Procurement Process – Unbalanced Bids	January 10, 2007
21. Managing Employee Attendance	October 15, 2008
22. Disaster Recovery Planning for City Computer Facilities	April 3, 2008
23. The Management of Information Technology Projects – Opportunities for Improvement, Toronto Transit Commission	January 14, 2008
24. Payment of Utility Charges	November 12, 2009
25. City Purchasing Card (PCard) Program – Improving Controls Before Expanding the Program	October 27, 2009
26. Effectively Managing the Recruitment of Non-Union Employees in the Toronto Public Service	June 19, 2009
27. Process for Non-Competitive Procurement (Sole Sourcing) Needs Improvement	May 22, 2009
28. Review of Disposal of Surplus IT Equipment – Security, Environmental and Financial Risks	May 4, 2009
29. Insurance and Risk Management	April 26, 2010
30. Governance and Management of City Wireless Technology Needs Improvement	April 20, 2010

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
1.	The Chief Executive Officer in consultation with the City Manager review areas where opportunities exist to consolidate or coordinate operations at the TCHC and the City in order to achieve cost savings. The Chief Executive Officer be required to report to the Board of Directors by September 30, 2011 on the results of these consultations. Further, the City Manager be requested to report to City Council at the same time.	X		<p>In 2001, City Council formed TCHC as a wholly owned business corporation to operate at arm's length from the City with a separate board of directors to ensure maximum flexibility on service delivery models to meet the needs of tenants and the portfolio. This mandate will need to be incorporated into the consultations with the City Manager.</p> <p>A review has commenced of all areas where 'synergies' may result. (e.g., Procurement/Purchasing, Fleet, and Information Technology)</p>	<p>Action: The CEO will meet with the City Manager to identify opportunities for cost savings. TCHC currently participates in a number of City bulk programs for utilities, energy projects, and information technology. A report on these consultations will be presented to the Board.</p> <p>Timeline: Q3</p>
2.	The Chief Executive Officer review the 2005 Report of Madame Justice Bellamy and the Auditor General's report entitled "Procurement Processes Review." The purpose of the review should be to develop a work plan to implement all appropriate recommendations.	X		<p>In the interim, the CFO has currently implemented a plan of personally being informed and approving all RFPs/Tenders before their release and before they are awarded.</p> <p>Monthly reporting process, to the CFO, has been implemented which reports all RFPs/Tenders released, outstanding, and awarded.</p>	<p>Action: The CEO and CFO will work with the senior procurement manager to review the best practices arising from the Bellamy Report and Auditor General's report. The current work plan will be revised to include these best practices.</p> <p>Timeline: Q3</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
3.	The Chief Executive Officer, give consideration to the hiring of outside expertise to address all recommendations, including those contained in this report, as well as to provide ongoing advice on the management of the procurement process. Resources at the City be used where possible.	X			<p>Action: The CEO will hire a senior procurement manager and review whether the procurement function should remain in the Finance Division or report to the CEO's Office on an interim basis in 2011 to address all the Auditor General recommendations. The CEO will work with the City to access resources for best practices and to avoid duplication of effort.</p> <p>Timeline: Q2.</p>
4.	The Chief Executive Officer ensure that all of the issues identified in this report are addressed during any external review of the procurement process.	X			<p>Action: The CFO and senior procurement manager will review this report as part of Recommendation #2 above.</p> <p>Timeline: Q4</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
5.	The Chief Executive Officer be required to report to the Board of Directors on a quarterly basis the progress made in implementing all such recommendations.	X			<p>Action 1: The Board will receive quarterly reports on implementation progress.</p> <p>Timeline: Reporting to begin in Q3 on Q2 results.</p> <p>Action 2: The CEO will submit internal audit findings to the Board's Corporate Affairs Committee within 30 days of completion.</p> <p>Timeline: Reporting to begin in Q3 on Q2 results.</p>
6.	The Chief Executive Officer in consultation with the Internal Audit Unit review all major procurement decisions to determine whether contracts were awarded appropriately and in the best interest of the TCHC. Where this is not the case, consultation be held with legal counsel to determine an appropriate course of action.	X		All internal audit findings are reported immediately to the CEO and CFO for immediate corrective action to be implemented.	<p>Action: The CEO and the Internal Audit Unit will re-examine the major procurement decisions and report recommended actions to the Board.</p> <p>Timeline: Q4</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
7.	The Chief Executive Officer review all reports issued by the Auditor General in order to determine the applicability of the recommendations contained in the reports. The reports to be reviewed include, but not be limited to those contained in Exhibit 1.	X			<p>Action: The CEO and CFO will work with the senior procurement manager to review these reports in conjunction with Recommendations #2 and #4.</p> <p>Timeline: Q4</p>
8.	The Chief Executive Officer report back to the Board of Directors by September 30, 2011 on the implementation progress of all relevant recommendations contained in each one of the reports included in Exhibit 1.	X			<p>Action: Implementation progress reports will be provided to the Board as per Recommendation #5.</p> <p>Timeline: Q3</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
9.	The Chief Executive Officer ensure that any revision of Board approved policies and procedures take into account current policies and procedures at the City.	X			<p>Action: The new senior procurement manager will review the current policies and procedures of the City in conjunction with the reviews as per Recommendations #2, #4 and #7.</p> <p>The CEO will meet with the City Manager's Office to ensure access to the City's policies and procedures.</p> <p>New and revised policies proposed to the Board will include information on related City policies and procedures, if applicable.</p> <p>Timeline: Q4</p>
10.	The Chief Executive Officer review the management structure, reporting relationships, the roles and responsibilities of the Strategic Procurement Unit and assign clear accountability for each step in the procurement process, including the responsibility for ensuring compliance with various policies and procedures.	X		CFO has commenced discussions with procurement staff to further clarify and re-define accountabilities and their responsibilities to strengthen the monitoring and compliance of the current policies.	<p>Action: Upon completion of the review of the procurement policies and process, the CEO and CFO will evaluate the procurement unit's roles, responsibilities, and capacity.</p> <p>Timeline: Q3</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
11.	The Chief Executive Officer, as required by the Board approved Policy, implement a structured and ongoing program of procurement reviews. Such reviews should address ongoing compliance with policies and procedures and where instances of non-compliance are identified appropriate action be taken.	X			<p>Action: As part of the review of the procurement policies and process, the senior procurement manager will develop an ongoing procurement review cycle in conjunction with the Internal Audit Unit.</p> <p>Timeline: Q4</p>
12.	The Chief Executive Officer direct all staff to comply with procurement policies and procedures and advise them that non-compliance will result in disciplinary action. If necessary, training be provided to staff involved in the procurement process.	X		Face to face meetings with all managers have taken place.	<p>Action: A CEO directive will be sent to all staff to address this recommendation.</p> <p>Managers will meet with all staff to reinforce messaging.</p> <p>Timeline: Q2</p>
13.	The Chief Executive Officer amend the tender requirements contained in the procedures document particularly as they pertain to transactions below \$10,000.	X		The discontinuance of purchasing cards will reduce the risks related to the volume of transactions below \$10,000.	<p>Action: The CFO will evaluate the requirements for transactions below \$10,000. This will be done in conjunction with the reviews as per Recommendations #2, #4, #7 and #9.</p> <p>Timeline: Q4</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
14.	The Chief Executive Officer direct staff that all future tenders be required to comply with the TCHC's open tender policy. The Internal Audit Unit conduct regular and random reviews of all future tenders to ensure compliance. Where instances of non-compliance are identified appropriate disciplinary action be taken.	X			<p>Action 1: This recommendation will be addressed in the CEO Directive to all staff, in conjunction with Recommendation #12.</p> <p>Timeline: Q2</p> <p>Action 2: Routine audits to evaluate the compliance with the open tender policy will be included and conducted in the Internal Audit schedule.</p> <p>Timeline: Q4</p>
15.	The Chief Executive Officer review all instances where the open tendering process has been circumvented. In instances where value for money has not been obtained, consultations be held with legal counsel to determine an appropriate course of action.	X			<p>Action: Internal Audit Unit will review the open tendered contracts and the CEO will take appropriate actions.</p> <p>Timeline: Q4</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
16.	<p>The Chief Executive Officer review all major single tendered contracts to ensure that they represent value for money. Future single tender procurements should be approved by the Chief Executive Officer.</p> <ul style="list-style-type: none"> • Single tendering be approved only under the circumstances contained in TCHC policy. • Detailed documentation be made available in support of any single tender procurement. • The extent and details of single tendered contracts be tracked in the financial information system and be reported to the Board of Directors on an annual basis. 	X			<p>Action 1: The senior procurement manager will evaluate the requirements for single tenders. This will be done in conjunction with the reviews as per Recommendations #2, #4, #7, #9 and #13. This will include ensuring the procedures provide clear guidelines for documenting single tenders.</p> <p>Timeline: Q4</p> <p>Action 2: The CEO will review all single tender procurements.</p> <p>Timeline: Q2</p> <p>Action 3: A yearly report on single tendered contracts will be delivered to the Board.</p> <p>Timeline: Q1/2012</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
17.	The Chief Executive Officer review the propriety of current arrangements related to the overseas procurement of products such as kitchen and bathroom fixtures. Competitive pricing be obtained to determine whether the current procurement arrangements represent the best value for money taking into account all ancillary costs including brokerage, agency fees, transportation, storage, security and warranty fees.	X		CFO has requested that the Strategic Procurement Unit inform the CFO of any “out of Canada” transactions. CFO will in turn bring this to the attention of the CEO/Board.	Action: The overseas procurement arrangements have been terminated and will only be re-activated as part of a competitive procurement process going forward. As a result, there is no current overseas procurement to review. Timeline: Completed
18.	The Chief Executive Officer communicate to staff the requirement to comply with the TCHC Conflict of Interest Policy. Conflicts be declared prior to and not subsequent to procurements. All declarations be in writing.	X			Action: This recommendation will be addressed in the all staff Directive as per Recommendations #12 and #14. Timeline: Q2
19.	The Chief Executive Officer review the City policy pertaining to unsolicited quotations or proposals and give consideration to the development of such a policy.	X			Action: The new senior procurement manager will review the City policy in conjunction with the reviews as per Recommendations #2, #4, #7, #9, #13, and #16. Timeline: Q4

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20.	The Chief Executive Officer direct staff that procurement or purchase order transactions not be “split” in order to circumvent procedures. Staff be advised that failure to comply will be subject to discipline.	X			<p>Action 1: This recommendation will be addressed in the all staff Directive in conjunction with Recommendations #12, #14 and #18.</p> <p>Timeline: Q2</p> <p>Action 2: Internal Audit will implement a monitoring process to ensure compliance as noted in Rec. 21.</p> <p>Timeline: Q4</p>
21.	The Chief Executive Officer establish a process whereby unusual procurement transactions are identified and reviewed on a regular basis. Appropriate action be taken on those items identified. The financial information system be adapted to provide ongoing exception reports.	X			<p>Action: Internal Audit will establish and conduct random audits until an IT upgrade of the financial information system is completed. Results to be reported to the CEO for action.</p> <p>Timeline: Random audits to begin in Q4, with IT solution planned for 2012.</p>

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22.	The Chief Executive Officer direct all staff to comply with TCHC procedures regarding tender openings. Tenders should be opened in public and in the presence of tenderers or their representatives who wish to attend. The name of the tenderer and the total amount of each tender should be read aloud and recorded when opened. A complete record of the tender opening should be maintained. Consideration be given to recording the results of tender openings on TCHC's Web site.	X			<p>Action 1: The first part of the recommendation (directing staff regarding tender opening procedure) will be addressed in the all staff Directive from the CEO in conjunction with Recommendations #12, #14, #18 and #20.</p> <p>Timeline: Q2</p> <p>Action 2: The senior procurement manager will review website disclosure as part of Recommendations #2, #4, #7, #9, #13, #16 and #19.</p> <p>Timeline: Q4</p>
23.	The Chief Executive Officer ensure that tender documents are complete and prepared in accordance with procedure. Complete evaluation criteria information should be included in all tender documents.	X			<p>Action 1: This recommendation will be addressed in the all staff Directive from the CEO in conjunction with Recommendations #12, #14, #18 and #22.</p> <p>Timeline: Q2</p> <p>Action 2: CFO to develop checklist to accompany all tender documents prior to award.</p> <p>Timeline: Q2</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
24.	The Chief Executive Officer in consultation with Legal Counsel develop protocols and procedures for addressing bid irregularities such as correction of mathematical errors. The Chief Executive Officer communicate with vendors on a regular basis to emphasize the importance of ensuring tender responses are accurate and complete and include all mandatory information.	X			<p>Action 1: General Counsel will develop procedure for addressing bid irregularities.</p> <p>Timeline: Q2</p> <p>Action 2: CFO to issue communication to vendors emphasizing accuracy and completeness.</p> <p>Timeline: Q2</p>
25.	The Chief Executive Officer maintain on file documentation supporting the results of the vendor selection process including information pertaining to disqualified respondents, evaluation results of each individual on the evaluation team and information pertaining to any conflicts of interest declared by staff.	X			<p>Action: Record keeping expectations for the vendor selection process will be addressed in the all staff Directive from the CEO in conjunction with Recommendations #12, #14, #18, #22 and #23.</p> <p>Timeline: Q2</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
26.	The Chief Executive Officer develop protocols in connection with circumstances when the Strategic Procurement Unit or a third party Fairness Commissioner should be involved in the tender evaluation process.	X			<p>Action: The CFO will develop a protocol for when the Strategic Procurement Unit or Fairness Commissioner is required. This will be done in conjunction with the reviews as per Recommendations #2, #4, #7, #9, #13, #16, #19 and #22</p> <p>Timeline: Q4</p>
27.	The Chief Executive Officer review the process relating to TCHC's Fair Wage Policy in order to ensure that the policy is enforceable.	X			<p>Action: The senior procurement manager will review the enforceability of the Fair Wage Policy.</p> <p>Timeline: Q4</p>
28.	The Chief Executive Officer, direct all staff that financial security requirements in all tender documents must be complied with. Where required financial security is not provided in response to a tender then the tender should be disqualified. Under no circumstances should staff be allowed to negotiate terms and conditions which are different from the tender document.	X			<p>Action: This recommendation will be addressed in the all staff Directive from the CEO in conjunction with Recommendations #12, #14, #18, #22 and #25.</p> <p>Timeline: Q2</p>

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29.	The Chief Executive Officer review the current process for establishing and maintaining the current vendor list. Where significant purchases are made from one supplier an open competitive tender process be initiated. Consideration be given to establishing common terms and conditions and pricing for the duration of the contract and the regular monitoring of vendor performance.	X			Action: The new procurement manager will evaluate the current process for establishing and maintaining the current vendor list. This will be done in conjunction with the reviews as per Recommendations #2, #4, #7, #9, #13, #16, #19, #22 and #26 Timeline: Q4
30.	The Chief Executive Officer, during her review of the procurement process ensure that an appropriate level of attention is also given to the Accounts Payable system. In particular, internal control deficiencies relating to the payment of invoices be immediately addressed.	X		CFO has discussed the processes that need be changed with A/P staff. The plan that is being developed will immediately centralize invoicing (all invoices from third parties will come to Main Office) to ensure all invoices are immediately recorded. In addition, strengthened financial controls are implemented requiring monthly reporting of all over 90 days unpaid invoices to be provided in a report to the Controller/ CFO for review and follow up with the appropriate persons.	Action: The CFO will evaluate the current Accounts Payable system. This will be done as part of the reviews identified in Recommendations #2, #4, #7, #9, #13, #16, #19, #22, #26 and #29 Timeline: Q4

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
31.	The Chief Executive Officer take appropriate steps to ensure compliance with the Corporate Finance Policy and Procedures. Supplier invoices be recorded in the financial information system on a timely basis.	X			<p>Action 1: This recommendation will be addressed in the all staff Directive from the CEO in conjunction with Recommendations #12, #14, #18, #22, #25 and #28.</p> <p>Timeline: Q2</p> <p>Action 2: CFO piloting centralized receipt of supplier invoices to ensure timely entry.</p> <p>Timeline: Q2</p> <p>Action 3: Internal Audit will add random audits to their workplan to ensure compliance.</p> <p>Timeline: Q4</p>