



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.

Date:	February 2, 2012
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2011 Audit Work Plan identified Toronto Community Housing Corporation (TCHC), including its subsidiaries, as a priority for additional audits.

The objective of this review was to assess the extent to which Housing Services Inc.'s (HSI), a subsidiary of TCHC, administrative structure and control framework supports sound financial management and compliance with purchasing policies and procedures.

The audit results are presented in the attached report entitled "Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc."

RECOMMENDATIONS

The Auditor General recommends that:

1. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, identify additional opportunities to consolidate procurement of construction and maintenance services.
2. The Chief Executive Officer identify for Toronto Community Housing Corporation Executive Management areas where additional construction and maintenance work can be allocated to Housing Services Inc.

3. The Chief Executive Officer explore opportunities to enter into co-operative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.
4. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, develop and communicate a procurement plan that closely aligns with Toronto Community Housing Corporation's long term business and capital plans.
5. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, establish protocols for timely communication of any significant changes to Toronto Community Housing Corporation's budget, prioritization, or scope of construction projects which impact Housing Services Inc.'s procurement strategy and/or utilization of internal trades.
6. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, implement controls to ensure that all purchasing done on behalf of Toronto Community Housing Corporation follows appropriate procurement processes.
7. The Chief Executive Officer review and recommend for Board approval updates to the Procurement Policy and Procedures. Updates should address issues such as:
 - a. Procedures for how vendor lists should be established, maintained and utilized
 - b. Necessary approval authorities and reporting regarding the aggregated use of vendor lists
 - c. Methodology for setting standard prices for all vendors performing specific types of work
 - d. Procedures for preparing, issuing, receiving, evaluating and awarding informal requests for price quotations
 - e. Requirement for retention of procurement documents in paper and/or electronic format.
8. The Chief Executive Officer ensure call documents for the pre-qualification of vendors clearly outline the process for using the list, including:
 - a. Method(s) for adding and removing vendors from the list and the period of time the list remains valid
 - b. The scope of work that can be awarded through the vendor list
 - c. Upper limits of the value of future awards including the maximum value of work that can be awarded through the list without an open tender
 - d. Procedures for awarding or assigning work to vendors

- e. Procedures for evaluating vendor performance and the impact on future work assignments.
9. The Chief Executive Officer implement procedures to ensure vendor lists are used in accordance with processes set out in pre-qualification call documents.
 10. The Chief Executive Officer, in consultation with legal counsel, develop and implement formal procedures regarding vendor performance which describe:
 - a. Vendor performance monitoring practices, both during a contract and at its conclusion
 - b. Impact of poor performance on the assignment of work or award of future contracts to vendors
 - c. The steps that will be taken to suspend vendors from submitting bids and from being assigned work through the vendor lists, period of time vendors can be suspended from bidding on Housing Services Inc. contracts, steps to rescind suspensions, and requirements for approval of suspensions by the Board of Directors.
 11. The Chief Executive Officer enhance processes and controls to ensure equitable distribution of work amongst vendors. Enhancements should include reporting of the distribution of work which clearly explains and supports any significant variances.
 12. The Chief Executive Officer implement procedures to enforce compliance with requirements to establish blanket contracts through open and competitive tendering processes. Procedures should:
 - a. Ensure contract extensions beyond those specified in call documents are not employed to circumvent open competition
 - b. Include periodic reports to the Board of Directors regarding the total value of work awarded through blanket contracts and the length of time since work was last tendered through an open competition.
 13. The Chief Executive Officer implement procedures to document the rationale for non-competitive procurement. Such procedures include:
 - a. Guidelines to define what constitutes an emergency or urgent situation and requirements to provide adequate support that the cost of purchases for the emergency are reasonable
 - b. Guidelines on the approvals required prior to awarding the contract, based on the value of the contract being awarded.

14. The Chief Executive Officer review competitive procurement thresholds and recommend, for approval by the Board of Directors, any revisions required to facilitate operating needs while ensuring fair access, equitable treatment, and competition.
15. The Chief Executive Officer implement procedures to ensure appropriate monitoring and enforcement of procurement procedures and controls. Monitoring should include:
 - a. Spot checks or audits of compliance with competitive procurement thresholds by staff independent of the contract award
 - b. Periodic review of exception reports identifying any non-compliance or overrides to the electronic approval process.
16. The Chief Executive Officer develop and implement procedures to monitor compliance with the revised change order process and delegated financial signing authorities for purchase order revisions.
17. The Chief Executive Officer implement and enforce procedures to ensure:
 - a. All purchase orders and/or contracts issued specify the itemized prices to be charged
 - b. All invoices specify quantities and itemized prices to be charged in accordance with purchase orders
 - c. All construction invoices approved for payment be accompanied by a Certificate for Payment issued by a third-party architect, consulting engineer or in-house engineer affirming the accuracy of actual quantities invoiced.
18. The Chief Executive Officer continue to enforce procedures and monitor the operating effectiveness of controls over staff expenses.
19. This report be forwarded to the City's Executive Committee for information.

Financial Impact

The implementation of recommendations in this report will further improve the openness, fairness and transparency of procurement processes. Implementing the recommendations will provide some potential efficiencies and cost savings. 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

The Auditor General issued two reports, "Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective" and "Toronto Community Housing

Corporation – Procurement Policies and Procedures Are Not Being Followed” in February 2011.

The reports were restricted to procurement and payment control processes carried out at TCHC. They did not include a review of processes at TCHC subsidiary companies. The Auditor General’s 2011 Audit Work Plan identified TCHC, including its subsidiaries, as a priority for additional audits.

ISSUE BACKGROUND

The Shareholder Direction from the City of Toronto allows TCHC to create subsidiary companies to meet its goals.

Housing Services Inc. was incorporated in 2004 as a wholly owned subsidiary corporation of TCHC and reports to TCHC through its own Board of Directors. HSI was formed to deliver housing related services, primarily construction, maintenance, and client care services to both TCHC and the private sector.

HSI operates under a Shareholder Direction with TCHC which defines the principles, objectives and accountability requirements for HSI and its relationship with TCHC. The Shareholder Direction states the expectation that HSI will sustain itself financially and provide a fair return to TCHC. Further, HSI will be responsible for all operating decisions with regard to its services. The underlying principle being that HSI will be independently operated and that TCHC will not have a role in operational decisions.

HSI reported revenues totalling \$156 million in 2010 and net profit of \$5 million before depreciation. Over 90 per cent of revenues and cost of sales incurred by HSI relate to services performed for TCHC.

COMMENTS

This report contains 18 recommendations along with a management response to each of the recommendations.

In our view, the implementation of the recommendations contained in this report will further improve the openness, fairness and transparency of procurement processes. Implementing the recommendations will also provide some potential efficiencies and cost savings.

Recommendations from this report may also provide opportunities to improve procurement processes at TCHC additional to those raised in the February 2011 Report, “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed”. TCHC should review the recommendations contained in this report for applicability and, where appropriate, such recommendations be implemented.

CONTACT

Jerry Shaubel, Director, Auditor General's Office

Tel: 416-392-8462, Fax: 416-392-3754, E-mail: jshaubel@toronto.ca

Ina Chan, Audit Manager, Auditor General's Office

Tel: 416-392-8472, Fax: 416-392-3754, E-mail: ichan3@toronto.ca

SIGNATURE

Jeff Griffiths, Auditor General

11-TCH-02

ATTACHMENTS

Appendix 1: Review of Controls Over Procurement and Payment Functions at TCHC
Subsidiary: Housing Services Inc.

Appendix 2: Management's Response to the Auditor General's Review of Controls
Over Procurement and Payment Functions at TCHC Subsidiary: Housing
Services Inc.

APPENDIX 1

**Review of Controls Over Procurement and
Payment Functions at TCHC Subsidiary:
Housing Services Inc.**

December 9, 2011



Auditor General's Office

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND	5
AUDIT OBJECTIVES, SCOPE AND METHODOLOGY	8
AUDIT RESULTS	9
A. OPERATING SUBSIDIARY GOVERNANCE MODEL – A BALANCING ACT	9
A.1 Lack of a TCHC-wide Procurement Strategy for Construction and Maintenance Services Impedes Operational Efficiency	9
A.2. Organization Structure Can Pose Challenges for Developing an Effective Procurement Strategy	11
A.3. Lack of Clear Accountability for TCHC Procurement Decisions Executed by the Subsidiary	12
B. PUBLIC SCRUTINY OF PROCUREMENT PRACTICES – A NEED FOR CLEAR ACCOUNTABILITY	13
B.1. Enhancements to Procurement Policy and Procedures Needed to Reinforce Principles of Fair Access, Equitable Treatment, and Competition	13
B.2. Increased Transparency Needed to Demonstrate Integrity of Vendor Lists	15
B.3. Uneven Distribution of Work Can Be Perceived As Preferential Treatment of Vendors	20
C. COMPLIANCE WITH POLICIES AND PROCEDURES – AN AREA FOR CONTINUOUS IMPROVEMENT	22
C.1. Avoid Repeated Contract Extensions Which Circumvent Competition	22
C.2. Adhere to Intent of Criteria for Single Tendering	24
C.3. Enforce Compliance With Procurement Procedures	26
C.4. Improve Monitoring of Contract Changes	28
C.5. Improve Verification of Services Rendered Prior to Payment.....	28
D. IMPROVED CONTROL OVER EMPLOYEE EXPENSES – A CORPORATE CULTURE SHIFT	29
CONCLUSION	30

EXECUTIVE SUMMARY

Auditor General reported on TCHC in early 2011

The Auditor General issued two reports, “Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective” and “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed” in February 2011.

TCHC and its subsidiaries considered a priority for audits

The reports were restricted to procurement and payment control processes carried out at Toronto Community Housing Corporation (TCHC). They did not include a review of processes at TCHC subsidiary companies.

The Auditor General’s 2011 Audit Work Plan identified TCHC, including its subsidiaries, as a priority for additional audits.

HSI is a wholly owned subsidiary of TCHC

Housing Services Inc. (HSI) was incorporated in 2004 as a wholly owned subsidiary corporation of TCHC and reports to TCHC through its own Board of Directors. HSI was formed to deliver housing related services, primarily construction, maintenance, and client care services to both TCHC and the private sector.

Financial highlights

HSI reported revenues totalling \$156 million in 2010 and net profit of \$5 million before depreciation. Over 90 per cent of revenues and cost of sales incurred by HSI relate to services performed for TCHC.

Objective of this review

The objective of this review was to assess the extent to which HSI’s administrative structure and control framework supports sound financial management and compliance with purchasing policies and procedures.

Initiatives introduced since 2009 by the Chief Executive Officer

HSI's Chief Executive Officer was hired in October 2009 and has implemented a number of measures to strengthen the control environment, including the following:

- Review of the control environment including the expenditure and revenue processes. A report was issued by an external consulting firm in March 2010 recommending an action plan to strengthen internal controls. A status report is provided to the Board of Directors on a quarterly basis.
- Hiring of a new Controller in June 2010 whose responsibilities include managing and monitoring financial and internal control.
- Developed a three year (2011-2013) Business Plan which includes the need for better co-ordination with TCHC.
- Review of all company policies to align with TCHC.
- Review of recommendations in the Auditor General's reports on TCHC followed by a complete review of employee expenses and cancellation of all but two corporate purchasing cards.

Specific concerns identified

Notwithstanding the above noted initiatives, our review has identified areas where action is required to improve the integrity of HSI's procurement processes and to support cost-effective and efficient procurement.

We are currently preparing a report on the governance structure of both the TCHC and its subsidiaries. The major focus of that report will be on the specific purpose and requirements to operate with the number of subsidiary companies in existence at TCHC.

Organization structure poses barriers which impact the efficiency and effectiveness of both TCHC and HSI

The current independent operating subsidiary structure and governance model need to be balanced against barriers which impact the efficiency and effectiveness of both TCHC and HSI. These barriers include:

- Purchases of similar products and services by TCHC departments, operating units, and subsidiaries are not being bundled together for procurement purposes. HSI needs to be able to fully leverage TCHC's collective size and purchasing power to achieve cost savings through improved volume pricing and discounts.
- HSI is not consistently integrated into TCHC's longer-term strategic and operational planning processes. This impedes HSI's ability to articulate and communicate longer term procurement requirements. Openly communicating longer term procurement plans can increase competition and improve pricing.
- On occasion, TCHC staff have directed HSI to use specific vendors, circumventing established procurement procedures. These actions will not be apparent through monitoring of TCHC purchasing activity, because the purchase order is issued at the subsidiary.

Practices need to be enhanced to reinforce key values and principles of fair access, equitable treatment, and competition

Maintaining open, fair and transparent procurement practices is critical to protecting the integrity of, and public confidence in, HSI's procurement processes. Procedural guidelines related to procurement need to be enhanced to reinforce key values and principles of fair access, equitable treatment, and competition. In addition, improvements are needed to strengthen practices in the following areas:

- Certain vendor lists, not regularly refreshed, can become stale and may exclude vendors who are interested in doing business with HSI.
- Use of the rosters and vendors lists as well as processes for awarding work are not clearly and transparently set out in procurement documents.

- Formal tracking mechanisms are not yet in place to demonstrate that unsatisfactory vendor performance is considered in awarding work in the future.
- Documenting reasons for imbalances in the distribution of work among vendors on a roster or to vendors who have agreed to standard unit prices.
- Steps for preparing, issuing, receiving, evaluating and awarding work procured through informal requests for price quotations are inconsistent.

Improved adherence to procedures is necessary

Policies and procedures by themselves are not a guarantee that business practices are consistent with public expectations of good governance and accountability. There are several areas where improved adherence to procedures is necessary.

- Blanket contracts have not been established through the open tendering process. Furthermore, repeated contract extensions circumvent competition.
- Single tendered purchases do not always adhere to the criteria established for these non-competitive purchases. Rationale for single tendering are not presented to the Board of Directors for approval as it is not required by current policy.
- Other areas of non-compliance include failure to adhere to competitive procurement thresholds and delegated signing authorities.

HSI's 3-year business plan includes actions to resolve some issues identified

Management has included in their 2011-2013 business plan actions that will resolve many of the issues identified in this report. As part of the 3-year plan, HSI set out a procurement work plan for 2011. Specific actions included in the work plan to strengthen procurement controls are discussed throughout this report.

Conclusions

In our view, the implementation of the recommendations contained in this report will further improve the openness, fairness and transparency of procurement processes. Implementing the recommendations will also result in streamlining of processes, as well as provide some potential efficiencies and cost savings.

Recommendations from this report may also provide opportunities to improve procurement processes at TCHC additional to those raised in the February 2011 Report, “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed”. TCHC should review the recommendations contained in this report for applicability and, where appropriate, such recommendations be implemented.

BACKGROUND

The Shareholder Direction from the City of Toronto allows TCHC to create subsidiary companies to meet its goals.

HSI incorporated in 2004 as TCHC subsidiary

HSI was incorporated in 2004, with TCHC as its sole shareholder. According to a November 2003 report to the TCHC Board of Directors, the independently managed and governed subsidiary was created:

- to focus on maintenance, call centre, and small construction services reducing costs to TCHC while improving service
- to market services to other customers and gain an estimated \$2 million additional net revenue annually.

Board governance

An eight member Board of Directors is responsible for the supervision of the management of HSI. The Board includes TCHC’s Chief Executive Officer and Chief Financial Officer, as well as six nominees of the TCHC Board of Directors. A complete refresh of all non-TCHC members on the HSI Board of Directors was made in April 2010.

Shareholder Direction

HSI operates under a Shareholder Direction with TCHC which defines the principles, objectives and accountability requirements for HSI and its relationship with TCHC. The Shareholder Direction states the expectation that HSI will sustain itself financially and provide a fair return to TCHC. Further, HSI will be responsible for all operating decisions with regard to its services. The underlying principle being that HSI will be independently operated and that TCHC will not have a role in operational decisions.

Operating Agreement

An Operating Level Agreement between TCHC and HSI was signed in February 2011, with plans to have the Agreement in full effect by early 2012. The objective of the Agreement is to clearly describe the services HSI provides. An understanding of this Agreement is that HSI will be regarded as the “Preferred Service Provider” to TCHC for construction, maintenance, and client care services.

Financial information

In 2010, HSI reported \$156 million in revenues and net profit of \$5 million before depreciation. Over 90 per cent of the revenues and cost of sales incurred by HSI relate to maintenance, construction, and client care services performed for TCHC.

Table 1: Consolidated Financial Results for the Year Ending December 31, 2010

<i>(in thousands)</i>	Consolidated (audited)	From TCHC	From External
Revenue	\$ 156,101	\$ 142,522	\$ 13,579
Cost of Sales	\$ 145,226	\$ 133,730	\$ 11,496
Gross Margin	\$ 10,875	\$ 8,792	\$ 2,083
Corporate Admin	\$ 5,724	\$ 4,604	\$ 1,120
Net Profit Before Amortization	\$ 5,151	\$ 4,188	\$ 963
Amortization	\$ 814		
Net Income	\$ 4,337	\$ 4,188	\$ 963
<i>% Gross Margin</i>	7.0%	6.2%	15.3%
<i>% Net Profit</i>	3.3%	2.9%	7.1%

Business practices

In the Shareholder Direction, HSI is mandated to conduct open and transparent business processes. HSI is expected to develop and implement policies that are similar in intent and effect to those of TCHC. This includes policies with regard to financial management and procurement.

Since mid 2008 HSI has taken responsibility for conducting its own procurement activities, separate from TCHC. The main exceptions are that TCHC remains responsible for the procurement of fleet vehicles, telephones, computers and other IT equipment.

***Guiding principles
for procurement***

HSI has adopted the same Procurement Policy as TCHC which sets out the guiding principles that procurement practices will demonstrate values of:

- fair access, equitable treatment and competition
- transparency and public accountability
- simplicity, appropriate controls and clear accountability.

To guide staff on the implementation of the Procurement Policy, HSI has adopted procedures similar to those of TCHC. HSI has also adopted several practices to purchase goods, works and services which are not specifically addressed in the existing procedures. These practices include:

- Set pricing for specific types of work – HSI establishes a set of standard prices based on vendor submissions to procurement calls. Only those respondents who agree to the standard prices set by HSI will be placed on the vendor list.
- Vendor lists – HSI uses vendor lists to invite pre-qualified vendors to make submissions for selective tenders, informal quotations, and single quoted small dollar value procurement opportunities.

Several policy reviews are currently underway at TCHC. HSI's Chief Executive Officer has indicated that HSI intends to adopt any updates to the Procurement Policy and supporting procedures arising from these reviews.

HSI's Chief Executive Officer has also indicated that they intend to return to a shared services approach, beginning with centralizing procurement for TCHC and its subsidiaries. To this end, in August 2011 TCHC appointed responsibility for its Strategic Procurement Unit to HSI's Senior Director of Finance & Business Operations. Such steps are expected to mitigate, to a certain degree, several issues identified in this report.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

2011 Audit Work Plan

In early 2011, the Auditor General issued the results of the Auditor General's first review of TCHC. The review was restricted to TCHC and did not include a review of the procurement and payment processes at TCHC subsidiary companies.

The Auditor General's 2011 Audit Work Plan identified TCHC, including its subsidiaries, as a priority for additional audits.

Audit objective

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

Scope

This audit focused on the period from January 1, 2010 to May 31, 2011. It includes an assessment of management controls over purchases of goods and services, contract management and payments. New internal control initiatives introduced by HSI management in 2010 and 2011 were considered in our review.

Methodology

Our audit methodology included the following:

- review of HSI Board of Directors and Board committee minutes and reports
- review of documents, management reports, policies, procedures and related records
- review of audited financial statements for HSI for the year ended December 31, 2010.
- review of internal control reports by external consultants and TCHC internal audit staff
- interviews with HSI management
- examination of documents and records
- evaluation of management controls and practices
- other procedures deemed appropriate.

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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

A. OPERATING SUBSIDIARY GOVERNANCE MODEL – A BALANCING ACT

Purpose for creating operating subsidiaries

In 2003, TCHC began creating subsidiaries related to the key areas of the business which the Board of Directors felt would benefit from focused governance. It was intended that this governance model would enable the Board to attract independent expert resources and stakeholders clearly focused on the specific operations of the subsidiaries.

Organization structure impacts the efficiency and effectiveness of TCHC and HSI

However, over time it is apparent that the organization structure has resulted in barriers which impact the efficiency and effectiveness of both TCHC and HSI.

A.1. Lack of a TCHC-wide Procurement Strategy for Construction and Maintenance Services Impedes Operational Efficiency

HSI created to be the preferred provider of maintenance and construction services

When HSI was created in 2004, the intent was that it would be responsible for TCHC’s maintenance and construction work. Despite this, an operating agreement confirming HSI’s status as the “Preferred Service Provider” to TCHC for construction, maintenance, and client care services was only developed in 2010 and not signed until February 2011.

Departmental and operating unit managers not required to assign work to HSI

At the same time, TCHC was evolving its governance model to provide the operating units greater independence in managing their portfolios. TCHC’s departmental and operating unit managers were given the authority to make their own procurement decisions.

TCHC continued to issue separate procurement calls for work HSI typically delivered

Operating units were allowed to manage their own small construction, repair and maintenance projects directly and purchase services from either local contractors or HSI. In addition, the Asset Planning & Investment Unit was also allowed to procure a significant volume of work from outside organizations. Through mid-2011, TCHC continued to issue separate procurement calls for work HSI typically delivered although more of this work is now being assigned to HSI.

It is neither efficient nor effective for TCHC staff to separately procure and manage contractors and consultants for construction and maintenance services when HSI was specifically established and resourced to perform this work.

Procurement is not bundled to leverage TCHC's size and purchasing power

Furthermore, purchases of similar products and services by TCHC departments, operating units, and subsidiaries are not being bundled together for procurement purposes. Therefore, TCHC is losing out on opportunities for cost savings through improved volume pricing and discounts.

Additional cost savings may be achieved through cooperative procurement

HSI has started to coordinate with TCHC to purchase certain supplies through the City. However, HSI should actively explore additional opportunities for cooperative procurement through the City, as well as other public agencies and bodies such as the Province and other social housing agencies. Opportunities should be evaluated for potential cost savings to HSI, as well as best overall value collectively for TCHC and the City.

Recommendations:

- 1. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, identify additional opportunities to consolidate procurement of construction and maintenance services.**
- 2. The Chief Executive Officer identify for Toronto Community Housing Corporation Executive Management areas where additional construction and maintenance work can be allocated to Housing Services Inc.**

3. The Chief Executive Officer explore opportunities to enter into co-operative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.

A.2. Organization Structure Can Pose Challenges for Developing an Effective Procurement Strategy

HSI plans procurement separately and subsequent to TCHC's business planning cycle

Spending decisions are dispersed amongst the different TCHC departments and operating units. Construction and maintenance projects are then assigned or awarded by these different departments to HSI or other vendors.

As a separate organizational entity, HSI is not consistently integrated into TCHC's strategic and operational planning processes. This can pose challenges for developing an effective procurement strategy, because HSI plans procurement separately and subsequent to TCHC's business planning and budgeting cycle. For example,

- HSI's full-time in-house trades are not always kept fully productive. There are typically slowdowns in work at the very beginning of the year before projects are approved and at the end of the year when budgets are depleted. HSI estimated that in-house trades were underutilized to a value of \$350,000 in 2011 compared to 2010.
- HSI is assigned additional unplanned projects towards the end of the fiscal year. The short planning and delivery timelines can result in increased costs for work and reduced value-for-money.

A procurement plan developed on longer-term basis can serve to increase competition and improve pricing

TCHC should regularly provide HSI with detailed project information supporting multi-year budgets and plans. This can help HSI to articulate longer term procurement requirements, standardize specifications in high spending areas, and build strategies to maximize volume-based pricing discounts.

Openly communicating longer term procurement plans can increase competition and improve pricing by drawing the vendor community's early attention to potential business opportunities and by allowing other social housing providers to see where there may be synergies and scope for collaboration.

Recommendations:

- 4. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, develop and communicate a procurement plan that closely aligns with Toronto Community Housing Corporation's long term business and capital plans.**
- 5. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, establish protocols for timely communication of any significant changes to Toronto Community Housing Corporation's budget, prioritization, or scope of construction projects which impact Housing Services Inc.'s procurement strategy and/or utilization of internal trades.**

A.3. Lack of Clear Accountability for TCHC Procurement Decisions Executed by the Subsidiary

Isolated instances where direction given by TCHC circumvents procurement procedures

The Shareholder Direction states that HSI will be responsible and accountable for all operational decisions with regard to the provision of housing services. Where TCHC staff make procurement decisions which are executed by HSI, the accountability for ensuring appropriate processes are followed can become unclear.

Isolated instances exist where direction given by TCHC staff led to circumvention of HSI's approved procurement procedures. Furthermore, these actions will not be apparent through monitoring of TCHC purchasing activity, because the purchase order is issued at the subsidiary level. While we did not do an exhaustive review to identify instances where HSI was directed to use certain vendors, we did note a total of \$2.4 million in purchases from 13 specified vendors. For example, TCHC staff:

- Directed HSI to use a specific vendor to supply and install a new playground structure and playground area surface. There is no evidence of an open or selective tender process to award the work on 5 projects with a total cost of \$242,000 during the review period.
- Directed HSI to use a specific architect who was not on HSI's existing pre-qualified list of vendors for professional engineering and architectural services for 26 projects for a total cost of \$164,000 during the review period. Further, HSI was directed to pay the architect a higher rate than typically paid to vendors on HSI's pre-qualified list.

Recommendation:

- 6. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, implement controls to ensure that all purchasing done on behalf of Toronto Community Housing Corporation follows appropriate procurement processes.**

B. PUBLIC SCRUTINY OF PROCUREMENT PRACTICES – A NEED FOR CLEAR ACCOUNTABILITY

As a subsidiary of a government corporation, HSI is expected to adhere to the same principles of corporate governance and accountability. As such, there is an expectation that goods and services be acquired through a process that demonstrates:

- fair access, equitable treatment and competition
- transparency and public accountability

B.1. Enhancements to Procurement Policy and Procedures Needed to Reinforce Principles of Fair Access, Equitable Treatment, and Competition

HSI has adopted the TCHC Procurement Policy and Procedures

HSI has adopted TCHC's Procurement Policy and Procedures. However, there is a need to formalize and enhance current practices to ensure staff understand and apply the requirements consistently. In particular, formal guidelines or directives are needed to answer the critical 'how to' questions such as:

*Enhanced
guidance needed
to address certain
purchasing
practices*

- How vendor lists should be established, when such lists can be used, and how to assign work in a manner which gives the qualified vendors on a list equal opportunity to bid on contracts. Guidelines should also include direction on the extent of oversight and reporting to the Board of Directors regarding the aggregate use of vendor lists.
- The methodology for setting standard prices for specific types of work. The methodology should include consideration of estimated quantities for unit priced items, wherever possible.
- How informal quotations should be solicited, including how to determine which vendors to request written quotes from, how quotations should be requested, and how bids should be received, reviewed, and evaluated. Standard templates may facilitate the process while ensuring key terms and conditions are in place to protect HSI's interests.

Procedures also do not include guidelines on procurement documents that should be retained in paper and/or electronic format. In addition to documents currently retained on file, guidelines should include requirements to retain documentation related to: business case for procurement; justification for procurement using a non-competitive method; communications by purchasing and other HSI staff with bidders or proponents before, during, and after procurement calls; and evaluation committee declarations of no conflict of interest and confidentiality of information.

Recommendation:

- 7. The Chief Executive Officer review and recommend for Board approval updates to the Procurement Policy and Procedures. Updates should address issues such as:**
 - a. Procedures for how vendor lists should be established, maintained and utilized**
 - b. Necessary approval authorities and reporting regarding the aggregated use of vendor lists**
 - c. Methodology for setting standard prices for all vendors performing specific types of work**
 - d. Procedures for preparing, issuing, receiving, evaluating and awarding informal requests for price quotations**
 - e. Requirement for retention of procurement documents in paper and/or electronic format.**

B.2. Increased Transparency Needed to Demonstrate Integrity of Vendor Lists

57% of work awarded using vendor lists

HSI uses a variety of vendor lists as the basis for most of its procurement activities. Lists are mostly comprised of vendors who have been pre-qualified by HSI for specific categories of work, such as general contractor, mechanical, electrical, and life safety.

Lists used for selective tenders, informal quotations, and single source purchases

From January 1, 2010 through May 31, 2011, approximately \$60 million of work (57% of total) was awarded using vendor lists. The lists are used to invite vendors to make submissions for selective tenders, informal quotations, and single quote small dollar value procurement opportunities.

Table 2 shows the total value of purchases made from January 1, 2010 to May 31, 2011 and the method used to acquire the goods or services.

Table 2 – Method of Price Solicitation
(value of procurement from Jan 1, 2010 – May 31, 2011)

	<i>(in 000s)</i>	
Vendor List – selective tender, informal quotation, single quote	\$ 60,221	57%
Publicly Advertised Tender		
Set Pricing For Qualified Vendors	\$ 31,562	30%
Lump Sum Contract	\$ 4,725	4%
HSI Internal Trades Staff	\$ 6,948	6%
Other (e.g. TCHC Directed)	\$ 2,794	3%
	<u>\$ 106,250</u>	<u>100%</u>

Selective tendering is an exception to open tendering

Publicly advertised open tendering procedures give all interested parties adequate notification and equal opportunity to submit a competitive tender. Exceptions to open tendering procedures include requesting tenders from a specific list of vendors (referred to as “selective tendering” in HSI’s Procurement Procedures) and simply choosing one vendor (referred to as “single tendering”).

Selective tendering procedures are similar to those for open tenders except HSI pre-selects, from existing vendor lists, firms who will be invited to submit tenders.

Advantages and disadvantages of selective tendering

The main advantage to vendor lists is the reduced administrative costs associated with the preparation and evaluation of tenders once the list has been established since the company will then selectively tender to those vendors that have met the requirements to be placed on the list.

The major disadvantage of selective tendering is the potential to impair the openness, fairness, and competitiveness of the selection process.

Failure to refresh vendor lists may unfairly restrict access to business

A number of vendor lists used by HSI were established prior to 2009, and have not been refreshed in over three years.

HSI plans to issue new procurement calls to refresh vendor lists

Vendor lists that are not regularly refreshed may exclude vendors who are interested in doing business with HSI. HSI's 2011 procurement work plan includes issuing calls for pre-qualification to update vendor lists. HSI has indicated that, going forward, lists will be refreshed every three to five years.

Process for using vendor lists is not transparent

Procurement documents do not clearly set out processes for the use of pre-qualified vendor lists

Guidelines for the use of the rosters and vendors lists as well as processes for awarding work are not clearly and transparently set out in procurement documents. For example, most of the existing rosters and vendor lists were originally established without describing in the call documents:

- The number of vendors to qualify. A list should have at least three qualified vendors.
- The period of time the list remains valid.
- Total estimated value of all procurement across vendors.
- The maximum value of work to be awarded through the list without going to open tender.
- The impact of vendor capacity, resourcing, and performance on award of future work through the roster and/or removal from roster.
- The scope of work that can be awarded through a vendor list, with a sufficient level of detail regarding the type and specifications of goods or services to be provided through the vendor roster or sub-group of a vendor roster.
- The methods by which specific work assignments will be awarded.

A subset of pre-qualified vendors is invited to submit pricing for selective tenders

Where selective tendering is used to award work, HSI is expected to invite vendors selected in a non-discriminatory manner. Typically, a subset of pre-qualified vendors is invited to submit pricing for selective tenders. For example, in a purchase which exceeded \$777,000, only four out of 15 vendors were invited to respond to a selective tender.

Staff indicated vendors are being invited to bid on contracts on a rotational basis. Staff were unable to provide concrete evidence that a fair rotational process was in place. The lack of transparency regarding how each vendor list is used can be perceived as a barrier to fair access and competition.

HSI should consider inviting all pre-qualified vendors to every related selective tender

Wherever possible, to avoid the perception of preferential treatment of vendors, HSI should consider inviting all vendors who have successfully pre-qualified and continue to meet performance standards to submit responses to every related selective tender.

Formal performance tracking of vendors needed

Resources are allocated to inspect work on a risk basis

Resources are allocated to inspect vendor work on a risk basis. While larger capital construction projects and preventive maintenance work are monitored, it is not cost effective to conduct such inspections of the high volume of lower-value ad-hoc maintenance assignments.

Customer identified vendor issues are tracked through the client care process

Even where work is not inspected directly by HSI staff, customers (TCHC site staff and tenants) have the ability to identify any performance issues through the client care process, tracked in the EasyTrac system. The EasyTrac system tracks service requests from tenants and TCHC staff and the actions taken to address the service request. However, there is no formal process in place to leverage customer (tenant and TCHC staff) complaints tracked in EasyTrac when evaluating vendor performance.

No formal process for dispensing consequences for poor past performance

Although contractor evaluations are sometimes completed, to ensure equitable treatment of vendors, any poor performance impacting a vendor's opportunity to be awarded work must be well documented. Formal tracking mechanisms should be put into place to substantiate any formal or informal suspension or removal of vendors from vendor lists.

***Contractor
performance
monitoring to be
enhanced in 2012***

We were informed that HSI plans to implement an enhanced Contractor Performance Program for all contracts beginning in 2012.

Recommendations:

- 8. The Chief Executive Officer ensure call documents for the pre-qualification of vendors clearly outline the process for using the list, including:**
 - a. Method(s) for adding and removing vendors from the list and the period of time the list remains valid**
 - b. The scope of work that can be awarded through the vendor list**
 - c. Upper limits of the value of future awards including the maximum value of work that can be awarded through the list without an open tender**
 - d. Procedures for awarding or assigning work to vendors**
 - e. Procedures for evaluating vendor performance and the impact on future work assignments.**
- 9. The Chief Executive Officer implement procedures to ensure vendor lists are used in accordance with processes set out in pre-qualification call documents.**

10. **The Chief Executive Officer, in consultation with legal counsel, develop and implement formal procedures regarding vendor performance which describe:**
 - a. **Vendor performance monitoring practices, both during a contract and at its conclusion**
 - b. **Impact of poor performance on the assignment of work or award of future contracts to vendors**
 - c. **The steps that will be taken to suspend vendors from submitting bids and from being assigned work through the vendor lists, period of time vendors can be suspended from bidding on Housing Services Inc. contracts, steps to rescind suspensions, and requirements for approval of suspensions by the Board of Directors.**

B.3. Uneven Distribution of Work Can Be Perceived As Preferential Treatment of Vendors

Where work is assigned directly to specific vendors off a roster or where multiple vendors have agreed to a set of standard prices, it would be expected that HSI would evenly distribute purchases amongst the vendors over time to the extent possible.

Uneven distribution of work for rosters of vendors

However, in the sample of procurement transactions reviewed, there were examples of an uneven share of work being awarded to certain vendors. For example,

- 84% (\$2.7 million) of emergency restoration work related to a number of fires or floods was awarded directly to one vendor, even though there were three other vendors on the roster for insurance claims related work.

- Most large scale mechanical work is automatically awarded to the sole vendor on the pre-qualified list who has the capacity and equipment to mobilize immediately to perform the work. This vendor receives more than 35% of work in a roster of over 50 vendors. Vendors are pre-qualified for work ranging anywhere from clearing plugged toilets and drains to furnace repairs and replacements to water main repair and replacement.
- For the Unit Refurbishment Program, (upgrading kitchens, bathrooms and related mechanical systems of units), pre-qualified vendors agreed to the same set of standard unit prices to be charged for specific types of work. Purchase orders were issued to vendors as work was distributed.

Approximately \$6 million in bathroom installation work was distributed amongst 15 vendors. The total value of work assigned to individual vendors through multiple purchases orders ranged from \$22,000 (0.4%) up to \$1,236,000 (20.6%).

Similarly, over \$7 million in kitchen installation work was distributed amongst 12 vendors. The total value of work assigned ranged from \$53,000 (0.8%) up to \$1,163,000 (16.6%).

- In a similar format as the Unit Refurbishment Program, over \$4 million in work related to the Building Tune-Up Program, (energy efficiency measures), was distributed amongst five vendors. The total value of work assigned to each vendor ranged from \$421,000 up to \$1,248,000. In 2011, efforts have been taken to more equally distribute this work.

Improve analysis and reporting of distribution of work

Management indicated that as programs proceed, vendor capacity and performance will impact the distribution of work. The analysis and reporting of the distribution of work based on pricing agreements should be improved to clearly explain and support any significant variances in the allocation of work to vendors on the list.

Recommendation:

- 11. The Chief Executive Officer enhance processes and controls to ensure equitable distribution of work amongst vendors. Enhancements should include reporting of the distribution of work which clearly explains and supports any significant variances.**

C. COMPLIANCE WITH POLICIES AND PROCEDURES – AN AREA FOR CONTINUOUS IMPROVEMENT

Policies and procedures by themselves are not a guarantee that business practices are consistent with public expectations of good governance and accountability. There must be a commitment at all levels of the organization to ensure procedures and controls are being carried out and are effective.

C.1. Avoid Repeated Contract Extensions Which Circumvent Competition

Procurement procedures require open tendering of blanket orders exceeding \$100,000

HSI currently has blanket orders for preventive maintenance of elevators, sump and booster pump systems, furnaces, life safety systems, kitchen drains, and roof anchors. Blanket contracts also exist for grounds maintenance, snow clearing and after-hours maintenance.

The existing Procurement Procedures require that blanket purchase agreements that exceed \$100,000 in a given year should be obtained through open tendering procedures.

Blanket contracts not established through an open tendering process

Some blanket purchase orders were not originally awarded through an open tender process. Furthermore, these blanket awards were extended repeatedly on an annual basis. For example,

- Since 2009, over \$2.2 million in replacement furnaces were purchased from one vendor. The vendor was selected initially in 2007 based on three informal price quotations. In subsequent years work was awarded directly to the vendor based on this pricing. A pricing agreement for furnace replacements should have been solicited through an open tender to obtain competitive pricing including volume discounts or rebates.

- A blanket order for after hours maintenance repairs was initially awarded through an informal request for hourly rates in 2005. Since then, all after hours repairs have been awarded directly to the same vendor. The current blanket contract is valued at approximately \$600,000 annually.
- Blanket orders totalling \$300,000 annually for inspections and repairs of sump and booster pump systems were initially awarded four years ago directly to one vendor based on negotiated rates which were not competitively quoted or bid.
- A blanket order for furnace maintenance and repair was originally awarded in 2007 based on three informal price quotations. On an annual basis, TCHC renews this contract at the 2007 pricing. The current annual contract value is approximately \$650,000.

Repeated contract extensions pose a barrier to fair access of other vendors

Establishing and continually extending contracts on a non-competitive basis poses a barrier to the fair access of other potential vendors and eliminates the potential for improved pricing that may occur from increased competition.

HSI plans to procure blanket contracts through open tendering

The 2011 procurement plan includes plans to procure all new blanket contracts through open tendering which will include pre-defined durations of contracts including any renewals or extensions.

\$1.1 million in annual savings by aggregating procurement for maintenance activities in an open and competitive tender

The first open tender to award blanket contracts in 2011 was for grounds keeping and snow services. This tender aggregated all such work at buildings managed directly by TCHC staff. Previously, contracts for these services were awarded on a decentralized basis, by HSI and by TCHC operating units. The previous contracts were awarded through a variety of procurement processes largely comprised of single tendering, informal price quotations, and selective tendering.

HSI estimates the eight new contracts will result in savings of approximately 20-25 per cent or \$1.1 million annually. This will save TCHC up to \$5.5 million over 5 years, based on the 3-year term and two 1-year extensions specified in the contract.

\$140,000 in additional savings anticipated

Furthermore, significant savings can be realized by establishing blanket contracts through an open tender. We estimate that HSI stands to save approximately \$140,000 annually by open tendering the approximately \$2.5 million in fixed fee preventive maintenance blanket contracts currently in place.

Recommendation:

- 12. The Chief Executive Officer implement procedures to enforce compliance with requirements to establish blanket contracts through open and competitive tendering processes. Procedures should:**
 - a. Ensure contract extensions beyond those specified in call documents are not employed to circumvent open competition**
 - b. Include periodic reports to the Board of Directors regarding the total value of work awarded through blanket contracts and the length of time since work was last tendered through an open competition.**

C.2. Adhere to Intent of Criteria for Single Tendering

Procedures set out exceptions where non-competitive procurement is allowed

According to HSI’s Procurement Procedures, non-competitive procurement or “single tendering” may be used only in exceptional cases. The procedures also set out specific criteria where single tendering is deemed necessary.

For some single tendering contracts, staff performed informal research to support their position that a vendors’ service offering or product was the only one available to meet HSI’s specifications. With no formal request to the broader market it is debatable whether there is sufficient justification that other alternatives would not be acceptable. For example,

Other alternatives may be acceptable

- \$415,000 in purchases related to design, installation, inspection, maintenance and repair of roof anchors were awarded directly to one vendor on the basis that the vendor carried higher levels of liability insurance and had greater capacity to handle the volume of work anticipated.

- A contract estimated to cost \$935,000 annually for preventive maintenance of kitchen drain stacks was single tendered to a vendor who uses a chemical (bacteria) formula, tailored specifically for HSI, to clear the drains. Other chemical and non-chemical methods of drain clearing are available in the market.

Isolated examples of non-competitive procurement due to poor planning

In the sample of procurement transactions we reviewed, there were also a number of purchases where, because of emergencies such as fire or flooding, single tendering was acceptable. However, there were isolated cases which were not truly emergencies but instead were a failure by TCHC to communicate requirements on a timely basis. In these examples, the decision to invite only a single firm to price the work was unwarranted.

Report outlining rationale for single tendering were not presented to the Board of Directors for approval

In these examples, the rationale for single tendering these purchases was not presented to the Board of Directors for approval. The current delegation of financial signing authority requirements does not specifically address non-competitive procurement. In the public sector, it is typical to expect that any non-competitive procurement should be approved by an authority at least one level higher than the requirements for competitive procurement.

Recommendation:

- 13. The Chief Executive Officer implement procedures to document the rationale for non-competitive procurement. Such procedures include:**
 - a. Guidelines to define what constitutes an emergency or urgent situation and requirements to provide adequate support that the cost of purchases for the emergency are reasonable**
 - b. Guidelines on the approvals required prior to awarding the contract, based on the value of the contract being awarded.**

C.3. Enforce Compliance With Procurement Procedures

Non-compliance with competitive procurement thresholds

Dollar thresholds have been established in the Procurement Procedures to specify the type of process that should be used to obtain competitive prices.

Table 4: Competitive Procurement Thresholds
(Excerpted from HSI Procurement Procedures)

< \$10,000	< \$20,000	< \$100,000	> \$100,000
<ul style="list-style-type: none"> • Written quote not required if covered by price agreements. • Otherwise, at least one written quote, or • Local, selective or open tender 	<ul style="list-style-type: none"> • if not covered by price agreements, three written quotes required, or • Local, selective or open tender 	<ul style="list-style-type: none"> • Written quotes may be required if covered by standing price agreements, or • Local, Selective or open tender 	<ul style="list-style-type: none"> • Open tender and Minimum three bids • For short lists of consultants, contractors and project management firms and if >\$100K and less than <\$250K, 2 written quotes from list.

However, in the purchasing transactions reviewed, there were examples where procurement procedures were not followed.

For example, if a purchase exceeds the estimated threshold of \$100,000 or more, a call for open tender is required and selective tendering is not applicable. However, purchases of up to \$700,000 were made through selective tendering rather than an open tender.

For a number of the exceptions noted, management indicated that it was HSI's practice that open tendering is not required where a pre-qualified vendor list is used for selective tendering. The current practice does not recognize any dollar limits for the use of selective tendering. In adopting this practice, management did not update the Procurement Procedures to reflect higher thresholds for selective tendering where pre-qualified vendor lists are used.

The Procurement Procedures should be updated to reflect the open and selective tendering requirements where pre-qualified vendor lists are used. The procedures can be further enhanced by defining the minimum number of vendors to be invited to submit competitive bids in response to selective tenders based on defined dollar thresholds.

***Non-compliance
with approval
authority
requirements***

In a sample of purchases selected for review, there were several examples where approvals were not in compliance with the Delegation of Financial Signing Authority. In addition, there were examples where appropriate approvals were only obtained after a purchase order had already been issued. Related control gaps in HSI's procedures were identified by external consultants in early 2010. Improvements in adherence to signing authority requirements were observed from early 2010 through mid-2011. HSI is currently in the process of implementing system controls to automatically enforce compliance with authorization limits.

Recommendations:

- 14. The Chief Executive Officer review competitive procurement thresholds and recommend, for approval by the Board of Directors, any revisions required to facilitate operating needs while ensuring fair access, equitable treatment, and competition.**
- 15. The Chief Executive Officer implement procedures to ensure appropriate monitoring and enforcement of procurement procedures and controls.
Monitoring should include:**
 - a. Spot checks or audits of compliance with competitive procurement thresholds by staff independent of the contract award**
 - b. Periodic review of exception reports identifying any non-compliance or overrides to the electronic approval process.**

C.4. Improve Monitoring of Contract Changes

Monitoring of purchase order revisions has historically been weak

In common with other entities, HSI occasionally experiences circumstances where costs will exceed the amount initially approved through the initial purchasing document. In such cases, the expected procedure is to revise the original purchasing document in accordance with approved criteria. This provides clear disclosure that the initial purchase order was understated and more funds are required to complete the transaction.

In some circumstances, staff are issuing new purchase orders rather than revising existing purchase orders. This serves to circumvent financial signing authority requirements, whether intentionally or in error.

HSI rolled out a new change order process to address control weaknesses

Furthermore, even where purchase order revisions were issued, there was insufficient evidence that the required level of approval had been obtained. HSI implemented a new change order process during mid-2011 to address these control weaknesses although it was implemented subsequent to our review so we cannot comment on its effectiveness.

Recommendation:

- 16. The Chief Executive Officer develop and implement procedures to monitor compliance with the revised change order process and delegated financial signing authorities for purchase order revisions.**

C.5. Improve Verification of Services Rendered Prior to Payment

Independent verification of invoice amounts not always performed on a timely basis

Independent verification of quantities and rates charged on unit priced purchases was not always performed on a timely basis. This is because purchase orders and vendor invoices only specify a lump sum amount without providing details on the actual quantities and rates charged as well as other charges.

Consequently, staff cannot readily determine whether the rates charged by the vendor are reasonable and consistent with the terms and conditions specified in the contract.

For example, one vendor invoiced HSI for progress payments based on a percentage of an overall purchase order value rather than applying on actual work performed. The invoices were paid. Upon completion of the project, a review of the actual work performed determined that the vendor had been overpaid. This resulted in over \$110,000 in credits being issued three months later for the overpayments. These credits were subsequently applied to other work the vendor completed for HSI.

In this situation, there was no loss to HSI as the overpayment was applied to subsequent work. However, it is not good business practice to pay vendors for work not yet performed.

Recommendation:

- 17. The Chief Executive Officer implement and enforce procedures to ensure:**
 - a. All purchase orders and/or contracts issued specify the itemized prices to be charged**
 - b. All invoices specify quantities and itemized prices to be charged in accordance with purchase orders**
 - c. All construction invoices approved for payment be accompanied by a Certificate for Payment issued by a third-party architect, consulting engineer or in-house engineer affirming the accuracy of actual quantities invoiced.**

D. IMPROVED CONTROL OVER EMPLOYEE EXPENSES – A CORPORATE CULTURE SHIFT

HSI has implemented new controls over employee expenses

In 2011, HSI implemented new controls over employee expenses. In particular, pre-approval is necessary prior to the incurrence of staff travel and hospitality expenses. Furthermore, reimbursement for business expenses is only made when supported by detailed receipts and a Business Expense Claim form. While controls have been implemented they are not yet operating effectively. In particular, we observed examples where pre-approvals were dated after the incurrence of the expense or where there was no evidence of pre-approval of the expense.

Marked decrease in spending related to employee meals and sundry expenses

Since 2009, under new management and as a result of revised policies for employee expenses, there has been a marked decrease in spending related to employee meals and sundry expenses. In particular, staff advise that employee meals and sundry expenses decreased by approximately 50 per cent in 2010, (\$80,000 in total spending) and by over 90 per cent for the first 8 months of 2011 compared to annual spending in 2009, (\$158,000 in total).

HSI review of P-card use yields \$8,000 in voluntary reimbursements

Following the issuance of the Auditor General's report regarding employee expenses at TCHC, all but two corporate purchasing cards were cancelled. HSI management also initiated an internal review of all P-card spending from 2009 to the time the cards were cancelled. The review determined that all expenditures met the expense criteria in place at the time they were incurred. However, some of these past expenses would not be considered acceptable under current policies and as a result approximately \$8,000 was voluntarily reimbursed by existing HSI staff.

Recommendation:

- 18. The Chief Executive Officer continue to enforce procedures and monitor the operating effectiveness of controls over staff expenses.**

CONCLUSION

This report presents the results of our review of HSI's procurement procedures and activities.

In our view, the implementation of the 18 recommendations contained in this report will further improve the openness, fairness and transparency of procurement processes. Implementation of the recommendations will also result in streamlining of processes, as well as provide some potential efficiencies and cost savings.

Recommendations from this report may also provide further opportunities to improve procurement processes at TCHC additional to those raised in the February 2011 Report, "Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed". TCHC should review the recommendations contained in this report for applicability and where appropriate, such recommendations be implemented.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
1.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, identify additional opportunities to consolidate procurement of construction and maintenance services.	X		<p>As part of HSI 3-year plan, developed and approved in February, 2011 by the new HSI Board of Directors and HSI Executive team, HSI initiated shared services discussions with TCHC.</p> <p>In August 2011 the Strategic Procurement Unit, responsible for the entire Enterprise, was formalized. The unit is responsible for procurement of all goods and services for TCHC and all its subsidiaries. To re-enforce this concept, 2012 planning has commenced between the Strategic Procurement Unit and all TCHC and subsidiary business units to develop an Enterprise procurement plan that supports the 2012 budget.</p>	<ul style="list-style-type: none"> • Implemented

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
2.	The Chief Executive Officer identify for Toronto Community Housing Corporation Executive Management areas where additional construction and maintenance work can be allocated to Housing Services Inc.	X		<p>HSI 3-year plan outlines that HSI will be a part of the TCHC long term and short term planning process which will enable the HSI infrastructure to be utilized to its full capacity and capability.</p> <p>A task force/project team was set up in mid 2011 and has been working on a new structure to consolidate work to be delivered by HSI. The new structure being implemented, “Enterprise Portfolio Management and Delivery”, will be accountable for the overall portfolio management practice within the Enterprise</p>	<ul style="list-style-type: none"> • Enterprise Portfolio Management and Delivery team in place for structure consolidation at end of Q1 2012. • Portfolio management practices to be rolled out throughout 2012.
3.	The Chief Executive Officer explore opportunities to enter into co-operative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.	X		<p>The Enterprise Strategic Procurement Unit is currently working with the City to leverage its purchasing power. TCHC has implemented a pilot program to purchase goods from the City Stores. Expansion of the City stores program and utilization of the City’s corporate administration contracts planned, by Q2 2012. The unit will continue to explore other opportunities with the City and its Agencies.</p>	<ul style="list-style-type: none"> • Pilot initiated in late 2011. • Expansion of program in 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
4.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, develop and communicate a procurement plan that closely aligns with Toronto Community Housing Corporation’s long term business and capital plans.	X		HSI has been working with TCHC to formalize a longer term procurement plan based on TCHC’s long term portfolio plan. See 1 & 2 also above.	<ul style="list-style-type: none"> In progress
5.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, establish protocols for timely communication of any significant changes to Toronto Community Housing Corporation’s budget, prioritization, or scope of construction projects which impact Housing Service Inc.’s procurement strategy and/or utilization of internal trades.	X		See 1 & 2 above.	

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
6.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, implement controls to ensure that all purchasing done on behalf of Toronto Community Housing Corporation follows appropriate procurement processes.	X		<p>As part of the HSI 3-year plan to review and update policies and procedures, the Enterprise Procurement Policy and Procedures are currently being updated to incorporate and formalize improved practices, controls and work flows already existing in the business. This will be enhanced by the recommendations of this report. The updated Enterprise Policy and Procedures will be reviewed by a 3rd party.</p> <p>Enterprise wide workshops will be conducted with all appropriate staff to ensure full understanding of the updated Policy and Procedures.</p>	<ul style="list-style-type: none"> • 1st draft of policy to be completed in Q1 2012. • Final draft to be approved in Q2 2012. • Workshops will be conducted throughout 2012. • Operationalization of the Enterprise procurement plan will be throughout 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
7.	<p>The Chief Executive Officer review and recommend for Board approval updates to the Procurement Policy and Procedures. Updates should address issues such as:</p> <ul style="list-style-type: none"> a. Procedures for how vendor lists should be established, maintained and utilized b. Necessary approval authorities and reporting regarding the aggregated use of vendor lists c. Methodology for setting standard prices for all vendors performing specific types of work d. Procedures for preparing, issuing, receiving, evaluating and awarding informal requests for price quotations e. Requirement for retention of procurement documents in paper and/or electronic format. 	X		See 6 above.	

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
8.	<p>The Chief Executive Officer ensure call documents for the pre-qualification of vendors clearly outline the process for using the list, including:</p> <p>a. Method(s) for adding and removing vendors from the list and the period of time the list remains valid</p> <p>b. The scope of work that can be awarded through the vendor list</p> <p>c. Upper limits of the value of future awards including the maximum value of work that can be awarded through the list without an open tender</p> <p>d. Procedures for awarding or assigning work to vendors</p> <p>e. Procedures for evaluating vendor performance and the impact on future work assignments.</p>	X		<p>All future call documents for the prequalification of vendors will incorporate the recommendations noted.</p> <p>See also 6 above</p>	<ul style="list-style-type: none"> Implemented for 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
9.	The Chief Executive Officer implement procedures to ensure vendor lists are used in accordance with processes set out in pre-qualification call documents.	X		See 6 above.	

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
10.	<p>The Chief Executive Officer, in consultation with legal counsel, develop and implement formal procedures regarding vendor performance which describe:</p> <p>a. Vendor performance monitoring practices, both during a contract and at its conclusion</p> <p>b. Impact of poor performance on the assignment of work or award of future contracts to vendors</p> <p>c. The steps that will be taken to suspend vendors from submitting bids and from being assigned work through the vendor lists, period of time vendors can be suspended from bidding on Housing Services Inc. contracts, steps to rescind suspensions, and requirements for approval of suspensions by the Board of Directors.</p>	X		<p>HSI currently performs informal vendor performance evaluation. As part of HSI 3-year plan to refresh the vendor list, the current vendor performance monitoring practices will be enhanced and formalized.</p>	<ul style="list-style-type: none"> • Vendor performance scorecards to be rolled out throughout 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
11.	The Chief Executive Officer enhance processes and controls to ensure equitable distribution of work amongst vendors. Enhancements should include reporting of the distribution of work which clearly explains and supports any significant variances.	X		<p>HSI actively monitors the distribution of work to ensure that various size vendors with specialized skill sets are included.</p> <p>Formalize periodic reporting of the distribution of work with explanation and support for any significant variances will be implemented.</p> <p>See also 6 above.</p>	<ul style="list-style-type: none"> Consistent periodic reporting will begin in 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
12.	<p>The Chief Executive Officer implement procedures to enforce compliance with requirements to establish blanket contracts through open and competitive tendering processes. Procedures should:</p> <p>a. Ensure contract extensions beyond those specified in call documents are not employed to circumvent open competition</p> <p>b. Include periodic reports to the Board of Directors regarding the total value of work awarded through blanket contracts and the length of time since work was last tendered through an open competition.</p>	X		<p>HSI formally reports to the Board of Directors the total value of work awarded through blanket purchase orders and the validity periods for the purchase orders.</p> <p>Report will be enhanced to include procurement plan.</p> <p>See also 6 above.</p>	<ul style="list-style-type: none"> Implemented and will be extended to Enterprise.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
13.	<p>The Chief Executive Officer implement procedures to document the rationale for non-competitive procurement. Such procedures include:</p> <p>a. Guidelines to define what constitutes an emergency or urgent situation and requirements to provide adequate support that the cost of purchases for the emergency are reasonable</p> <p>b. Guidelines on the approvals required prior to awarding the contract, based on the value of the contract being awarded.</p>	X		<p>Definitions for emergency versus urgent situations are being refined to include clearer language. Guidelines for appropriate procedures and approvals are being updated.</p> <p>All non-competitive procurement outside of emergency situations will be reported to the HSI Board of Directors.</p>	<ul style="list-style-type: none"> To be completed Q1 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
14.	The Chief Executive Officer review competitive procurement thresholds and recommend, for approval by the Board of Directors, any revisions required to facilitate operating needs while ensuring fair access, equitable treatment, and competition.	X		<p>Competitive procurement thresholds are reviewed periodically and all recommendations for change are approved by the Board of Directors.</p> <p>The thresholds are set out in the Procurement Policy and Procedures. Updates to the Enterprise Procurement Policy and Procedures will add clarity to threshold levels and how they are to be used.</p> <p>See also 6 above.</p>	<ul style="list-style-type: none"> Approval of updated Enterprise Procurement Policy and Procedures by the Board of Directors in Q2 2012.

**Management's Response to the Auditor General's Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
15.	<p>The Chief Executive Officer implement procedures to ensure appropriate monitoring and enforcement of procurement procedures and controls. Monitoring should include:</p> <p>a. Spot checks or audits of compliance with competitive procurement thresholds by staff independent of the contract award</p> <p>b. Periodic review of exception reports identifying any non-compliance or overrides to the electronic approval process.</p>	X		The Strategic Procurement unit will be working with the TCHC Compliance unit to implement spot checks, exception reporting and periodic review of all its processes.	<ul style="list-style-type: none"> The 2012 Internal Audit work plan includes procurement procedures and controls.
16.	<p>The Chief Executive Officer develop and implement procedures to monitor compliance with the revised change order process and delegated financial signing authorities for purchase order revisions.</p>	X		<p>HSI is putting more focus on ensuring the scope of work is accurate and limiting the number of change orders required.</p> <p>Change order approval thresholds have been established and implemented.</p>	<ul style="list-style-type: none"> Completed mid 2011.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
17.	<p>The Chief Executive Officer implement and enforce procedures to ensure:</p> <p>a. All purchase orders and/or contracts issued specify the itemized prices to be charged</p> <p>b. All invoices specify quantities and itemized prices to be charged in accordance with purchase orders</p> <p>c. All construction invoices approved for payment be accompanied by a Certificate for Payment issued by a third-party architect, consulting engineer or in-house engineer affirming the accuracy of actual quantities invoiced.</p>	X		<p>The quantity take off details for most jobs are contained in tender documents or other project documents, and not necessarily on the purchase orders and/or invoices. Supporting documents to the purchase orders will have the specifics.</p> <p>All invoices are reconciled to the purchase orders prior to payment.</p> <p>Not all construction jobs follow the Certificate of Payment process. HSI is currently enhancing its Project Management Practice to include processes and procedures for work which follow the Certificate of Payment process and those which do not.</p>	<ul style="list-style-type: none"> • Ongoing in 2012.
18.	<p>The Chief Executive Officer continue to enforce procedures and monitor the operating effectiveness of controls over staff expenses.</p>	X			