



Audit of Interface Invoice Payments

Improving Contract Management and Payment Processes

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Executive Summary

Opportunities for continuously improving contract management and interface billing processes

The audit reviewed the effectiveness of the interface billing process. During the audit we identified opportunities to leverage data analytics to improve strategic procurement, contract management and payment processes.

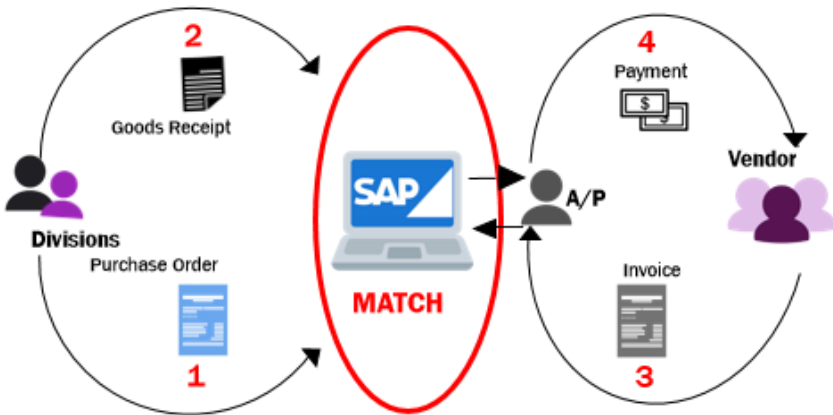
\$5.3 billion paid to vendors in 2018

The City processed \$5.3 billion in payments to vendors for goods and services in 2018. City staff use two methods to process these payments:

Three-Way Match (Non-interface) Payment Process

1. **Three-Way Match (Non-interface) Payment Process:** This is the common invoice payment process where vendors submit invoices to the Accounts Payable (A/P) team. Divisions record the goods they receive in the City’s payment system (SAP). The SAP program matches the invoice with the purchase order and goods receipt. If there is a discrepancy, payment will not be processed until it has been resolved.

Figure 1: Three-Way Match (Non-interface) Payment Process

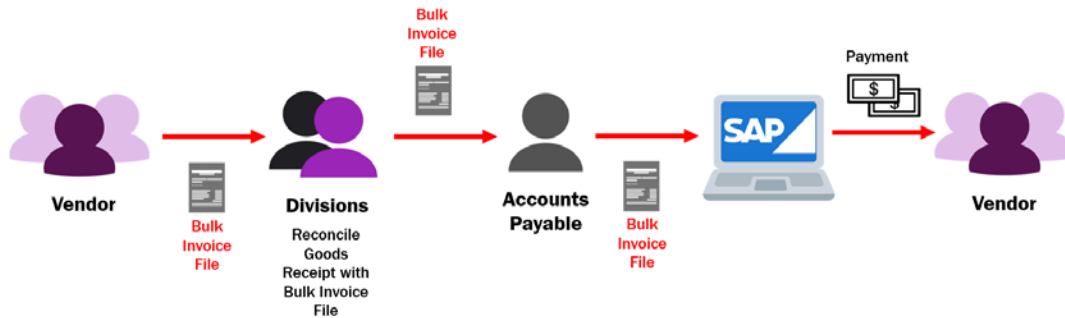


Interface Bill Payment Process

\$1.6 billion, or 30%, of payments are made using this process

2. **Interface Bill Payment Process:** Vendors submit bulk invoices to divisions in a consolidated electronic file (interface file). Divisions verify these invoices with the goods received and forward them to the A/P team for payment. Every year, \$1.6 billion, or over 30 per cent, of the payments are made using this process. There are over 4,000 vendors that use interface billing, with just under 200,000 interface bills processed annually.

Figure 2: Interface Bill Payment Process



Interface billing – why it matters

This audit reviewed the effectiveness of the interface billing process. Any kind of bulk payment or electronic billing provides cost-saving opportunities because it is more efficient. According to management, it costs \$11.32 to pay an individual invoice. Interface billing allows the City to process and pay a vendor for several invoices at a time, which saves time and money.

However, these savings need to be balanced with effective controls to ensure accuracy of payments. The audit identified opportunities for improving controls through automating purchasing and payment processes. We have made recommendations to better use data analytics for validating payments, integrated contract monitoring and strategic procurement.

According to management, the City will be implementing a new payment process, the Purchase-to-Pay (P2P)¹ process. Recommendations in this report, especially the approach to contract management, are relevant to all payment processes. They focus on the design of the controls, rather than the specific payment application or methodology.

Recommendations relevant to future processes

Some of our findings involving contracts paid through the interface payment process are also relevant to contracts paid through the non-interface payment process.

Scope of work

Our audit covered payments made from January 2015 to June 2018, summarized in Table 1. Due to the large volume of transactions and the amount of work involved, we limited our review to three major interface vendors and sampled invoices. The invoices contained multiple items – 20 or more in some cases. We reviewed payment controls in managing contracts and procedures for ordering goods and approving payments.

¹ The P2P project involves making contracted goods available online for purchase. Invoices will be electronically generated based on goods purchased and received.

Scope limitation

A challenge we faced during this audit was the quality of the data from divisions and vendors. There were data entry errors, and data was not being captured by the City in a consistent, methodical manner.

Table 1: Interface Payments for Vendors Selected for Audit, January 2015 - June 2018

Interface Vendor	Number of Interface Invoices	Amount \$'000	Comments
Safety Shoes	34,200	\$4,900	Top 5 divisions that buy safety shoes: Parks, Forestry & Recreation, Fire Services, Toronto Water, Solid Waste and Paramedic Services
Auto Parts	123,500	\$24,500	Serves 3 Divisions: Fleet, Fire and Paramedic Services
Hydro Services (interface process started Sept. 2016)	39,400	\$323,400	Serves across the City: Various Divisions/Locations
Total	197,100	\$352,800	

The Auditor General also reviewed additional vendors where needed

While the above vendor payments were reviewed in detail, the Auditor General also reviewed additional vendors, where needed, in the context of findings that arose from the review of the three selected interface vendors.

Summary of Key Findings

Controls should be in place before setting up vendors on interface billing

It is important that proper controls are in place prior to paying vendors via the interface bill payment process, particularly given the high volume and value of invoices processed through interface billing.

Our key findings are grouped in the following categories:

- A. Procurement
- B. Setting up Interface Billing Processes and Contracts
- C. Contract Management
- D. Payments and Credits

Some of these findings also relate to invoices processed through the regular, non-interface payment process.

Centralizing contract management, leveraging data analytics, and establishing reconciliation procedures

The findings in the interface billing audit points to opportunities to leverage data analytics to improve contract management and strategic procurement, including:

- strengthening contract management by centralizing contract monitoring to reduce the internal administrative burden on divisions by using a combination of data analytics and risk-based sampling of invoices to validate expenditures
- aligning the goods included in the Request for Quotation (RFQ) process to the goods actually being consumed
- taking advantage of all available discounts – the City lost over \$300,000 in early payment discounts and volume rebates for selected vendors during 2015 to 2018
- improving on the use of data and performing automated reconciliations between the vendor billing data and the City records to improve efficiencies in payment processes
- improving how it manages staff access to the SAP system.

The Audit Report includes 20 recommendations to improve controls and achieve cost savings

Implementing the 20 recommendations in this report will help the City take advantage of these opportunities, strengthen controls over the purchase and payment for goods and services, and improve the processing of interface bills. When the City moves to a new system, such as the new Purchase-to-Pay (P2P) process, the recommendations should be included in the control design.

Background

Interface Billing was implemented to reduce processing costs and improve efficiency

In 2013, the City introduced Interface Billing to reduce processing costs and improve efficiency. This process involves divisions in the verification of goods receipts and payments.

Although divisions play an important role in approving interface files their systems are manual and they are neither consistent nor integrated. There is a lack of consistent data collection to enable appropriate analysis for the contracts we reviewed. Even where there is some data available, centralized analysis using the data is not taking place. These deficiencies potentially reduce the benefit of the interface payment process.

There is an opportunity to improve centralized oversight over key components of the contract management and interface payment processes.

Table 2: Summary of Interface and Non-Interface Payments January 1, 2015 to December 31, 2018

Year	Number of Invoices (Interface)	Interface Payments \$'000	Number of Invoices (Non-interface)	Non-interface Payments \$'000	Total Payments \$000
2015	258,955	\$1,639,422	218,944	\$2,861,184	\$4,500,606
2016	169,603	\$1,727,734	208,514	\$2,985,529	\$4,713,263
2017	188,572	\$1,409,776	216,839	\$3,170,465	\$4,580,241
2018	190,682	\$1,625,116	212,580	\$3,635,551	\$5,260,667

The City is implementing a Purchase-to-Pay process

Management advised, the City is now implementing a Purchase-to-Pay (P2P) process, which includes automated procurement and payment. When fully implemented, this process will integrate vendors and their contracted goods into the SAP system, allow staff to purchase goods online, and automate invoice processing and reporting.

Our recommendations address the current risks and should form the basis of enhanced controls for P2P process

Regardless of the approach to payment – be it non-interface, interface billing or P2P process – there is an opportunity to centralize contract management and to leverage data analytics to improve contract management while reducing the administrative burden on divisions.

Audit Results

This section of the report contains findings from our audit work followed by specific recommendations. Out of the three vendors we selected for audit, two vendors (safety shoes and auto parts) had contracts with the City. The City awarded these contracts based on tendered quotes. For the third vendor, the hydro service provider, the rates and charges are applied according to regulation.

A. Procurement

A.1. Inadequate Monitoring of Contracted Goods and Services

RFQs are set up to obtain the lowest bid

The goods and services the City is buying do not always match the goods and services listed in the contract. Goods and services specified in the contract are generally referred to as the 'Basket of Goods'.



Vendors bid to provide goods or services specified in the RFQ for a certain price. The City generally awards the contract to a vendor based on the lowest bid.

It is important that the goods and services purchased reflect the items specified in the contract

It is important that the goods and services that are purchased reflect the items specified in the contract. This ensures the City is receiving the most competitive price for goods and that the integrity of the procurement process is maintained.

Issues can arise when the goods listed in the contract differ from the goods actually being purchased. This can occur if the requirements are not adequately developed, or if usage patterns are not appropriately captured for contracts and analyzed prior to tendering a new contract.

Results of review of interface billing for a vendor – Safety Shoes

In one example, the audit of the safety shoes contract, the contract was awarded based on the prices quoted for specific styles of safety shoes. The contract also provided that all other shoe styles from that vendor, be discounted by 10 per cent. The divisional procedures also allowed the following:

1. Staff can purchase other shoe styles and, where the prices exceed the maximum allowed price, staff are required to pay the difference.
2. Medical shoes do not have a price cap like regular safety shoes, and staff are not required to pay the difference.

87% of safety shoe purchased were not the specific styles listed in the contract

Using data analysis we identified that the specific shoe styles listed in the contract cost from \$40 to a maximum of \$124.50. However, the majority of safety shoe purchases (87 per cent of quantity) were not the styles listed in the contract. Employees were buying more expensive shoes. Although the cost-difference between the maximum allowed and the shoes purchased by employees is paid by employees, the information that costs were trending towards the higher-value shoe styles may be relevant to the next procurement decisions and RFQ.

Management Letter provides details of possible financial benefits

We have outlined in a management letter an illustrative example of the possible financial benefit of aligning purchasing to the usage and contracted list of goods in relation to safety shoes purchases. We are not questioning employees' need for specific shoes. What we have identified is the opportunity for data analysis to better inform strategic procurement and contract management in this area, to help the City save money.

Our focus was on systemic issues related to interface billing, leveraging data for strategic procurement and centralized contract management

The most important observation in our work was a broader, more systemic issue: for the contracts we reviewed, sufficient usage data is not being effectively captured, analyzed and used for contract management and strategic procurement. We note the City is pursuing strategic procurement on other large contracts. As it proceeds, the City should:

1. standardize and refine product purchases across divisions
2. capture data to track usage and compare against the contracted goods or services
3. expand procurement and contract management analytic capabilities to centrally monitor and analyze expenditures as part of the contract management and payment processes.

Management needs to leverage data analytics more

Where usage data is available electronically, management should use it to inform the ongoing contracts and RFQs. Management should also set up automated contract monitoring to ensure the quantity and specific items purchased agree with the contract, and that the City is obtaining the best price.

We recognize that there are situations where divisions may need to purchase goods other than what is specifically in the contract. But if the City is contracting based on a specific list of goods, that procurement should reflect what is being consumed and variances monitored. Analyzing the existing usage may help the City identify opportunities for economies of scale and obtain more competitive prices.

The Auditor General has identified contract award and management issues in previous reports

The Auditor General has reported on similar issues in previous audit reports. For example, in our audits of telecommunication contracts and expenses, we obtained data in the form of millions of records directly from the service providers and centrally analyzed the data to identify:

- variations in plan pricing and recommended that the City procure services based on usage patterns from the most cost-effective price plans
- billing anomalies
- inappropriate usage
- unutilized telecommunication resources

Leveraging data analytics helps to improve controls and will assist divisions to strategically procure the right goods and services at the competitive prices

Leveraging data analytics in the telecommunications audit helped to identify overall savings of \$8.5 million over five years. The telecommunication audit reports are available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117983.pdf>

<https://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70658.pdf>

The Auditor General previously identified how estimated amounts included in RFQs can differ significantly from actual usage

In another audit report “Improving the Tendering Process for Paving Contracts”, the Auditor General identified how the estimated amounts included in the RFQ differed significantly from the actual usage. One of the impediments for management was that the amounts specified in the contract and the actual usage was not monitored. The information on items was not standardized across contracts making it difficult to compare and prepare historical trend analyses. Bringing the data together through data analytics helped to identify issues.

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94704.pdf>

Recommendation:

- 1. City Council request the Chief Purchasing Officer to work with the Controller to:**
 - a. standardize and refine product purchases across divisions
 - b. capture data to track usage and compare against the goods and services specified in the contract
 - c. expand data analytics to centrally monitor and analyze expenditures as part of the contract management and payment process
 - d. develop a reporting process to identify large deviations in goods purchased, from the goods specified in contracts, documenting the reasons for the deviation, and estimating the financial impact.

B. Setting up Interface Billing Processes and Contracts

Interface files contain bulk invoices

Interface files contain multiple invoices. An error in the set-up of the main file for payment can result in the error being applied to the entire file. For example, an incorrect discount term entered in the first invoice line may result in the error being copied to the entire file, which could consist of tens or hundreds of invoices. Thus, it is important to have checks to verify accuracy and detect interface file anomalies before invoices are processed for payment.

B.1. Programming the System to Take Advantage of Early Payment and Volume Discounts

Early payment discounts/volume rebates normally range from 1% to 5%

A number of vendors provide early payment discounts and/or volume rebates. Discounts/rebates normally range from one per cent to five per cent and must be entered in the following SAP records:

- Vendor and Contract Master Records
- Interface Payment File
- SAP Invoice Entry Screen
- Discount table (maintained by Accounts Payable for reporting lost discounts)

We found some errors in the interface file set-up, so there is a need to implement controls between the various master records and interface files, including developing reports to detect and prevent errors and omissions when updating discount terms.

\$308,200 lost in early payment discounts and volume rebates for selected vendors during January 2015 to June 2018

For example, our review of two interface vendors found that early payment discounts in the amount of \$223,800 were lost for payments during January 2015 to June 2018 because the discount was not in the system. We extended our work to review non-interface payments and found an additional \$84,400 in lost volume rebates for four vendors who had active contracts during our audit period.

Although the lost discounts and rebates only equate to three per cent of \$10.4 million in payments during 3.5 years for these vendors, the work to verify that vendor records are set up properly would not be excessive.

Controls need to be improved to avail vendor discounts and rebates

Specifically, controls that need improving are:

Coordination on discount terms

1. Coordination on discount terms: Purchasing and Materials Management Division (PMMD), Accounts Payable and the divisions must improve coordination on contract discount terms. In the case of the safety shoes contract, both Accounts Payable and the divisions were not aware that there was a discount of five per cent offered in the contract. As a result, the discount was not realized for the entire duration of the contract (July 2015 to June 2018).

Enhance existing management reports

2. Enhance existing management reports: Reports do not exist to identify variances in discount terms between SAP records and invoices (both interface and non-interface vendors).

Automate monitoring of volume rebates

3. Automate monitoring of volume rebates: Volume rebates are manually maintained by PMMD and are not tracked through the SAP system. These records are not complete; the City relies on vendors to submit rebates.

In addition, the current SAP 'lost discounts report' only captures early payment discounts lost from non-interface vendors, and does not include discounts lost on interface payments and volume rebates. As a result, this report does not provide the full picture on lost discounts and rebates.

We were not able to determine the total amount of early payment discounts and volume rebates lost during our audit period.

Management advised that in order to minimize the loss of early payment discounts, Accounts Payable regularly provides reports to divisions to expedite outstanding invoice approvals in a timely manner.

Recommendations:

2. **City Council request the Controller to develop a process to verify the accuracy of early payment discounts for both interface and non-interface payment vendors. The 'discount lost' report should be updated to identify and include discounts lost on interface payments.**
3. **City Council request the Controller to automate recording, monitoring and collection of volume rebates. Outstanding amounts of volume rebates should be followed-up on, including those identified during the audit.**
4. **City Council request the Chief Purchasing Officer to compare the current list of volume rebate vendors with City contracts to identify any vendors offering discounts but which may have been omitted from the existing manually maintained list.**

B.2. Better Contract Set-up and Accurate Recording Would Improve Data Analytics

Contract information, product usage tracking, and payment controls should be designed in early stages of procurement process

To streamline the payment process, it is important to ensure that the contract information, product usage tracking, and payment controls are designed in the early stages of the procurement process. This will help to facilitate data analysis to:

1. support future strategic centralized procurement analytics capabilities
2. enable better contract management
3. improve expenditure verification through data analytics

Data analytics were not being used effectively to monitor contracts that use the interface billing process. We decided to expand our review to non-interface payments to determine whether findings related to interface payments were isolated incidents or whether there were similar findings in the non-interface invoice payment processes, pointing to a broader, more systemic issue.

Not all payments were posted in a manner that would allow the information to be used effectively to centrally monitor purchases and payments

In our sample, we found that data was not being captured consistently and posted in the SAP system in a manner that would allow the information to be used effectively to centrally monitor purchases and payments. Many payments were posted to miscellaneous categories or expired contracts, and some were not allocated to the appropriate contract.

This makes it difficult to analyze and centrally monitor multi-divisional contracts. Table 3 below summarizes the results of our review and shows the impact of various errors that we noted.

Table 3: Contract Set-Up and Posting Issues (Includes - interface and non-interface payments)

Issue Description	Summary Findings (selected sample)	Impact
<p>Contract line items (product details) are not always created in SAP contracts.</p> <p>Divisions also do not always post expenses to correct line items. (non-interface payments)</p>	<p>11 contracts totaling \$72.5 million were not appropriately entered in SAP.</p> <ul style="list-style-type: none"> • 5 contracts amounting to \$44.5 million did not have line items in SAP so that purchases could be tracked against the contract award. • 6 contracts amounting to \$28 million had postings made to incorrect or single line items. 	<p>Reports showing usage spend amounts as compared to the original contract items cannot be generated. This reduces the ability to compare purchases/usage against the line items identified in the contract.</p> <p>Lack of adequate comparison between contracted items and actual purchases impacts effective monitoring of contracts and estimation of quantities for future procurement.</p>
<p>High percentage of contract spend is allocated to Miscellaneous line items. (non-interface payments)</p>	<p>An additional 11 contracts totaling \$91.5 million involved large amounts that were posted to a miscellaneous category.</p> <ul style="list-style-type: none"> • We found \$33.7 million or 37 per cent collectively were posted to miscellaneous category. • 3 of 11 contracts had over 50 per cent of expenses posted to miscellaneous category. 	<p>Posting of high percentage of expenditures to the miscellaneous category could mean items not listed in the contract are purchased in large quantities. This could be due to:</p> <ul style="list-style-type: none"> • Inadequate contract set-up • Inadequate contract specifications in the original RFQ, or • Divisions not performing enough due diligence when posting the purchases to contract line items. <p>Postings to miscellaneous category reduces the visibility into the nature of items purchased and paid for, and whether the items purchased aligned with the original contract. It questions whether the contract was awarded to the lowest bidder.</p>

Issue Description	Summary Findings (selected sample)	Impact
<p>Contracts with 'blank' contract numbers entered in 'Assignment' field in interface files. Assignment field is used to identify expenditure in relation to the specific contract. (interface payments)</p>	<p>We found significant amount of payments (for example, \$56 million relating to five vendors) were not allocated to the respective contracts. The contract assignment field was left blank in the interface files.</p> <p>Actual expenditure (usage) on these contracts showed \$10 million whereas the expenditures were \$66 million.</p> <p>Management advised that these postings have been corrected in all of the contracts discussed in this section. In addition, a more robust process has been implemented to review interface files before they are posted in SAP.</p>	<p>When contract purchases are not allocated to respective contract(s) the reporting of expenditure on contracts(s) is understated. This could result in:</p> <ul style="list-style-type: none"> • reduced ability to compare purchases/usage against the contract • exceeding the original contract value without detection, and • divisions to bypass PMMD's formal process to request an increase to contract values
<p>Use of expired contract numbers in interface files</p>	<p>We found payments totalling \$890,000 for four contracts posted to expired contracts</p> <p>Management advised that in certain instances purchasing delays caused the use of expired contracts, while in other instances data entry templates were not updated with new contract numbers. As there are no controls in the system to block the use of expired contracts, these contracts continued to be used.</p>	<p>Posting current expenditures against expired contracts result in understating the expense reporting on current contracts.</p>
<p>Better monitoring and reporting of contracts on a global basis. (non-interface payments, however applicable to interface payments as well)</p>	<p>We found 10 contracts exceeded the contract award value by \$1.65 million (18.9 per cent).</p>	<p>If the usage is not monitored by tracking expenditures against line items, the contracts can exceed the awarded amounts and result in non-compliance with purchasing policies and procedures.</p> <p>Purchasing policies and procedures require that contracts be amended for expected increases before making any new commitments that would result in potentially exceeding the expenditures over the contract awarded amounts.</p>

As discussed in previous sections, the City should decide what needs to be monitored at the purchasing stage, and then set up the contract in the system so purchases can be monitored.

Better contract set-up is critical to leveraging data

Better contract set-up and capturing of usage information in a consistent manner will position the City to better leverage data analytics to support strategic procurement, centralized monitoring and bill payment.

Recommendations:

5. **City Council request the Chief Purchasing Officer to review and update the procedures related to contract set-up in SAP so the detailed line items are entered in the system in accordance with the contract.**
6. **City Council request the Chief Purchasing Officer to develop criteria and procedures for limiting the use of 'miscellaneous category' in contracts. Any excess expenditures under the miscellaneous category over a specified limit should be reported as exceptions to respective Division Heads.**
7. **City Council request the Controller to evaluate whether controls can be automated to identify invalid/expired contracts used in interface payment files before they are processed in SAP. If developing such a control is cost-prohibitive, alternate procedures should be developed in coordination with divisions to ensure interface payment files are correctly prepared.**
8. **City Council Request the City Manager to advise Division Heads to ensure compliance with purchasing policies and procedures. Contract spend reports provided by Purchasing and Materials Management Division should be reviewed in a timely manner and contract target values be amended, where required, before additional funds are committed.**

B.3. IT Access Controls Monitoring by Divisions Requires Improvement

The Auditor General identified users with inappropriate access

The system access controls for staff access to the SAP Procurement function are not adequate. Of the 69 users who had access to create contracts in SAP, we identified 13 users with inappropriate access:

- nine employees who left PMMD but their access was not revoked
- two support staff that do not create contracts had access to contract creation
- one employee was promoted and no longer required access
- one employee had duplicate user IDs

The Auditor General has issued a number of reports that have raised concerns relating to weak IT access controls and monitoring, including:

1. Audit of Water Billing and Collections – Phase II: Water Billing and Water Meter Management Controls Require Strengthening, 2017 <https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-102139.pdf>
2. Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs), 2015 <http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84553.pdf>
3. Controls Over Parking Tags Need Strengthening, 2010 <http://www.toronto.ca/legdocs/mmis/2010/au/bgrd/backgroundfile-27126.pdf>

The Information & Technology Division advised that there are reports available for divisions to run to verify access. Divisions can also request IT to run those reports for them.

Given that this issue has come up several times in previous reports, it is important that the City clarify its policies and procedures for periodic monitoring of staff SAP access and removing access when staff leave the City or change roles.

Recommendation:

9. **City Council request the Chief Information Officer to develop policies and procedures to review SAP access for divisions so that they can periodically review whether staff access to systems is appropriate, and make any necessary changes in a timely manner.**

C. Contract Management

C.1. Contract Management by Design

The common theme we found is the need for centralized, automated contract monitoring

Although the City leverages centralized purchases through its strategic procurement processes, and processes bulk interface bill payments, the management and monitoring of contracts is often decentralized among divisions.

Because contract management is dispersed across the City, processes are not efficient due to inconsistencies among divisions. Details on these operational inconsistencies have been provided to management in a management letter. In addition, there appears to be many opportunities to leverage data to help to centrally monitor contracts.

Below are a few examples of how data could be leveraged to inform procurement and centrally monitor expenditures across divisions.

Example 1:

Opportunity to use centralized monitoring for safety shoes

For safety shoe purchases, we identified several shoe styles that were purchased in high volumes City-wide. We analyzed these purchases and found information on the type, brand, quantity and cost that would be necessary to structure a more informed shoe procurement.

We did not see evidence that management performed similar analysis to spot trends and evaluate high-volume shoe styles with respect to contract pricing and suitability. For example, staff purchased over 4,200 pairs of M2-style shoes, but this style was not included in the contract.

We did not find evidence management monitoring why staff were purchasing shoes outside the styles specified in the contract

We also did not see evidence that management was assessing on a City-wide basis that why staff were purchasing high volumes of shoes that were outside the contracted list of goods, or whether the purchased shoes met the City's safety criteria. It is important that the styles purchased meet the City standards for safety.

Table 4 below provides an example of the kind of analysis that may be relevant when proceeding with future procurements.

Table 4: Top Five Shoe Styles Purchased Outside of the Contract (Shoe Styles have been re-labelled for reporting)

Seq No.	Shoe Style	QTY	Total Amount	Average Price Paid	% Spend in Category
		(pairs bought)			
Medical Shoes					
1	M1	502	\$125,700	\$250	16.6%
2	M2*	325	\$52,550	\$162	6.9%
3	M3	264	\$54,400	\$206	7.1%
4	M4*	155	\$25,000	\$161	3.3%
5	M5	145	\$35,500	\$245	4.7%
Regular Shoes					
1	M2*	3907	\$568,500	\$146	17.7%
2	R1	917	\$104,400	\$114	3.3%
3	R2	693	\$81,800	\$118	2.6%
4	M4*	635	\$77,100	\$121	2.4%
5	R3	604	\$64,500	\$107	2.0%

* Same shoe styles. The average price in the medical category is higher because there is no cap on prices. Regular safety shoes require employees to pay for the difference when the price exceeds the allowed maximum.

Data analytics helps monitor the spend to inform future procurements

Data analysis helped to highlight, for example that:

Staff made repeat purchases of shoes during the year

- Staff made repeat purchases of shoes during the year, sometimes four or more pairs in one year. One employee purchased 16 pairs from January 2015 to June 2018.²

Overall average shoe price is increasing because staff are purchasing shoes outside of the list of shoes specified in the contract

- The prices of specific shoes listed in the contract ranged from \$40 to a maximum of \$124.50. Our analysis shows that the overall average shoe price is increasing because staff are frequently purchasing shoes outside of the list of shoes specified in the contract. The average cost of shoes purchased from the specified list is \$105. However, shoes (including medical) purchased outside of the list of shoes in the contract had an average cost of \$134 per pair.

² Although these transactions may be warranted, the purpose of including them here is to demonstrate the benefits of data analytics that can easily identify anomalies that need follow up.

- Our analysis indicates that where the shoe allowance is lower, employees are buying more medical shoes which have no price limit. Where the allowance is higher, the purchase of medical shoes was negligible. For divisions where the maximum allowed amount was limited to \$124.50, the quantity of medical shoes purchased ranged up to 17 per cent of the Division's total shoe purchases. In the Fire Services Division where the maximum allowed price is \$187, the medical shoe purchases were under one per cent of the total Division's purchases.

While we are not questioning the legitimacy of staff's need to purchase medical shoes, higher priced shoes or multiple pair of shoes where needed, these examples demonstrate that centrally capturing and monitoring purchasing using data can be a powerful tool to identify trends, better pricing opportunities and to monitor contracts and purchasing trends.

Even though the new safety shoes contract provides improved reporting through the use of the vendor's system, proactive thinking about how the contract can be centrally monitored is important so that the data capture can be set up to support this monitoring.

Example 2:

Opportunity to use centralized monitoring of Auto Parts Prices

City never requested price monitoring reports from the vendor

One auto parts contract required the vendor to provide a competitive price review of parts supplied to the City at least every six months. We found the City has never requested these reports from the vendor to centrally review and monitor prices.

The Auditor General analyzed price changes for frequently used auto parts (100 or more parts purchased in 3 ½ years). Our analysis indicates that for 70 per cent of the parts used most often prices increased, on average, by 16 per cent, from 2015 to 2018. In some cases, these increases were over 50 per cent.

We are not saying that prices are incorrect. We are simply highlighting that price changes are not being monitored closely using reports provided for in the contract. It is critical for the City to perform market price reviews periodically to ensure goods are purchased at competitive prices.

New part price is accepted in the system without staff review

We also found that when a new part is added by the vendor to the City's system, the new part and the price is accepted in the system without any review by City staff. A process to validate new parts pricing by the City does not exist.

Although management does have access to the data to perform regular reviews, suitable reports should be developed specifying criteria for comparing prices over the life of the contract

Example 3:

Centralized Continuous Monitoring of Contracts Using Data

The Auditor General used data analytics for centralized continuous monitoring to identify savings

Some of the work undertaken by the Auditor General helps to highlight the power of leveraging data analytics to review spending patterns. In previous audits, the Auditor General used data analytics to analyze telecommunication expenses (the City's phone lines, millions of call detail records and data usage) to identify outliers and unusual and potentially personal-use call patterns.

For example we used data analytics to identify:

- services that should be disconnected because they are not being used
- telecommunication services that were outside of the service plan, such as, excessive long-distance calls and data usage
- personal use of telecommunication resources.

Leveraging data for audits has enabled the Auditor General to identify savings through data analytics. The audit results for the telecommunications audits, are referenced on page 7, are an example of how continuous monitoring using data analytics is cost-effective.

C.2. Centralized Contract Management Opportunities

Having centralized contract management and contract monitoring using data analytics provides a high-level integrated view of actual usage compared to the contract. It also highlights where procurement adjustments are necessary as the City moves forward. Centralized contract management begins with:

1. defining what needs to be monitored and that data that needs capturing to leverage automated controls
2. automating ordering
3. ensuring accurate data is being captured - data integrity is key to the process.

Payment compliance can be done more efficiently through:

1. continuous controls monitoring by performing data analysis of the entire payment data set
2. detailed sampling to confirm accuracy and compliance
3. automated reconciliations and reporting, including following up on anomalies.

Recommendations:

- 10. City Council request the Controller to evaluate the feasibility of establishing a Centralized Contract Management Unit/Centre of Excellence to look after City-wide contracts, where possible. The Unit should be responsible for:**
 - a. performing continuous controls monitoring on contracts, including analyzing divisional purchases, consolidating overall trends, and monitoring contract compliance**
 - b. developing criteria for providing exception reports to divisions on contract compliance, for example, purchase of goods not listed in the contract, and following up with divisions on any potential changes required to contracts**
 - c. developing processes and guidelines for divisions to improve automation and consistency in ordering, receiving and paying for goods and services.**

- 11. City Council request the General Manager, Fleet Services, to take the lead in:**
 - a. developing a periodic review process with the Vendor on competitive pricing of parts that are being supplied to the City. A criteria should be developed to have adequate parts covered under each review. Results of price adjustments should be documented after each review**
 - b. developing a process to approve new parts prices in the system**
 - c. coordinating the auto parts price management processes with other City divisions for their review and implementation.**

D. Payments and Credits

D.1. Vendor Payment Controls

Automating payment controls

Automated verification and reconciliation using data analytics would be more efficient and prevent overpayments

Validating invoices from the safety shoes and auto parts vendors is done manually by reviewing each invoice line item. This process, especially on a large contract with a lot of small items, is labour-intensive and increases the risk of errors. Automated verification and reconciliation using data analytics would detect anomalies and prevent overpayments, while also being more efficient.

Better Automated Reconciliations Between Vendor's Billing Data and the City's Inventory and Payment Systems needed

Divisions do not have adequate reconciliation process between the City systems and vendors' billing systems

Divisions do not have an adequate reconciliation process between the City systems and vendors' billing systems. Variances between the payments claimed by a vendor and the City's inventory and payment records could be more easily detected through data matching. Detecting these more easily means that they can be resolved in a timely manner.

Although our review was limited to the three vendors, the data analytics and automated reconciliations are applicable to other vendors, in particular to those with a high volume of transactions for the supply of goods and services.

11% of transactions charged by the vendor did not match City's records

We compared the auto parts supplier's billing data consisting of 264,200 records amounting to \$27.2 million for the period from January 1, 2015 to June 30, 2018 with the City's inventory and work order management and payment systems.

We had difficulties matching the two data sets due to inconsistent data and could not reconcile all the transactions. Prices and/or quantities for 28,505 records, or 11 per cent of transactions charged by the vendor, did not match the City's records.

The majority of the variances belonged to Fleet Services, but a portion also belonged to Fire Services and Toronto Paramedic Services. The Fleet Services Division is the lead on the auto parts contract, so we have recommended Fleet Services to coordinate following-up on variances in a timely manner with the divisions and the vendor.

We provided the details of variances in Table 5 to Fleet Services staff who reviewed a sample of transactions. The staff noted that while some transactions may have legitimate reasons for variances, others required further investigation. It is important to follow up to confirm why they are different.

Table 5: Variances Between Vendor's System Data and the City System Data Over a 3.5 Year Timeframe

Reconciliation Scenarios	Number of Transactions	Variance Amount \$'s
Non-contracted parts - Prices billed were higher than the City's system	16,891	\$374,000
Contracted Parts - Prices billed were higher than the contracted prices	4,332	\$119,000
Quantities billed are in excess of quantities issued in the City's system	232	\$52,000
Returns in Vendor's Billing System were not credited to the City	90	\$12,600
Parts where quantities and/or prices higher in City's system when compared with Vendor's data	6,960	(\$71,500)
Unreconciled Net Variance	28,505	\$486,100

Note: The table highlights variances generated through an automated reconciliation. Management should be performing similar automated reconciliations and following up on variances.

D.2. Improved Controls are Needed to Monitor Receipt of Credits for Auto Parts Returns

Adequate reconciliation process is required to ensure the City receives credit for all returned parts

From January 2015 to June 2018, the City returned parts amounting to \$1.2 million to the vendor. When a part is no longer needed for a work order, divisions ship the part back to the vendor with a return form. Divisions do not reconcile the credits provided by the vendor with their internal records to ensure that all returns have been credited.

Considering the significant amount of parts returned, a reconciliation process is necessary to ensure the City receives credit for all returned parts. The Auditor General's report entitled 'Fleet Services Operational Review, Phase 1: Lengthy Downtime Requires Immediate Attention', tabled at the May 3, 2019 Audit Committee, also discussed issues relating to parts returns and warranties. We have made additional recommendations to reconcile returned parts with credits provided by the vendor.

Recommendations:

- 12. City Council request the General Manager, Fleet Services, to develop processes:**
 - a. to reconcile auto parts purchases, returns and prices between the City's inventory system and the vendor's billing system on an ongoing basis
 - b. to resolve reconciliation issues in a timely manner and only those invoices should be paid that reconciles with the City records.

- 13. City Council request the General Manager, Fleet Services, to review price and quantity variances identified during this audit. Any overpayments and/or outstanding credits identified should be recovered from the vendor. Reasons why these variances occurred should be documented and appropriate controls implemented.**

D.3. Hydro Bills Reconciliation and Validation Requires Strengthening

Guidelines are needed for divisions to reviews hydro bills

Another example where reconciliation can be improved is hydro payments. The Environment & Energy Division (EED) processed and paid \$228.6 million in annual hydro bills for 2018. These bills included \$144.7 million for the City and the remaining \$83.9 for some Agencies and Corporations.

Hydro bills are verified through an automated hydro invoice payment system. The divisions who oversee those buildings or properties are provided with copies of the hydro bills for their review. Staff in some divisions informed us that they are not clear on their roles. Some coordinators said they simply file the bills because they did not know they had to validate the amounts or provide feedback. In addition to the work EED currently does to inform divisions of their bills, there is a need for EED to develop guidelines to clarify what reviews are expected when they receive hydro bills.

The Real Estate Services Division's list of properties may not contain all properties on a city-wide basis

The Real Estate Services Division maintains a list of City properties. This list may not contain all properties on a City-wide basis. Management advised that they have a project underway through a third party professional services firm, to put in place an asset management framework that includes defining foundational data, and creating a plan to update a City-wide list of properties on a prioritized basis.

In the absence of centralized records, EED relies on decentralized processes, such as divisions identifying changes in building ownership or occupation, and then forwarding the information to update the hydro payment system.

We reviewed hydro billing data from September 2016 to June 2018. We could not reconcile all addresses billed by the hydro service provider. For example, certain bills have the service address mentioned as “Dummy” or “Various Locations”, and these need to be mapped to specific properties or locations by EED. Management advised that the property addresses that cannot be matched to the Real Estate’s list are not necessarily an invalid City property address or an overpayment. Specifically, in some cases, hydro service addresses may not match the property address for large properties such as parks. In other cases, hydro invoices for street lights, traffic lights, and park lighting may not have defined addresses.

There is a need to identify accounts that have incomplete details and map these accounts to the service location. This list should act as a base reference document to validate and monitor expenses. Management has already initiated actions and has formed a City-wide Utility Working Group. One of the tasks that this group will perform is to carry out a one-time validation of hydro services with divisions.

Hydro Transformers Credit

The City owns hydro transformers in a number of buildings for which a credit should be provided

The City also owns hydro transformers in a number of buildings for which a credit should be provided based on hydro demand. These records should be updated and reconciled with the credits received from the hydro service provider. The lack of complete records of City-owned transformers present a risk that the City may not receive all eligible credits on transformers that it owns.

According to the hydro service provider, the City currently receives credit on 184 accounts. The average credit is \$750, and some accounts have a credit that exceeds \$5,000 per month. The Auditor General has provided the list of accounts with transformer credits received from the hydro service provider to respective divisions for future reconciliations with City records.

Maintenance of Hydro Transformers

A complete list of transformers owned by the City does not exist

A complete City-wide list of transformers owned by the City of Toronto is important not only to receive transformer credits, but also to ensure these transformers receive the required periodic maintenance by the Facilities Division. There is a risk that required maintenance on these transformers may not be undertaken in a timely manner or remain unscheduled.

Facility Management (FM) advised that as part of the preventive maintenance expansion program they recently completed a review of 19 key facilities. They also monitored heat conditions on a limited number of transformers. For the balance of transformers, the Division will capture these assets in the new Preventive Maintenance Portfolio Expansion program which will go into effect in late 2019.

Applicability of Recommendations to Other Utility Billing

Recommendations for hydro billing may be applicable to payments processed for other utilities

Our audit was limited to the hydro services provider for utility related billings. However, due to similarities with other utility services, the recommendations provided for hydro billing are equally applicable to payments processed for other utilities, such as, gas companies. The EED should evaluate other utility payments in relation to findings identified with hydro payments.

Recommendations:

- 14. City Council request the Director, Real Estate Services, to develop a process for updating properties owned or leased by the City including changes to the ownership in a central database. The database should be used to reconcile addresses with the hydro invoice payment system on a periodic basis, and any hydro services identified as not related to the City should be terminated.**
- 15. City Council request the Director, Environment & Energy Division, to perform a one-time validation of those accounts that do not have a specific service address, with respective divisions and establish a baseline for future validation.**
- 16. City Council request the General Manager, Facilities Management Division to develop:**
 - a. a complete list of all City-owned transformers**
 - b. a process for validating city's records of transformers with hydro service provider for eligible credits.**

Further, the transformer list should become part of the Facilities maintenance program.

17. City Council request the General Manager, Facilities Management Division, to develop a process to monitor demand for City-owned transformers in order to ensure appropriate credits are received when credit thresholds are achieved.
18. City Council request the Director, Environment & Energy Division, to review other utility payments for address reconciliations and to implement similar controls as recommended for hydro service payments.

D.4. Existing Duplicate Payment Check Process Can Be Improved

\$115,000 identified as duplicate or incorrect payments

We performed data analytics of payments made during the audit period and found potential recoverable amounts totalling \$115,000 in duplicate and incorrect payments. This amount is in addition to the \$400,000 management had already found and recovered. The majority of the duplicate payments occurred due to posting of duplicate interface payment files. Management advised that duplicate payment check reports are being improved to help detect potential duplicates before they are paid.

Accounts Payable is following-up to recover \$115,000 from the vendors

Accounts Payable is following-up with divisions and vendors on the \$115,000 potential recoverable amounts.

Considering the high volume and magnitude of payments processed by the City, the duplicates and incorrect payments are not material in relation to the overall payments processed. However, weak controls present a risk that higher duplicated amounts may go undetected.

Management advised that the new P2P process will help detect duplicate invoices.

Recommendation:

19. City Council request the Director, Accounting Services, to improve the duplicate payment check criteria and recover the outstanding duplicate and /or incorrect payments identified during the audit.

E. Audit Results May Be Relevant to Other City Divisions and Agencies

Recommendations in this report have relevance to other City divisions, agencies and corporations

Many of the issues and recommendations included in this report, particularly in regards to purchasing, contract management and payments, may have relevance to other City divisions, agencies and corporations.

Management representatives in these organizations should review the issues and recommendations in this report relative to their respective operations.

Recommendation:

- 20. City Council request the City Manager to forward this report to Division Heads and Chief Executive Officers of major City agencies and corporations, and request them to review and consider implementing the recommendations that are relevant to their respective operations, in particular, recommendations relating to purchasing, payment and contract management related areas.**

Conclusion

The report highlights the need to strengthen contract management processes by ensuring contracts are set up correctly for payment and for taking discounts and volume rebates, improving the use of data analytics to help monitor contracts, and implementing appropriate and automatic reconciliations between the City and vendor billing systems. We view this as continuous improvement opportunities and a roadmap to design these processes into the P2P process that the City is moving toward.

Implementing the recommendations will help the City to improve controls over the purchase and payment for goods and services, and improve efficiencies

Implementing the Auditor General's 20 recommendations will help the City to improve its controls over the purchase and payment for goods and services, and improve efficiency, so that the intended benefits of the automated interface billing process may be achieved. The recommendations will result in potential cost savings, the quantification of savings will be performed during the follow-up of implementation of recommendations.

We express our appreciation for the co-operation and assistance we received from management and staff of the Accounting Services Division, Purchasing and Materials Management Division, Fleet Services Division, Energy Efficiency and Real Estate divisions as well as other operating divisions that provided information to us throughout the audit.

Audit Objectives, Scope and Methodology

Audit was part of Auditor General's 2018 Work Plan

The Auditor General's 2018 Annual Audit Plan included an audit of the interface/direct billing vendors for the City of Toronto.

Audit Objective and Scope

The objective of this audit was to evaluate the controls over the vendor interface billing and payment processes and validate that the price and quantity of the goods and services charged by the vendor(s) are correct. The audit identified opportunities to leverage data to improve strategic procurement, contract management and payment processes. Where required the review was expanded to include non-interface payments and contracts.

Our audit covered payments made from January 2015 to June 2018.

Scope Limitations

A challenge we faced during this audit was the quality of the data obtained from the City. There were data entry errors, and data was not collected in a consistent, methodical manner.

Audit Methodology

Our audit methodology included the following:

- Review of the City's vendor interface billing related policies and procedures
- Evaluating internal controls over the vendor interface billing and payment processes in place to confirm that the price and quantity of the goods and services received by the City and/or charged by the vendors are correct
- Performing data analytics of the electronic vendor payment files and the data in other City systems to identify anomalies for example duplicate or inappropriate payments and billing errors. This included obtaining data directly from vendor systems, where applicable
- Review of related contracts
- Interviews with staff at operating divisions, and external vendors
- Identifying potential cost saving opportunities.

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.

Appendix 1: Management's Response to the Auditor General's Report Entitled: "Audit of Interface Invoice Payments – Improving Contract Management and Payment Processes"

Recommendation 1: City Council request the Chief Purchasing Officer to work with the Controller to:

- a. standardize and refine product purchases across divisions
- b. capture data to track usage and compare against the goods and services specified in the contract
- c. expand data analytics to centrally monitor and analyze expenditures as part of the contract management and payment process
- d. develop a reporting process to identify large deviations in goods purchased, from the goods specified in contracts, documenting the reasons for the deviation, and estimating the financial impact.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Chief Purchasing Officer will continue to work with the Controller and the Director of Accounting services in the roll out of the modules in SAP Ariba to improve the capturing and analysis of contract spend data. As a result of the improved data collection, the Chief Purchasing Officer working with the Controller and the Director of Accounting will develop a more robust reporting process. The Chief Purchasing Officer with the Controller will develop a directive to further the standardization and refine product purchases across the Division.

Timeframe Q4 2020.

Recommendation 2: City Council request the Controller to develop a process to verify the accuracy of early payment discounts for both interface and non-interface payment vendors. The 'discount lost' report should be updated to identify and include discounts lost on interface payments.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Controller, in consultation with the Chief Purchasing Officer, the Director of Accounting Services and the Chief Information Officer, will as part of the P2P process implementation ensure that early payment discounts are properly identified on the contracts. In the interim, the Chief Purchasing Officer and the Director of Accounting Services will review the existing procedure of setting up early payment discounts to ensure tis properly reflected in the system. Timeline Q4 2020.

Recommendation 3: City Council request the Controller to automate recording, monitoring and collection of volume rebates. Outstanding amounts of volume rebates should be followed-up on, including those identified during the audit.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

As part of implementing SAP Ariba P2P, the Controller, Chief Purchasing Officer and the Director of Accounting will ensure that volume rebates is properly tracked. In the interim, the Chief Purchasing Officer will identify ways to improve the existing tracking of volume rebates and follow up on any outstanding amounts. Timeframe Q4 2020.

Recommendation 4: City Council request the Chief Purchasing Officer to compare the current list of volume rebate vendors with City contracts to identify any vendors offering discounts but which may have been omitted from the existing manually maintained list.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Chief Purchasing Office will review the current list of volume rebate contracts to ensure that the list of vendors offering volume rebates is accurate. Timeframe Q2, 2020.

Recommendation 5: City Council request the Chief Purchasing Officer to review and update the procedures related to contract set-up in SAP so the detailed line items are entered in the system in accordance with the contract.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Chief Purchasing Officer will review the existing procedures to identify areas that need to be updated to ensure that contracts are set up in SAP with the appropriate information in accordance with the contract award and develop a process to conduct period reviews to ensure compliance. Timeframe Q2, 2020

Recommendation 6: City Council request the Chief Purchasing Officer to develop criteria and procedures for limiting the use of 'miscellaneous category' in contracts. Any excess expenditures under the miscellaneous category over a specified limit should be reported as exceptions to respective Division Heads.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Chief Purchasing Officer will develop a procedure with respect to the use of a miscellaneous category in contracts. This procedure will be developed in conjunction with the procedure on basket of goods referenced in recommendation 1. Both procedures will incorporate reporting on the use of the basket of goods and the miscellaneous category to Divisions. Timeframe Q2 2020.

Recommendation 7: City Council request the Controller to evaluate whether controls can be automated to identify invalid/expired contracts used in interface payment files before they are processed in SAP. If developing such a control is cost-prohibitive, alternate procedures should be developed in coordination with divisions to ensure interface payment files are correctly prepared.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Controller, in consultation with the Director of Accounting Services, the Chief Purchasing Officer and the Chief Information Officer, will evaluate the appropriate way to ensure interface payments are correctly processed, including how P2P will impact interface billings going forward. Timeframe Q4, 2020.

Recommendation 8: City Council Request the City Manager to advise Division Heads to ensure compliance with purchasing policies and procedures. Contract spend reports provided by Purchasing and Materials Management Division should be reviewed in a timely manner and contract target values be amended, where required, before additional funds are committed.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The City Manager, in consultation with the Chief Purchasing Officer, will communicate the need to ensure Divisions are in compliance with purchasing policies and procedures and that contract spend reports should be considered in a timely manner. Timeframe September 2019

Recommendation 9: City Council request the Chief Information Officer to develop policies and procedures to review SAP access for divisions so that they can periodically review whether staff access to systems is appropriate, and make any necessary changes in a timely manner.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Currently, SAP user access is set up or terminated per request of Division (i.e. manager). I&T's SAP Service Centre (SAP SC) is documenting existing policies and procedures and will be reviewing with the Service Grouping Leads from the respective areas. As the process matures, SAP SC will develop an automated report which would trigger any complement changes to the appropriate team for action that may be required (e.g. disable user account). Moreover, the I&T Division is developing a report that will be accessible by the service grouping leads to generate records of staff that have access to SAP.

Planned Completion Dates:

- December 2019 – Policy/Procedure development & Automated Report
 - March 2020 - Investigate and implement an automated method flagging any complement changes
-

Recommendation 10: City Council request the Controller to evaluate the feasibility of establishing a Centralized Contract Management Unit/Centre of Excellence to look after City-wide contracts, where possible. The Unit should be responsible for:

- a. performing continuous controls monitoring on contracts, including analyzing divisional purchases, consolidating overall trends, and monitoring contract compliance
 - b. developing criteria for providing exception reports to divisions on contract compliance, for example, purchase of goods not listed in the contract, and following up with divisions on any potential changes required to contracts
 - c. developing processes and guidelines for divisions to improve automation and consistency in ordering, receiving and paying for goods and services.
-

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Controller, in consultation with the Chief Financial Officer and Treasurer, the Chief Purchasing Officer and the Director of Accounting Services will evaluate the feasibility of creating a contract management centre of excellence to address the points raised in this audit and if require put forward the appropriate business case to the budget process. Timeframe Q4, 2020.

Recommendation 11: City Council request the General Manager, Fleet Services, to take the lead in:

- a. developing a periodic review process with the Vendor on competitive pricing of parts that are being supplied to the City. A criteria should be developed to have adequate parts covered under each review. Results of price adjustments should be documented after each review
- b. developing a process to approve new parts prices in the system
- c. coordinating the auto parts price management processes with other City divisions for their review and implementation.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Fleet Services will take the lead in developing a continuous review process with the Vendor on competitive pricing of parts supplied to the City. This will include criteria to ensure the City obtain parts at the most competitive prices as well as documentation of methods used and any price adjustments taken after review. (Q4 2020 – To align with recommendation 3(b) on Phase 1 Fleet Services Operational Review April 26, 2019)

Recommendation 12: City Council request the General Manager, Fleet Services, to develop processes:

- a. to reconcile auto parts purchases, returns and prices between the City's inventory system and the vendor's billing system on an ongoing basis
- b. to resolve reconciliation issues in a timely manner and only those invoices should be paid that reconciles with the City records.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Fleet Services will work with the vendor and City Divisions to develop a process to reconcile auto parts purchases, returns and prices between the City's inventory system, financial system and the vendor's billing system on a quarterly basis. This will include: (a) documentation to support that only invoices that are free of reconciliation issues are paid (b) system upgrades and/or process changes to facilitate the reconciliation process. (Q2 2021)

Recommendation 13: City Council request the General Manager, Fleet Services, to review price and quantity variances identified during this audit. Any overpayments and/or outstanding credits identified should be recovered from the vendor. Reasons why these variances occurred should be documented and appropriate controls implemented.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Fleet Services will develop criteria to select transactions for detailed review that reflect potential overpayments, while ensuring that any overpayments identified are documented and recovered from the vendor. As part of continuous improvement and the variance selection and identification process, Fleet Services will ensure that appropriate controls are in place for any future contracts. (Q2 2020)

Recommendation 14: City Council request the Director, Real Estate Services, to develop a process for updating properties owned or leased by the City including changes to the ownership in a central database. The database should be used to reconcile addresses with the hydro invoice payment system on a periodic basis, and any hydro services identified as not related to the City should be terminated.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

EED is in the early stages of working with Business Management and Real Estate Services to develop a means to cross-reference utility accounts with City asset data. The objective is to develop tools and/or processes to identify changes in the City asset data and notify EED of these changes so appropriate action can be taken. A timeline has not been established as the scope is still being developed.

Recommendation 15: City Council request the Director, Environment & Energy Division, to perform a one-time validation of those accounts that do not have a specific service address, with respective divisions and establish a baseline for future validation.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

EED has issued lists of unmetered services to all divisions that hold such accounts. The responsibility is on the division to validate the list of services and notify EED of any discrepancies so the hydro service provider can be notified and service list updated. Divisions are being asked to verify by end of Q3-2019.

Recommendation 16: City Council request the General Manager, Facilities Management Division to develop:

- a. a complete list of all City-owned transformers
- b. a process for validating city's records of transformers with hydro service provider for eligible credits.

Further, the transformer list should become part of the Facilities maintenance program.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

EED has notified members of the City-Wide Utility Working Group of this recommendation and has asked that all transformers be identified. Responses will be verified against existing list of accounts receiving the transformer credits. Any discrepancies will be communicated to the hydro service provider and appropriate account updates will be completed. FM will supply all divisions with an outline of a preventive maintenance program that divisions can implement to prevent outages and safety risks. Divisions are being asked to complete the review by the end of Q2 – 2019.

Recommendation 17: City Council request the General Manager, Facilities Management Division, to develop a process to monitor demand for City-owned transformers in order to ensure appropriate credits are received when credit thresholds are achieved.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

EED will create an automated report in the EnergyCAP system to review accounts that are receiving the credit against those that have City-owned transformers. Any account not receiving the credit will be manually checked to determine eligibility based on rate class (i.e. demand threshold). The City-Wide Utility Working Group will be the forum for these discussions and this will remain as a recurring topic to identify any changes. Timeline to completion of automated report is end of Q3-2019.

Recommendation 18: City Council request the Director, Environment & Energy Division, to review other utility payments for address reconciliations and to implement similar controls as recommended for hydro service payments.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

EED is currently completing a review of more than 900 additional utility accounts, primarily natural gas services. Review will be completed by end of Q2-2019.

Recommendation 19: City Council request the Director, Accounting Services, to improve the duplicate payment check criteria and recover the outstanding duplicate and /or incorrect payments identified during the audit.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Director, Accounting Services, will work with Accounts Payable to ensure that measures are put in place to monitor for duplicate cheques and recover any duplicate payments as soon as they are identified. Q1-2020.

Recommendation 20: City Council request the City Manager to forward this report to Division Heads and Chief Executive Officers of major City agencies and corporations, and request them to review and consider implementing the recommendations that are relevant to their respective operations, in particular, recommendations relating to purchasing, payment and contract management related areas.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The City Manager will forward this audit report to Division Heads and Chief Executive Officers of major City agencies and corporations for their consideration. Timeframe September, 2019.

**AUDITOR
GENERAL**

TORONTO