

## **Challenges in Contract Management – Auditor General's Review of the Corporate Real Estate Management Division**

**Date:** June 22, 2021  
**To:** Audit Committee  
**From:** Auditor General  
**Wards:** All

### **SUMMARY**

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We received an allegation that the Corporate Real Estate Management (CREM) Division (formerly Facilities Management) was paying inaccurate or inflated invoices. We conducted a review of billing accuracy and contract management processes.

While we did find some billing errors and invoice processing issues, intentional overbilling was not noted. We also identified areas of procurement and contract management processes for CREM to improve.

We note that CREM is transforming how it is managing vendors and is already moving forward on some invoice processing improvements. Our findings and recommendations will help CREM as it continues to improve how it procures services, manages contracts, and pays invoices going forward.

The work performed in relation to this review does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). However, we believe we have performed sufficient work and gathered sufficient appropriate evidence to provide a reasonable basis for our findings, conclusions and concerns.

### **RECOMMENDATIONS**

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The Auditor General recommends that:

1. City Council request the Executive Director, Corporate Real Estate Management, in consultation with the City Solicitor, to identify and assess the recoverability of the Corporate Real Estate Management Division's current vendor billing of journeyman's rates for apprentice work for the City's maintenance contracts where apprentice work is involved.

2. City Council request the Director, Internal Audit, in consultation with the City Manager, to report back to the Auditor General by mid-2022 on the degree of potential exposure across the City on the apprentice billing rate issue discussed in Section A.1. in Attachment 1 to this report and include proposed recommendations to address the exposure noted and the estimated financial impact.
3. City Council request the Chief Procurement Officer, to ensure that, in procurements where hourly rates for apprentices are being sought as part of the procurement, the rates being requested from the suppliers are reflective of the different skill levels of apprentices that are applicable to that type of work and that suppliers are required to provide a list of journeymen and apprentices semi-annually to City divisions.
4. City Council request the Executive Director, Corporate Real Estate Management, to ensure the following for procurements involving apprentice rates:
  - a. vendor invoices or their supporting documentation clarify the following information relating to vendor technician(s) dispatched to repair or maintain City equipment, including:
    1. full name(s);
    2. certificate(s) of qualification; and
    3. registration number(s) with the Ontario College of Trades; and
  - b. the City is invoiced at the proper rates.
5. City Council request the Executive Director, Corporate Real Estate Management, to ensure that all future procurement calls/solicitations include a requirement on the appropriate process for contract amendments, including proper authorization, documentation, and ensuring amended contracts are centrally stored.
6. City Council request the Executive Director, Corporate Real Estate Management, to ensure vendors obtain pre-approvals for using subcontractors, bill accurately, and declare such usage on the invoices/service reports.
7. City Council request the Executive Director, Corporate Real Estate Management, to direct staff to verify that payment for services is consistent with the express terms of contracts.
8. City Council request the Executive Director, Corporate Real Estate Management, to ensure that, where applicable, vendors include full equipment details such as capacity information on the invoices and ensure supervisors verify the rates and the number of equipment serviced before approving the invoices.
9. City Council request the Executive Director, Corporate Real Estate Management, to ensure that procurement documents include clear and detailed scope of work and performance expectations for flat rate items, including checklists to perform the work, makes/models of fixtures to be installed, minimum maintenance standards that the work must meet, and/or any other relevant requirement, wherever applicable, to avoid invoice disputes.

10. City Council request the Executive Director, Corporate Real Estate Management, to consider adding billing accuracy to the vendor performance evaluation criteria and charging administrative fees to the vendor where there are billing errors.

11. City Council request the Executive Director, Corporate Real Estate Management, to consider utilizing a statistical sampling method to systematically validate vendor billings, and where appropriate, extrapolate to pursue a recovery for the City.

12. City Council request the Executive Director, Corporate Real Estate Management, to ensure that supervisors request vendors to substantiate invoiced amounts that reach a certain threshold with supporting documentation before providing approval, with such supporting documentation to include and not be limited to:

- a. service reports;
- b. material receipts;
- c. equipment rental receipts; and
- d. subcontractor receipts.

13. City Council request the Chief Procurement Officer, in consultation with the City Solicitor and the Director, Internal Audit, when developing the Centre of Excellence in Contract Management, to provide guidance to City divisions on what due diligence should be considered before approving time and materials invoices where costs appear to be high, with such due diligence to consider, where appropriate, the relationship between a contractor and a supplier.

14. City Council request the Executive Director, Corporate Real Estate Management, to ensure that technology is used to validate service time billed by vendors.

15. City Council request the Executive Director, Corporate Real Estate Management, to formalize the invoice dispute resolution process and ensure that both billing disputes and resolution are documented.

16. City Council request the Executive Director, Corporate Real Estate Management, to develop and maintain a comprehensive and up-to-date equipment inventory list, including but not limited to, where applicable:

- a. capacity;
- b. make;
- c. model; and
- d. serial number of the equipment.

17. City Council request the Executive Director, Corporate Real Estate Management, to develop a Preventive Maintenance plan for equipment that require regular maintenance, and to ensure such work is being completed and tracked in a timely manner.

18. City Council request the Executive Director, Corporate Real Estate Management, to ensure after-hours work is approved and justified, and the rationale for overtime work documented.

19. City Council request the Executive Director, Corporate Real Estate Management, to ensure that estimates and quotes include detailed breakdowns such as the number of technicians, labour hours, equipment, materials list and costs and, in the event that an estimate is provided, the final invoice should be substantiated by a service report and other supporting documentation.

## **FINANCIAL IMPACT**

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Implementing the recommendations contained in this report will help strengthen contract management and improve future procurements which will help mitigate the various billing issues identified in this report.

The extent of costs and resources required to implement the recommendations or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

## **DECISION HISTORY**

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Several past Auditor General reports commented on invoice, procurement, and contract management processes that need improving, including the following two reports:

*“Previous Audit Reports - Common Themes and Issues”*

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU5.3>

*“Getting to the Root of the Issues: A Follow-Up to the 2019 Tree Maintenance Services Audit”*

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU8.6>

## **COMMENTS**

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Further information is contained in the At a Glance and Attachment 1 documents.

## **CONTACT**

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Sean MacIntosh, Director (A) - Forensic Unit, Auditor General's Office  
Tel: 416-392-8460, Email: [Sean.MacIntosh@toronto.ca](mailto:Sean.MacIntosh@toronto.ca)

Claire Fang Mu, Senior Audit Manager, Auditor General's Office  
Tel: 416-392-0057, Email: [ClaireFang.Mu@toronto.ca](mailto:ClaireFang.Mu@toronto.ca)

## **SIGNATURE**

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Beverly Romeo-Beehler  
Auditor General

## **ATTACHMENTS**

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Attachment 1: Challenges in Contract Management – Auditor General's Review of the Corporate Real Estate Management Division