

## AT A GLANCE

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

#### BACKGROUND

This report reviews invoice processing and contract management in the Toronto Corporate Real Estate Management (CREM) Division (formerly Facilities Management).

#### WHY THIS REVIEW MATTERS

Addressing the issues identified in categories A to C (listed below) will assist CREM in transforming its invoice payment, procurement, contract management, and vendor management processes and help ensure the City is receiving value for money. It also recognizes steps taken by CREM to date.

#### BY THE NUMBERS

- **250:** invoices reviewed in detail
- **1,500:** invoices reviewed through data analytics
- **2013-2020:** periods of invoices analyzed
- **7:** categories of billings inconsistent with express contract terms noted (**A**)
- **6:** types of supporting documentation staff should review (in addition to service report) before releasing payment going forward (**B**)
- **7:** recommended improvement areas to CREM's contract management (**C**)
- **6:** recommended improvement areas to City's procurement (**Exhibit 1**)

#### HOW RECOMMENDATIONS WILL BENEFIT THE CITY

Implementing the recommendations contained in this report will help CREM improve how it procures services, manages contracts, and pays invoices.

#### WHAT WE FOUND

The Auditor General's Office did find some billing errors, however intentional overbilling was not noted. Controls are needed to address the following:

##### **A – Billings Inconsistent with Express Contract Terms**

1. Journeyman rates charged for apprentice work
2. Subcontractor mark-ups negotiated after contract award and better controls needed
3. Incorrect mark-ups applied to materials
4. Preventative maintenance billing issues
5. Log book/service report discrepancy issues
6. Flat rate pricings not being used as often as expected
7. Incorrect optional renewal year rates used

##### **B – Lack of Documentation Supporting Payment**

1. Payments made without proper substantiation, including reviewing worksite logs, material trade invoices, equipment rental invoices, vendor technician certificate of qualification, estimates/quotes, and subcontractor invoices
2. Materials purchased from related companies undisclosed

##### **C – Contract Management Practices Needing Continuous Improvement**

1. Dispute resolution process needs improvement
2. Updated and comprehensive equipment inventory needed
3. Preventative maintenance costs are lower than target in RFQ
4. Lack of documentation for after-hours work
5. Separate work orders and billings for a series of inspections of identical equipment in one building or even one floor of a building
6. Pre-approve subcontractor work and ensure subcontractor work is billed as such
7. Lack of process requiring vendors to provide estimates and obtain approval prior to proceeding with repairs