

Installation and Maintenance of Traffic Signs Contract - Follow up on Complaints Received

Date: June 24, 2022
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

The purpose of this report is to provide an update on a fraud and waste complaint received, the subsequent action taken on the allegations and that management continues to work on the matters raised.

In mid-2016, the City's Fraud and Waste Hotline (operated by the Auditor General's Office) received a complaint alleging a utility contracting services vendor ("the Vendor") of overbilling and a lack of oversight by Division management for not taking action against the Vendor. The Vendor provides installation and maintenance services regarding traffic signs. The Auditor General's Office conducted preliminary inquiries and determined that it was appropriate to refer the complaint to the Transportation Services Division ("the Division") for review and suggested leveraging the Internal Audit ("IA") Division to conduct an analysis to help address the allegations.

In 2017, the IA Division issued a report of their analysis and outlined four recommendations for the Division to consider. They noted input errors by the Vendor, and credits for those amounts were received by the Division but no intentional overbilling was found. Divisional management agreed to implement the IA Division's recommendations by Q3 of 2018. IA Division's recommendations are outlined below, and the full report is attached.

In December 2021, the Auditor General received another complaint that there were still concerns with the same vendor with additional allegations. The Auditor General's Office conducted preliminary inquiries, referred the complaint to the Division to review and followed up on the status of the IA Division's recommendations from 2017.

The Division reviewed the new allegations and concluded one of the allegations was substantiated. The Auditor General's Office also met with the Division and were informed that some of the IA recommendations from 2017 were not implemented due to extenuating circumstances. The Division is continuing to work on the recommendations and future follow up may be required.

This report presents an overview of the complaints received, actions taken and current status of the past recommendations and potential new recommendations in advance of the contract for installation and maintenance of traffic signs being procured for January 1, 2023.

The Auditor General's Office is summarizing the information and has not audited the results presented. This report does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the General Manager of Transportation Services to ensure the following for the upcoming contract:

- the vendor is required to document streets patrolled for non-site travel time;
- the vendor is required to submit a daily log of activities to be performed.

2. City Council request the General Manager of Transportation Services to ensure that all areas of improvement identified through the complaints are incorporated into the upcoming contract.

3. City Council request the General Manager of Transportation Services to report back to Audit Committee by the end of Q3 2023 on the outcome of the review by the Corporate Compliance Unit in Transportation Services on the initial Internal Audit recommendations.

FINANCIAL IMPACT

The implementation of recommendations in this report will result in enhanced transparency on vendor invoices through improved internal controls and contract oversight processes. The extent of any resources required or potential costs resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

The Fraud and Waste Hotline program operated by the Auditor General's Office provides City of Toronto staff and members of the public with a means to report any observed or suspected fraud, waste or wrongdoing involving City resources.

The Auditor General's Forensic Unit also provides independent oversight of management-led investigations by reviewing the adequacy of work conducted, including steps taken to reduce losses, protect City assets and prevent future wrongdoing.

COMMENTS

Background:

The City maintains a road network of 5,397km as at 2018 consisting of City Expressways, Major and Minor Arterial roads, Collectors and Local Road. Ensuring the roads meet the Provincial Minimum Maintenance Standards is a responsibility of the Division. Part of the responsibility to meet the Minimum Maintenance Standards is to ensure that traffic signage is properly displayed, in good condition and if a problem is identified, it is rectified within a specified amount of time.

The City has divided the responsibility for installation and maintenance services regarding traffic signs to a utility contracting services vendor for arterial and collector roads and expressways within the City, while local roads are performed by City of Toronto employees. We were informed by the Division management that the splitting of duties is a historic practice that goes back to pre-amalgamation in 1998, when the former municipality of Metropolitan Toronto contracted out sign maintenance on the major roads, while the former local municipalities used in-house employees.

The vendor is currently performing the work as part of the current two-year contract beginning in January 2020 with a one-year optional extension that the City exercised. The same vendor has won the past two public procurements with the contracts beginning January 1, 2014 and January 1, 2017.

This report presents an overview of the complaints received, actions taken and current status of the past recommendations and potential new recommendations in advance of the contract being procured for January 1, 2023.

First Complaint:

In mid-2016, the Fraud and Waste Hotline received a complaint regarding vendor overbilling and a lack of oversight by Division management for not taking action against the vendor. Specifically, the complaint alleged that:

- the vendor was charging resources on multiple invoices resulting in more than 8.5 hours per day for some resources in a crew
- lack of oversight by the Division in checking invoices against work orders & GPS data
- the vendor's non-site travel was excessive

Non-site travel is when the vendor is patrolling looking for traffic signage issues, versus being called to service a specific sign maintenance or installation. The patrolling function (also known as "observed work") is a requirement outlined in the contract as it

is a part of Ontario Regulation 612/06 part of the Provincial Minimum Maintenance Standards for roads.

The Auditor General's Office undertook an initial assessment of the allegations after meeting with the complainant to consider what actions would be appropriate in order to prioritize available resources. The Auditor General's Office determined that it was appropriate to refer the complaint to the Division for a first level review. In our referral, the Auditor General suggested the Division leverage IA to conduct an analysis of the billings to help address the allegations.

In 2017, Internal Audit issued their report which outlined four recommendations for the Division, to review and implement in order to strengthen internal controls. Their recommendations are outlined below, and the full report is attached, see **Attachment #1**.

Internal Audit Findings and Recommendations:

1) Overbilling

Findings:

The review looked at billing data from 2015 and 2016 (comprised of 30,637 work orders) and identified 777 instances where regular time billed in one day by one labourer exceeded the 8.5 hours allowed by the contract. From the subsequent analysis, many instances were data entry errors but approximately 80 hours of credits were given to the City for errors where the City was double billed.

Recommendation #1

To ensure the accuracy of amounts charged, the Director, Traffic Management Centre should:

- a) Investigate potential overbillings in 2015 and 2016 identified above, focusing on instances where more than 12.5 hours were charged in a day.
- b) Establish regular reporting and analysis of the vendors labour hours charged by date, labourer, district and work order (at minimum, quarterly), to identify:
 - More than 8.5 hours charged as regular time by a labourer in one day.
 - More than 12 hours of overtime charged by a labourer in one day.
 - Labourers who routinely book excess hours.
 - Anomalies or trends in billing data.
- c) Recover excess billings from the vendor, as required.
- d) Determine the feasibility of tracking travel time, break times and time spent completing a job recorded separately in Transportation Maintenance Management System ("TMMS") to facilitate work order review.

1) Overbilling (continued)

e) Identify whether any standard or customized reports can be generated in TMMS that may assist supervisors in the verification of billings on a weekly basis.

2) Matching Contractor Resources to Work Demands

Findings:

The review concluded that workload is seasonal and that a full crew complement is not necessary throughout the year.

Recommendation # 2

To ensure the effective utilization of contracted resources, the Director, Traffic Management Centre assesses the feasibility of incorporating flexible crew complements in future sign maintenance/installation contracts.

3) Need for Invoice Review and Site Inspection Guidelines

Findings:

Detailed guidelines for invoice review and site inspections have not been developed by the Division. GPS data is available, but it is up to supervisor's discretion to review.

Recommendation # 3

To ensure that invoice review and onsite inspections are conducted in an effective and consistent manner, the Director, Traffic Management Centre should:

a) Develop criteria to determine when onsite inspections should be conducted for planned, emergency and observed work, taking into consideration:

- Dollar value of work performed
- Adequacy of photographs provided
- Size/complexity of job
- Inspection targets based on job type (e.g. 5% sample per week).

Weekly sample sizes should be periodically re-assessed based on results of inspections.

b) Ensure that results of all site inspections performed are documented in TMMS.

c) Establish reasonable parameters for time charged (standard hours) to specific job types, common anomalies and when GPS data should be consulted.

4) Non-Compliant or Missing Photographs

Findings:

Reviewed 10 randomly sampled invoices from 2015/2016 (consisting of 390 work orders) and found 8% (32/390) of work orders had pictures taken too closely, upwards and not at a wide angle to allow verification of the location where the work was performed (e.g. no landmarks in photo).

Recommendation # 4

To enable the verification of work performed, the Director, Traffic Management Centre ensures that the vendor complies with the photographic evidence requirements as specified in the contract.

Where discrepancies are identified, follow up should be conducted with the vendor and the results documented in TMMS.

For the full report, please see **Attachment # 1**. The Division agreed on the recommendations and formulated a Management Action Plan with a scheduled implementation timeframe of Q3 2018. The Auditor General's Office reviewed the IA report and management's commitment to the recommendations as part of the independent oversight role for the Fraud and Waste Hotline and were satisfied that progress was being made to address the allegations. The Fraud and Waste complaint file was therefore closed.

Auditor General's Office Analysis of Recommendations to Address the Allegations:

As part of this summary, the Auditor General's Office reviewed IA recommendations against the initial allegations. IA's objectives (paraphrased) were to review controls to mitigate duplicate billing, review that invoice amounts are in accordance with contract terms and review that contract work is effectively validated.

We note that Recommendation 1 & 3 address the three allegations brought forward by the complainant in the first complaint.

Table 1: Auditor General's Office Analysis of the IA Division Recommendations and the Initial Allegations

Allegation	Related IA Recommendation	Auditor General Observations
<p>The vendor was charging more than 8.5 hours per day for each resource in a crew as the resource was billed on multiple invoices</p>	<p>1a, 1b, 1c</p>	<p>The noted recommendations specifically address the issue of overcharging for greater than 8.5 hours per resource. The Division's management response noted that through the use of the reporting function in the Transportation Maintenance Management System they would be able to identify any worker whose regular time exceeded 8.5 hours a day and ensure that the anomaly is resolved before invoices were submitted for payment.</p>
<p>The lack of oversight by the Division checking invoices against work orders & GPS data</p>	<p>3a, 3b, 3c</p>	<p>The noted recommendations address improving the oversight of invoices through improved inspection requirements by ensuring either onsite or photographic evidence is obtained for work completed and establishing reasonable parameters for job types which will help to identify outliers.</p>
<p>Vendor non-site travel was excessive</p>	<p>1d</p>	<p>The noted recommendation addresses excessive non-site travel by tracking travel time vs. actual time spent completing a job. The information collected would allow the Division to assess the reasonableness of non-site travel.</p>

Overall, IA review concluded in 2017 that there was a potential for overbilling to occur and it may not be detected through Division review of the vendor's invoices and work orders alone. Opportunities for improvement exist through the development of guidelines for invoice review and onsite inspections. As noted above, based on the Divisions review there were no overbillings found, only input errors.

Second Complaint:

In December 2021, the Auditor General received a complaint that there were still concerns with the vendor. The Auditor General's Office met with the complainant to discuss their concerns and allegations. They were:

- Inefficient use of time by the vendor, a large amount of the day related to non-site travel
- No list of daily planned work provided to the City and no daily logs making it difficult for oversight
- The vendor's maintenance and installation of traffic signs on a portion of the City roads could be completed by City employees who could likely complete the work for less cost

The Auditor General's Office referred the complaint to the Division for a first level review and at the same time initiated follow up with the Division regarding the complaint from 2016 and the status of the IA's Division's previous recommendations.

Division's Review and Auditor General's Office Analysis:

The information presented below includes the Division's review and the Auditor General's observations. As previously noted, this is not an Audit but based on our review we have made some recommendations to address the issues we identified through the Divisional review.

Table 2: The Division's Review of the Allegations and Auditor General's Observations for Consideration

Allegation	Division Review	Auditor General Observations for Consideration
<p>1) Inefficient use of time by the vendor, a large amount of the day related to non-site travel</p>	<p>Substantiated</p> <ul style="list-style-type: none"> - the vendor does spend time patrolling the streets looking/fixing sign infrastructure - this patrolling occurs when there is no emergency and/or planned work given to them. - the contract document outlines the number of crews required to complete the emergency/planned work but does not speak to the time when work is not provided to them. - vendor patrols the roads during the hours that emergency/planned work has not been assigned. <p>2021 - Per TMMS, 25.6% planned work, 47.9% emergency work, and 26.5% patrolling. (Statistics of 2021 work orders from TMMS)</p>	<p>Approximately 26.5% of the billable time is spent patrolling the streets looking for sign infrastructure to fix. This appears high and potentially some further contract controls need to be implemented to ensure that there is value obtained in the patrolling time, such as the vendor must document which streets were patrolled to ensure proper coverage in the City and accountability for the vendors time.</p>

Allegation	Division Review	Auditor General Observations for Consideration
<p>2) No list of daily planned work provided to the City and no daily logs making it difficult for oversight</p>	<p>Unsubstantiated</p> <ul style="list-style-type: none"> - the contract required a Daily Work Schedule, indicating the first points of call for all labourers to be sent to the appropriate Toronto Transportation offices by 8:30 a.m. each business day. Failure to comply with the above could result in damages of \$50.00 per missing daily report. - the report is being provided to City, but only includes the crews first location, as stipulated in the contract document. - the new contract will review this requirement and make the necessary changes, as required. The oversight of the vendors work is completed through the work order invoicing stage, which requires before/after photos. 	<p>Through the Division's review, they confirmed a daily report must be provided to the City, but this only includes the crew's first location, as stipulated in the contract agreement. For better utilization of the vendor's time, a daily report with the full schedule could help to improve planning of the vendors time to increase efficiency.</p>
<p>3) Questioning the overall economy of using a vendor for a portion of the City roads when there are in-house staff that could likely complete the work for less cost</p>	<p>Unsubstantiated</p> <p>The review determined that the current workload being completed by the vendor cannot be completed by the current staffing and vehicles compliment within the unit.</p> <ul style="list-style-type: none"> - The review of the 2021 contracted hour's show 11,013 hours were spent on planned and emergency work with four vehicles. - With the assumption of 8 hours/day x 5 days/week x 52 weeks = 2,080 hours per Full Time Employee (FTE). The 11,013 hours would equate to 5.3 City FTE's. 	<p>The investigation concluded that the current workload that is being completed by the vendor, cannot be completed by the current staffing and vehicles compliment. In the future, this split of labour between a vendor and city employees can be reviewed for efficiency and effectiveness by the Division to ensure the historical practice of splitting the duties continues to provide value to the City.</p>

Follow up on Status of Internal Audit Division Recommendations

The Division and the Auditor General's Office met in April 2022 to discuss the status of implementing the IA Division's recommendations and how the billing and processes to oversee the vendor have evolved since 2017. Through discussion with the Auditor

General's Office and analysis by the Division, the Division identified that some recommendations have not been operationalized. IA performed their follow up with the Division ensuring that their recommendations were addressed by confirming that the guidelines were developed and communicated to staff. However, to ensure that the process improvements for oversight of the vendor continued, the IA recommendations should be formally incorporated in a Divisional standard operating procedure. Per the Division, they plan to have the standard operating procedures in place by Q1 2023 and will complete a compliance review in Q3 2023.

It is imperative that the Division follows through on their actions whether from an IA recommendation or an Auditor General's Office recommendation to ensure it is not only addressed at the time of the recommendation but ongoing and continuously. We have been informed by Divisional management that the Division's Corporate Compliance Unit has the responsibility to track recommendations and facilitate their implementation, as well as conduct subsequent testing to confirm such implementation.

The Division needs to consider the areas of improvement identified through both the 2016 and 2021 complaints and review by the Internal Audit Division. These should be addressed in the new contract language when vendor procurement is pursued as well as controls implemented for vendor oversight to ensure value for money for the City on the service provided.

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SIGNATURE

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