

Procurement of Construction Services Management Response

Audit Committee Meeting

March 24, 2017

Overview

This report is the second of two Auditor General reports related to paving tendering practices.

The focus of this report is on fair contracting practices and identifies warning signs that could indicate collusive activities among contractors.

The Auditor's report identifies recommendations to help ensure fair and competitive procurement process to obtain best value for money and fair market prices.

Building a Culture of Continuous Improvement

Oversight and Review

- The Auditor General's oversight and review of current practices supports continuous improvement.

Audit of Issues & Corrective Action

- The City Manager's Office, Transportation Services and Purchasing & Materials Management teams took the investigation seriously and worked with the Auditor General's Office to identify issues and take corrective action.

Value for Money

- Highlights serious issues and the need for relentless diligence to ensure responsiveness does not take precedence over the City's ability to achieve value for money.

Management Response

Extensive Investigation

- Consultation with subject matter experts.
- Detailed review of practices, policies and the actions of staff and management.

Safeguard the Public Interest

Corrective Actions

- City Council approved the Toronto Public Service & Purchasing by-laws.
- Transfer of resurfacing program to Engineering and Construction Services.
- Address policy and process gaps, including change management & escalation protocols, tracking database.
- Implement comprehensive training program.
- Ensure appropriate oversight.

Limit Risk

Ongoing Assessment

- Continue to assess the effectiveness of early actions.
- Continue to monitor and promote culture change within the organization.

Ensure Value for Money

Transportation Services Actions Completed and Underway



Oversight and Accountability Measures

- Harmonize and implement additional accountability measures to estimating, tendering and documentation practices.

Training

- Ongoing and rigorous training for staff and management.

Rotation

- Regular rotation of program and staff assignments.

Analysis

- Unbalanced bidding analysis.
- Early identification of variances.

Oversight and Accountability Measures



Transportation Services Staff and Management Training

Upcoming - two mandatory contract Change Management sessions for all 216 management staff.

Eight sessions total over May and June 2017.


Trained staff on standardized estimating procedures and templates.

Held two mandatory information sessions for staff in 2016.

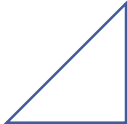
Delivered by the Auditor General.

Attended by 381 union and non-union staff.


Transportation Services Staff and Program Rotations



Centralized delivery of local road resurfacing program by transferring four district programs to ECS effective Jan 1, 2017.



Rotated inspection and supervisory staff to new posts in other districts to improve consistent delivery and reset staff/contractor working relationships.



Rotated District Road Operations Managers (June 2016) to manage staff and contractors in another District.

Unbalanced Bidding Analysis

Conducted reverse bid analysis for all 2016 contracts.

Reviewed all contracts awarded from 2010 to 2015 to identify variances.

Developed an unbalanced bidding analysis procedure with PMMD.

Results of 2016 Reverse Bid Analysis

Reviewed 83 contracts across four districts with a total value of over \$146M.

10 of 83 warranted additional review.

Reasons for quantity changes were deemed justified (e.g., emergency work, site impacts).

Total differential in cost for all 10 was approx. \$586K—or 0.4% of the total dollar amount for all 83 contracts.

Transportation Services



Purchasing and Materials Management Actions

Three large business transformations to help change and improve the procurement process for the entire organization:

By-law, policy and procedure changes

Technology changes

Organizational changes

By-Law, Policy and Procedure Changes

By-Law

- Revised Purchasing By-law adopted by Council July, 2016. Implemented Jan 1, 2017.
- Introduced Supplier Code of Conduct.
- Gives authority to Chief Purchasing Official to suspend suppliers who violate Supplier Code of Conduct.

Policy & Procedures

- Unbalanced Bidding Provision in the Procurement Processes Policy.
- Template changes allowing Bidders to declare all potential conflicts of interest including hiring of any former or current City employees.
- New Evaluation Team Procedure requiring all staff involved to sign conflict of interest form.

Bidding Analysis

- New Unbalanced Bidding Analysis Procedure.
- Developed in consultation with Transportation Services.
- Applied to all 2016 Transportation Services calls to identify materially unbalanced bids.
- Being rolled out to all types of calls over 2017.

Technology Change

Supply Chain Transformation Project

- Implementing a centralized cloud-based eProcurement system using SAP Ariba.

Online Bid Submissions

- Allows for faster evaluation and supports unbalanced bidding analysis.
- Provides for centralization of information to conduct trend analysis, provide better reporting on spend against contract data and on supplier performance.

Q1 Implementation

- Implementation of the centralized database through the SAP Ariba sourcing module scheduled for Q1, 2018.
- Full implementation of all functionality by Q4, 2018.

Organizational Change

Strategic Approach

- PMMD Program Review.
- Organizational shift from tactical services to value added strategic services.
- Better use of market and spend data by bringing in Category Management and Strategic Sourcing.

Better Analysis & Data

- Additional resource capacity.
- Analysis on market and spend data.
- Policy and compliance support.

Training

- Better training to staff involved in the procurement process from end to end including contract management.
- PMMD will continue to invite the Competition Bureau in to provide training on bid-rigging warning signs.

Next Steps for Continuous Improvement

Transportation Services

- Cascade program and practice improvements to other program areas including the Utility Cut Repair Program.
- Assess outcomes of staff training and accountability measures and modify as needed.
- Implement organizational review and org structure changes.

Safeguard the Public Interest

Limit Risk

Purchasing and Materials Management

- Continue to cascade changes and improvements to Purchasing By-law throughout the City.
- Continue to engage Competition Bureau for training.
- Continue implementation of PMMD Program Review.
- Continue implementation of Supply Chain Management Transformation.

Ensure Value for Money

Thank you