

### Highlights

**Background:**

In June 2023, the Auditor General (AG) completed a review of the procurement and award of the 2022 – 2029 winter maintenance performance-based contracts. Subsequently, at the March 2025 City Council meeting, concerns were raised about the increased cost of awarded contracts compared to internal estimates. As a result, Internal Audit was engaged to perform a Fraud Risk Assessment, which was Phase 1 of an overall Forensic Audit, and share results with City Management to determine whether any potential fraud exposures exist within the procurement process.

**Objective:**

The objective of the Fraud Risk Assessment was to assess whether certain aspects of the procurement process had a potential exposure to fraud and required further investigation or audit.

**Information Reviewed:**

We reviewed information including:

- The AG's 2023 findings and recommendations,
- Procurement planning and strategy documentation,
- Cost estimates and assumptions, and
- Bid solicitation, evaluation, and associated rationale, including contract award documentation.

**Conclusion:**

Based on the Phase 1 results, Internal Audit advises, in consultation with management, to undertake Phase 2 and proceed with a forensic audit focused on four fraud risk areas.

**Background:**

Internal Audit was engaged to perform a Fraud Risk Assessment following direction from the City Council meeting in March 2025. The concerns related to the increased cost of awarded contracts compared to internal estimates.

The results of the Fraud Risk Assessment were shared with City management to determine whether any potential fraud exposures exist within the procurement process. This engagement is part of a broader winter maintenance review being undertaken by the City Manager.

**Approach and Fraud Risk Areas:**

The Fraud Risk Assessment was Phase 1 of a potential two phased approach. The purpose of this assessment was to provide advice to City management on whether further investigation by an independent third-party auditor was needed. This risk assessment focused on identifying potential fraud risk exposures based on the information reviewed, including business decisions made by City staff during the planning and awarding of the procurement. The results were discussed with management to help inform the decision on whether a Phase 2 forensic audit should be undertaken in any or all fraud risk areas identified.

Fraud risk areas identified were tailored to procurement risks based on our research and industry best practice, as well as specific details of the procurement and contract award.

**Conclusion and Next Steps:**

For most of the fraud risk factors that were part of our assessment, no further action is recommended because there was very low risk exposure to fraud. While the overall potential for fraud across all fraud risk areas was assessed as low, the Fraud Risk Assessment did identify some potential fraud exposures in the following areas:

- Tailored specifications within the request-for-proposal to favour certain vendors,
- Lack of transparency in scoring,
- Rejection of compliant bids, and
- Significant variation in cost estimation and bid

Internal Audit advises, in consultation with management, to undertake Phase 2 and proceed with a forensic audit focused on the four fraud risk areas identified above.

The forensic audit will be conducted by an independent third-party auditor commencing in August 2025.