



CITY OF VANCOUVER INTERNAL AUDIT REPORT Emergency Purchases Audit

Distribution:

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EXECUTIVE SUMMARY

January 6, 2023

The Emergency Purchases Audit assessed the effectiveness of internal controls in place supporting emergency procurement, adherence to related City policies and procedures, and whether the rationale provided for emergency purchases were reasonable and valid.

In our opinion, there are adequate policies and procedures in place to support procurement needs in the event of an emergency and all purchases reviewed were reasonably justifiable as an emergency. Ensuring supporting documentation is retained including justification of the emergency by senior management and timely posting of emergency contracts will improve compliance to the Procurement Policy and further enhance transparency of awarded contracts for emergencies.

The findings and recommendations are:

E.1 Ensure approvals for emergency purchases are documented and retained

The Procurement Policy requires written confirmation from a department head for emergency purchases. Supporting documentation should be retained and stored in the contract file or other accessible repository.

E.2 Ensure all emergency purchase Notice of Contracts are posted in a timely manner

All Notice of Contracts should be posted on the City website or other public forum on a timely basis for the purpose of disclosure and communication of emergency contracts awarded that did not go through a competitive procurement process.

E.3 Enhance annual reporting of emergency purchases

There is an opportunity to enhance the reporting of procurement activities by providing a breakdown of emergency purchases separately from specialized purchases in the annual report to Council.

E.4 Review emergency purchases with spend exceeding awarded value

For some emergency purchases where actual spend exceeded the initial awarded amount, consideration should be given to updating the Notice of Contract to reflect the total spend.

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A. BACKGROUND

Emergency procurement generally refers to an unexpected need to purchase goods or services in the event of a situation where there is a risk of endangerment of life or safety, or potential significant loss or damage to property.

The City's Procurement Policy (ADMIN008) section 9.1.a outlines conditions that must be met in order for a contract to be permitted to be sole sourced when there is an urgent life and safety matter involved. The conditions are as follows:

- i. The Department Head (or City Manager if Total Price exceeds \$500k) has determined the goods, service or construction is urgently required and bypassing the competitive procurement process is reasonable necessary to protect human, animal or plant life or health;
- ii. The Chief Procurement Officer has received written confirmation of the City Manager/Department Head's determination of i) above;
- iii. A Notice of Contract is posted on the City's website or another public forum;
- iv. The form of Contract has been approved by the City Solicitor; and
- v. The Contract is approved and executed in accordance with the Commitment Authority and Signing Authority in the Procurement Policy¹.

If a purchase is urgently needed but does not pertain to a life or safety matter, it is not eligible to be sole sourced under section 9.1 conditions above.

There were 25 emergency purchases totaling \$1.6M for the period between January 1, 2019 to December 31, 2021. Examples of types of emergency purchases included urgent repairs to roads and infrastructure, flood or fire restoration services, protective equipment, heat wave response services and COVID response sanitation related purchases.

B. SCOPE

The Emergency Purchases Audit was initiated to provide reasonable independent assurance that the internal controls were adequate and effective and business processes were efficient. Our work included:

- Review of adequacy of policies and procedures relating to emergency purchases;
- Assessment of compliance with City policies and procedures; and
- Review of emergency purchase transactions to assess approvals, justification and supporting documentation.

¹ Except that where the approving authority is City Council or Bid Committee, the Contract may instead be approved and signed by the City Manager and Chief Procurement Officer (if over \$500,000) or Department Head and Chief Procurement Officer (if not over \$500,000).

The emergency purchase processes and transactions related to Vancouver Public Library (VPL), Vancouver Police Department (VPD) and Vancouver Emergency Management Agency (VEMA) were out of scope for this audit.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

In our opinion, there are adequate policies and procedures in place to support procurement needs in the event of an emergency and all purchases reviewed were reasonably justifiable as an emergency. Ensuring supporting documentation is retained including justification of the emergency by senior management and timely posting of emergency contracts will improve compliance to the Procurement Policy and further enhance transparency of awarded contracts for emergencies.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- Emergency purchases are not justified as emergency purchases and are sole sourced inappropriately;
- Non-compliance with the City's Procurement Policy (ADMIN-008);
- Inadequate oversight over emergency purchases; and
- Not obtaining best value for money due to purchasing through a non-competitive process.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Ensure approvals for emergency purchases are documented and retained

Under section 9.1.a of the Procurement Policy (ADMIN-008), competitive bidding is not required if goods or services are determined to be urgently needed in order to reasonably protect human, animal or plant life or health. Written confirmation is required to be provided by the department head (General Manager) for purchases under \$500,000 or City Manager for purchases over \$500,000.

Upon review of 25 emergency purchases from 2019-2021, 15 purchases totaling \$531,840 with an average transaction value of \$35,456 did not have written confirmation of the emergency from a General Manager documented. Other supporting documentation was retained, such as emails from departmental management and staff requesting the purchase and description of the nature of the emergency. Supply Chain Management confirmed that written approval from a GM was not documented for the purchases. Types of purchases included services for flood restoration, roof leak repairs, gas valve replacement, road or infrastructure damage repairs, and tree watering services during a heat wave.

Although there was no written confirmation of the emergency from a department head on file, the purchases were processed and approved through the P2P shopping cart process in accordance with authorization levels in SAP. In addition, the reasons for the purchases were found to be reasonably justifiable as valid emergencies involving life or health safety matters.

E.1.1 The Director, Supply Chain Management and Chief Procurement Officer should ensure that written confirmation of emergency purchases by a Department Head are documented and retained on file by Supply Chain Management. This should be in place by March 31, 2023.

Management Response:

Please check one:

Agree with the findings

Disagree with the findings

Please check one:

Agree with the recommendations

Disagree with the recommendations

Management Action Plan:

SCM Management will work with SCM departmental staff and business units to educate about the policy requirement to confirm in writing a confirmation by a Department Head or the City Manager of the emergency purchases and retain the documentation on file. Communications should be in place by March 31, 2023.

E.2 Ensure all emergency purchase notice of contracts are posted publicly on a timely basis

Under section 9.1a (iii) of the Procurement Policy, a Notice of Contract is required to be posted on the City website or public forum. The purpose of the posting is to communicate a contract award for emergency goods or services that did not go through a competitive procurement process. The Notice of Contract includes the vendor name, description of purchase, and value of the awarded contract. The postings typically remain on the City website or BC Bid for one year.

At the time of review, monthly postings for Notice of Contracts on the City website were not posted on a timely basis. For example, the December 31, 2021 notice was not posted as of April 2022. Management has since promptly addressed the matter and the monthly Notice of Contract postings are currently up to date.

While there is no specified timeframe for the notices to be posted, the Procurement policy states that such postings should be made public as soon as practical in order to provide notification of contracts awarded without a competitive procurement process.

In addition for the 25 emergency purchases reviewed, four purchases in 2019/2020 totaling \$368,736 did not have a Notice of Contract (NOC) posted. SCM indicated that the classification of emergency purchases is done manually in SAP by Buyers. A report from the system is used to identify the emergency purchases to be posted on the City website by an administrative staff. The four purchases that were not posted from the audit sample were misclassified in the system and should have been marked by the Buyers as emergency procurements.

The purchases included services relating to flood restoration and life safety equipment and were reasonably justified to be deemed an emergency.

E.2.1 The Director, Supply Chain Management and Chief Procurement Officer should ensure all Notice of Contracts postings for emergency purchases are posted publicly on a regular monthly and timely basis in accordance with the Procurement Policy. This should be completed by March 31, 2023.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

SCM Management will work with SCM departmental staff to re-train Buyers on how to classify emergency procurements on SAP, so that they are included on the report used to post Notices of Contract on a regular monthly and timely basis in accordance to the Procurement Policy. This should be completed by March 31, 2023.

E.3 Enhance annual reporting of emergency purchases

Under section 10 of the Procurement Policy, an annual report is required to be provided to City Council and the Corporate Leadership Team on procurement activities for the year.

For the 2021 report to Council on procurement activities, there were 40 purchases totaling \$1,884,110 categorized as 'urgent or highly specialized' contract awards. Based on information obtained in SAP, only seven of these were emergency purchases totaling \$655,281. There is no breakdown between urgent versus highly specialized in the Council report as these are reported under one grouping. Although these both fall within the sole source category, the determining factors for emergency purchases compared to highly specialized purchases are different.

Providing a breakdown or reporting these purchases separately in the Council report and aligning with terminology in the Procurement Policy may provide additional clarification of procurement activities.

E.3.1 The Director, Supply Chain Management and Chief Procurement Officer should review the current reporting of urgent or highly specialized purchases in the annual Council report and consider providing a breakdown or separation of emergency versus highly specialized purchases. This should be reviewed by March 31, 2023.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

The Director, Supply Chain Management and Chief Procurement officer will review the current reporting of urgent and highly specialized purchases in the annual Council report and will consider providing a breakdown or separation of emergency purchases. This should be completed by March 31, 2023. This will be a manual process for the next annual report, but an opportunity for a system reporting and process enhancement on the upcoming SAP RISE project implementation in 2023/2024.

E.4 Review emergency purchases with spend exceeding awarded value

Purchase order or invoice amount exceeded the awarded value

For one purchase involving emergency services required for flood restoration at a seniors residence building, the awarded amount and purchase order were valued at \$54,147. However the invoice billings totaled \$83,651 which exceeded the PO by \$29,504.

Additionally for a separate contract awarded relating to food transportation services for a non-market housing site, the awarded amount was \$12,000. However the purchase order amount was \$55,450 and exceeded the awarded amount by \$43,450.

SCM indicated that for both instances, additional goods or services were required by the business unit over the awarded amount and a shopping cart was subsequently created and approved by the business unit for invoice payment.

As the Notice of Contract posted on the City website is based on the original awarded value, PO or invoice amounts exceeding the awarded amount would not be reflected in the public posting of emergency contracts. Although the actual vendor spend is publicly disclosed annually in the Statement of Financial Information, there is an opportunity to improve the NOC process by updating postings where additionally approved spend substantially exceeds the initial awarded amount.

E.4.1 The Director, Supply Chain Management and Chief Procurement Officer should review the purchases outlined above and consider feasibility of establishing a threshold value for updating the Notice of Contract for emergency purchases where the spend exceeds the awarded value. This review should be completed by March 31, 2023.

Management Response:

Please check one:

Agree with the findings

Disagree with the findings

Please check one:

Agree with the recommendations

Disagree with the recommendations

Management Action Plan:

The Director, Supply Chain Management and Chief Procurement Officer will review the purchases outlined above and will implement a process which considers a threshold value to post publically the final spend amount for emergency purchases where spend exceeds the awarded value with the purpose to improve transparency of the Notice of Contract for emergency purchases where the spend exceeds the awarded value. This review should be completed by March 31, 2023.