



Audit Topic 1 – Report 3 (September, 2015)



ACHIEVING VALUE FOR MONEY IN OPERATIONAL PROCUREMENT

Comox Valley Regional District

**A Performance Audit carried out by the Office of the
Auditor General for Local Government of British Columbia**

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MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

I want to thank Comox Valley Regional District for its cooperation during the audit process and its consideration of the report's findings and recommendations.



1.3.1 I am pleased to present this performance audit report on the operations of Comox Valley Regional District, covering the topic “Achieving Value for Money in Operational Procurement.”

1.3.2 I want to thank Comox Valley Regional District for its cooperation during the audit process, consideration of the report's findings and recommendations, and its provision of comments and an action plan in response to the recommendations.

1.3.3 The office of the Auditor General for Local Government was established to strengthen British Columbians' confidence in their local governments' stewardship of public assets and the achievement of value for money in their operations. One of the ways we do this is by conducting performance audits of local government operations.

1.3.4 Our performance audits are independent, unbiased assessments, carried out in accordance with professional standards. They aim to determine the extent to which the area being examined has been managed with due regard to economy, efficiency and effectiveness.

1.3.5 This report outlines our findings in assessing Comox Valley Regional District's management of the procurement of goods and services to support day-to-day operations, known as operational procurement. Comox Valley Regional District is one of six local governments the office set out to audit on this topic.

1.3.6 The audit found that, during the period covered by the audit, Comox Valley Regional District followed some good procurement practices, appropriately involved the Board in important procurement decisions, and largely complied with its procurement policies. In addition, Comox Valley Regional District demonstrated a continuing commitment to enhancing its operational procurement function.

1.3.7 We did find, however, gaps in Comox Valley Regional District's policies and procedures, which are in need of review and updating. Our review of sampled procurement transactions also found a few minor examples of non-compliance with Regional District policies. Additionally, Comox Valley Regional District would benefit from enhanced collection and analysis of procurement data, improved monitoring, and reporting. By addressing these gaps, Comox Valley Regional District would be strengthening its already good foundation.

MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

1.3.8 Further to this report, other audit work we have undertaken and a review of practices, we may release an AGLG Perspectives booklet dealing with operational procurement for local governments to consider. This may include tools that may be relevant to a wide range of local governments, such as key performance indicators for measuring a local government's effectiveness in carrying out operational procurement.

1.3.9 Our hope is that this audit report will assist Comox Valley Regional District in furthering its efforts to deliver value for the tax dollars it spends.

A handwritten signature in black ink, appearing to read 'Arn van Iersel', written in a cursive style.

Arn van Iersel, FCPA, FCGA
Acting Auditor General for
Local Government

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EXECUTIVE SUMMARY

Overall, we found that Comox Valley Regional District had a good foundation to manage operational procurement strategically. We also found areas in need of improvement.

1.3.10 We undertook performance audits on operational procurement because local governments spend significant taxpayer funds for purchased goods and services in support of their daily operations and effective management provides opportunities to contain costs and/or enhance program delivery.

What We Examined

1.3.11 Our objective was to determine whether Comox Valley Regional District managed operational procurement strategically and with due regard for value for money during the audit period, between 2010 and 2012. Our findings are based on our review of procurement policies, procedures and practices. We also reviewed procurement data and supporting documentation, interviewed staff and selected 30 procurement transactions for detailed review. We assessed Comox Valley Regional District's internal controls and examined the procurement tools used and its reporting of results.

What We Found

1.3.12 Overall, we found that Comox Valley Regional District had a good foundation to manage operational procurement strategically. Comox Valley Regional District had structures, policies and procedures for managing operational procurement and we found that staff mostly complied with them. We also noted that Comox Valley Regional District engaged in efforts to achieve better value for money and demonstrated a commitment to ongoing improvement.

1.3.13 We also found that some of Comox Valley Regional District's policies and procedures needed updating and improvement, most significantly to ensure that the policy includes appropriate ethical provisions. We further found a few transactions where minor steps in the procurement process were missed and that there were some documentation gaps. Additionally, Comox Valley Regional District did not have a system to measure progress on its objectives relating to operational procurement, as well as performance information and analysis relating to this function.

EXECUTIVE SUMMARY

A Focus on Operational Procurement

1.3.14 We found that Comox Valley Regional District demonstrated a good foundation for strategic management of its overall business of procurement and engaged in efforts to enhance procurement.

Commitment to Further Improvement

1.3.15 Staff told us that Comox Valley Regional District took additional positive steps after the period covered by the audit. In our view, these demonstrate Comox Valley Regional District's commitment to further improvement. We did not audit these improvements.

Procurement-Related Policies

1.3.16 We found that Comox Valley Regional District's policies to guide operational procurement were generally sound, but contained some gaps:

- Lack of guidance on vendor performance
- Lack of direction on how to treat unsolicited proposals from suppliers.
- No reference in policy to the use of templates for key procurement documents.

- Lack of specific expectations or guidelines for contract monitoring.
- Lack of clear direction on some aspects of purchasing card use.
- Lack of documentation of purchasing card transaction review.

Ethical Requirements

1.3.17 We found that Comox Valley Regional District representatives had a strong understanding of requirements and expectations relating to conflict of interest. However, we also found several gaps in the ethical policy provisions, which should be addressed.

What The Sampled Transactions Showed

1.3.18 We undertook detailed testing of 30 operational procurement transactions between 2010 and 2012. Our review found that there were a few information gaps in the procurement files and some minor instances where procurement policies were not followed.

1.3.19 The sampled direct contract awards followed Comox Valley Regional District guidelines and competitive processes, and except in one case, were appropriately advertised.

EXECUTIVE SUMMARY

Gaps In Information, Analysis, Monitoring & Reporting

1.3.20 We found that, although Comox Valley Regional District took steps to align its operational procurement activities with its overall strategic direction, it did not develop a monitoring approach that included reporting against key performance indicators for operational procurement. In addition, Comox Valley Regional District had no policy requirement for information about procurement activities to be reported to the Board. Nor did it have any standardized reporting tools or processes for informing the Board about overall operational procurement expenditures or activities.

1.3.21 These gaps limit the Board's ability to fulfill its oversight responsibility and ensure that Comox Valley Regional District is obtaining best value in its operational procurement.

Conclusion

1.3.22 Overall, we found that Comox Valley Regional District met most of our expectations, had a good foundation for operational procurement and was using many operational procurement practices that supported the potential achievement of best value.

1.3.23 To meet its operational procurement objectives more fully, Comox Valley Regional District will need to build on its existing good practices, fill gaps in its procurement-related policies and procedures and undertake additional analysis, monitoring and reporting.

EXECUTIVE SUMMARY

EXHIBIT 1:
Summary of
Recommendations

ISSUES	RECOMMENDATIONS
<p>1. Procurement and conflict of interest policies and procedures</p>	<p>Comox Valley Regional District should improve its purchasing and conflict of interest policies and procedures by updating them to address gaps and document expected practices. Specific areas requiring attention include:</p> <ul style="list-style-type: none"> • provisions relating to conflict of interest, including its threshold for gifts; • guidance on the use of required procurement templates and checklists; • guidance on contract monitoring; and, • policy on debriefing unsuccessful bidders, resolving vendor disputes and evaluating vendor performance.
<p>2. P-card policies</p>	<p>Comox Valley Regional District should improve its purchasing card policies by updating them to address gaps and formalize existing good practice to ensure that the review process is documented. Specific areas requiring attention include:</p> <ul style="list-style-type: none"> • provisions on split purchases and explicit guidance to not exceed limits; • provisions to limit purchases made on behalf of another employee; and, • requirements for the documentation of the review process and results.
<p>3. Information, analysis, monitoring and reporting</p>	<p>Comox Valley Regional District should improve its information, analysis, monitoring and reporting on operational procurement activities and results by:</p> <ul style="list-style-type: none"> • developing and implementing key performance indicators relating to operational procurement and a system to monitor them; and, • increasing reporting to the Board about operational procurement expenditures, activities and results.

INTRODUCTION

1.3.24 This report presents the results of a performance audit conducted by the Auditor General for Local Government of British Columbia (AGLG) under the authority of the *Auditor General for Local Government Act*.

1.3.25 We conducted this audit under one of six audit themes outlined in our 2013/14 – 2015/16 Service Plan: “Fiscal and Sustainability Planning, Capacity and Internal Operations.” Following our identification of audit themes, we selected specific audit topics for audits launched during 2013/14, including the topic of this performance audit: “Achieving Value for Money in Operational Procurement.”

1.3.26 We identified this topic as a priority because local governments spend significant taxpayer funds for the purchase of goods and services in support of their daily operations. Effective management of operational procurement provides local governments with opportunities to contain costs and/or enhance program delivery. In our performance audit planning, we found a high level of interest among local governments in making sure purchasing practices result in value for money and enhance program delivery.

Operational procurement is the process of purchasing goods and services a local government needs in support of its ongoing daily operations and programs.

It does not include operating expenses that are not procured, such as staffing costs, or expenditures on agencies that do their own procurement, such as police services and regional libraries. It also does not include “capital purchases,” that is purchases to acquire or better its physical assets.

For the purposes of this audit, we have excluded non-discretionary purchases available from only a single supplier such as water and electrical utilities.

Operational procurement is a process that begins with an initial concept of a requirement and ends with the completion of all post contractual actions.

INTRODUCTION

1.3.27 We selected Comox Valley Regional District and five other local governments to be included in this set of audits through a rigorous performance audit planning process. Our intent was to include a cross-section of local governments across the province, in terms of size, location and other considerations.

1.3.28 The other local governments being audited are Corporation of Delta (complete), City of Vernon (complete), District of West Vancouver, Fraser-Fort George Regional District and City of Revelstoke.

1.3.29 Operational procurement is pervasive in local governments, involving a large number of transactions for a diverse range of goods and services. As this is an area where we anticipate strategic and effective procurement practices may result in cost savings and/or more effective program delivery, we may consider conducting more audits in this area in the future.

Regional Districts and Operational Procurement

This is the first AGLG audit of a Regional District. Regional Districts differ from municipalities – the focus of all AGLG audits released prior to this one – in several ways. They are a form of local government in British Columbia that provides services over areas that may include several municipalities as well as unincorporated areas located within their boundaries. With the exception of two areas in the north of the province, all of British Columbia is included in a regional district.

Governed by a board composed of representatives of the municipalities located within its boundaries plus representatives of any unincorporated electoral areas also within its boundaries, a regional district may carry out a variety of functions, some mandated by the provincial government and some voluntarily taken on at the discretion of locally elected officials. These may include general services such as administration, management of development and regional planning as well as shared services provided to local areas or an entire region, such as fire protection, garbage collection, water supply, sewage collection and treatment and many others. The nature of the services provided by regional districts varies widely across the province.

Regional district budgeting is somewhat more complex than that of municipalities, as regional districts must budget by function and include all costs and revenues related to each function. They also must complete their budget process earlier, as they depend on their constituent municipalities to collect taxes on their behalf.

The process of procuring goods and services in support of regional district operations is essentially the same as that used by a municipality, although the specific items purchased will vary. Because this audit focuses more on the procurement process than on the specific nature of what is being procured, our audit work on the topic with regional districts was very similar to our work with the municipalities we audited on the same topic.

INTRODUCTION

Operational Procurement

1.3.30 All local governments carry out operational procurement, much of it taking place on a day-to-day basis. While the size of individual transactions can vary widely, the total amount spent through operational procurement is significant. In the case of Comox Valley Regional District, we have estimated operational procurement spending accounted for approximately 32 per cent of operating expenditures in 2012.

1.3.31 Operational procurement can be challenging for local governments of all sizes to manage strategically because of its inherent characteristics:

- it can involve widely varying types of goods and services;
- it often involves a relatively high volume of transactions;
- for many local governments, it involves a relatively large number of suppliers;
- individual transactions may vary widely in value;
- it is often carried out by a relatively large number of people in the organization;
- local government financial systems are not always set up to capture procurement transactions easily and holistically; and,

- procurement information and documentation in support of transactions tends to be dispersed across the organization.

1.3.32 These characteristics therefore may make it difficult for a local government to quantify its operational procurement and easy for it to underestimate the significance of operational procurement and the potential for generating savings or enhancing service delivery. As a result, some local governments may approach operational procurement as a series of individual transactions rather than as an overall process running the breadth of the organization.

1.3.33 As operational procurement is sometimes monitored only informally, in the course of overseeing operating budgets, some local governments may support the function mainly through ad hoc initiatives rather than a more effective, systematic and strategic approach.

1.3.34 In the face of these challenges, some local governments focus on good management of individual operational procurement transactions. This may involve mandating the use of competitive procurement tools for relatively small dollar value transactions in order to maximize value for money. Such a decision depends on the specific circumstances of the local government and the perceived risks and rewards.

INTRODUCTION

1.3.35 Local governments tend to measure the success of their procurement activities mainly by looking at whether contracts were let competitively and the extent to which departments stay within their budgets.

1.3.36 This type of management can be supported by strong policies and procedures guiding procurement, which – if compliance is monitored and enforced – can help ensure consistency in the use of good practices.

1.3.37 Some local governments enhance their procurement practices by establishing a central procurement function mandated to drive efforts to generate best value in procurement throughout the organization.

1.3.38 The most advanced local governments use these same tools while basing their operational procurement activities on a foundation of strategic management (see the definition in the strategic approach box). These local governments set clear objectives for their procurement function and use meaningful performance indicators to track success. They gather data on costs and analyze it with a clear focus on continually pursuing best overall value.

When we talk about a **strategic approach** to operational procurement, we mean a focus on operational procurement as a key activity of a local government.

A local government that manages operational procurement strategically uses clear and quantifiable objectives to identify strategies for improvement and develops performance indicators to measure their success.

The local government monitors how procurement is carried out and its outcomes. The resulting information is analyzed and used to report to management, the council/board and ultimately to the public.

Ultimately, strategic management of operational procurement is all about better information for decision-making and ensuring value for tax dollars.

1.3.39 Local governments that manage their operational procurement strategically know that small savings on individual transactions can add up to very significant overall savings when they are applied rigorously to large numbers of transactions throughout the organization. They gather and analyze the information they need to distinguish between measures likely to generate significant savings and those where implementation costs are likely to be greater than any savings.

INTRODUCTION

We expect a local government to have in place operational procurement policies, procedures and practices scaled to its size and resources.

Our Expectations

1.3.40 When we assess a local government's operational procurement practices, we recognize that local governments have significantly varying experience, knowledge and resources to carry out this work.

1.3.41 We therefore expect a local government to have in place operational procurement policies, procedures and practices scaled to its size and resources. These include:

- A well-defined approach to operational procurement, with clearly assigned roles and responsibilities to carry it out.
- Strong policies and procedures – periodically reviewed and updated as necessary – to guide procurement activities.
- Identification of the local government's most significant areas of expenditure through operational procurement, with clear strategies to achieve best value in these areas.
- The collection and retention of cost information necessary to calculate potential savings through the use of various procurement tools.
- A good understanding of key procurement risks and how they are identified, monitored and mitigated.
- Monitoring of performance and regular reporting to the council or board and the public on the local government's operational procurement activities.

INTRODUCTION

What We Examined

1.3.42 The overall objective of this performance audit was to determine the extent to which Comox Valley Regional District managed operational procurement strategically and with due regard for value for money.

1.3.43 Our findings are based on our review of Comox Valley Regional District's operational procurement policies, procedures and practices between 2010 and 2012. We undertook a review of procurement data and supporting documentation and we interviewed Comox Valley Regional District staff.

1.3.44 In addition, we selected 30 operational procurement transactions relating to the period covered by the audit for detailed review. These transactions were selected on a judgemental basis in order to gain an understanding of the types of operational procurement transactions Comox Valley Regional District undertook and how they complied with policies and procedures.

When we talk about **best value**, we mean a balance between low cost and the quality or effectiveness of what a local government purchases.

It is the responsibility of each local government to define quality and effectiveness, as this can vary depending on priorities that may be set out in local government policy.

The concept of best value can include considerations such as social or environmental values as well as narrower, more traditional, measures of quality and effectiveness.

1.3.45 The audit also assessed whether Comox Valley Regional District had put in place sufficient internal controls over procurement and whether these were respected. We examined the tools Comox Valley Regional District used to pursue best value in operational procurement and its reporting of results.

1.3.46 Our audit work primarily covered the procurement process up to the point of awarding contracts. We did not assess contract administration following contract award other than looking at how Comox Valley Regional District monitors vendor performance.

1.3.47 We provide details about the audit objective, scope, approach and criteria in the "About the Audit" section, at the end of this report.

CONTEXT

Comox Valley Regional District

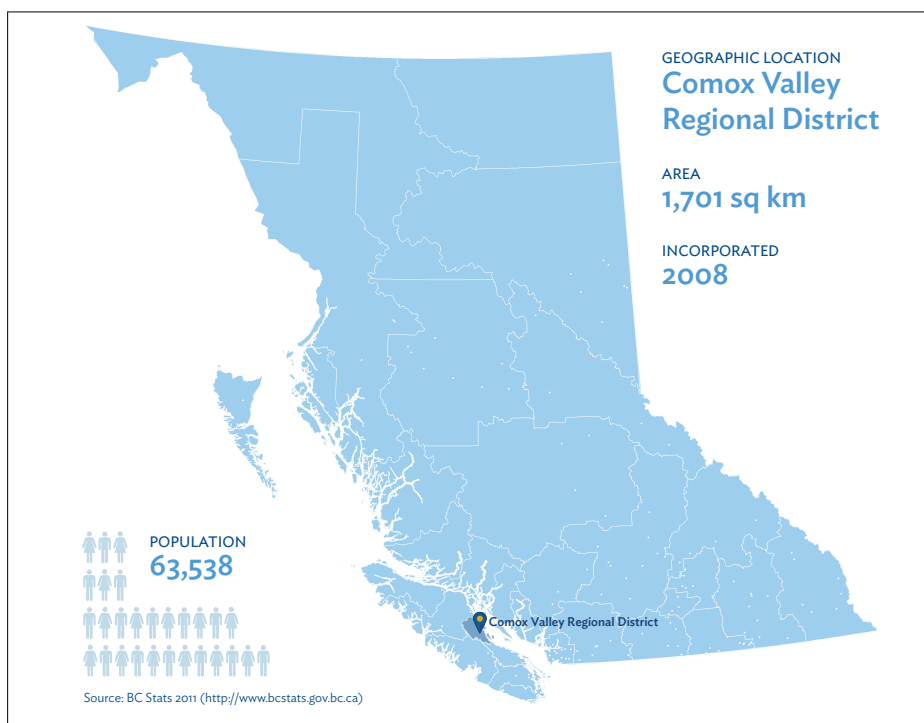
1.3.48 Comox Valley Regional District is located on Vancouver Island. It was incorporated on February 15, 2008, at the same time as the Strathcona Regional District. Prior to 2008, both of these Regional Districts had existed together as Comox Strathcona Regional District. After 2008, Comox Valley Regional District continued to provide solid waste services to Strathcona Regional District.

1.3.49 Like other regional districts, Comox Valley Regional District is a

federation of local municipalities and rural areas. It includes three municipalities and three electoral areas, including: the Town of Comox, the City of Courtenay, the Village of Cumberland, Electoral Area 'A' (Baynes Sound – Denman/Hornby Islands), Electoral Area 'B' (Lazo North) and Electoral Area 'C' (Puntledge/Black Creek).

1.3.50 Comox Valley Regional District covers a land area of 1,701 square kilometers and had a population of 63,538 as of 2011. The median age of Comox Valley Regional District residents in 2011 was 48.3 years, which was higher than the Canadian median age of 40.6 years.

EXHIBIT 2:
Comox Valley Regional District Visual Facts



CONTEXT

1.3.51 As of 2012 Comox Valley Regional District had a budgeted staff level of approximately 165.

1.3.52 Exhibit 3 shows that Comox Valley Regional District’s expenditures and operating surplus (deficit) changed significantly between 2010 and 2012. This was primarily due to changes in the costs for the landfill closure including post closure costs.

EXHIBIT 3:
Comox Valley Regional District Revenues and Expenditures 2010-2012 (\$ millions)

	2010	2011	2012	CHANGE 2010-2012
Taxation Revenue	\$19.2	\$20.2	\$20.6	+7.3%
Non-Taxation Revenue	\$18.5	\$16.8	\$18.7	+1.1%
TOTAL REVENUE	\$37.7	\$37.0	\$39.3	+4.2%
EXPENDITURES	\$34.1	\$42.8	\$37.5	+10.0%
OPERATING SURPLUS (DEFICIT)	\$3.6	(\$5.8)	\$1.8	-50.0%

Source: Comox Valley Regional District Audited Financial Statements 2010, 2011 and 2012

CONTEXT

Comox Valley Regional District’s estimated operational procurement averaged about \$8 million per year during the period covered by the audit.

Comox Valley Regional District’s Operational Procurement Expenditures

1.3.53 Comox Valley Regional District’s estimated operational procurement averaged about \$8 million per year during the period covered by the audit. Exhibit 4 shows an estimate of these expenditures compared to Comox Valley Regional District’s other operational expenditures.

EXHIBIT 4:
Comox Valley Regional District Estimated Operational Procurement (Excluding Protective Services, Water and Sewer) Compared to Total Operating Expenditures, 2010-2012 (\$ millions)

	2010	2011	2012	CHANGE 2012-2010
Estimated operational procurement expenditures	\$ 7.5	\$ 7.7	\$ 8.8	+17.3%
Estimated other operational expenditures	\$13.7	\$14.2	\$14.3	+4.4%
Landfill closure and post closure care cost estimates	\$1.0	\$11.4	\$4.6	+360%
TOTAL OPERATING EXPENDITURES	\$22.2	\$33.3	\$27.7	+24.8%
ESTIMATED OPERATIONAL PROCUREMENT EXPENDITURES AS % OF TOTAL OPERATING EXPENDITURES	33.8%	23.1%	31.8%	

Note: This exhibit estimates operational procurement expenditures, not including protective services, water and sewer, based on information in Comox Valley Regional District’s Audited Financial Statements and calculations provided by Comox Valley Regional District.

Estimated other operational expenditures includes expenses such as: personnel costs, grants, debt charges, transfers to other local governments, and amortization of tangible capital assets.

FINDINGS

1.3.54 Overall, we found that Comox Valley Regional District had developed a good foundation to manage operational procurement strategically as the Board was involved in developing strategic priorities related to procurement and approving significant procurement decisions. Comox Valley Regional District had various structures, policies and procedures in place for managing operational procurement and we found that staff mostly complied with its purchasing policies. We also noted that the Comox Valley Regional District had engaged in some efforts to achieve better value for money and demonstrated a commitment to ongoing improvement in operational procurement practices.

1.3.55 We also found that some of Comox Valley Regional District's policies and procedures were in need of updating and improvement, most significantly in areas related to ethical policy provisions. While the policy needs to be strengthened we did not identify any ethical issues in operational procurement. We further found a few examples of procurement transactions where minor steps in the procurement process were missed and some documentation gaps. Additionally, Comox Valley Regional District lacked a system to measure progress on its strategic priorities and objectives relating to operational procurement, as well as performance information and analysis relating to this function.

Comox Valley Regional District's Management of Operational Procurement

1.3.56 Effective procurement is based on the principles of fairness, openness and transparency. When using public funds to buy services or goods, procurement processes must be conducted prudently, with integrity, consistently with the local government's policies, and able to withstand the test of public scrutiny.

1.3.57 Comox Valley Regional District's procurement framework consisted primarily of policies covering purchasing and a decentralized procurement process with a purchasing officer providing general oversight and guidance to procurement across the organization.

1.3.58 We observed that Comox Valley Regional District used several different types of contracts to manage purchases valued at over \$5,000. These included purchase orders, vendor-developed contracts and contracts developed by the purchasing officer.

FINDINGS

1.3.59 Comox Valley Regional District used non-committed purchase orders – commonly known as standing purchase orders – as a form of contract for the purchase of goods and services from a vendor on a periodic or continuing basis. This type of purchase order defined the length, price and terms of the contract and required approval by staff with the appropriate commitment authority. The purchasing officer maintained a list of these contracts.

1.3.60 Comox Valley Regional District also had some guidance in place intended to help mitigate key procurement risks, such as a procurement documentation checklist, procurement policies, and a set of guidelines for when to use different procurement methods.

A Decentralized Procurement Function

1.3.61 Comox Valley Regional District's finance department, led by the corporate financial officer, designed and maintained financial controls, provided orientation to staff and monitored their adherence to procurement policies and procedures. The corporate financial officer also assumed the role of purchasing officer for Comox Valley Regional District and provided an oversight role for the purchasing activities of other departments. Apart from the

purchasing officer, Comox Valley Regional District had no other staff in a dedicated purchasing role.

1.3.62 Comox Valley Regional District defined its procurement structure as decentralized, meaning that there was no purchasing department or officer with overall responsibility for purchasing goods and services for all departments. Staff members in various departments independently worked to fulfill their purchasing needs with the guidance of the purchasing officer.

1.3.63 Each department was responsible for identifying the goods and services it required. Staff would then purchase them within the requirements of the purchasing policy as indicated in Exhibit 5. We were informed that the purchasing officer was involved in most procurement activities.

1.3.64 The purchasing officer provided advice and assistance with purchasing activities, including but not limited to working with departments to develop requests for proposals and managing competitions. Comox Valley Regional District advertised on the BC Bid website and the Comox Valley Regional District website.

FINDINGS

Acquisition Authority and Competitive Procurement Requirements

1.3.65 As illustrated in Exhibit 5, which indicates the staff positions authorized to make purchases at particular dollar levels, the Comox Valley Regional District Board delegated its approval authority over operational procurement to its staff for transactions up to \$100,000. Board approval was required for land use agreements valued above \$50,000, all transactions valued above \$100,000 and for all agreements, of any dollar value, that bind Comox Valley Regional District to another organization or local government for the delivery of a regional district service.

EXHIBIT 5:
Comox Valley Regional District Acquisition Authority

ACQUISITION OF GOODS AND SERVICES				
PURCHASES UNDER \$5,000	PURCHASES FROM \$5,000 UP TO \$10,000	PURCHASES FROM \$10,000 UP TO \$50,000	PURCHASES FROM \$50,000 UP TO \$100,000	PURCHASES FROM \$100,000 AND UP
Departmental staff as delegated by purchase card agreement	General managers for contracts or agreements	General managers for contracts or agreements	CAO plus one general manager or corporate financial officer for contracts or agreements	Regional board approval for all contracts or agreements
Branch supervisor for purchase orders or cheque requisitions	Branch managers for purchase orders	General managers for purchase orders	Regional board approval for land use agreements	

ACQUISITION OF CONSULTING, TRAINING, AND PROFESSIONAL SERVICES			
PURCHASES UP TO \$25,000	PURCHASES FROM \$25,000 UP TO \$50,000	PURCHASES FROM \$50,000 UP TO \$100,000	PURCHASES FROM \$100,000 AND UP
General managers for contracts or agreements	General managers for contracts or agreements	CAO plus one general manager or corporate financial officer for contracts or agreements	Regional board approval for contracts or agreements
Branch managers for purchase orders			

Note: All agreements, of any dollar value, that bind Comox Valley Regional District to another organization or local government for the delivery of a regional district service must obtain board approval.

Source: Comox Valley Regional District Purchase Management Services Policy - Spending Commitment and Signing Authority Matrix

FINDINGS

1.3.66 Comox Valley Regional District's purchasing policy's guiding principle, per Bylaw No. 75, was "probity," which it defined as "all activities are undertaken in a visibly fair, ethical, environmentally sustainable and prudent manner." The policy directed staff to acquire goods and services using a competitive process wherever practical and considering effective net costs, appropriate quality, environmental factors and whether potential vendors were responsive and responsible.

1.3.67 Comox Valley Regional District used various mechanisms to manage procurement involving competitions, including verbal or written requests for quotations, invitations to quotation, expressions of interest, invitations to tender and requests for proposals and posted competitions on the BC Bid website and the Comox Valley Regional District website. Comox Valley Regional District also participated in group buys using competitive procurement, such as the Union of BC Municipalities Bulk Fuel Purchasing Program and other partnership agreements.

FINDINGS

1.3.68 Exhibit 6 summarizes Comox Valley Regional District’s requirements for the use of competitive processes for the purchase of goods and services. Comox Valley Regional District’s policy was for all procurement over \$5,000 to be conducted competitively, with written quotations for purchases between \$5,000 and \$10,000, written quotations or a request for proposals for purchases above \$10,000 and a request for proposals for purchases (RFP) above \$100,000.

EXHIBIT 6:
Comox Valley Regional District Competitive Procurement Requirements

ACQUISITION OF GOODS AND SERVICES

PURCHASES UNDER \$5,000	PURCHASES FROM \$5,000 UP TO \$10,000	PURCHASES FROM \$10,000 UP TO \$50,000	PURCHASES FROM \$50,000 UP TO \$100,000	PURCHASES FROM \$100,000 AND UP
<ul style="list-style-type: none"> Discretionary Single quotation 	<ul style="list-style-type: none"> Request written quote (minimum 3) or rationale for direct award Tender Request for proposal Request for quotation (minimum 1 page specs) 	<ul style="list-style-type: none"> Request written quotes (minimum 3) Tender Request for proposal (minimum 1 page specs) <p>Note: Public process or request for at least 3 quotes is required. Where public process is conducted, post on Regional District bid website (RD Bid).</p>	<ul style="list-style-type: none"> Request written quotes (minimum 3) Tender Request for proposal (full specs) <p>Note: Public process or request for at least 3 quotes is required. If above \$75,000 must post on BC Bid. For direct award greater than \$75,000 a notice of intent must be posted on RD Bid.</p>	<ul style="list-style-type: none"> Tender Request for proposal (full specs) <p>Note: Public process requires posting on BC Bid.</p>

ACQUISITION OF CONSULTING, TRAINING, AND PROFESSIONAL SERVICES

PURCHASES UP TO \$25,000 PER ITEM OR AGGREGATE	PURCHASES FROM \$25,000 UP TO \$50,000 PER ITEM OR AGGREGATE	PURCHASES FROM \$50,000 UP TO \$100,000	PURCHASES FROM \$100,000 AND UP
<ul style="list-style-type: none"> Discretionary Request single quotation 	<ul style="list-style-type: none"> Request written quote (minimum 3) or rationale for direct award 	<ul style="list-style-type: none"> Request for proposal Request for quotation Invitation to tender <p>Note: Public process is required. If above \$75,000 must post on BC Bid. For direct award greater than \$75,000 a notice of intent must be posted on RD Bid.</p>	<ul style="list-style-type: none"> Request for proposal Invitation to tender <p>Note: Public process requires posting on BC Bid.</p>

FINDINGS

We found that the Comox Valley Regional District demonstrated a good foundation for strategic management of its overall business of procurement.

A Focus on Operational Procurement

Board Involvement in Strategic Procurement

1.3.69 We found that Comox Valley Regional District's Board and management developed work plans for its various branches based on the Board's strategic priorities and the annual financial planning process. On a quarterly basis, staff provided the Board with a strategic priorities document that included updates on the Board's strategic priority items and progress on branch work plans.

1.3.70 Comox Valley Regional District identified some operational procurement activities in the strategic priorities document, such as providing the Board with information about requests for proposals, contract awards and invitations to tender. For each identified topic, Comox Valley Regional District tracked its current status, completion date, and/or next steps.

1.3.71 We found that between 2010 and 2012, the Board was regularly informed about operational procurement proposals that required Board approval, including cases where staff recommended awarding a contract without competition (known as direct awards). Between 2010 and 2012, the Board reviewed more than 33 contracts at open Board meetings.

1.3.72 We found that Comox Valley Regional District demonstrated a good foundation for strategic management of its overall business of procurement by:

- Aligning operational procurement activities with the local government's strategic priorities.
- Following its policy on the Board's approval of certain transactions.
- Keeping the Board up to date on some operational procurement activities.

FINDINGS

Efforts to Generate Value for Money

1.3.73 Comox Valley Regional District demonstrated that it had engaged in efforts to enhance procurement processes and generate value for money. For example, Comox Valley Regional District sought to benefit from economies of scale through the use of Provincial Corporate Supply Arrangements. Comox Valley Regional District had a memorandum of understanding with the Province that gave it provincial pricing. We found that Comox Valley Regional District had obtained provincial pricing for:

- copier/multifunction devices;
- cellular phone service;
- accommodation; and,
- information technology equipment.

1.3.74 In addition, as noted earlier, Comox Valley Regional District participated in the Union of BC Municipalities' Bulk Fuel Purchasing Program, which was established in 2010. Previously, Comox Valley Regional District took part in a different public sector buying group between 1998 and 2007, when the buying group dissolved.

1.3.75 In terms of ethical provisions, Comox Valley Regional District took the positive step of establishing an annual workplace ethics workshop for all staff, starting in 2010. The training focused on building awareness of the core values of public service and developing ethical decision making skills and habits.

Commitment to Further Improvement

1.3.76 Staff told us that Comox Valley Regional District took several more positive steps after the period covered by the audit. In our view, these demonstrate a commitment to further improvement in operational procurement. Examples of these initiatives include:

- Development of a draft whistleblower policy.
- Completion of a self-assessment based on the AGLG Perspectives series booklet on capital procurement, with a focus on procurement policies, practices and procedures.

FINDINGS

We found that Comox Valley Regional District's policies to guide operational procurement were generally sound, but contained some important gaps in practice and some significant areas where its practices were not documented in the policy.

Procurement-Related Policies

1.3.77 Complete, clear and up-to-date procurement-related policies and procedures are essential for local governments to ensure consistency in their efforts to achieve best value for tax dollars. This is particularly important as staff come and go over time.

Purchasing Policy

1.3.78 An effective purchasing policy includes several key components:

- It is comprehensive, providing sufficient and appropriate guidance to staff and suppliers to communicate expectations.
- Its formatting and language make it easy to understand and follow as a guide.
- Policy statements are presented with sufficient depth to provide clear and unambiguous direction.
- It includes clear guidance on ethical conduct and conflict of interest.

1.3.79 Regardless of their size, all local governments should have clear policies focused on encouraging the use of competitive procurement, preventing misconduct and ensuring value for money.

1.3.80 Comox Valley Regional District's purchasing policy was incorporated into Bylaw No. 75, which delegated purchasing authority up to \$100,000 to staff, with the exception of land use agreements above \$50,000, and agreements with other organizations or local governments for service delivery of a regional district service, as noted in Exhibit 5. The bylaw was in effect during the period covered by the audit before being repealed and replaced by Bylaw 284 during 2013. Between 2010 and 2012, Comox Valley Regional District also had purchasing guidelines in the form of a purchasing management services policy.

1.3.81 We found that Comox Valley Regional District's policies to guide operational procurement were generally sound, but contained some important gaps in practice and some significant areas where its practices were not documented in the policy. It is important for key practices to be reflected in policy to ensure consistency over time, particularly in the event of staff turnover.

FINDINGS

Lack of Guidance on Vendor Performance

1.3.82 Comox Valley Regional District provided no direction in policy or procedures on how staff should work with vendors, including debriefing unsuccessful bidders, assessing vendor performance and resolving any disputes.

Unsolicited Proposals

1.3.83 The policy lacked direction on how to treat unsolicited proposals that may be received from suppliers.

Procurement Practices Not Reflected in Policy

1.3.84 Comox Valley Regional District used various templates for requests for proposals, requests for qualifications and other competitive processes. However, the policy did not require staff to use these templates.

1.3.85 Staff told us that they depended on the professional skills of managers to monitor the contracts that they were responsible for and that monitoring was carried out based on the nature of the contract. Comox Valley Regional District's purchasing policy did not include specific expectations or guidelines for contract monitoring.

1.3.86 Comox Valley Regional District had orientation materials, an orientation process and procurement checklists for staff that identified expectations and processes for operational procurement. However, the purchasing policy did not refer to these expectations or the documentation that provided this guidance to staff.

Purchasing Card Policy

1.3.87 During the period covered by the audit, District guidelines required staff to use procurement and payment cards, referred to as 'P-cards,' where possible, for purchases up to \$5,000, and in exceptional cases up to \$10,000.

1.3.88 Comox Valley Regional District had approximately 70 P-cards in circulation during the period covered by the audit, held by approximately 42 per cent of all staff. These were used collectively an average of 580 times per year. Between 2010 and 2012, the average annual cost of all purchases made by Comox Valley Regional District using P-cards was \$410,000, which represents 5.1% of the average operational procurement expenditures during the period.

FINDINGS

1.3.89 Comox Valley Regional District had a P-card agreement in place, which was last updated in 2008. It outlined the purpose of the P-card, conditions for its use and requirements for the documentation and reporting of purchases.

1.3.90 We noted that Comox Valley Regional District's P-card agreement lacked clear direction for staff on:

- Split purchases — dividing a single purchase into two or more to avoid exceeding a single purchase limit.
- Purchases exceeding prescribed limits.
- Purchases made on behalf of an employee's manager or supervisor (whether or not a supervisor is permitted to direct a subordinate to make a purchase on their behalf).

1.3.91 The purchasing officer told us that P-card transactions were reviewed monthly by managers and the corporate financial officer. They said that monthly reviews included looking at the coding in the general ledger, staff transaction limits, the purpose of the purchase and

the merchant that was used. Quarterly review also included looking at total expenditures for each vendor. Staff told us that they followed up on any discrepancies identified through this process until they were satisfied of the legitimacy of the purchase. However, we found that — other than the corporate financial officer's sign-off on the statement — Comox Valley Regional District did not document this process or its results.

Ethical Requirements

1.3.92 Comox Valley Regional District had two mechanisms to communicate ethical guidelines and expectations to staff: a code of conduct policy with an ethical responsibility section and its purchasing policy, which included a section on conflict of interest. Statutory rules in the *Community Charter* outline the ethical requirements for Board members.

1.3.93 We found that each Comox Valley Regional District representative we interviewed, including a sample of Board members and several staff members who had procurement responsibilities, had a consistently strong understanding of requirements and expectations relating to conflict of interest.

FINDINGS

We found several gaps in Comox Valley Regional District's ethical policy provisions. In addition, we found that Comox Valley Regional District had a very high threshold for gifts while on Regional District business.

1.3.94 However, we found several gaps in Comox Valley Regional District's ethical policy provisions, including the following:

- No requirement for employees involved in procurement to periodically review conflict of interest requirements and sign off to indicate their understanding and knowledge.
- No requirement for employees involved in procurement to declare their interests annually.
- No requirement for Comox Valley Regional District to maintain a list of known potential conflicts of interest to share with staff involved in procurement.
- No standardized requirement for vendors to disclose potential conflicts of interest.
- No policy requiring the review of relevant disclosure forms during each procurement process.
- No whistleblower policy to protect employees who report potential inappropriate behaviour on the part of other Comox Valley Regional District employees or elected officials.

1.3.95 In addition to these policy and procedural gaps, we found that Comox Valley Regional District had a very high threshold for gifts while on Regional District business. Staff members were permitted to keep gifts valued up to \$1,000. Staff told us that this policy was intended to allow for prizes and other items that staff may receive during functions and conferences (such as winning airfare). Although Bylaw No. 75 prohibited the acceptance of gifts where it might influence or appear to influence purchasing decisions, we are concerned that the \$1,000 limit in the policy is high enough to potentially create at least a perception of conflict of interest.

FINDINGS

What the Sampled Transactions Showed

1.3.96 We undertook detailed testing of 30 operational procurement transactions entered into by Comox Valley Regional District between 2010 and 2012. This sample – which was not intended to necessarily be representative of all operational procurement carried out by Comox Valley Regional District – included 16 direct award transactions, four standing purchase order procurements that were not the result of competitions and ten competitive processes. For each transaction, we focused on the need for the procurement, due diligence, appropriate approvals and the preparation and keeping of appropriate documentation.

1.3.97 Our review found that there were a few information gaps in the procurement files and some minor instances where procurement policies were not followed.

Documentation Gaps in Procurement Files

1.3.98 For all sampled transactions that were subject to a competitive process, we found a lack of conflict of interest documentation on file for staff and potential vendors. Specifically, Comox Valley Regional District's files included no information as to who was involved in proposal evaluations.

1.3.99 Comox Valley Regional District had a non-conflict of interest and confidentiality statement for members of proposal evaluation committees to complete before an evaluation. However, we did not find any completed forms on file for the transactions we reviewed. As a result, we were unable to determine if appropriate individuals had participated in these processes.

1.3.100 We noted that, following the end of the period covered by the audit, Comox Valley Regional District adopted the practice of keeping on file the identity of evaluators, evaluators' results and the summary evaluations.

FINDINGS

Minor Lack of Compliance with Policies

1.3.101 We found shortcomings relating to compliance with Comox Valley Regional District policies in three of the 30 transactions we reviewed:

- **Proper authorization not obtained**
 - Comox Valley Regional District’s policy required signatures appropriate to the full contract value to be obtained. However, in one sampled transaction, a contract amendment lacked the required signature of the chief administrative officer or corporate financial officer, in addition to the general manager’s signature, which was obtained.
- **Missed step in procurement process**
 - The policy required that contracts valued above \$75,000 were to be posted on BC Bid. For direct awarded contracts this required posting a notice of intent and for competitive procurements, this required posting a request for proposals. In two sampled transactions, each valued at slightly more than \$75,000, this step was not carried out.

Evidence of Appropriate Procurement Practices

1.3.102 In our review of the sampled transaction, we also identified a number of positive points:

- In all but one instance of a direct award (noted above), we found that Comox Valley Regional District’s direct award guidelines were followed.
- In all but one case (noted above) where a full competitive procurement process was used, we found evidence that the procurement officer posted the opportunity on the BC Bid and Comox Valley Regional District bid websites.

FINDINGS

Gaps in Information Gathering, Analysis, Monitoring & Reporting

1.3.103 Performance measurement can provide a local government with the information it requires to act on opportunities to achieve better value for money in its operations.

1.3.104 Given the pervasive and sometimes disparate nature of operational procurement, a local government's only way to really know how it is performing is to gather information relating to procurement from across the organization, analyze it, monitor procurement results and report on them. In the absence of these steps, decisions on how to carry out procurement cannot be fully informed.

Lack of Key Performance Indicators

1.3.105 We found that, although Comox Valley Regional District took steps to align its operational procurement activities with its overall strategic direction, it did not develop a monitoring approach that included reporting against key performance indicators for operational procurement.

1.3.106 For example, Comox Valley Regional District did not analyze how much of its operational expenditures were discretionary (managed operational expenditures where better value could be achieved through a competitive process).

FINDINGS

We found that Comox Valley Regional District had basic – but limited – information and monitoring in place to ensure good management of its operational procurement activities.

Basic Information Gathering, Analysis, Monitoring and Reporting

1.3.107 We found that Comox Valley Regional District had basic – but limited – information and monitoring in place to ensure good management of its operational procurement activities.

1.3.108 Other than its monitoring of individual transactions, such as P-card purchases, we found that Comox Valley Regional District gathered and analyzed only a limited amount of procurement-related information. This information included the number and type of purchase orders used and the number of postings on BC Bid.

Reporting on P-cards and Enhanced Transparency

Local governments wanting to enhance their accountability to taxpayers may want to consider new tools to make their procurement more transparent.

One such tool is the regular online publication of P-card reports and similar information on procurement activity. This can be published online on a regular basis, such as quarterly.

Using a web-based tool such as this, a local government can enhance its transparency, accountability and help to ensure that its public procurement is effective, efficient and free of waste and corruption.

Such a tool is already being used successfully by the Province of B.C. Local governments considering the use of such a tool will need to consider the resources required to implement it.

FINDINGS

Absence of Reporting on Procurement Data to the Board

1.3.109 As mentioned previously, staff brought land use agreements over \$50,000, operational procurement contracts over \$100,000 and all contracts for the management of direct service delivery to the Board for approval.

1.3.110 However, Comox Valley Regional District had no policy requirement for information about procurement activities to be reported to the Board. Nor did it have any standardized reporting tools or processes for informing the Board about operational procurement expenditures or activities. We found that between 2010 and 2012, the Board did not receive any reports on key performance indicators relating to operational procurement, economies of scale information, or data about whether value for money was achieved on operational procurement transactions.

1.3.111 In the absence of reporting from staff to the Board on procurement results, it is difficult for Board members to be aware of Comox Valley Regional District's operational procurement trends. This gap limits the Board's ability to fulfill its oversight responsibility and ensure that it is obtaining best value in its operational procurement.

1.3.112 A local government's approach to performance measurement and analysis may vary based on the organization's size and complexity. Key performance indicators related to operational procurement should be aligned with the local government's overall goals, objectives and strategies as well as its specific objectives for its procurement function. These measures should demonstrate the extent to which the local government's procurement efforts are successful, drawing on data its information systems can generate, given the local government's capacity and resources. Local governments may wish to explore opportunities to work cooperatively with other nearby local governments on the development of performance measurement and analysis tools, as there may be opportunities to cost share initiatives in this important area.

CONCLUSION

To meet its operational procurement objectives more fully, Comox Valley Regional District will need to build on its existing good practices, fill gaps in its procurement-related policies and procedures and undertake additional analysis, monitoring and reporting relating to operational procurement and the achievement of value for money.

1.3.113 This audit set out to determine whether – during the period covered by the audit – Comox Valley Regional District managed operational procurement strategically and with due regard for value for money. We found that Comox Valley Regional District met most of our expectations, had a good foundation for operational procurement in place and was using many operational procurement practices that supported the potential achievement of best value.

1.3.114 To meet its operational procurement objectives more fully, Comox Valley Regional District will need to build on its existing good practices, fill gaps in its procurement-related policies and procedures and undertake additional analysis, monitoring and reporting relating to operational procurement and the achievement of value for money.

1.3.115 We hope that Comox Valley Regional District's interest in and commitment to implementing improvements will result in positive progress that builds on its existing foundation and commitment to a high standard of ethics.

RECOMMENDATIONS

Recommendation 1

Comox Valley Regional District should improve its purchasing and conflict of interest policies and procedures by updating them to address gaps and document expected practices. Specific areas requiring attention include:

- provisions relating to conflict of interest, including its threshold for gifts;
- guidance on the use of required procurement templates and checklists;
- guidance on contract monitoring; and,
- policy on debriefing unsuccessful bidders, resolving vendor disputes and evaluating vendor performance.

Recommendation 2

Comox Valley Regional District should improve its purchasing card policies by updating them to address gaps and formalize existing good practice to ensure that the review process is documented. Specific areas requiring attention include:

- provisions on split purchases and explicit guidance to not exceed limits;
- provisions to limit purchases made on behalf of another employee; and,
- requirements for the documentation of the review process and results.

Recommendation 3

Comox Valley Regional District should improve its information, analysis, monitoring and reporting on operational procurement activities and results by:

- developing and implementing key performance indicators relating to operational procurement and a system to monitor them; and,
- increasing reporting to the Board about operational procurement expenditures, activities and results.

LOCAL GOVERNMENT'S COMMENTS

Office of the Chair

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File: 1680-20/AGLG

September 3, 2015

Sent via email only: Lori.Berndt@aglg.ca

Arn van Iersel, CPA, FCGA
A/Auditor General for Local Government
201 – 10470 152nd Street
Surrey, BC V3R 0Y3

Dear Mr. van Iersel:

The board chair and members thank the office of the Auditor General for Local Government (AGLG) for the opportunity to provide comments on the three recommendations put forward in the proposed final audit report relating to the performance audit of the Comox Valley Regional District (CVRD) in the area of operational procurement.

The CVRD is committed to continuing improvement in all areas of procurement, both capital and operational, and is pleased that the AGLG office has recognized the good foundation already in place to manage operational procurement strategically and the ongoing efforts undertaken to enhance the procurement function and to achieve best value for the CVRD taxpayers.

Two of the three recommendations in the audit report relate to policy improvements to enhance the guidance for staff in their procurement responsibilities. The CVRD has been waiting for some time for the results of the AGLG audit in order to include any resulting recommendations in pending bylaw and policy updates. With this audit finalized, staff are now in a position to move forward in researching best practices in local government procurement and bring forward revised policies for the board's consideration.

The third recommendation in the report is for the development and implementation of key performance indicators relating to operational procurement and a process for increased reporting to the board on the operational procurement activities and results. As the CVRD does not currently have a purchasing department, additional staff resources would be required to action this recommendation. The board will commit to exploring this capacity gap in the upcoming 2016 financial plan deliberations to determine whether there is support for a dedicated manager of procurement.

The board and staff look forward to receiving a copy of the AGLG perspective on operational procurement once completed to assist with the ongoing review and updates of key procurement policies.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bruce Jolliffe', is written over the typed name.

Bruce Jolliffe
Chair

cc: Lori Berndt, Senior Audit Manager, Auditor General for Local Government

COMOX VALLEY REGIONAL DISTRICT'S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 1</p>			
<p>Comox Valley Regional District should improve its purchasing and conflict of interest policies and procedures by updating them to address gaps and document expected practices. Specific areas requiring attention include: guidance as to when a purchase requires detailed written terms and conditions, whether provided in a contract or a purchase order, as well as related approval requirements;</p> <ul style="list-style-type: none"> • provisions relating to conflict of interest, including its threshold for gifts; • guidance on the use of required procurement templates and checklists; • guidance on contract monitoring; and, • policy on debriefing unsuccessful bidders, resolving vendor disputes and evaluating vendor performance. 	<p>a) Review the AGLG Perspectives booklet on operational procurement due by the end of 2015 and also research best practices in other local governments and UBCM regarding conflict of interest and gift policies and report back to the board with recommendations.</p> <p>b) Update the purchasing management services policy to include current practice relating to the use of required procurement templates and checklists.</p> <p>c) Update the purchasing management services policy to reflect current practice of having managers responsible for contract monitoring and continue to provide contract administration education opportunities for staff.</p> <p>d) Update policy to reflect current practice for vendor debriefing and research best practices, including the AGLG perspectives booklet on resolving vendor disputes and evaluating vendor performance. Additional staff resources would be required to develop, implement and administer amended and expanded procurement related policies.</p>	<p>Corporate Financial Officer / Certified Purchasing Officer</p>	<p>Spring 2016</p>
	<p>Additional staff resources would be required to develop, implement and administer amended and expanded procurement related policies.</p>		

COMOX VALLEY REGIONAL DISTRICT'S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 2</p> <p>Comox Valley Regional District should improve its purchasing card policies by updating them to address gaps and formalize existing good practice to ensure that the review process is documented. Specific areas requiring attention include:</p> <ul style="list-style-type: none"> • provisions on split purchases and explicit guidance to not exceed limits; • provisions to limit purchases made on behalf of another employee; and, • requirements for the documentation of the review process and results. 	<p>a) Update purchasing cardholder agreement to reflect current guidance relating to split purchases and transaction limits.</p> <p>b) Update purchasing cardholder agreement to include current guidance relating to purchase made on behalf of another employee.</p> <p>c) Update the purchasing card process workflow document and procedure documentation to include the details of the extensive monthly review process already undertaken.</p> <p>Additional staff resources would be required to provide detailed documentation of the monthly purchasing card statement review process and results.</p>	<p>Manager of Financial Planning / Corporate Financial Officer</p>	<p>End of 2015</p>
<p>RECOMMENDATION 3</p> <p>Comox Valley Regional District should improve its information, analysis, monitoring and reporting on operational procurement activities and results by:</p> <ul style="list-style-type: none"> • developing and implementing key performance indicators relating to operational procurement and a system to monitor them; and, • increasing reporting to the Board about operational procurement expenditures, activities and results. 	<p>Review the AGLG perspectives booklet on operational procurement when published later in 2015 as it relates to key performance indicators (KPI).</p> <p>Additional staff resources would be required to develop and implement KPI for procurement and to acquire and maintain a system to monitor and report out on the KPI and operational procurement expenditure activities to the board.</p> <p>Information technology requirements and costs must also be considered.</p>	<p>Pending board consideration</p>	<p>2016/2017</p>

ABOUT THE AUDIT

All the audit work in this report was conducted in accordance with Canadian Standards on Assurance Engagements.

Audit Objective

1.3.116 The overall objective of this performance audit was to determine whether Comox Valley Regional District managed operational procurement strategically and with due regard for value for money.

Period Covered by the Audit

1.3.117 The audit covered the period 2010 to 2012. We completed the majority of our audit work on August 31, 2014, but we also received and reviewed some additional information after that date.

Audit Scope and Approach

1.3.118 The audit included a review of Comox Valley Regional District's performance in managing operational procurement. It did not include procurement by any entities consolidated in Comox Valley Regional District's financial statements. It also did not include the procurement of physical assets. These were excluded as they were not routine, day-to-day procurement of goods and services.

1.3.119 To carry out the audit, we undertook data analysis, interviews, process walkthroughs and review of documentation. We sampled 30 operational procurement transactions and assessed them against the audit criteria.

1.3.120 We assessed Comox Valley Regional District's implementation of policies and procedures designed to achieve best value and assessed the reporting of results by reviewing a sample of procurement files.

Audit Criteria

1.3.121 Performance audit criteria define the standards against which we assess Comox Valley Regional District's performance. We express these criteria as reasonable expectations for Comox Valley Regional District's operational procurement processes and practices to achieve expected results and outcomes.

1.3.122 Below are the criteria we used to assess Comox Valley Regional District:

1. Operational procurement is managed strategically and linked to program and service delivery objectives.
 - a. Procurement plans and transactions are linked to approved priorities, programs and budgets.
 - b. All procurement options are considered and are in line with local government strategic policies and objectives.
2. Local governments are knowledgeable about the level of spending through procurement, as well as the nature and type of contractual arrangements entered into.
 - a. On an aggregate level, procurement expenditures are forecasted, budgeted, approved and monitored. Trends are analyzed and results are reported in a transparent manner.

ABOUT THE AUDIT

- b. Information provided to decision makers is comprehensive and covers the nature and breadth of procurement arrangements being planned.
- 3. Operational procurement results in best value through assessment of available sourcing options in keeping with local governments' strategic procurement objectives.
 - a. At the transactional level, sound planning and budgeting for procurement is conducted and planned acquisitions consider existing inventory levels and lifecycle costs. Opportunities for cost efficiencies and effectiveness in the procurement process are routinely explored, including in response to changes in market conditions.
 - b. Contracts are managed in a diligent manner to ensure that all terms and conditions are fulfilled.
 - c. The local government undertakes a systematic process to assess vendor performance and lessons learned from operational procurement experience are used to inform planning for future procurement.
- 4. Conflict of interest and other key procurement risks are mitigated.
 - a. In addition to *Community Charter* requirements for elected officials, the local government has implemented conflict of interest and code of conduct guidelines for staff, including disclosure.
 - b. Mechanisms are in place to ensure key procurement risks are identified and mitigated.
- 5. The procurement model is cost effective, value based, effective, transparent, affordable, implemented in accordance with legislative requirements and considers environmental and socio-economic impacts.
 - a. The local government has current and well documented policies, procedures, roles and responsibilities that are publicly known, linked to program objectives and well understood by users. Sufficient and appropriate documentation exists to support the basis of decision-making throughout the procurement process.
 - b. The awarding of operational procurement contracts follows a systematic process that is fair, transparent and in line with local government policies and relevant legislation. Other local government objectives including environmental, social and financial impacts are considered.
 - c. Reporting to decision-makers and the public is timely, accurate, and relevant and reports assess the results achieved through operational procurement activity and decisions.

ABOUT THE AUDIT

6. Innovation and best practices are explored and implemented where appropriate.

- a. The local government shares its knowledge of innovation and best practices in public procurement.
- b. Best practices are implemented where appropriate in line with local government needs.

Performance Audit Process

1.3.123 At the beginning of the performance audit process, we shared key audit-related documents with Comox Valley Regional District. These included a description of the audit background, focus, scope and criteria and an engagement protocol document describing the audit process and requirements. The process is summarized in Exhibit 7: Performance Audit Process.

EXHIBIT 7: Performance Audit Process



APPENDIX 1 – PROCUREMENT TOOLS DEFINED

Corporate Supply Arrangement (CSA) (“Supply Contract”) – An arrangement in which a supplier has offered to provide goods or services for a specified period of time in accordance with agreed terms and conditions.

Invitation to Quote (ITQ) – A document issued to solicit quotes when the only competing factor is price.

Invitation to Tender (ITT) – A document inviting vendors to submit prices for specified work. This is generally used only for construction projects.

New West Partnership Trade Agreement (NWPTA) - A trade accord between Alberta, British Columbia, and Saskatchewan that promotes interprovincial collaboration.

Notice of Intent (NOI) – A document advising the vendor community of an intention to directly award a contract in a situation where the purchaser believes only one qualified contractor is available.

Purchase Order (PO) – A document committing the purchaser to buy a specified good or service at a specified price and on terms outlined in the document.

Request for Expressions of Interest (EOI or RFEI) – A document aimed at gathering information on the availability of desired services or potential suppliers or the level of interest from the vendor community.

Request for Information (RFI) – A document issued to obtain specific information about a good or service. This can include information on the availability or performance of the good or service.

Request for Proposals (RFP) – A document outlining a requirement and asking vendors to respond with a proposed solution, their qualifications and price.

Request for Qualifications (RFQ) – A document aimed at pre-qualifying vendors for a subsequent competition.

Service Contract – an agreement where a contractor supplies time, effort, and/or expertise instead of a good. (<http://www.businessdictionary.com/definition/service-contract.html>)

Standing Offer – An offer from a supplier to provide goods or services at pre-arranged prices, under set terms and conditions, when and if required. (<https://buyandsell.gc.ca/for-businesses/selling-to-the-government-of-canada/the-procurement-process/standing-offers>)

Standing Order – A purchase order covering repeated deliveries of goods or services in specified quantities, at specified prices and according to a specific schedule. (<http://www.businessdictionary.com/definition/standing-order.html>)

Source: Unless otherwise indicated, <http://www.pss.gov.bc.ca/psb/pdfs/PurchasingHandbook.pdf>

AGLG CONTACT INFORMATION

The AGLG welcomes your feedback and comments. Contact us electronically using our website contact form on www.aglg.ca or email info@aglg.ca to share your questions or comments.

You may also contact us by telephone, fax or mail:

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**AUDITOR GENERAL FOR
LOCAL GOVERNMENT**

ACCESSIBILITY • INDEPENDENCE • TRANSPARENCY • PERFORMANCE