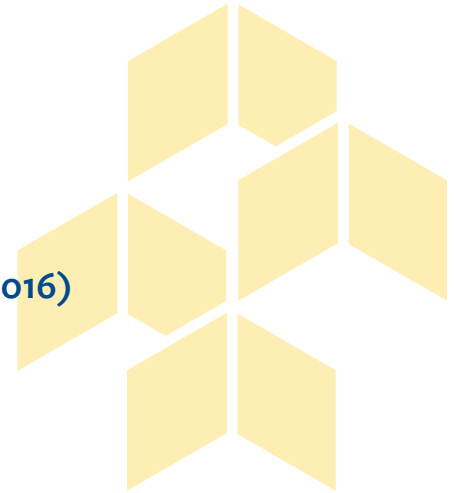




AUDITOR GENERAL FOR  
LOCAL GOVERNMENT

ACCESSIBILITY • INDEPENDENCE • TRANSPARENCY • PERFORMANCE



Audit Topic 1 – Report 6 (May, 2016)

# ACHIEVING VALUE FOR MONEY IN OPERATIONAL PROCUREMENT

**City of Revelstoke**

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



**Audit Topic 1 – Report 6 (May, 2016)**

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## MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT



**1.6.1** It's my pleasure to present this performance audit report on the operations of the City of Revelstoke, covering the topic "Achieving Value for Money in Operational Procurement."

**1.6.2** I want to thank the City for its cooperation during the performance audit process. I also want to thank them for giving careful consideration to the audit findings and recommendations and providing a constructive response, which is included toward the end of this report. The period covered by this audit was 2010 to 2012. While most of the examination work for this audit was completed in 2013 and 2014, the audit itself and the recommendations presented are still relevant today.

**1.6.3** 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. Performance audits of local governments are one of the tools we use to carry out this mandate.

**1.6.4** This report describes our work in carrying out our audit of the City of Revelstoke's management of the procurement of goods and services to support its day-to-day operations. This activity is known as operational procurement. Like all of our audits, this is an independent, unbiased assessment, carried out in accordance with professional standards. It aims to determine the extent to which the area being examined was managed with due regard to economy, efficiency and effectiveness during the period covered by the audit.

**1.6.5** This audit is one of six our office undertook on this topic beginning in 2013/14.

**1.6.6** Overall, we found that the City of Revelstoke met most of our expectations, had a solid foundation for operational procurement and that staff fully complied with the expectations provided to them in the City's policies.

**1.6.7** To meet its operational procurement objectives more fully, Revelstoke will need to build on its existing good practices by updating its procurement and conflict of interest policies and undertaking additional monitoring and reporting relating to operational procurement and the achievement of value for money.

## MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

**1.6.8** Building on the work we carried out on this audit, the other five audits we have done on this topic and a review of local government practices, we have published an AGLG Perspectives booklet titled “Improving Local Government Procurement Processes.” Aimed at local government staff and council/board members, this booklet aims to assist a wide range of local governments to strengthen their procurement processes by developing strong procurement policy, performance metrics and vendor performance evaluations.

**1.6.9** Our hope is that this audit report – and the information provided in our AGLG Perspectives booklet – will assist the City of Revelstoke in enhancing its procurement practices and delivering value for the tax dollars it spends.



**Gordon Ruth, FCPA, FCGA**  
Auditor General for Local Government

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## EXECUTIVE SUMMARY

Overall we found that the City met most of our expectations, had a solid foundation for operational procurement and that staff fully complied with the expectations provided to them in the City's policies.

**1.6.10** 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.

build on its existing good practices by updating its procurement and conflict of interest policies and undertaking additional monitoring and reporting relating to operational procurement and the achievement of value for money.

### What We Examined

**1.6.11** Our objective was to determine whether the City of Revelstoke managed operational procurement strategically and with due regard for value-for-money between 2010 and 2012. Our findings are based on our review of the City's procurement policies, procedures and practices. We undertook a review of procurement data and supporting documentation, interviewed staff and selected 25 operational procurement transactions for detailed review. We assessed Revelstoke's internal controls and whether these were respected. We examined the procurement tools Revelstoke used and its reporting of results.

### Revelstoke's Management of Operational Procurement

**1.6.14** The City used a decentralized procurement process, as outlined in its purchasing and tendering policy. Each department was responsible for managing its own procurement processes, following guidance contained in the purchasing policy and several purchasing-related templates. The finance department monitored procurement processes and processed payments once appropriate approvals had been indicated. The City's management team met on a weekly basis and was a venue for discussing operational procurement issues.

### What We Found

**1.6.12** Overall we found that the City met most of our expectations, had a solid foundation for operational procurement and that staff fully complied with the expectations provided to them in the City's policies.

**1.6.13** To meet its operational procurement objectives more fully, Revelstoke will need to

**1.6.15** The City's Purchasing and Tendering Policy directed staff to achieve maximum economy, efficiency and effectiveness in the purchase of goods and services based on the pursuit of best value for its money. The policy permitted sole source procurement for purchases under \$5,000, but required that purchases over \$5,000 be procured competitively, with some exceptions.

## EXECUTIVE SUMMARY

### A Focus on Operational Procurement

**1.6.16** Revelstoke Council participated in reviewing and approving a range of operational procurement transactions and discussed the City's spending priorities at Council meetings. During the period covered by the audit, Council approved approximately 17 contracts, five of which were below the usual dollar threshold required for Council approval.

**1.6.17** The City also demonstrated several initiatives intended to generate value for money through operational procurement decisions, including initiatives to purchase fuel in bulk and switch telephone service to voice over internet protocol (VoIP). Staff also told us about other opportunities they explored in an effort to generate value for money.

### Procurement-Related Policies

**1.6.18** We found that Revelstoke's policies to guide operational procurement were generally sound, but had some gaps:

- Lack of guidance on the use of procurement documents and contracting.
- Lack of guidance on working with vendors.
- No policy on unsolicited proposals from vendors.

**1.6.19** We also found several gaps in the City's conflict of interest provisions, although we noted that the City made some advancement in its ethical provisions since the end of the period covered by the audit.

### What the Sampled Transactions Showed

**1.6.20** We undertook detailed testing of 25 operational procurement transactions entered into by the City between 2010 and 2012, including 13 direct contract award transactions and 12 competitive processes. We found that staff complied with the City's purchasing policies in all cases, although the City did not retain the scoring sheets for 11 out of 12 of the competitive processes.

### Monitoring & Reporting

**1.6.21** We found that, although different City departments took steps to identify and implement strategies for cost savings related to both operations and operational procurement, the City did not develop a performance monitoring framework, or identify and track key performance indicators relating to operational procurement. We also found that the City had no standardized requirements or reporting tools for informing Council about operational procurement results.

## EXECUTIVE SUMMARY

### Conclusion

**1.6.22** This audit set out to determine whether – during the period covered by the audit – the City of Revelstoke managed operational procurement strategically and with due regard for value for money. Overall, we found that the City met most of our expectations.

**1.6.23** The City can build on this solid foundation by enhancing its policies and increasing its efforts to link its operational procurement activities to the City’s larger objectives and monitor and report on its operational procurement performance. We believe that these enhancements would improve the City’s ability to demonstrate to its taxpayers that it is achieving value for money.

EXHIBIT 1: Summary of Recommendations

ISSUES	RECOMMENDATIONS
<p><b>Procurement and Conflict of Interest Policies</b></p>	<p><b>1</b> The City of Revelstoke should enhance its purchasing and conflict of interest policies to align with current good practice. Specific areas for attention include:</p> <ul style="list-style-type: none"> <li>• Guidance on use of procurement documents and contracting;</li> <li>• Guidance on vendor performance and debriefing unsuccessful bidders;</li> <li>• Guidance on unsolicited proposals;</li> <li>• Guidance for vendors to disclose and sign off on potential conflicts of interest; and,</li> <li>• Provisions to protect employees reporting a known or potential conflict of interest regarding City employees or Council members involved in procurement.</li> </ul>
<p><b>Monitoring and Reporting</b></p>	<p><b>2</b> The City of Revelstoke should enhance its monitoring and reporting on operational procurement activities and results by:</p> <ul style="list-style-type: none"> <li>• Developing and implementing key performance indicators relating to operational procurement and a system to monitor them; and,</li> <li>• Increasing reporting to Council about operational procurement results.</li> </ul>

## INTRODUCTION

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.

**1.6.24** 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*.

**1.6.25** 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.”

**1.6.26** 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.

**1.6.27** We selected the City of Revelstoke 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.

**1.6.28** The other local governments we audited on this topic were Corporation of Delta, City of Vernon, District of West Vancouver, Comox Valley Regional District and Regional District of Fraser-Fort George. All of these audits are complete and the reports have been published.

**1.6.29** Operational procurement is prevalent 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.

**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

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

### Operational Procurement

**1.6.30** 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 the City of Revelstoke, we have estimated operational procurement spending accounted for approximately 33 per cent of operating expenditures in 2012.

**1.6.31** 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.

**1.6.32** These characteristics 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.

**1.6.33** 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.

**1.6.34** 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.

**1.6.35** These 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.

## INTRODUCTION

Local governments that manage their operational procurement strategically know that small savings on individual transactions can add up to very significant overall savings.

**1.6.36** 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.

**1.6.37** 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.

**1.6.38** 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.

**1.6.39** 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.

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. Staff analyze and use the resulting information 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.

### Our Expectations

**1.6.40** 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.

**1.6.41** 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.
- Knowledge of the local government's most

## INTRODUCTION

We selected 25 operational procurement transactions relating to the period covered by the audit for detailed review.

significant areas of operational procurement expenditure, 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/board and the public on the local government's operational procurement activities.

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.

policies, procedures and practices between 2010 and 2012. We undertook a review of procurement data and supporting documentation and we interviewed the City's staff.

**1.6.44** In addition, we selected 25 operational procurement transactions relating to the period covered by the audit for detailed review. We selected these transactions on a judgemental basis in order to gain an understanding of the types of operational procurement transactions the City undertook and how they complied with its policies and procedures.

**1.6.45** The audit also assessed whether the City of Revelstoke had put in place sufficient internal controls over procurement and whether these were respected. We examined the tools Revelstoke used to pursue best value in operational procurement and its reporting of results.

**1.6.46** 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 the City monitored vendor performance.

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

## What We Examined

**1.6.42** The overall objective of this performance audit was to determine the extent to which the City of Revelstoke managed operational procurement strategically and with due regard for value for money.

**1.6.43** Our findings are based on our review of Revelstoke's operational procurement



## CONTEXT

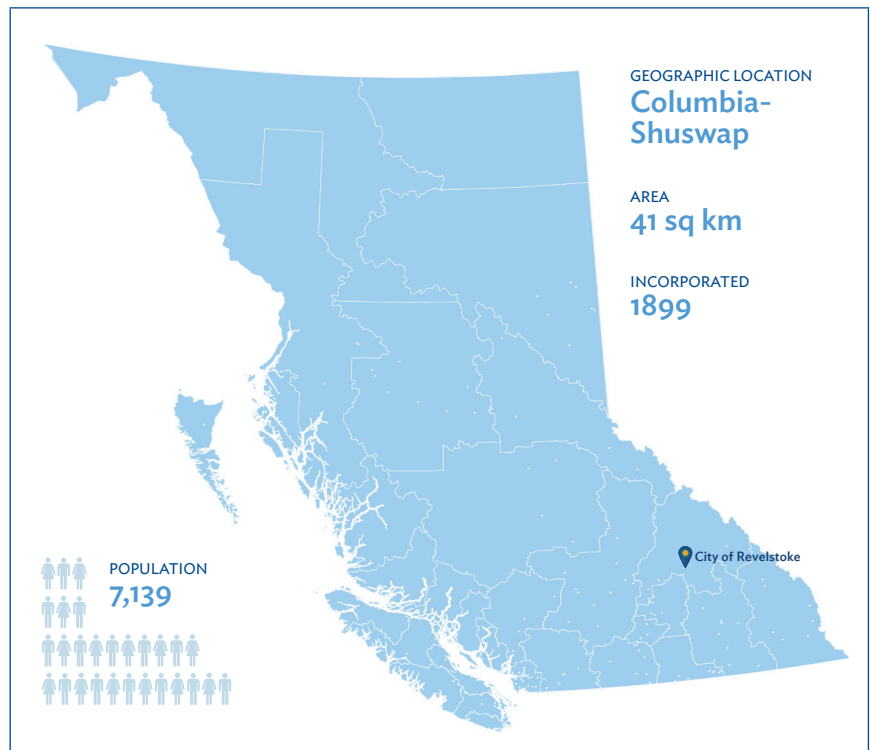
### The City of Revelstoke

1.6.48 The City of Revelstoke is located in the southeast of British Columbia and is part of the Columbia-Shuswap Regional District. The City is situated on the Columbia River between the Selkirk and Monashee mountain ranges. Revelstoke was founded in the 1880s and officially incorporated on March 1, 1899.

1.6.49 The City of Revelstoke covers a land area of 41 square kilometers and had a population of 7,139 as of 2011. The median age of Revelstoke’s residents in 2011 was 40.3 years, which was very close to the Canadian median age of 40.6 years.

1.6.50 As of 2012, the City of Revelstoke had approximately 105 employees, including full time, part time and casual staff.

EXHIBIT 2: City of Revelstoke Visual Facts





## CONTEXT

1.6.51 Exhibit 3 shows the City of Revelstoke's revenue, expenditures and operating surplus between 2010 and 2012. The City advised that the summary information in Exhibit 3 also reflects the impact of a number of changes in areas such as accounting practices and grants in lieu of taxation during this period; therefore additional information would be needed for any full comparison of the trends illustrated.

### *City Of Revelstoke's Operational Procurement Expenditures*

1.6.52 The City of Revelstoke's estimated operational procurement expenditures averaged about \$5.9 million per year during the period covered by the audit. Exhibit 4 shows an estimate of these expenditures compared to the City's other operational expenditures. It shows that approximately one third of all operating expenditures in each year were spent through operational procurement.

**EXHIBIT 3: City of Revelstoke Revenues and Expenditures 2010-2012 (\$ millions)**

REVENUE	2010	2011	2012	CHANGE 2010-2012
Taxation Revenue	9.9	10.5	11.4	+15.2%
Non-Taxation Revenue	9.9	8.9	7.5	-24.2%
<b>Total Revenue</b>	<b>19.8</b>	<b>19.4</b>	<b>18.9</b>	<b>-4.5%</b>
Expenditures	16.4	18.6	18.4	+12.2%
<b>Operating Surplus (Deficit)</b>	<b>3.4</b>	<b>0.8</b>	<b>0.5</b>	<b>-85.3%</b>

**EXHIBIT 4: City of Revelstoke Estimated Operational Procurement Compared to Total Operating Expenditures (Excluding Protective Services), 2010-2012 (\$ millions)**

	2010	2011	2012	CHANGE 2010-2012
Estimated operational procurement expenditures	5.7	6.0	6.0	+5.3%
Estimated other operational expenditures	10.7	12.6	12.4	+15.9%
<b>Total operating expenditures</b>	<b>16.4</b>	<b>18.6</b>	<b>18.4</b>	<b>+12.2%</b>
Estimated operational procurement expenditures as % of total operating expenditure	34.8%	32.3%	32.6%	-

Note: This exhibit estimates operational procurement expenditures, not including protective services, based on information in the City of Revelstoke's Annual Report (2010 to 2012).

Estimated other operational expenditures includes expenses such as personnel costs, RCMP contracted services, flow through funds, amortization of tangible capital assets, etc.

## FINDINGS

The City had, for the most part, well-developed policies for managing operational procurement. However, the City's policies lacked some important operational procurement and conflict of interest provisions.

**1.6.53** Overall, we found that the City of Revelstoke had a solid foundation for managing its operational procurement strategically and staff and Council members made operational procurement decisions with due regard for value for money.

**1.6.54** City staff informed Council about departmental initiatives intended to achieve best value and Council was involved in significant decisions about individual operational procurement transactions. In addition, the City had, for the most part, well-developed policies for managing operational procurement and we found that staff followed these policies with no exceptions in all 25 operational procurement transactions we sampled. The City also undertook initiatives to achieve better value for money and explored a range of cost saving procurement options.

**1.6.55** However, the City's policies lacked some important operational procurement and conflict of interest provisions. Additionally, Revelstoke had not developed a performance monitoring framework for operational procurement and therefore did not report to Council on key performance measures.

## Revelstoke's Management of Operational Procurement

**1.6.56** 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.

**1.6.57** The City of Revelstoke's procurement framework consisted primarily of policies covering purchasing and tendering and a decentralized procurement process under the purview of the director of finance. The City's policies set out guidelines for who was authorized to make purchases and the different procurement methods to make purchases.

**1.6.58** The City used several methods to carry out procurement. The mayor and senior staff had access to a small number of purchase cards for their use. Staff most frequently used a customized identification card and invoicing process for purchases at local businesses and stand-alone contracts. With the exception of purchases for the City's emergency centre, Revelstoke did not typically use purchase orders.

## FINDINGS

The City of Revelstoke used a decentralized procurement process, as outlined in its purchasing and tendering policy.

### A Decentralized Procurement Function

1.6.59 The City of Revelstoke used a decentralized procurement process, as outlined in its purchasing and tendering policy. Each department was responsible for identifying the goods and services it required and managing its procurement processes. Staff would purchase what they required following guidance contained in the purchasing policy and several purchasing-related templates.

1.6.60 The director of finance monitored Revelstoke’s procurement process and ensured purchases were made in accordance with policy and with the correct authorization. The finance department received all invoices, sent them to individual departments for authorization, confirmed the authorization and coding and authorized payments. The City’s management team met on a weekly basis and was a venue for discussing operational procurement issues.

### Acquisition Authority and Competitive Procurement Requirements

1.6.61 Exhibit 5 illustrates the staff positions that were authorized to make purchases for the City of Revelstoke at particular dollar levels. As it indicates, Council delegated its approval authority over operational procurement to staff for transactions up to \$100,000 that were not unusual or controversial.

EXHIBIT 5: City of Revelstoke Acquisition Authority

	ACQUISITION OF GOODS AND SERVICES
Purchases Up to \$2,000	Petty cash (up to \$50) Specific department staff (up to \$500) Supervisors
Purchases from \$2,000 Up to \$5,000	Deputy Director of Corporate Administration Building and Property Manager Deputy Director of Finance (up to \$4,000)
Purchases from \$5,000 Up to \$50,000	Department Heads
Purchases from \$50,000 Up to \$75,000	Director of Finance
Purchases from \$75,000 Up to \$100,000	Chief Administrative Officer
Purchases from \$10,000, and Up	Approval by Council required for all contracts or agreements
Approval by Council required for all contracts of any amount that are unusual in circumstance or of a controversial nature.	

## FINDINGS

**1.6.62** The City’s Purchasing and Tendering Policy directed staff to achieve maximum economy, efficiency and effectiveness in the purchase of goods and services based on the pursuit of best value for its money.

The policy provided various mechanisms to manage procurement, including:

### Quotations

Requests for verbal or written bids by suppliers to provide goods or services for a specified price.

### Tenders

Bids or offers to provide goods or services, submitted in response to an invitation that indicates specific terms required by the City.

### Proposals

Responses to a formal request for sealed proposals of solutions to the City’s specific needs, objectives or required deliverables.

### Invitational Tenders

Tenders to which only a select number of vendors are invited to bid on a contract.

### Public Tenders

Tenders that are open to the general public, where anyone may submit a bid.

**1.6.63** Exhibit 6 summarizes Revelstoke’s requirements, set out in its procurement policy, for using competitive processes for the purchase of goods and services. The policy permitted direct awards for purchases under \$5,000, but required that all purchases over \$5,000 be procured competitively through either written or verbal quotations, public tenders, or proposals. Exceptions were permitted for “one off” items of up to \$15,000 that could also be sourced from a single supplier.

**EXHIBIT 6: City of Revelstoke Competitive Procurement Requirements**

	ACQUISITION OF GOODS AND SERVICES
Purchases under \$5,000	No quotations required but must make effort to obtain the best value
Purchases from \$5,000 Up to \$25,000	Verbal or written quote (minimum 3 required) Public call for written proposals for consultants (\$10,000 or more)  <i>Note: A “one off” item may be sourced from a single supplier if it is of a low dollar value (\$15,000).</i>
Purchases from \$25,000 Up to \$50,000	Written quotes (minimum 3 required)
Purchases from \$50,000, and Up	Invitational tender Public tender Proposal  <i>Note: With approval from Council, a contract may be sole sourced if there is clearly only one qualified supplier available or capable of providing the required service.</i>

Source: City of Revelstoke’s Purchasing and Tendering Policy.

## FINDINGS

The City of Revelstoke demonstrated several initiatives intended to generate value for money through operational procurement decisions.

### A Focus on Operational Procurement

#### Council Involvement in Strategic Procurement

**1.6.64** Revelstoke City Council discussed the City's spending priorities at Council meetings and these were documented in Council minutes. We found that Council was also involved in reviewing and approving a range of individual operational procurement transactions. As illustrated in Exhibit 5, City staff were directed to obtain Council approval for all contracts that exceeded \$100,000 or were unusual in circumstance or controversial in nature. Staff were directed to consult with the chief administrative officer, director of finance and department head to determine whether a purchase fit this description, which was not defined in policy. We were told that, as required, management discussed at their regular meetings whether operational procurement items should be brought to Council.

**1.6.65** During the period covered by the audit, Council approved approximately 17 contracts, five of which were below the usual dollar threshold required for Council approval.

#### Efforts to Generate Value for Money

**1.6.66** The City of Revelstoke demonstrated several initiatives intended to generate value for money through operational procurement decisions.

#### Bulk Fuel Purchasing

**1.6.67** In 2010, Revelstoke partnered with a local distributor of gas and diesel fuels to obtain a joint price for fuel. The City developed an inventory control system to monitor fuel consumption and staff told us that they achieved savings ranging from four to nine cents per litre compared to regular pump prices. We did not audit the total fuel savings achieved by the City during the period covered by the audit.

#### VoIP Phone Service

**1.6.68** In 2009, the year before the start of the period covered by the audit, the City switched its telephone services to a voice over internet protocol (VoIP) service. Staff developed a business case that included cost/benefit calculations related to ongoing operational costs for its phone services. The City projected that it would save more than \$50,000 per year as a result of this change and a reduction in the number of phone lines, not including the capital outlay necessary to make this change.

#### Opportunities Explored

**1.6.69** Revelstoke staff also told us about other opportunities they explored in an effort to generate value for money. Given the City's size and operational requirements, they found that some options that might be available and cost-effective for a larger local government were not cost effective for the City. Examples include some of the BC Government corporate supply arrangements and centralized purchasing to take advantage of discounts.

## FINDINGS

We found that Revelstoke's policies to guide operational procurement were generally sound, but had some gaps.

### Procurement-Related Policies

**1.6.70** 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

**1.6.71** 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.

**1.6.72** 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.

**1.6.73** The City of Revelstoke's purchasing and tendering policy delegated purchasing authority up to \$100,000 per transaction to staff. The policy was developed by the finance department in 2002 and amended in 2008. It was in effect during the period covered by the

audit and was subsequently reviewed and amended after the period covered by the audit, in 2015.

**1.6.74** Staff told us that new employees were made aware of the City's purchasing policy during their departmental orientation if purchasing was an aspect of their job. They were also required to sign and initial the City's purchasing and authorization sheet, which was used by the finance department to confirm that staff adhered to authorization limits when signing invoices or contracts.

**1.6.75** We found that Revelstoke's policies to guide operational procurement were generally sound, but had some gaps. It is important for key practices to be reflected in policy to ensure consistency over time, particularly in the event of staff turnover.

#### *Guidance on the Use of Procurement Documents and Contracting*

**1.6.76** Although the City had templates and guidance for procurement-related processes such as service contracts and requests for proposals, City policies included no reference to the use of these templates. Additionally, we found no written guidance on the length of contracts, contract dispute resolution procedures, the use of sub-contractors, contract monitoring or legal review of larger contracts.

#### *Lack of Guidance on Working with Vendors*

**1.6.77** The purchasing policy provided no direction on how staff should work with vendors, including debriefing unsuccessful bidders and assessing vendor performance.



## FINDINGS

The City made some advancement in its ethical provisions since the end of the period covered by the audit.

### **Lack of Guidance on Unsolicited Proposals**

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

### **Ethical Requirements**

**1.6.79** The City's conflict of interest provisions were included in its Purchasing and Tendering Policy, which was approved in 2008. Revelstoke required staff to adhere to the Purchasing Management Association of Canada (PMAC) professional code of ethics. In addition, the City required exempt staff to complete an annual statement of financial disclosure that included a list of the employee's assets, liabilities, sources of income and property.

**1.6.80** However, we found some gaps in the City's conflict of interest provisions, including:

- No requirement for employees involved in procurement to periodically review conflict of interest requirements and sign off to indicate their understanding and knowledge.
- No standardized requirement for vendors to disclose potential conflicts of interest.
- No provision to protect employees reporting a known or potential conflict of interest regarding other City employees or Council members involved in procurement.

**1.6.81** Staff told us that, during the period covered by the audit, new Councillors received training and mentoring by other Councillors. The City expected Council members to comply with statutory rules set out in the *Community Charter*, which include ethical requirements such as those covering conflict of interest.

**1.6.82** We also noted that the City made some advancement in its ethical provisions since the end of the period covered by the audit. In 2015, Revelstoke developed a new Standards of Conduct policy for all staff that included reference to conflict of interest. It also created an Administrative Fairness Policy that outlined procedures for complaints regarding the City's administrative practices, processes and procedures.

## What the Sampled Transactions Showed

**1.6.83** We undertook detailed testing of 25 operational procurement transactions entered into by the City of Revelstoke between 2010 and 2012. This sample – which was not intended to necessarily be representative of all operational procurement carried out by the City – included 13 direct contract award transactions and 12 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.

### **Overall Compliance with Policies**

**1.6.84** In our review of the sampled transactions, we found that staff complied with the City's purchasing policies in all cases. Guidelines for direct awards and competitive bidding requirements were followed in all sample transactions that we tested.

## FINDINGS

Key performance indicators related to operational procurement should be aligned with the local government's overall goals, objectives and strategies.

### Gaps in Documentation

**1.6.85** Although not required by the City's policy, it is a good practice for staff to retain documentation for the scoring of results in competitive processes such as the assessment of proposals and tenders. We found that the City did not retain the scoring sheets for 11 out of 12 of the competitive processes related to our sampled transactions.

## Monitoring & Reporting

**1.6.86** 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.

**1.6.87** 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.

**1.6.88** 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.

**1.6.89** 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.

### Absence of Key Performance Indicators

**1.6.90** As previously discussed, we found that different departments at the City of Revelstoke took steps to identify and implement strategies for cost savings related to both operations and operational procurement. We were informed that staff and Council regularly reviewed contracts that were up for renewal to determine if cost-savings could be identified.

**1.6.91** However, the City did not develop a performance monitoring framework for operational procurement. For example, Revelstoke did not identify and track key performance indicators such as how much of its operational expenditures were discretionary (managed operational expenditures where better value could be achieved through a competitive process), or other indicators of cost savings/cost avoidance, procurement efficiency metrics or vendor related metrics.



## FINDINGS

However, we found that the City had no standardized requirements or reporting tools for informing Council about operational procurement results.

### Absence of Reporting on Procurement Data to Council

**1.6.92** As mentioned previously, we found that Revelstoke Council had significant involvement in matters related to individual operational procurement decisions, as staff brought contracts valued at over \$100,000, as well as anything deemed unusual in circumstance or controversial in nature, to Council for consideration and approval.

**1.6.93** In addition, during the period covered by the audit, staff reported to Council on progress toward achieving key departmental objectives, some of which included procurement activities and efforts to achieve best value in their operations. Examples included garbage collection, energy efficiencies and snow removal, among others. These activities were documented in the City's annual reports from 2010 through 2012.

**1.6.94** However, we found that the City had no standardized requirements or reporting tools for informing Council about operational procurement results. Between 2010 and 2012, Council did not receive any reports on key performance indicators for operational procurement.

**1.6.95** We also noted that public reporting on departmental objectives related to achieving value for money decreased in the years following the period covered by the audit.

## CONCLUSION

**1.6.96** This audit set out to determine whether – during the period covered by the audit – the City of Revelstoke managed operational procurement strategically and with due regard for value for money. We found that the City met most of our expectations, had a solid foundation for operational procurement and that staff fully complied with the expectations provided to them in the City’s policies.

**1.6.97** To meet its operational procurement objectives more fully, Revelstoke will need to build on its existing good practices by updating its procurement and conflict of interest policies and undertaking additional monitoring and reporting relating to operational procurement and the achievement of value for money.

**1.6.98** We believe that enhancements in these areas would improve the City’s ability to demonstrate to its taxpayers that it is achieving value for money in its operational procurement.

## RECOMMENDATIONS

### Recommendation 1

The City of Revelstoke should enhance its purchasing and conflict of interest policies to align with current good practice. Specific areas for attention include:

- Guidance on use of procurement documents and contracting;
- Guidance on vendor performance and debriefing unsuccessful bidders;
- Guidance on unsolicited proposals;
- Guidance for vendors to disclose and sign off on potential conflicts of interest; and,
- Provisions to protect employees reporting a known or potential conflict of interest regarding City employees or Council members involved in procurement.

### Recommendation 2

The City of Revelstoke should enhance its 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 Council about operational procurement results.

## SUMMARY OF LOCAL GOVERNMENT'S COMMENTS



# City of Revelstoke

P.O. Box 170, Revelstoke, British Columbia V0E 2S0  
revelstoke.ca

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April 20, 2016

Gordon Ruth, FCPA, FCGA,  
Auditor General for Local Government,  
Suite 201 – 10470 – 152<sup>nd</sup> Street,  
Surrey, BC, V3R 0Y3

Dear Mr. Ruth,

**Re: City of Revelstoke Operational Procurement Performance Audit**

On behalf of the Council and staff of the City of Revelstoke, I would like to thank you and your staff for the audit report on our operational procurement processes provided to us.

We are not surprised to learn from your report that your testing concluded full compliance with our existing policies and procedures. We are committed to open and accountable government and we strive to improve the ways in which that commitment can be strengthened through best practices. In this regard, the recommendations in your report will be valuable in helping us shape and improve our procurement policies and processes going forward.

Finally, I would like to express our appreciation for the respectful manner in which your staff carried out their assignment over a long and sometimes challenging period.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark McKee', with a long horizontal flourish extending to the right.

Mark McKee  
Mayor

## CITY OF REVELSTOKE’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<b>RECOMMENDATION 1</b>			
<p>The City of Revelstoke should enhance its purchasing and conflict of interest policies to align with current good practice. Specific areas for attention include:</p>			
<ul style="list-style-type: none"> <li>• Guidance on use of procurement documents and contracting;</li> <li>• Guidance on vendor performance and debriefing unsuccessful bidders;</li> <li>• Guidance on unsolicited proposals;</li> <li>• Guidance for vendors to disclose and sign off on potential conflicts of interest; and,</li> <li>• Provisions to protect employees reporting a known or potential conflict of interest regarding City employees or Council members involved in procurement.</li> </ul>	<p>The city has a program of reviewing and updating policies and procedures on a regular basis. We will continue with this program and incorporate guidance language as necessary.</p>	<p>Administration Administration Administration Administration Administration</p>	<p>Ongoing March 31, 2017 March 31, 2017 March 31, 2017 March 31, 2017</p>
<b>RECOMMENDATION 2</b>			
<p>The City of Revelstoke should enhance its monitoring and reporting on operational procurement activities and results by:</p>			
<ul style="list-style-type: none"> <li>• Developing and implementing key performance indicators relating to operational procurement and a system to monitor them; and,</li> <li>• Increasing reporting to Council about operational procurement results.</li> </ul>	<p>We will explore best practices in terms of key performance indicators and determine those that are appropriate to the city as part of its ongoing decision making processes</p> <p>We agree that reporting needs to be increased</p>	<p>Finance Management</p>	<p>Ongoing Ongoing</p>

## ABOUT THE AUDIT

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

### Audit Objectives

**1.6.99** The overall objective of this performance audit was to determine whether the City of Revelstoke managed operational procurement strategically and with due regard for value for money.

### Period Covered by the Audit

**1.6.100** The audit covered the period 2010 to 2012. We completed the majority of our audit work by November 2014, but we also received and reviewed some additional information after that date.

### Audit Scope and Approach

**1.6.101** The audit included a review of City of Revelstoke's performance in managing operational procurement. It did not include procurement by any entities consolidated in the City'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.

**1.6.102** To carry out the audit, we undertook data analysis, interviews, process walkthroughs and review of documentation. We sampled 25 operational procurement transactions and assessed them against the audit criteria.

**1.6.103** We assessed Revelstoke'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

**1.6.104** Performance audit criteria define the standards against which we assess the City of Revelstoke's performance. We express these criteria as reasonable expectations for Revelstoke's operational procurement processes and practices to achieve expected results and outcomes.

**1.6.105** Below are the criteria we used to assess the City:

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.
  - b. Information provided to decision makers is comprehensive and covers the nature and breadth of procurement arrangements being planned.

## ABOUT THE AUDIT

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.
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.

## ABOUT THE AUDIT

### Performance Audit Process

1.6.106 At the beginning of the performance audit process, we shared key audit-related documents with the City of Revelstoke. 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.

### EXHIBIT 7: Performance Audit Process

AGLG initiates audit with notification letter and schedules opening meeting with local government to discuss process and proposed audit scope and criteria.

AGLG finalizes audit scope/criteria and advises local government, which acknowledges/accepts.

With cooperation of local government, AGLG gathers evidence by conducting enquiries, site visits and reviews, inspecting records, performing analysis and other activities.

AGLG shares preliminary findings with local government at fact clearing meeting or by providing draft proposed final report.

Local government confirms all fact statements, advising AGLG if any information is incorrect or incomplete, providing corrected information with documentary support.

AGLG may produce a draft proposed final report for local government review and comment.

Local government may suggest revisions to the draft report. This request must be supported by evidence. Local government comments must be provided within timeframes established by AGLG.

AGLG produces proposed final report and shares it with local government.

Local government has 45 days to provide comments. These should include response to recommendations.

AGLG adds summary of local government comments to proposed final report and submits it to Audit Council for their review.

Audit Council may provide comments.

After considering any Audit Council comments, AGLG finalizes report.

AGLG will provide the local government with the final performance audit report.

AGLG publishes the final performance audit report on AGLG.ca website.



## APPENDIX – PROCUREMENT TOOLS DEFINED

### Corporate Supply Arrangement (CSA or “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, 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>)

Sources: 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  
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**AUDITOR GENERAL FOR  
LOCAL GOVERNMENT**

ACCESSIBILITY • INDEPENDENCE • TRANSPARENCY • PERFORMANCE