

# Report to Finance and Corporate Services Committee

**TO:** FINANCE AND CORPORATE SERVICES COMMITTEE

**PREPARED BY AND KEY CONTACT:** PATTI ELLIOTT-SPENCER,  
GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES

**SUBMITTED BY:** PATTI ELLIOTT-SPENCER,  
GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES

**GENERAL MANAGER APPROVAL:** PATTI ELLIOTT-SPENCER,  
GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** CARLA LADD, CHIEF ADMINISTRATIVE OFFICER

**DATE:** October 28<sup>th</sup>, 2015

**SUBJECT:** REPORT ON THE REVIEW OF THE CORPORATE FACILITIES BRANCH BY DELOITTE

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## RECOMMENDED MOTION

1. That the document Management Response and Action Plan to the Corporate Facilities Branch Review by Deloitte be received.
2. That the staff recommendation for the position of Internal Auditor be referred to the 2016 Business Plan consideration.
3. That staff investigate and report back on the implementation of an independent Whistle Blower Program.

## PURPOSE & BACKGROUND

4. In late 2014, senior staff were made aware of concerns about potentially inappropriate vendor relations occurring in the Corporate Facilities Branch. The CAO immediately authorized an investigation and the city retained a forensic auditor, Deloitte, to review the situation. Once their initial review was complete, the City immediately turned the findings over to the Barrie Police to investigate, which has led to the recent charges against a former City employee and contractor.
5. Deloitte was subsequently requested to conduct a further expanded audit of the area in question to ensure there was no other related activity. The review did not identify any further inappropriate activity and this situation appears this is an isolated incident. However, through their review, Deloitte did identify a number of areas where controls and processes needed to be strengthened and has recommended several steps be taken to safeguard the city and prevent similar inappropriate activities from happening in the future.
6. Staff has reviewed Deloitte's recommendations. Appendix A includes a summary of Deloitte's recommendations; management's response; and a proposed action plan for each recommendation.
7. Additionally, staff has considered other measures to strengthen the City's controls and to ensure compliance with approved policies and procedures. These measures include the reinstatement of

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the Internal Auditor position and investigation of an independent "Whistle Blower" program to provide staff with a confidential and anonymous way to report inappropriate activity.

## ANALYSIS

8. Deloitte's expanded review focused on activities and transactions that occurred in the period January 1, 2014 to May 31, 2015, in the Corporate Facilities Branch and included a review of accounting and procurement records, interviews with branch staff, Purchasing staff, Accounting staff and facility tenants served by the Corporate Facilities Branch.
9. They also reviewed the City's Procurement By-law and the Code of Conduct and compliance with the requirements of these City policies.
10. Deloitte has made a number of recommendations. These can be summarized generally, as recommendations that address the following areas of focus:
  - i) Strengthen the City's Procurement By-law and processes for low cost purchases, including the purchasing card program and internal controls for all purchasing activities;
  - ii) Strengthen accountability for all staff, particularly management, by requiring mandatory monitoring and reporting on compliance with City by-laws and policies including the Procurement By-law, Code of Conduct, budget monitoring and reporting, and ensure that there is appropriate disciplinary action for non-compliance;
  - iii) Develop policies and processes for stronger controls over contractor management;
  - iv) Immediately implement corporate wide retraining on the City's Code of Conduct; and
  - v) Develop a training program on Procurement By-law and policies.
11. A number of the recommendations related to the Procurement By-law have been addressed through the Procurement Services Review which was initiated in early 2014, based on Council direction, and prior to management being made aware of the concerns in the facilities branch. The Procurement Services review includes recommendations for a protocol for contractor management and training on the Procurement By-law and policies. Staff is considering all the audit recommendations, and the action plan to address the recommendations, prior to bringing a revised Procurement By-law forward to Council.
12. Other recommendations relate to system functionality, such as automating work flow for approvals and strengthening security by ensuring proper segregation of duties through system access permissions. In 2013, Council approved the implementation of a new ERP, and implementation began in 2014. As the City is currently implementing the new ERP, changes to existing systems that are to be replaced, such as the Great Plains financial system, are not recommended. To address these recommendations in the interim period, mitigating controls will be used in the interim. The new SAP system contains strong controls to ensure segregation of duties and has built in checks and balances throughout the process flows. Prior to the implementation of SAP, each and every city process is being reviewed to reduce customizations and maximize the benefits and capabilities of the software. Through this process review staff will ensure that the recommendations related to system functionality will be addressed in the new system. The system has significantly expanded procurement reporting tools which will allow better tracking of how the Corporation's funds are spent. Through standard system reporting, staff will be able to analyze department, division or corporate-wide spending based on who is making purchases, the types of materials and services being purchased, and by the vendors who are supplying the goods and services.

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13. Specific issues have been raised by Deloitte over non-compliance with the existing Procurement By-law, primarily around low cost purchases. Low cost purchases are related to items under \$10,000. These purchases are handled by the Departments, without the involvement of Purchasing. The Procurement By-law requires that a purchase order be issued prior to work being completed by the supplier. The Audit findings show, that based on the sample of transactions reviewed, in 91% of the transactions the purchase order (PO) was issued after the invoice was received. Issuing the Purchase Order prior to the work being undertaken documents the quote for the work, and provides a control to ensure actual invoices are within the quote. When the PO is issued upon receipt of an invoice there is no control to ensure actual charges reflect a preliminary quote. A key recommendation is that Purchase Orders should be issued before work commences.
14. The Audit also found that the branch used a practice of "project splitting" to avoid the requirements of the Procurement By-law for purchases over \$10,000 which requires formal competitive bids or Requests for Quotes. Project splitting refers to a practice of breaking up work that is closely related, and could be procured as one project, into individual packages, so as to avoid the requirement of the Procurement By-law. The Audit found that 50% of low cost purchases appeared to be instances of "project splitting". Issuing work in larger packages and requiring formal competitive quotes can result in lower prices, and is a recommended best practice. While management was aware of this practice, staff has not been disciplined for non-compliance to the Procurement By-law. This is addressed in the Action Plan which recommends that direction be given to immediately cease the practise of project splitting, the development of a disciplinary plan for non-compliance with the Procurement By-law, and management's responsibility to enforce compliance.
15. The Audit also identified that there is non-compliance with the City's Code of Conduct. Staff appeared to be unaware of the requirements to identify potential conflicts of interest to their supervisors and required process to document conflicts. Senior management agrees with the recommendations from Deloitte to institute formal training for all new staff, and retraining of existing staff, every two years, on the requirements of the code of conduct.
16. In addition to the recommendations provided by Deloitte, staff is recommending the City reinstate the position of Internal Audit and investigate and report back on a "Whistle Blower" program.
17. As the City grows, processes and necessary controls become more complex. An Internal Auditor provides for an ongoing process to review City policies, processes, controls and compliance, to protect the City's assets. This is a best practice for organizations. The 2016 Business Plan includes a proposal to implement an Internal Audit function.
18. An independent "Whistler Blower" program would provide for anonymous reporting by staff of activities that they believe are inappropriate. Staff is often reluctant to come forward with concerns for fear of reprisal. Many agencies provide these programs, for a fee. Staff will investigate programs available and report back to Council with a proposed policy.

## **ENVIRONMENTAL MATTERS**

19. There are no environmental matters related to the recommendation.

## **ALTERNATIVES**

20. There are alternatives available for consideration by Finance and Corporate Services Committee:

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## Alternative #1

Finance and Corporate Services Committee could not accept the Action Plan presented by staff and the recommendation to implement an Internal Audit function, and Whistle Blower Program.

This alternative is not recommended. The action Plan has been developed to address the specific recommendations by Deloitte and to reduce risk to the organization.

## FINANCIAL

21. There are no immediate financial implications for the Corporation resulting from the proposed recommendation. Financial implications are referred to the 2016 Business Planning Process.

## LINKAGE TO COUNCIL STRATEGIC PRIORITIES

22. The recommendation(s) included in this Staff Report support the following goals identified in the 2014-2018 City Council Strategic Plan:

Responsible Spending

23. The recommendations in this report strengthen City processes and controls to protect the City's assets and ensure effective procurement process.

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## Appendix A – MANAGEMENT RESPONSE & ACTION PLAN TO CORPORATE FACILITIES BRANCH REVIEW BY DELOITTE

### A. RECOMMENDATIONS TO STRENGTHEN PROCUREMENT BY-LAW, PROCESSES AND INTERNAL CONTROL

RECOMMENDATIONS	MANAGEMENT COMMENTS	ACTION PLAN	TARGET COMPLETION DATE
<p><b>Low Cost Purchase Recommendations</b></p> <p>Consider revised thresholds for Purchase Order requirements for Low Cost Purchases under \$3,000. The City's current threshold is \$10,000.</p>	<p>The City's current purchasing by-law threshold for low cost purchases is under \$10,000. This threshold was set to stream line procurement practices for City departments.</p>	<p>The thresholds will be revisited through the Purchasing Services Review. The action recommends more formalized and regular training for staff; and compliance reporting to senior management. Combined with the robust functionality of the new ERP, these measures should eliminate non-compliance with the purchasing by-law</p>	<p>Spring 2016</p>
<p><b>Approval Controls &amp; Segregation of Duties Recommendations</b></p> <p>Improve segregation of duties through system security and access</p> <ul style="list-style-type: none"> <li>• Remove ability for some Employees to create and approve purchase orders and approve related invoices</li> <li>• Authority to approve PO's should be based on spending authority</li> <li>• Disable ability for a user to be able to access multiple Buyer id's</li> <li>• Ensure only the individual who approved the PO can amend the PO</li> <li>• Remove ability for Accounts Payable staff to create temporary vendors. Vendor creation should be limited to Purchasing.</li> </ul>	<p>Agree. However, as the City is currently implementing a new ERP system, changes to the existing system are not cost effective.</p>	<p>The new ERP system has this functionality, and will address the recommendations.</p> <p>In the interim, staff will implement mitigating controls through manual processes.</p>	<p>Summer 2016</p>

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RECOMMENDATIONS	MANAGEMENT COMMENTS	ACTION PLAN	TARGET COMPLETION DATE
<p><b>Approval Process Recommendations</b></p> <p>Strengthen approval process</p> <ul style="list-style-type: none"> <li>All approvals should be based on an individual's signing authority</li> <li>All invoices should require two signatures, by individuals with spending authority to approve the invoice</li> <li>All departments should provide Finance with a list of employees with their signing authority amount, position, and sample signature, approved by the Division Head.</li> <li>Any changes should require a new departmental list to be forwarded to Finance and must be approved by the Division Head.</li> <li>Employees should print their names as well as sign on all invoices they approve</li> </ul>	<p>Agree. Authorized signing authority listings are currently maintained by departments/branches and provided to the Finance Department. These listings include sample signatures. The signing authorities are determined by Department Heads.</p>	<p>The Corporation will adopt a two-signature policy for all departments. The Accounting Branch will review invoices for two approved signatures with appropriate signing authority. Staff will be instructed to print names as well as sign.</p>	<p>November 2015</p>
<p><b>Purchasing Card Recommendations</b></p> <p>Purchasing Card expenses should be reconciled within three months, and Finance should monitor and report non-compliance.</p>	<p>Agree.</p>	<p>The Accounting Branch will send notifications to Directors and/or General Managers regarding unreconciled account balances older than one month on a monthly basis. Continued unreconciled amounts will be escalated.</p>	<p>December 2015</p>

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<p><b>Records Management Recommendations</b></p> <p>All documentation supporting procurement work should be maintained in a secure central repository in the Purchasing Branch's shared server.</p>	<p>Agree.</p>	<p>Staff will investigate the feasibility of a Central Repository, with Information Technology Department as part of the completion of the Purchasing Service Review.</p>	<p>Summer 2016</p>
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### B – RECOMMENDATIONS TO STRENGTHEN ACCOUNTABILITY AND COMPLIANCE

RECOMMENDATIONS	MANAGEMENT COMMENTS	ACTION PLAN	TARGET COMPLETION DATE
<p><b>Non Compliance Recommendations</b></p> <p>The audit identified a number of issue related to non-compliance with City policies including the Procurement By-law, P-Card program and the Code of Conduct. The following recommendations were made:</p> <ul style="list-style-type: none"> <li>Employees should be disciplined for non-compliance for any of the following:           <ul style="list-style-type: none"> <li>The practice of project splitting should cease.</li> <li>Inappropriate use of P-Cards should be reviewed and reported to Management and Human Resources and noted on the employees file.</li> </ul> </li> </ul> <p>In accordance with the Procurement By-law and Policies all invoices should be sent to Accounts Payable by vendor's</p> <p>Records should be retained in accordance with the City's Retention schedule.</p> <p>Purchasing Branch should perform compliance reviews every quarter to identify instances of non-compliance. Incidents of non-compliance should be reported to department heads and the CAO/EMT.</p>	<p>Agree. Management is responsible for ensuring staff comply with City policies and By-laws. Management staff will be held responsible for compliance and are expected to take action to ensure the practice stops.</p>	<p>Communication to all staff from EMT that the compliance with City policies is mandatory and non-compliance will result in disciplinary action.</p> <p>Training programs will be implemented to ensure that staff is aware of their responsibilities for compliance, and Management will be held accountable for ensuring their staff is compliant. Finance will develop exception reports to assist Management in monitoring compliance.</p>	<p>Summer 2016</p>



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<p>Purchase Orders should be created for each identifiable project prior to initiation of work.</p> <p>Invoices from suppliers should be required to include the Purchase Order Number. Invoices without Purchase Order numbers should be returned to the supplier.</p>			
<p><b>Management Accountability Recommendations</b></p> <p>The following recommendations were made addressing the accountability of Branch management and staff:</p> <ul style="list-style-type: none"> <li>• Accountability for Director's, Supervisors, and Co-ordinators should be clearly defined and monitored.</li> <li>• Department heads should ensure compliance with City By-laws and policies</li> </ul>	<p>Agree.</p>	<p>Management will be held accountable for ensuring their staff is compliant with City By-laws and policies.</p>	<p>Immediate</p>
<p><b>Budget Management and Monitoring</b></p> <p>A number of recommendations specifically address accountability for Budget monitoring in the Branch</p> <ul style="list-style-type: none"> <li>• Department Head should monitor department budgets monthly to track performance against budget and identify possible areas of concern</li> <li>• Branch supervisors should provide supporting documentation in writing to explain budget overruns to their department head</li> </ul>	<p>Agree. The City currently provides quarterly reporting to Council, however, management is responsible for ongoing monitoring. Current systems do not provide easy access to information, requiring much manual work to develop reports.</p>	<p>The new ERP system will greatly enhance reporting capabilities, and ability to analyze and forecast actual performance to budget. Transition provisions will be considered prior to availability of the ERP.</p>	<p>Summer 2016</p>

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<ul style="list-style-type: none"><li>• Branch supervisors should perform quarterly analysis to identify potential cost overruns and include an analysis of Low Cost Purchases</li><li>• Supervisors should be required to be well versed in specifications of a supplier's Standing Agreement to ensure suppliers are not charging additional fees for services covered by the Standing Agreement.</li></ul>		<p>Education will be provided to Supervisors on contract management and accountability in monitoring and understanding supplier agreements with be emphasized.</p>	
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### C – RECOMMENDATIONS TO STRENGTHEN CONTRACTOR MANAGEMENT

RECOMMENDATIONS	MANAGEMENT COMMENTS	ACTION PLAN	TARGET COMPLETION DATE
<p><b>Contractor Management Recommendations</b></p> <p>The following recommendations address staff management of contractors:</p> <ul style="list-style-type: none"> <li>• Expectations regarding verification and inspection of supplier work should be clearly communicated to Technicians, Generalists, Coordinators by the Director</li> <li>• Supplier work performance should be evaluated and clearly documented, so evidence is available to terminate contracts for non-compliance or non-performance.</li> <li>• Suppliers on the Qualified Supplier Roster should be subject to random review to ensure the supplier continues to perform consistently</li> <li>• Work over a Certain dollar threshold should require a signature from the facility tenant to verify the work was performed</li> <li>• Work should be distributed more evenly amongst pre-qualified suppliers to address preferential treatment. The Director should review bi-annually.</li> </ul>	<p>Agree. The Purchasing Service Review (PSR) will be introducing an updated Procurement By-Law and three key Protocols and necessary tools to guide staff in Contract Management ; monitoring Supplier Performance including an Evaluation Protocol; and a Supplier Disqualification (termination/suspension) protocol. A new Procurement Manual will provide staff with additional guidance.</p>	<p>Provide Training for staff and implement new procurement Manual/Protocols. Evaluate effectiveness of new protocols after the first year. An ongoing training program will be developed and implemented post implementation, which will at minimum include training for new staff and refresher training.</p> <p>Affirm DHs, Branch Managers and staffs' responsibility for ensuring compliance.</p> <p>The new ERP system will provide best practices for procurement requiring a three way match of the a purchase order, receipt or acceptance of work, and invoice prior to payment.</p>	<p>Spring 2016</p>
<p>Contractors should be required to sign a Supplier Code of Conduct</p>	<p>The revised Draft Procurement By-Law developed in the PSR includes an Article on Supplier's Code of Conduct</p>	<p>PSR project will introduce a supplier Code of Conduct. In addition the PSR will be introducing a Supplier</p>	<p>Spring 2016</p>

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	and Conflicts of Interest.	Disqualification Protocol that provides the mechanism to penalize vendors for illegal or unethical business practices.	
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### D – RECOMMENDATIONS FOR TRAINING

RECOMMENDATIONS	MANAGEMENT COMMENTS	ACTION PLAN	TARGET COMPLETION DATE
<p><b>Conduct Code of Conduct Training Recommendations</b></p> <ul style="list-style-type: none"> <li>• New staff should be trained on hiring</li> <li>• There should be mandatory retraining every two years</li> <li>• All staff should be required to sign an acknowledgement form stating they understand the code of conduct and non-compliance is subject to disciplinary action and/or termination.</li> </ul>	<p>Agree</p>	<p>Human Resources Department will review and update the current Code of Conduct and ensure that elements cited in the audit are strengthened. In addition Human Resources will develop ongoing training related to the Code of Conduct, to ensure all new staff are trained and existing staff receive refresher training every two years.</p> <p>Human Resources Department will require all new employees to receive training and sign the acknowledgement form. Upon completion of refresher training, existing staff will be required to sign Acknowledgement Form</p>	<p>March 2016.</p>
<p><b>Procurement Process Training Recommendations</b></p> <ul style="list-style-type: none"> <li>• The City of Barrie should develop a training program and materials to improve compliance with the Procurement By-Law</li> <li>• Prior to an employee being granted spending authority, the employee should be required to attend mandatory training on the</li> </ul>	<p>Purchasing has an ongoing training program for the P-Card Program in place at this time.</p> <p>The Procurement Services Review project identified the need for ongoing training relating to the Procurement By-Law, protocols, governance, ethics, and procedures</p>	<p>A formal training program is being developed and will be implemented as part of the Procurement Service Review Project (PSR). The PSR work includes a review and update of the Procurement By-Law (policy) and the introduction of a Procurement Manual consisting of 13 protocols.</p>	<p>Spring 2016</p>

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<p>Procurement By-law.</p> <ul style="list-style-type: none"><li>• Training should focus on Low Cost Purchases, as these activities are not monitored by the Purchasing Office.</li></ul>			
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