

Calgary's city manager says no fraud in city purchasing

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Calgary City Manager Owen Tobert

CALGARY - The city manager is recommending that an external auditor be hired to investigate purchasing over a three-year period to address any outstanding concerns there are about city contracts.

The recommendation is part of a larger report responding to a damning audit that looked at the city's procurement practices.

City manager Owen Tobert told council that while the concerns outlined in the audit have merit, "the extent of the evidence is a fraction of what was indicated in the audit report."

An analysis by the city's internal control risk management team also found there have been no whistleblower tips alleging fraud relating to city contracts, which contradicts claims made by the auditor two weeks ago.

And while the audit said there was no paperwork for hundreds of contracts worth hundreds of millions of dollars, the report says that information is available in electronic records.

“Based upon an analysis conducted by the administration since (the audit’s release) there have been no circumstances of procurement fraud found,” the report states. “A more complete and structured risk-based review of procurement activities that occurred over the 2006-2009 time period is required to provide further assurance to council, administration and the public as to the absence of any fraud and any procurement impropriety.”

Council is now debating the report and will have to decide whether to approve putting an external audit out to tender.

The procurement audit found too many contracts were awarded without competition and that too often the values were increased without proper documentation. The value of the 1,200 contracts included added up to hundreds of millions of dollars.

The city issues 46,000 purchasing orders every year worth more than \$1.35 billion.

Wanting to address remarks that left the “impression that procurement impropriety has occurred,” Tobert had the risk management team take an in-depth look at many of those cases to get a clearer understanding of what, if anything, was wrong.

The investigation by the risk management group found that while a handful of the contracts require closer inspection, any potential problems appear to be smaller than the audit indicated.

As well, when the second phase of the audit was released last month, auditor Tracy McTaggart said the whistleblower program was investigating allegations of fraud relating to city contracts, but wouldn’t give any specifics.

The city manager’s officer is notified about each whistleblower investigation and says a review of its records determined no tip in the past four years related to procurement fraud.

The report says that since 2007, the whistleblower program has received five tips relating to the contracting process, three of which are still under investigation.

The report also addressed the following points from the audit:

* The audit stated that 462 contracts worth \$151 million didn’t reference a quote, tender or request for proposal number, making it impossible to determine whether there was a competitive bidding process or to find supporting documentation.

The report says 29 of those contracts, worth \$4.8 million, need further analysis.

However, it states the remaining were either cancelled contracts or that information was found by searching the electronic records.

“The majority of procurement contracts reviewed for the procurement audit were based on sound practices and adequate documentation. Although the documentation was not always attached to the contract file, it was available in electronic records,” the report says.

* The audit found that 740 purchase orders had their values changed by more than 50 per cent, for a total of \$747.2 million.

The risk management group looked at 31 of those contracts, which totaled \$600.2 million. Three-quarters of those changes — \$461.3 million — involved construction management contracts, where the initial tender is issued before construction begins. The successful construction manager then puts the rest of the work out to tender and construction is paid for as it takes place under the initial purchase order using the approved budget. While the end cost would be much higher than the initial tender, the report says it would still be within the budget.

The report also said that \$73.5 million should have been attributed to incorrect data entry on one purchase order, which was corrected.

“Based on the ICRM preliminary review of the sample of 31 purchase orders with a change order value of \$600.2 million, our early findings indicate the change orders were adequately authorized and documented,” the report says.

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