



**Contract Management - Housing York
Inc. – Audit Report**

September 2019

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1.0 Management Summary

Audit Services has completed an audit of contract management for the Region's Housing York Inc. (HYI) within the Community & Health Services Branch. The focus of our review was to determine whether controls are in place and adequately designed to support the overall management and administration of external contracts including: on-going service delivery commitments, invoicing, vendor performance, and indemnification requirements.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

The scope of the audit included a review of internal processes, discussions with management and staff, detailed review and testing of a selected sample of contracts with a focus on the overall administration and ongoing management of contract commitments, detailed testing of a random sample of work orders, and a review of all systems/software that support the contract management process. *Note: the sample of contracts was selected based on the nature of service and overall potential risk to clients and the Region.*

Based on the work Audit Services performed, it was concluded that overall contracts are being adequately managed, however there were opportunities identified to help strengthen the control environment. These observations and control improvements are noted and discussed in the body of this report. These opportunities include: developing formal policies and procedures, obtaining current insurance for active vendors, and formalizing the maintenance tracking process and purchase order system. Our recommendations are provided in the body of the report.

It should also be noted that there were key areas identified during the audit where controls were strong and working effectively as designed. These areas include the vendor invoicing review and approval process, and contract compliance for specific service delivery requirements including: elevator, fire safety, and summer/winter maintenance. Management was cognizant of the areas requiring improvement; however limited resources continue to be a constraint in implementing the necessary changes.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank the HYI staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

As part of our Audit Plan, Audit Services performed a contract management audit for Housing York Inc. The Audit Plan, approved by the Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps define the different risks

associated with the various processes here at the Region. It is one tool used by Audit Services to assess where best to allocate audit resources.

Housing York Inc. was established in 2003 and is the Region's affordable housing company. Together it has 35 housing properties with 2,600 units for over 4,000 tenants across the nine local municipalities. Housing operations manage over 25 contracts with varying degrees of service delivery requirements and are responsible for the day to day maintenance, operations and management of the buildings.

3.0 Objectives and Scope

The objectives of this engagement were to ensure:

- Policies and procedures are documented and adequate for the overall management of third party vendor contracts.
- Controls are in place and adequately designed to support the overall management and administration of external contracts including: formalizing terms and conditions, invoicing/budget tracking, insurance expiries, and ongoing service delivery commitments.
- Contracts and information related to the contracts are adequately maintained and stored in a secure location.

The audit objectives were accomplished through:

- Discussions with management and staff on controls and processes.
- Review of relevant documentation, including policies/procedures.
- Review and detailed testing of a sample of contracts and work orders for the period from June 1, 2018 to May 31, 2019.

4.0 Detailed Observations

4.1 *Policies & Procedures*

Observation

There are no formally documented policies and procedures that clearly define roles/responsibilities and work flow for managing contracts.

Based on discussions with Manager Housing Operations, they realize there is a gap in documented policies and procedures and recognize the need to develop.

Recommendation

Management should develop and formalize policies and procedures within the HYI contract management area. Roles and responsibilities should be clearly defined and communicated to all staff.

Management Response

Agreed. Management has established a dedicated advanced maintenance team under the leadership of a new Program Manager who began in the role on November 18, 2019. Staffing resources will be reviewed to clarify roles and responsibilities and additional resource needs will be identified in 2020. Contract management procedures will be refined and documented by Q3 2020.

4.2 *Insurance Certificates - Work Orders*

Observation

Insurance certificates are not on file for all contractors completing work on HYI properties. The Yardi system and new vendor set up process was updated in early 2019 to include entry of insurance information for all new vendors, however there has not been a plan in place to address expired or missing insurance for active vendors who existed prior to the update.

Audit reviewed a sample of twenty-five (25) work orders for the period from June 1, 2018 to May 31, 2019 and noted that seventeen (17) out of the twenty-five (25), 68%, had either expired insurance or no insurance on file.

Based on discussions with the Manager Housing Operations, they would like to do a formal mail out to all active contractors requesting up to date insurance; however a timeline has not yet been established.

Recommendation

Management should formalize a plan to ensure all active contractors have current insurance on file and implement a policy for on-going tracking/managing of upcoming expiries.

Management Response

Agreed. Management recognizes the importance of ensuring that current insurance certificates are on file at all times to protect the Corporation. With the assistance of the new Contract Services Coordinator position approved in the 2019 budget, insurance certificates are obtained for all new contracts. Management is currently testing Yardi's automated email notification function to request outstanding vendor insurance for earlier contracts and to support collection of annual insurance documentation updates. As an interim measure, a temporary resource will be secured to accelerate the process of collecting outstanding documentation. Insurance documentation will be updated by Q2 2020. The Yardi processes to add new vendor insurance records and track expiries will be implemented and documented by Q4 2020.

4.3 Results of Detailed Testing - Contracts

Observation

The following observations were noted during the detailed testing of contracts:

- The building maintenance tracker, which is Excel based, was not up to date and had missing data for a number of areas including: furnaces, generators, smoke detectors, transformers, kitchen exhausts, and boilers. The maintenance tracker is the only tool in place to help keep track of semi-annual and annual commitments and contract service delivery requirements for all buildings.

Based on discussions with the Contract Service Coordinator, this Excel tracker was created years prior to her recent start date and is not always kept up to date or maintained.

The maintenance tracker is an Excel document with numerous tabs, multiple periods covered, and is difficult to navigate. Using Excel as a tool to manage property maintenance schedules and contractor service delivery commitments is not ideal with its limited functionality and susceptibility to user errors.

- There is no formal tracking of elevator maintenance when a modernization contract kicks in and out. When a buildings elevator is "modernized", the contractor completing the upgrade is responsible for the maintenance under warranty for a period of a year or more. Audit reviewed five (5) modernization contracts and found one (1) instance where there was duplication in payment for monthly maintenance elevator service under the original contract and under the modernization warranty period. Formal tracking of the elevator

maintenance warranty period would better help avoid any overlap in service and/or duplication in payments.

- Audit performed site visits at four locations and reviewed fire code compliance requirements. There were multiple instances of missing weekly and monthly fire safety sign offs in the log book and fire extinguisher tags. All instances of the missing compliance checks were noted as HYI building staff's responsibility.
- HYI does not have all physical contracts on site, which makes it difficult to properly manage on-going contract requirements. Based on discussions with the Manager Housing Operations and through detailed testing, a number of contracts including elevator, laundry and janitorial still remain with Technical Services.

Recommendation

Management should consider using the maintenance tracking functionality of their current Yardi system to better manage building maintenance and contractor service delivery commitments. At a minimum, management should ensure the current tracking sheet is reviewed and updated where necessary to allow for better tracking of compliance requirements.

Management should formally track the elevator contracts to ensure all warranty service periods are managed for compliance and coverage.

Management should follow up on the missing fire safety sign offs and remind staff of their responsibilities for completing all fire safety checks. Additional training and/or review of fire code requirements should also be considered.

Management should ensure all contracts are on site and accessible for reference to ensure service delivery commitments, etc. are properly tracked and managed.

Management Response

Agreed. Management continues to ensure that all critical work is completed but the completion records have not consistently been updated in the tracker. For example, the tracker had not been updated to reflect that all required smoke detector replacements have been completed as required under the Ontario Fire Code. Management has established a process to review and update the Maintenance Tracker to better track compliance requirements. The updates are in progress and will be completed in Q4 2020. Management is also working towards implementation of the Yardi Advanced Maintenance Module to better support contract management and preventative maintenance tracking.

Agreed. As part of the construction contract close out, the Property Manager and Operations Manager are notified of the completed Elevator Modernization and corresponding warranty period. This step will be included in the Contract Close Out checklist that will be in place by Q2 2020.

Agreed. Management has followed up on the missing fire safety sign offs and identified the related staff training and quality assurance measures that will be implemented to better support staff. A management audit process has been established to proactively identify staff support needs. In addition, Property Managers are now regularly auditing fire safety logs to ensure timely completion. The advanced maintenance team has also developed a fire safety enhancement plan, including additional fire safety training for staff (Q1 2020) and additional resident fire prevention communications (Q2 through Q4 2020).

Agreed. Operations staff can now access Technical Services contract documents through edocs. Access will be further enhanced when Operations and Technical Services teams are co-located at 17150 Yonge Street in Q4 2020.

4.4 Purchase Orders

Observation

There is currently not a formal purchase order system in place for contracts or work orders. Purchase orders for contracts are manually created in excel with draws manually tracked when invoices are paid. Purchase orders are currently not created for work orders outsourced to third party vendors.

Per the Manager Finance, they are in the process of implementing the purchase order module in the Yardi system for work orders; however there is no set plan to implement the same for contracts.

Recommendation

Management should implement the integrated purchase order module for contracts along with the work orders to centralize the purchasing function and better manage contract status and on-going commitments. A centralized purchase order system would allow for better tracking of commitments, clear communication of work to be completed and cost, and ease of processing invoices for payment.

Management Response

Agreed. Management will establish processes for the creation and tracking of purchase orders for service contracts in Yardi. HYI is working with Yardi and the Region to implement the purchase order module. The Yardi purchase order system will be implemented and documented in Q4 2021.

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