



Vendor Performance Management

**The Regional Municipality of Niagara
Final Advisory Internal Audit Report
December 9, 2024**

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01

Overall Internal Audit
Summary

Project Objectives (1/2)

The Region engaged KPMG to conduct a comprehensive review of their ability to monitor and evaluate vendors. Two objectives were identified:

Objective 01

For tier 1 vendors, the review evaluated the effectiveness of vendor management processes and controls, including an evaluation of:

- The monitoring of vendor performance across multiple divisions and the adequacy of training, tools and methods used;
- Performance data and reporting mechanisms;
- Controls for monitoring and ensuring alignment with standard contractual terms;
- Systems, practices and roles and responsibilities with comparable municipalities;
- The Region's process for identifying and resolving vendor performance issues;
- Dispute resolution mechanisms and provisions for penalties;
- Vendor relationship management practices, including communication, feedback, and evaluation processes; and,
- Roles and responsibilities related to vendor management.

Project Objectives (2/2)

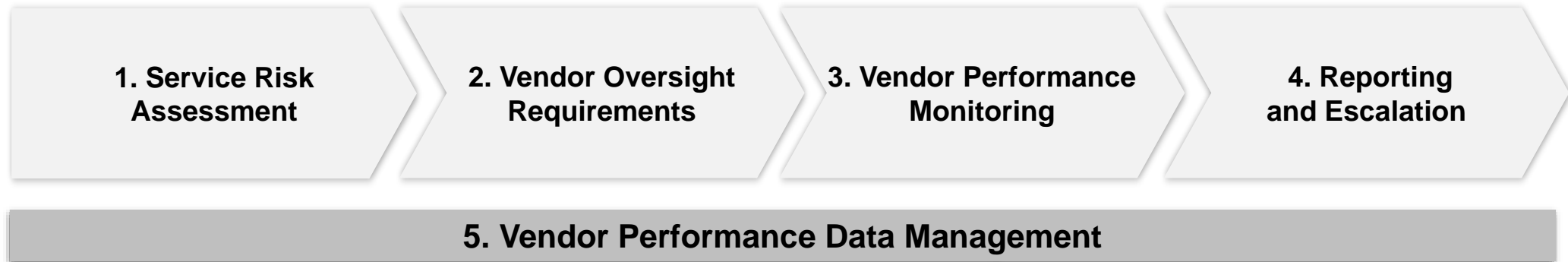
Objective 02

For vendors providing consulting services, the review evaluated their performance and compliance against contractual obligations, including:

- An assessment of the quality and timeliness of consulting services delivered by the vendors in accordance with the contract terms and conditions; and,
- The evaluation of the adequacy and effectiveness of the vendor management processes and practices implemented by staff, including performance monitoring, contract administration, risk management, and issue resolution.

Vendor Performance Management

- A vendor performance management program is designed to prevent issues before they escalate, ultimately streamlining the process, making vendor management easier and less time-consuming.
- The Regional Municipality of Niagara has made several attempts to formalize a vendor management program; however, its efforts have not resulted in lasting results.
- KPMG was engaged to assess current practices and to identify sustainable solutions. The review revealed 5 opportunities to improve the program's effectiveness and suggested 2 implementation considerations for successful execution.
- The diagram below provides an overview of the proposed end-to-end vendor performance management process. The structured processes will consolidate performance issues to inform improvements to procurement activities.



Summary of Strengths

Based on KPMG's stakeholder consultation and sample review, the following strengths within Region's vendor management program were identified:

Procurement By-Law

- The Region is updating its Procurement By-Law, utilizing a collaborative approach during stakeholder consultations.
- Various departments participated in a working group, which helped identify areas for potential enhancements.

Vendor Contracts

- Vendor contracts are stored in a centralized repository for easy access.
- The sample contracts reviewed were created using standardized templates, ensuring consistency.

Evaluation Forms

The Region recently introduced interim and final evaluation forms for capital and operations projects. The roll-out of forms will help:

- Define escalation channels;
- Improve vendor performance;
- Enhance vendor relationships; and,
- Promote consistency and fairness.

Vendor Management

Departments have adopted their own strategies for vendor performance management. Good practices identified include:

- Monitoring key performance indicators (KPIs);
- Developing project charters; and,
- Documenting minutes or agendas for regular interactions with vendors.

Maturity Continuum

KPMG's Vendor Performance Management Maturity Continuum can help the Region define their current and target state based on specific components:

Component	Basic	Intermediate	Leading
Planning and Identification	<ul style="list-style-type: none"> No formal or documented vendor performance management strategy or program in place 	<ul style="list-style-type: none"> Third Parties segmented informally or only once (at program initiation) Selected risks identified Some level of risk profile articulated for some third party categories. 	<ul style="list-style-type: none"> Service risk profile updated with consensus across executive group at regular intervals Integration into overall Enterprise Risk Management strategy/program.
Policies, Procedures & Governance	<ul style="list-style-type: none"> Limited or no (formal) policies governing third party contracting or third party risk management. 	<ul style="list-style-type: none"> Procurement policies in place 	<ul style="list-style-type: none"> Procurement policies incorporate risk management requirements
Organization, People, Skill & Training	<ul style="list-style-type: none"> No dedicated resources. 	<ul style="list-style-type: none"> Dedicated resources with specialized skill sets support Vendor Performance Management program 	<ul style="list-style-type: none"> Responsibilities tied to performance review and incentives Dedicated vendor performance team with clear responsibilities and associated authorities

02

Summary of Opportunities

Summary of Opportunities

Based on the results of fieldwork, seven observations were noted and grouped into two main categories. Further analysis of each opportunity by Management is required to assess and prioritize actions.

01 – Program Opportunities

This category explores opportunities to enhance the effectiveness of the vendor management program, including:

1. Establish a clear vendor risk management framework with risk based tiering of service categories;
2. Implement a risk based approach to designing vendor oversight controls;
3. Apply the “Three-Lines” model for vendor oversight and governance roles; and
4. Enhance performance monitoring activities by utilizing relevant key performance indicators tied to risks.
5. Improve usage of vendor evaluation forms.

02 – Implementation Considerations

This category explores opportunities to ensure the vendor management program is effectively implemented and sustainable, including:

6. Explore system functionalities within Peoplesoft to centralize vendor performance monitoring capabilities; and,
7. Deploy vendor management program using a robust change management approach.

Management Actions and Timeliness (1/2)

#	Management Action	Responsibility	Timeline
1	Introduce, communicate and own a formalized Vendor Management Framework and governance model clearly outlining roles and responsibilities for vendor management through the three lines of defence.	Procurement & Strategic Acquisitions	3 – 6 months
2	Consult the working group responsible for reviewing the By-Law to help ensure alignment with the Vendor Management Framework.	Procurement & Strategic Acquisitions	3 – 6 months
3	Further enhance vendor evaluation by creating a centralized repository for evaluation forms, conducting periodic audits to identify inconsistencies, reviewing the evaluation process based on performance trends, and documenting lessons learned for knowledge transfer.	Procurement & Strategic Acquisitions	6 – 12 months
4	Develop a transition plan to adopt vendor evaluation tools based on risks (e.g., high value).	Procurement & Strategic Acquisitions	9 – 12 months

Management Actions and Timeliness (2/2)

#	Management Action	Responsibility	Timeline
5	Procurement & Strategic Acquisitions will own vendor management processes and tools, such as evaluation forms, and implement actions to help ensure consistent and fair application.	Procurement & Strategic Acquisitions	9 – 12 months
6	Based on the transition plan, implement additional tools and techniques to measure performance of Tier 1 vendors on an annual basis.	Procurement & Strategic Acquisitions	Y/E 2026
7	Scope, prioritize, and implement system enhancements, within PeopleSoft, for the vendor management program.	Procurement & Strategic Acquisitions ERP Teams	Y/E 2026
8	Deploy the vendor management program using a robust change management approach to help enable lasting change.	Procurement & Strategic Acquisitions	Y/E 2026

We thank management for their contributions to this advisory audit.

Conclusion

The Region will achieve greater impact from a centralized vendor risk management program.

The proposed vendor management program aims to:

- Optimize existing processes; and,
- Cover process gaps in the lifecycle, including:
 - Vendor risk assessments;
 - Performance monitoring;
 - Issue and compliance tracking;
 - Performance and relationship management; and,
 - Communication or escalation channels.

The program should be designed to:

- Integrate with existing systems (e.g., PeopleSoft);
- Leverage existing contract management processes;
- Standardize practices across departments; and,
- Enforce the latest procurement by-law.

Overall, consolidating vendor performance issues will enable the Region to make informed decisions about procurement methods and policies.



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