Subject: Internal Audit Report on Vendor Performance Management

Report to: Audit Committee

Report date: Monday, December 9, 2024

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- This report provides an update on the follow-up audit of the Vendor Performance Management Program as part of our commitment to enhance procurement efficiency and vendor oversight within the Region.

- The Vendor Performance Management Program was introduced to streamline vendor relations, mitigate risks, and optimize procurement practices. KPMG was engaged to evaluate current practices and identify improvement areas.

- KPMG conducted a comprehensive review, focusing on strategic program opportunities to enhance vendor oversight and ensure sustainability. The review included consultations with key stakeholders and an examination of vendor performance monitoring, data management, and reporting protocols.

- The audit revealed notable strengths in collaborative procurement, contract management, and consistent vendor evaluation processes. Key practices included use of standardized contract templates, the development of project charters, the documentation of meeting minutes and/or agendas for periodic touchpoints with vendors, and periodic evaluations for capital and operational projects.

- Current enhancements involve adopting a formalized Vendor Management Framework, aligning the program with the pending updated Procurement By-Law, and expanding the use of vendor evaluation forms for performance consistency.

Financial Considerations

There are no immediate financial impacts arising from this report. However, the recommendations are anticipated to improve cost efficiency through more robust vendor oversight, centralized procurement, and streamlined processes.

Analysis

The Vendor Performance Management Program is essential for managing risks and ensuring quality in vendor relationships. The recent KPMG audit identified several areas for improvement:

- Developing a vendor classification framework will enable targeted oversight, allowing resources to focus on higher-risk engagements.
- Implementing a structured governance model will clarify roles and responsibilities in vendor oversight, enhancing accountability and reducing compliance risks.
- Enhancing PeopleSoft system functionalities to centralize vendor data will streamline performance monitoring and improve data consistency.
- Applying evaluation techniques will ensure consistent quality across vendor assessments and proactively address potential issues.

Next Steps

- Procurement and Strategic Acquisitions will work on developing and communicating a formalized Vendor Management Framework, with a phased rollout of enhanced evaluation tools planned within the next three to six months.
- Collaboration with the ERP team will support system enhancements in PeopleSoft, creating more efficient data management capabilities for vendor performance monitoring.

Alternatives Reviewed

KPMG's recommendations were developed in collaboration with the Procurement team. No additional alternatives are proposed for consideration at this time.

Relationship to Council Strategic Priorities

The current Council's Strategic Priority of Effective Region emphasizes continuous process improvement, optimized service delivery through shared services, fiscal responsibility, and investing in a skilled workforce for Niagara Region. By optimizing vendor oversight and enhancing internal controls, the Region aligns with its commitment to fiscal responsibility and continuous improvement.

Other Pertinent Reports

N/A

_____

Submitted by:
Hari Vemuri
Manager, Internal Audit

This report was prepared by KPMG.

Appendices

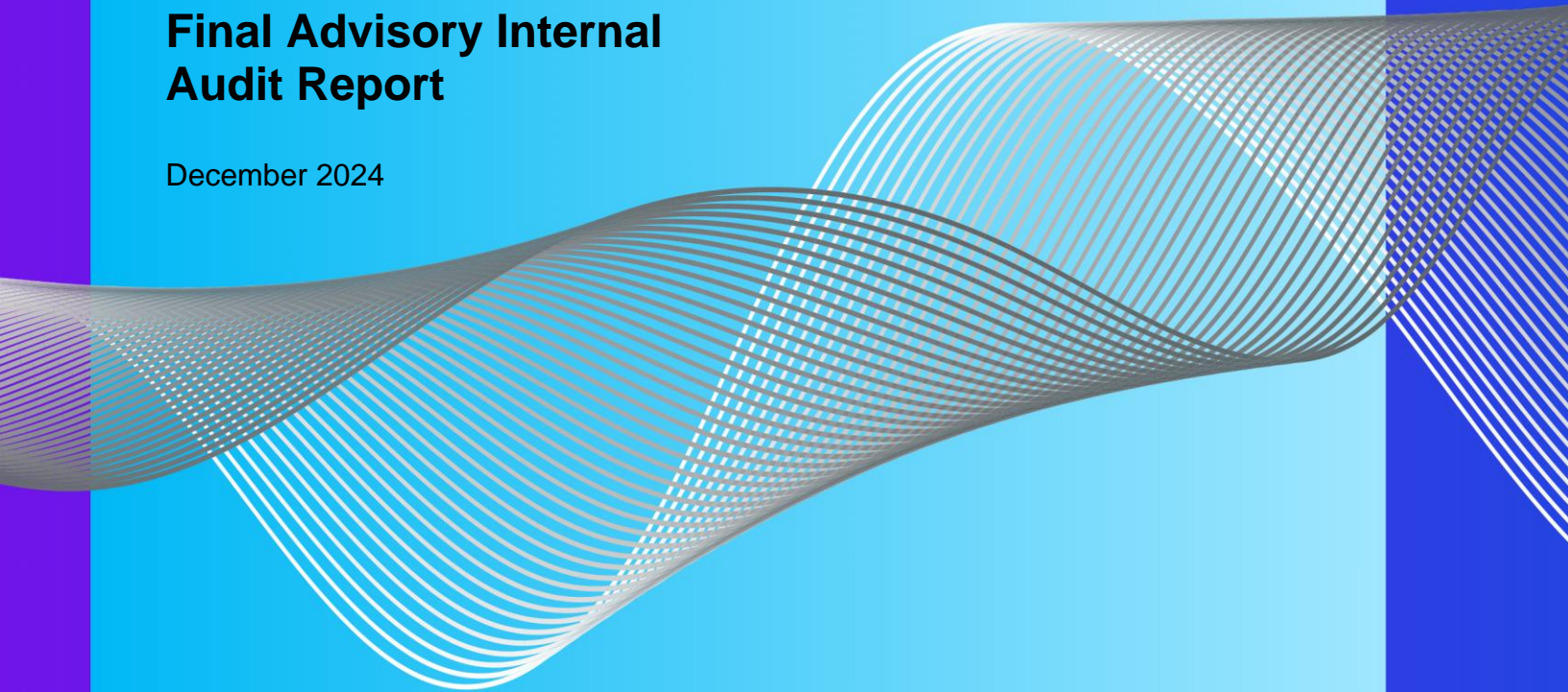Appendix 1   KPMG Internal Audit Report on Vendor Performance Management

KPMG

Vendor Performance Management

The Regional Municipality of Niagara

Final Advisory Internal Audit Report

December 2024

Disclaimer

This deliverable has been prepared by KPMG LLP ("KPMG") for the Region Municipality of Niagara ("The Region") pursuant to the terms of our engagement agreement with Client dated December 13, 2023 (the "Engagement Agreement"). KPMG neither warrants nor represents that the information contained in this deliverable is accurate, complete, sufficient or appropriate for use by any person or entity other than the Client or for any purpose other than set out in the Engagement Agreement. This deliverable may not be relied upon by any person or entity other than the Client or for any purpose other than set out in the Engagement Agreement. This deliverable may not be relied upon by any person or entity other than Client, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than Client in connection with their use of this deliverable.

The information provided to us by Client was determined to be sound to support the analysis. Notwithstanding that determination, it is possible that the findings contained could change based on new or more complete information. KPMG reserves the right (but will be under no obligation) to review all calculations or analysis included or referred to and, if we consider necessary, to review our conclusions in light of any information existing at the document date which becomes known to us after that date. Analysis contained in this document includes financial projections. The projections are based on assumptions and data provided by Client. Significant assumptions are included in the document and must be read to interpret the information presented. As with any future-oriented financial information, projections will differ from actual results and such differences may be material. KPMG accepts no responsibility for loss or damages to any party as a result of decisions based on the information presented. Parties using this information assume all responsibility for any decisions made based on the information.

No reliance should be placed by Client on additional oral remarks provided during the presentation, unless these are confirmed in writing by KPMG.

KPMG have indicated within this deliverable the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the deliverable.

KPMG is under no obligation in any circumstance to update this deliverable, in either oral or written form, for events occurring after the deliverable has been issued in final form.

1   Project Overview

1.1   Project Objectives – How we defined success:

The Region engaged KPMG to conduct a comprehensive review of their ability to monitor and evaluate vendors.

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

- An evaluation the monitoring of vendor performance across multiple divisions and assessing the adequacy of training, tools and methods used;
- The collection performance data and reporting mechanisms;
- An assessment of controls for monitoring and ensure alignment with standard contractual terms;
- Benchmarking of systems, practices and roles and responsibilities with comparable municipalities;
- An evaluation of the Region's process for identifying and resolving vendor performance issues;
- The review of dispute resolution mechanisms and provisions for penalties;
- The assessment of vendor relationship management practices, including communication, feedback, and evaluation processes; and,
- The review of roles and responsibilities related to selecting, monitoring and evaluating vendors.

Objective 2: For vendors providing consulting services, the review evaluated thier performance and compliance against contractual obligations:

- 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.

1.2   Scope of Review:

This report details the work completed to achieve the project objectives for tier 1 vendor contracts and consulting services contracts.

2 Introduction and Vendor Management Objectives

A vendor performance management program is designed to proactively prevent issues before they escalate, ultimately reducing the long-term resource burden. By focusing on prevention through a structured strategy, it streamlines processes, 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.

To address this issue, KPMG was engaged to conduct a review of the current practices and to identify solutions that would be sustainable. The review highlighted five program opportunities aimed at enhancing the effectiveness of the vendor management program, along with two implementation considerations to ensure that the program is effectively implemented and remains sustainable.

The list below provides an overview of the proposed end-to-end process steps and key objectives (questions to address) in each step. The structured processes will consolidate performance issues to inform improvements to procurement activities.

1 **Service Risk Assessment**
   - What are our risks for engaging with third-parties and are these assessed objectively?
   - What is our tolerance for a vendor performing poorly?
2 **Vendor Oversight Requirements**
   - What risks related to the vendor are we facing and what is our response?
   - How will the vendor be required to demonstrate that they are performing to a standard that mitigates risk within an acceptable level?
3 **Vendor Perfromance Monitoring**
   - How can performance monitoring safeguard our interests and demonstrate value for money?
   - What are the implications of detecting poor performance?
   - Is the time spent by Region's staff to monitor vendor performance adding value?
4 **Reporting and Escalation**
   - How are reporting controls operationalized / monitored for duplication and consistency?
   - What are the consequences when the impacts of poor performance are beyond the tolerance defined in step 1?
   - Are we mitigating risks for tier 1 services in an efficiently manner by spending less time on managing poor performers.
5 **Vendor Performance Data Management**
   - Which function has central authority to manage and oversee the effectiveness of the vendor management program and is there transparency with vendors?

3   Summary of Strengths

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

1   Collaborative Approach to the Procurement By-Law[1]
- The Region is currently in the process of updating the Procurement By-Law. Throughout our stakeholder consultations, it was noted that a collaborative approach was taken. Various departments were able to contribute their insights within a working group, thereby facilitating the identification of potential enhancement areas.

2   Vendor Contracts:
- Vendor contracts are housed within a centralized repository, ensuring easy accessibility. All contracts provided in the sample review were outlined using standardized templates, thus promoting uniformity.
- Common terms and conditions, addressing key elements such as dispute resolution and holdbacks were outlined within 9 of 10 samples reviewed.

3   Contractor and Consultant Evaluation Forms
- The Region recently introduced interim and final evaluation forms for capital and operations projects. The roll-out of evaluation forms will help:
  - Define escalation channels;
  - Improve vendor performance;
  - Enhance vendor relationships; and,
  - Promote consistency and fairness.

4   Vendor Management
- While the approach to vendor management has been informal, departments have implemented their own strategies for vendor management.
- Some of the good practices identified during the sample review include the monitoring of KPIs, the development of project charters, and the documentation of meeting minutes and/or agendas for periodic touchpoints with vendors.

[1]*Internal audit also inspected user training and guidelines to help staff generate purchase requisitions and noted that the Procurement Team has informal tiering of the vendor universe. Furthermore, based on inquiry it was noted that there is an ongoing review of procurement bylaw and protocols as well as the RFx evaluation criteria.*

4   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	• No formal or documented vendor performance management strategy or program in place	• Third-parties segmented informally or only once (at program initiation) • Selected risks identified • Some level of risk profile articulated for some third-party categories	• Service risk profile updated with consensus across executive group at regular intervals • Integration into overall Enterprise Risk Management strategy/program.
Policies, Procedures and Governance	• Limited or no (formal) policies governing third-party contracting or third-party risk management.	• Procurement policies in place	• Procurement policies incorporate risk management requirements
Risk Assessment, Due Diligence and Contract Management	• Risk assessment conducted for limited / ad-hoc population of services • No / Limited risk factors considered • One-time assessment at onboarding • Ad-hoc contract compliance reviews	• Service risk profile established • Risk measures defined for all key risk elements • Process embedded in sourcing activities • Limited contract reviews performed • Limited contract monitoring activity	• Differentiated approach based on vendor segmentation for ongoing vendor risk managmene • Proactive monitoring and contract management

Organization, People,Skills and Training	• No dedicated resources.	• Dedicated resources with specialized skill sets to support the Vendor Performance Management Program	• Responsibilities tied to performance review and incentives • Dedicated vendor performance team with clear responsibilities and associated authorities
Monitoring, Testing and Offboarding	• Ad-hoc monitoring process • No exit-strategy	• Scheduled incumbent third-party reviews • Ad-hoc exit strategy and transition plan	• Proactive monitoring and testing process • Formal approach for exit strategy and vendor transition
Data, Reporting and Supporting Technology	• Little or no technology to support third-party information and risk assessment • Decentralized data sources and lack of normalized supplier information and risk data	• Central repository for key third-party information • Access to / integration with external data sources • Contract monitoring for limited contracts	• Supplier information management system, including supplier-facing portals • Contract management functionality integrated with supplier information • Automated scorecarding and alerts • Integrated data sources and data enrichment.

KPMG

5   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.

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.

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.

The Region will achieve greater impact from a centralized vendor risk management program. The vendor management program proposed in this report aims to optimize existing processes, and cover process gaps in the lifecycle such as vendor risk assessments, performance monitoring, issue and compliance tracking, performance and relationship management and communication or escalation channels. The program should be designed with existing systems (e.g. PeopleSoft), leverage existing contract management processes, standardization across departments/ functions, and enforcing the latest procurement by-law. Consolidating vendor performance issues will enable the Region to make informed decisions about procurement methods and policies.

6   Key Management Actions and Timelines

Based on the opportunities outlined in section 5, management has outlined the following 8 key actions:

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.
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: 3 to 6 months

2 Consult the working group responsible for reviewing the the By-Law to help ensure alignment with the Vendor Management Framework.
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: 3 to 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.
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: 6 to 12 months

4 Develop a transition plan to adopt vendor evaluation tools based on risks (e.g., high value).
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: 9 to 12 months

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.
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: 9 to 12 months

6 Based on the transition plan, implement additional tools and techniques to measure performance of Tier 1 vendors on an annual basis.
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: Year-end 2026

7 Scope, prioritize, and implement system enhancements, within PeopleSoft, for the vendor management program.
 • Responsibility: Procurement & Strategic Acquisitions and the ERP Team
 • Timeline: Year-end 2026

8 Deploy the vendor management program using a robust change management approach to help enable lasting change.
 • Responsibility: Procurement & Strategic Acquisitions
 • Timeline: Year-end 2026

We thank management for their contributions to this advisory audit.

KPMG

kpmg.com/ca

KPMG