

Statement of Work

Contract Management Advisory Project

Submitted on May 29, 2018 for SPC on
Finance on June 5, 2018



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City of Saskatoon SPC on Finance
222 Third Avenue North
Saskatoon, Saskatchewan S7K 0J5

Statement of Work – Internal Audit Plan – Contract Management Advisory Project

Recommendation:

- **That the enclosed Statement of Work for the Contract Management Advisory Project be approved and that SPC on Finance allocate \$71,550 and 450 hours for this internal audit advisory project as outlined in the approved 2018 Internal Audit Plan.**

Please find enclosed the Statement of Work for the above referenced advisory project. Note that the total proposed scope of the project is 450 hours. Detailed planning and preparation for the project have been ongoing since March 2018 and detailed fieldwork efforts on the project will continue upon approval of the Statement of Work by SPC on Finance.

Yours truly,

PricewaterhouseCoopers LLP



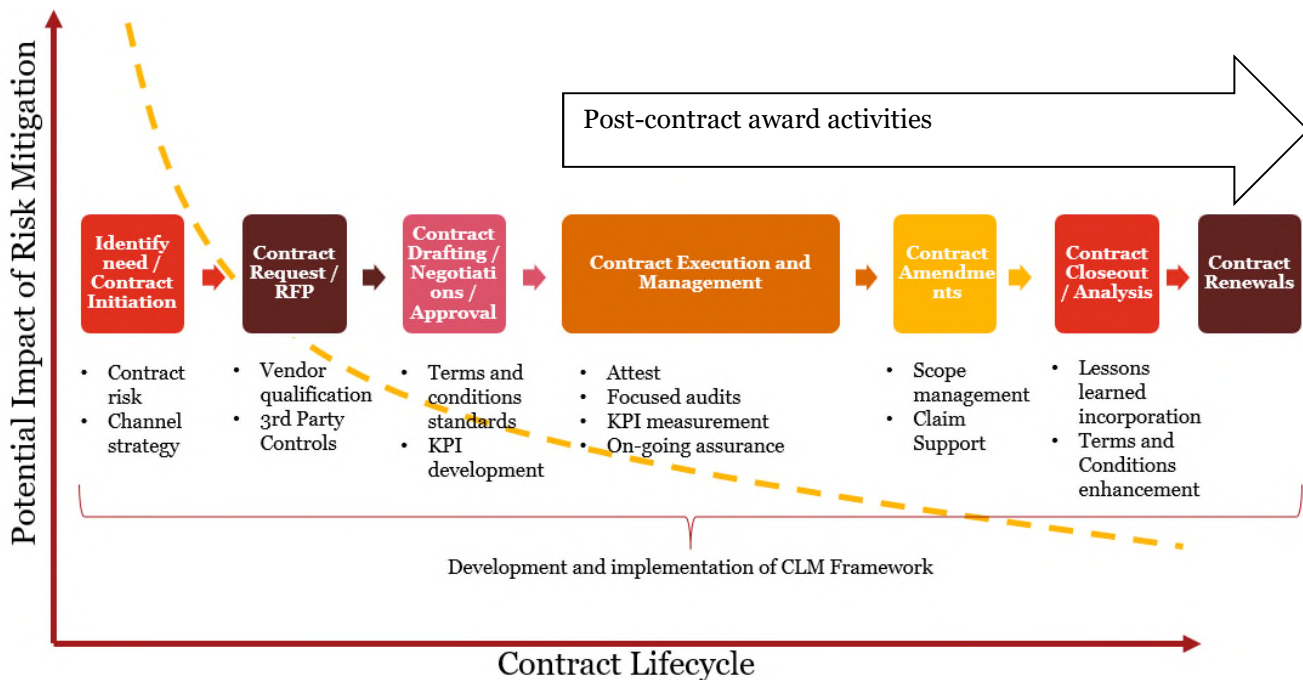
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Partner

1. Background

Procurement and supply chain functions often include contract lifecycle management (CLM) processes. CLM is defined as proactive and methodical management of a contract starting with the identification of a need to contract initiation through to contract renewals. As organisations identify risk and implement CLM frameworks earlier in the contract lifecycle, their ability to realize maximum value from 3rd party relationships increases. Effective contract management is underpinned by robust governance and effective decision-making to enhance value.

Not having a consistently applied CLM framework across an organization increases the risk of not achieving planned contract value. Sub-optimal contract management may lead to increased administrative costs, financial and operational inefficiencies, unsatisfied contractual obligations, safety concerns and potential reputational damage.

The diagram below represents a typical CLM framework with associated CLM phases and demonstrates risk mitigation impact associated with activities at each CLM stage. As indicated by the yellow line below, early identification of high-risk areas within a CLM framework increases management’s ability to proactively achieve sustained value from third-party contracts. Achieving optimal contract value across an entire portfolio is an ongoing challenge for many organizations, specifically when contracts are complex, ambiguous and lack transparency. Early adoption and implementation of a comprehensive CLM framework and associated processes can mitigate contract risk and increase delivered value.



2. *Scope of Work and Approach*

The City's Strategic Risk Register includes Risk A&FS-12 related to procurement risk, which states "*The City's purchases may not be in accordance with approved policy*". There may be a lack of knowledge and understanding regarding the City's procurement policy and that can result in inconsistent application of procurement and associated CLM processes and activities. Key impacts indicated in Risk A&FS-12 include:

- Potential negative impact on the City's reputation/public image;
- Potential for allegations of corruption/collusion/fraud;
- Perception of unfairness/preferential treatment;
- Exposure to liability in the event of inadequate insurance and/or workers' compensation coverage; and
- Potential litigation regarding process from unsuccessful proponents.

We acknowledge the City is currently implementing a new ERP system to decrease risk of manual activity errors and control risks, and increase data driven reporting capabilities and automated process efficiencies. Further, we acknowledge the City is currently seeking to approve and implement a revised and updated procurement policy.

The objective of this internal audit advisory project is to review the City's current CLM (Operational and Capital) processes, post-contract award, to determine existing leading practices within the City. We will also assess whether control activities in each CLM phase post-contract award are designed to address relevant information processing objectives (i.e. Completeness, Accuracy, Validity and Restricted Access), and whether improvement opportunities exist for short and long term process efficiencies and technology enablement. We will be drawing on PwC's scalable CLM Methodology to perform this project. This methodology was developed by combining key attributes from relevant leading practice guidelines and our broad CLM knowledge. We will work with key stakeholders and tailor our approach to align with their expectations and the City's unique operating model.

Our approach to assess the current state of the City's contract management processes, post-contract award, and to provide the City with recommendations for improvement is outlined in detail in the section that follows.

Phase 1 - CLM Framework: Current State Review

Objectives - Gain an understanding of the City's current policies and inherent CLM processes for executing, managing, monitoring and closing its contracts.

Approach - Internal Audit will conduct a review to increase our knowledge of current governance, systems, processes, and controls in place to manage the City's contracts. Our increased comprehension of current CLM (Operational and Capital) post-contract award processes will allow us to determine:

- Sources of risk within the City's current contract management activities
 - Through stakeholder interviews, high level spend analysis, and document reviews we will understand functional interdependencies between operational departments (i.e. project management, finance and procurement) and identify root causes of current risk within post-contract award processes.
- Existing functional CLM leading practices could inform organisational improvements
 - Through interviews and review of sampled projects & functional departments we will identify existing CLM leading practices, post-contract award, to form short term improvement recommendations and enable sharing of lessons learned and leading practice throughout all departments.
- Current City contract management policy and process maturity as compared to peer group
 - Through research and our internal industry experience with comparable jurisdictions, we will identify leading and lagging attributes of the City's policies and CLM processes post-contract award.

- Opportunities for short and long term technology enablement to increase operational effectiveness
 - We acknowledge the City’s current ERP process and will seek to integrate short and long-term CLM process technology improvements that are practical and balanced (cost versus benefit).

To execute the above approach, our initial sample selection will include two or three capital contracts, two or three operational contracts and three to five P-Card spend categories. For each sample selection, we will understand activities at each CLM stage, post-contract award, including (as applicable): how executed contracts are managed; how contract close out and analysis are performed; contract renewal process; how contract deliverables/materials are turned over to operations. For selected samples, our scope will include reviewing processes, practices, standards, training and technologies implemented to support CLM activities performed post-contract award. The following processes are representative and may be included in our review:

- Contract administration and management during contract execution;
- Delivery and/or receipt of goods and/or services;
- Contract amendments or changes;
- Invoicing and payment; and
- Contract close out and renewals (i.e., issuance of construction completion certificate).

Deliverables - A written report including observations and recommendations of the City’s current CLM processes, post-contract award, highlighting current state, risk areas, existing leading practices and lessons learned, peer group comparison, and technology enablement.

Phase 2 - CLM Framework: Road Map to Maximize Improvement Opportunities

Objectives - Provide a road map indicating requirements and subsequent activities for the City to achieve desired future state CLM framework for post-contract award processes.

Approach - Once key stakeholders have validated draft recommendations, we will identify key themes and develop a roadmap of prioritised recommendations. This will consider recommendation ownership, resource allocation, and competing priorities across the organisation. We may implement a workshop among key stakeholders involved in recommendations to enable alignment on roadmap themes and prioritisation.

Deliverables - Actionable recommendations from Phase 1 will provide an underlying basis of an integrated roadmap inclusive of improvement opportunities, modularised (short/mid/long term) recommendations, timelines, key stakeholder involvement, and suggested next steps. A concise and consolidated roadmap will enable key stakeholder decision making and drive sustainable improvements.

3. Stakeholders

The key stakeholders of the project from the City are the CFO/General Manager (Asset & Financial Management), Director of Materials Management, and the Director of Corporate Risk. As this project affects the organization as a whole, the Administrative Leadership Team is also a key stakeholder.

4. Budget

Our fees are based on actual hours incurred at the agreed upon hourly billing rates in the “Internal Audit Services Agreement” dated January 1, 2015. Specifically, sections 6(4) and 6(6) of the “Internal Audit Services Agreement” specify hourly rates to be charged. We estimate our fees for the completion of our services under this Statement of Work will be \$71,550 plus out of pocket expenses and applicable taxes, which will be charged on an actual basis. We estimate out of pocket expenses to be \$7,000.