

Legislative  
Assembly  
of Ontario



Assemblée  
législative  
de l'Ontario

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# STANDING COMMITTEE ON PUBLIC ACCOUNTS

## HYDRO ONE INC.—ACQUISITION OF GOODS AND SERVICES

(Section 3.07, 2006 Annual Report of the Auditor General of Ontario)

2<sup>nd</sup> Session, 38<sup>th</sup> Parliament  
56 Elizabeth II

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Legislative  
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de l'Ontario

The Honourable Michael A. Brown, MPP  
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

A handwritten signature in cursive script that reads "Norm. Sterling".

Norman Sterling, MPP  
Chair

Queen's Park  
June 2007

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

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## **PREAMBLE**

The Standing Committee on Public Accounts held hearings on the Auditor General's report on *Hydro One Inc. - Acquisition of Goods and Services* on February 13, 2007. The Committee endorsed the findings and recommendations in the Auditor General's *2006 Annual Report* (s. 3.07).

Each section of this report provides an introduction based directly on the Auditor's report, references to Hydro One Inc.'s 2007 status report and an overview of the hearings. The Committee has prepared recommendations based on its findings.

### **Acknowledgements**

The Standing Committee on Public Accounts would like to take this opportunity to acknowledge the assistance provided by the officials that attended the February 2007 hearings, namely: the Deputy Minister of Energy and Ministry staff, and the Chair of Hydro One Inc.'s Board, the Corporation's President and Acting CEO, CFO, and senior staff. Furthermore, the Committee appreciated the attached status report received prior to the hearings, entitled *Summary Status Table in Response to the 2006 Report of the Auditor General of Ontario, Chapter 3, Section 3.07, Acquisition of Goods and Services - Hydro One Inc.*

Finally, the Committee was appreciative of the assistance provided during the hearings and the deliberation stage by the Office of the Auditor General, the Clerk of the Committee, and the Research Officer from the Ontario Legislative Library's Research and Information Services Branch.

## **1. BACKGROUND**

Hydro One Inc. (Hydro One/the Corporation) is wholly owned by the Province of Ontario and has responsibility for the transmission and distribution of electricity within Ontario. The Corporation controls approximately \$12 billion in assets which include the transmission and distribution systems. The infrastructure is comprised of generators, and approximately 28,600 kilometres of high-voltage transmission wires and 124,000 kilometres of low-voltage wires. Over \$800 million was spent on the procurement of goods and services in the 2005 calendar year.

An outside service provider has primary responsibility for general purchasing activity. However, Hydro One departments and individuals directly purchased approximately \$163 million worth of goods and services in 2005 (approximately 20% of expenditures) using corporate charge cards.

### **1.1. Audit Objectives**

The audit objective was to assess whether the Corporation had adequate systems and procedures in place to ensure that goods and services were acquired with due

regard for value for money, and in compliance with corporate policies and sound business practices.<sup>1</sup>

## **1.2. Main Audit Findings**

The Auditor General (Auditor) concluded that Hydro One Inc. generally had adequate policies to help ensure that goods and services were acquired with due regard for value for money. Nevertheless, systems and procedures did not ensure compliance with corporate policies. In 2004, Hydro One's internal audit department concluded that internal controls over several key areas of the Corporation's purchasing function needed to be improved. The Auditor reported in 2006 that a number of the internal control weaknesses noted by internal audit had not been addressed.

The Auditor identified several areas of concern related to blanket purchase orders; the acquisition of goods and services; compliance with procurement policies; contract management; a major outsourcing agreement; corporate charge-cards; costs related to charge-card cheques; and review procedure for charge-card expenditures. The Committee has addressed some of these matters in this report.

## **1.3. Introductory Comments - Corporate Profile**

During the hearings the Corporation provided supplementary information, noting that Ontario's electricity system is based on private and public sector management approaches and organization.

Hydro One provides the transmission infrastructure as a monopoly service making operating and investment decisions, while operating at arm's length from the government.<sup>2</sup> Over the past five years improvements have been made to this system, through an investment of approximately \$2 billion, with plans for a similar investment over the next two years.<sup>3</sup>

This system is central to the province's economic health: however, it is an aging system.<sup>4</sup> The Corporation discussed this matter in terms of financial performance and reduced overall costs, noting the role of controls and performance; the increase in net income from \$396 million to \$483 million during the period 2003 to 2005; the introduction of business planning to ensure a focus on productivity, while reducing costs and realizing savings; and its demonstrated stable and strong credit ratings.<sup>5</sup>

### *Corporate Accountability Framework*

The accountability framework is comprised of various components, for example, salary disclosures, meeting with legislative committees, providing information of a strategic nature affecting the Corporation and/or its subsidiaries; consulting on multi-year business plans; delivering quarterly financial reports; seeking approvals on such matters as the proposed sale of assets; providing minutes of board meetings; and responding to government information requests.<sup>6</sup> In addition the Minister of Energy meets regularly with the Chair of Hydro One to discuss

issues of interest to the government as shareholder. The Ontario Energy Board regulates Hydro One and is responsible for reviewing the Corporation's costs, and determining what expenditures can be passed on in transmission and distribution rates.<sup>7</sup>

The Corporation is subject to the financial control and disclosure requirements of the Ontario Securities Commission and rating agencies. It is audited by external auditors, undergoing extensive reviews of expenditures and operations by the Ontario Energy Board, and is now subject to value-for-money audits by the Auditor General.<sup>8</sup>

#### **1.4. Audit Related Initiatives (2007)**

According to the Corporation, the Auditor recognized that its policies were adequate to ensure that goods and services were acquired with due regard for value for money. Furthermore, the Corporation is of the opinion that the Auditor's recommendations are for the most part reasonable and in accordance with its existing policies.

##### *Hydro One's Amended Procurement Policy (2007)*

In 2006, management was in the process of implementing procedures to strengthen controls to address previous internal audit findings, in conjunction with the Auditor's 2006 recommendations. According to the Corporation, of concern was the need to strengthen compliance procedures.<sup>9</sup> Policies have been revised to help ensure that adequate procedures are in place to ensure compliance (Appendix No. 2 - *Hydro One Inc. Procurement Policy [2007]*).<sup>10</sup>

##### *Review Panel Appointed (2007)*

The Minister of Energy announced the establishment of a panel on January 29, 2007 to address compensation arrangements for senior provincial energy sector executives and to assess energy agency overlap and duplication between agencies.

#### **1.5. Response to Committee Recommendations**

The Committee requests that Hydro One Inc. report to the Standing Committee on Public Accounts on this report within *120 days* of the date of tabling with the Speaker, Legislative Assembly of Ontario. In the event that the Committee concludes that an alternative timeframe is warranted, it will be indicated in the body of the recommendation.

##### Incomplete Corporation Initiatives

**The Committee concluded that Hydro One Inc. should report to the Standing Committee on Public Accounts providing an update on all outstanding commitments, as noted in the *Summary Status Table in Response to the 2006 Report of the Auditor General of Ontario, Chapter 3, Section 3.07, Acquisition of Goods and Services - Hydro One Inc.* This information should be submitted**



within *120 days* of the date of tabling this report with the Speaker, Legislative Assembly of Ontario.

*List of Committee Recommendations*

**1. Hydro One Inc. report to the Standing Committee on Public Accounts on the implementation of new corporate measures to ensure compliance with procurement policies for the acquisition of goods and services.**

**2. Hydro One Inc. report to the Standing Committee on Public Accounts on the improvements introduced for the management of Blanket Purchase Orders (BPOs) including the process for renewing BPOs and reducing their extension; the process for reporting on the status of expiring and renewed BPOs; and the requirement that significant modifications to contracts and conditions be documented and properly approved.**

**Hydro One Inc. should also report on whether current BPO contracts have been reviewed to ensure that they are in compliance with the new procedures.**

**3. Hydro One Inc. report to the Standing Committee on Public Accounts on the application of procedures to ensure compliance with policies governing single sourcing. The report should include the application of the checks and balances with attention to the following: adherence to criteria/guidelines on acceptable business circumstances for single source purchases; compliance with single source approval requirements, and assembling the necessary documentation when using this form of procurement.**

**4. Hydro One Inc. report to the Standing Committee on Public Accounts on the status of its efforts to retain external entities to benchmark outsourced services, and that it identify the business areas affected (e.g., customer service operations, information technology, supply management, human resources, finance, and settlements).**

**5. Hydro One Inc. report to the Standing Committee on Public Accounts on the overall management and accountability of the cash advance feature on corporate credit cards. The report should address the findings of the Corporation's assessment of this feature based on a risk-versus-benefit-to-the-company methodology, outlining any change in policy.**

**6. Hydro One Inc. report to the Standing Committee on Public Accounts on the impact of the decision to reinstitute compliance audits. The report should include the results of any recent audits.**

**7. Hydro One Inc. report to the Standing Committee on Public Accounts on the impact of the new procedures pertaining to the management and approval of employee business expenditures. The report should include the results achieved from the implementation of the following components of the new guidelines:**

- **the reinstated sample compliance audit (the results being communicated to the divisional vice presidents for action where required); and**
- **the enhanced review by the external auditor (to include the expense reports of the administrative assistants reporting to senior executives).**

**8. Hydro One Inc. confirm to the Standing Committee on Public Accounts that it will give priority to the timely follow-up of internal audit findings within a defined management protocol.**

## OBSERVATIONS AND CONCLUSIONS<sup>11</sup>

### 2. PROCUREMENT OF GOODS AND SERVICES

The Auditor concluded that Hydro One has good general policies for the acquisition of goods and services. The guiding principles and practices include: acquiring materials and services without favouritism at the lowest overall cost; taking into consideration supplier capability and past performance (e.g., relevant factors affecting the life cycle of the materials); and ensuring that decisions pass the ultimate scrutiny of sound business judgment.

#### *Management and Administration of Acquisitions*

There are corporate policies and procedures for the acquisition of general services, construction, materials and engineered equipment. Actual procurement has been outsourced to an external service provider.

- Hydro One's Supply Chain Management group has responsibility for implementing, monitoring, and enforcing compliance with procurement policies and procedures.
- The external service provider's Supply Management Services department conducts procurement for Hydro One (e.g., ordering, receiving, and inspecting goods, monitoring spending, verifying compliance with purchasing policy, and processing payments).

### Committee Hearings

#### *Policy Amendments and Application*

The Auditor reported on concerns with compliance, rather than the actual policies governing the acquisition of goods and services.<sup>12</sup> The Corporation reviewed its policies to ensure that they are in keeping with business objectives and reported that new systems and procedures are in place to ensure that goods and services are acquired with due regard for value for money, and in compliance with corporate policies and sound business practices.<sup>13</sup>

The implementation of new measures to address internal control and compliance has been a central focus in 2007.<sup>14</sup> Policies have been addressed with employees through a communications initiative, and a compliance organization has been established.<sup>15</sup> Furthermore, additional resources are to be dedicated to this undertaking, for example, to compile the necessary documentation.<sup>16</sup>

### Action Prior to the Audit

The Corporation was addressing aspects of this issue prior to the Auditor General's report, for example:

- implementation of changes (e.g., the approval process) resulting in a clarified authority register guideline for individuals approving expenditures, with

linkages to procurement and purchasing services (approval in late 2005 and 2006 implementation);

- the new authority register guideline had to be embedded in the information technology systems, with the automation of certain controls (implemented during 2006); and
- the Corporation communicated and reinforced these initiatives with employees, coupled with increased resources for training and to promote compliance.<sup>17</sup>

Corporate communications promote policy compliance, with the expectation that problems areas will be identified and reported.<sup>18</sup>

### **Committee Recommendation**

#### **Compliance with Acquisition Policies**

The Committee recognizes that the Corporation is addressing the Auditor's compliance concerns governing the acquisition of goods and services, for example through the establishment of the compliance office.<sup>19</sup> The case for proper documentation and adherence to internal policies and procedures, demonstrating transparency and accountability has been made.<sup>20</sup>

The Committee therefore recommends that:

**1. Hydro One Inc. report to the Standing Committee on Public Accounts on the implementation of new corporate measures to ensure compliance with procurement policies for the acquisition of goods and services.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

#### **2.1. Blanket Purchase Orders**

Corporate policy encourages blanket purchase orders (BPOs) for goods or services being purchased directly from specified vendors. The objective is to achieve lower procurement costs, security of supply and a managed inventory of basic items. This approach is based on a competitive process for stipulated timeframes.

In 2006 Hydro One had approximately 1,000 BPOs for materials, contract staff, and consulting services. The Auditor identified several areas for concern: some BPOs had been in effect for more than 10 years; approximately one-quarter had no stated maximum; and over 700 had been altered in terms of the original maximum values or effective terms. The Auditor's concerns focused on the need for competitive procurement, proper documentation and procedures related to

price increases. The overall intent is to maintain system integrity and transparency in the procurement process.

The Auditor recommended that to ensure goods and services are acquired at the lowest overall cost, Hydro One should establish blanket-purchase-order agreements through a competitive process unless a sound documented rationale for sole-sourcing has been approved; review existing long-standing blanket purchase orders to determine if they should be re-tendered; ensure that the prices being paid are those set out in the blanket-purchase-order agreements; and develop procedures regarding significant modifications to the terms and conditions of blanket purchase orders.

### Status Report on Initiatives (2007)<sup>21</sup>

The Corporation reported that it has completed its undertakings in response to this recommendation. Specifically, it has communicated and intends to enforce the requirement that BPOs follow a competitive process, unless single sourcing has been approved. In addition, the following initiatives have been taken:

- a process for renewing and reducing the extension of BPOs was implemented in May 2006;
- a report is prepared on an ongoing basis that includes the status of expiring and renewed BPOs (for purposes of competitive bidding);
- the implementation of a plan to address long-standing BPOs; and
- the Corporation has communicated and will enforce the requirement that significant modifications to contract terms and conditions will be documented and approved under the Organizational Authority Registers (OAR).

### Committee Hearings

#### *Revised Procedures for Blanket Purchase Orders*

The Committee followed up on the improvements to the BPO process with respect to competitiveness, pricing and guidelines for amending BPOs.<sup>22</sup>

According to Hydro One, procurement policies require an open, transparent and fair process, with due regard for value for money.<sup>23</sup> The Corporation reiterated aspects from its status report, with reference to the following measures:

- establishment of a plan with fixed end-dates on blanket purchase orders so that they go to market on a rational basis over a time horizon;
- re-establishment of BPOs for many without fixed end dates;
- introduction of a process to ensure that BPOs are tendered in accordance with procurement procedures; and
- implementation of a compliance monitoring function.<sup>24</sup>

The Committee enquired about controls on credit cards to check that employees are aware of the appropriateness of a given purchase in an emergency situation and to ensure that the expenditure is justified.<sup>25</sup> According to the Corporation, employees should be aware of BPOs available through a service depot. The

expectation is to use blanket purchase orders when they are in place for control purposes, given that supervisors are expected to be aware of such arrangements.<sup>26</sup>

### **Committee Recommendation**

#### **Compliance with BPO Policy**

The Committee enquired about improvements to the BPO process.<sup>27</sup> As noted in this section, various measures have been introduced to address the Auditor's concern that goods and services are acquired at the lowest cost. The Committee has been given assurance that initiatives have been taken to address competitiveness, and the need for a formal review of existing long-standing BPOs to ensure that prices are in line with existing agreements; and that there are procedures for modifying terms and conditions.

The Committee therefore recommends that:

**2. Hydro One Inc. report to the Standing Committee on Public Accounts on the improvements introduced for the management of Blanket Purchase Orders (BPOs) including the process for renewing BPOs and reducing their extension; the process for reporting on the status of expiring and renewed BPOs; and the requirement that significant modifications to contracts and conditions be documented and properly approved.**

**Hydro One Inc. should also report on whether current BPO contracts have been reviewed to ensure that they are in compliance with the new procedures.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## **2.2. Single Sourcing**

Corporate policy provides for single sourcing, without a competitive process, in instances where the supplier may be the only one in the market, may hold legal rights to the required goods, or may be the original supplier of equipment and the buyer wishes to avoid expensive modifications to adapt goods of a different design.

The Corporation's procurement policy permits the purchase of goods and services from vendors through single sourcing up to a value of \$6,000. For procurements exceeding this amount, it is allowed in limited circumstances if it is neither possible nor practical to obtain the required goods and services through a competitive process. The Auditor noted that in 2004 the internal audit group reported that single-source procurement was not always justified by a business case with the required approval.

The Auditor recommended that to ensure single sourcing is used only when it is not possible or practical to go through the normal competitive process, Hydro One should implement oversight procedures to ensure that adequate justification for single sourcing is documented and properly approved before the business is awarded.

### Status Report on Initiatives (2007)

The Corporation has completed various undertakings in response to the Auditor's recommendation, specifically:

- clarification of the acceptable business circumstances for single source purchases;
- reassessed the limits for requiring single source approval (to apply to purchases in excess of \$15,000 and consulting work in excess of \$50,000); and
- a new process to ensure that adequate justification for single sourcing is documented in accordance with Hydro One policy, and properly approved prior to awarding the business.

### Committee Hearings

#### *Competitive Selection and Single Sourcing*

The Committee addressed the matter of competitiveness related to single sourcing, and the need for controls to ensure compliance with policies. As discussed previously, procurement policies have been strengthened to promote competitiveness across the organization.<sup>28</sup> According to Hydro One, its policy requires that goods are purchased to ensure value for money, with proper documentation and as required requests for proposal (RFP's) are performed.<sup>29</sup>

The Committee expressed concern about receiving value for money through single sourcing, and the need for assurance that appropriate checks and balances are in place to ensure that corporate policies are applied consistently over the long term.<sup>30</sup> Policies on single sourcing have been communicated to employees to promote a culture of compliance.<sup>31</sup> In the event of compliance issues, the relevant vice-president would be involved in the resolution of the matter.

### Committee Recommendation

#### Compliance with Policy - Single Sourcing

The Committee has been given assurance that the management of single sourcing has been improved and that appropriate checks and balances are in place.<sup>32</sup> The Corporation views these initiatives as part of its broader move to improve procurement by promoting a culture of compliance.<sup>33</sup>

The Committee therefore recommends that:

**3. Hydro One Inc. report to the Standing Committee on Public Accounts on the application of procedures to ensure compliance with policies governing single sourcing. The report should include the application of the checks and balances with attention to the following: adherence to criteria/guidelines on acceptable business circumstances for single source purchases; compliance with single source approval requirements, and assembling the necessary documentation when using this form of procurement.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

### **2.3. Management of Outsourcing Agreement**

In 2001, Hydro One entered into a 10-year Master Service Agreement (Agreement) to outsource six business areas including supply-management services and information technology. The Auditor reviewed aspects of the management of the outsourcing Agreement and reported on the following:

- **Benchmarking Studies** - within the terms of the Agreement, the Corporation can perform benchmarking studies to assess the reasonableness of costs in the last calendar quarter of the third, sixth, and ninth years of the Agreement. It was noted that the consultant reviewed only two business areas. The Corporation indicated that consultants with sufficient baseline data and expertise were not available for the other four business areas. The Auditor concluded that a more thorough review may have been warranted.
- **Financial Remedies** - Hydro One is entitled to service credits when service failures occur (e.g., computer service interruption). The Corporation recovered \$100,000 in out-of-pocket expenditures from the service provider for such occurrences; however, it had not calculated the potential value of forgone service credits or fully pursued the financial remedies it was entitled to. Performance measures are now used to gauge service failures. The Auditor used the service-credit formula and estimated that Hydro One had not pursued over \$300,000 in financial remedies.
- **Reconciliation of Billing Reports** - Hydro One did not reconcile monthly billing report summaries from the service provider to the amounts recorded in the general ledger and paid to the vendor. Reconciled monthly reports from the service provider would provide Hydro One with the assurance that both the expenses recorded in its accounts and the amounts reported by the service provider are accurate.
- **Guaranteed Information Technology Business** - the service provider was guaranteed information technology (IT) work each year beyond that related to the base fees in the Agreement. The Auditor concluded that by not holding



open competitions for such a significant amount of additional project work, the Corporation did not adhere to the intent of its policy of awarding business without favouritism and with assurance that the business is being awarded at the lowest overall cost in a fair, open, and competitive manner.

The Auditor recommended that to help ensure that it is receiving the best value for the \$1 billion it is spending on its 10-year outsourcing Agreement, Hydro One should consider benchmarking all outsourced business areas in future benchmarking studies; collect service credits it is entitled to; reconcile summary reports from the service provider with the amounts recorded as expenses in the general ledger on a monthly basis; and tender significant information technology projects in accordance with corporate policy.

### **Status Report on Initiatives (2007)**

The Corporation's plans entail considering comparables in benchmarking studies, and obtaining service credits. A process has been implemented to reconcile monthly reports to the general ledger.

Single source approvals must be compliant with Hydro One single source policies. In the case of significant IT projects, when a single source award is not appropriate (subject to the impact on "in-scope services") the projects are to be competitively bid. The Corporation will observe the services provided with consideration to the overall cost and business risk.

### **Committee Hearings**

#### ***Outsourcing and Benchmarking - Capgemini Project***

The Committee enquired about the Capgemini outsourcing initiative and the degree to which benchmarking had been undertaken on a consistent basis to promote value for money.<sup>34</sup> The areas of operation that had been outsourced were the customer service operations, information technology, supply management, human resources, finance, and settlements.<sup>35</sup>

A RFP (request for proposals) had been prepared for benchmarking the entire contract; however, it was not possible to fill all contracts. In fact benchmarking occurred in only two of the six areas, namely, information technology services and customer service operations, representing 60% of the contract.<sup>36</sup>

The Committee's concern was with the limited application of benchmarking, contrary to the contract. As noted, the original contract included external benchmarking in years 3, 6 and 9. Therefore with limited benchmarking it would be difficult to know the extent to which value for money was being achieved.<sup>37</sup>

Hydro One indicated that it is committed to benchmarking for all services and in every line of business by year 6, assuming that a third party has been located to perform the benchmarking.<sup>38</sup> It was noted that benchmarking has taken place recently in conjunction with rate cards in information technology services.<sup>39</sup>

## Committee Recommendation

### External Benchmarking on Outsourcing Agreement

The Committee acknowledged the importance of applying benchmarking in this Agreement to determine whether value for money is realized in all business areas. Without a proper review and assessment methodology in this important contract, it may be difficult to draw comparisons in the future based on this experience, and complicate the application of benchmarking in future Hydro One projects.<sup>40</sup>

The Committee therefore recommends that:

**4. Hydro One Inc. report to the Standing Committee on Public Accounts on the status of its efforts to retain external entities to benchmark outsourced services, and that it identify the business areas affected (e.g., customer service operations, information technology, supply management, human resources, finance, and settlements).**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## 3. CORPORATE CARD PURCHASES

During calendar year 2005, Hydro One used corporate charge cards and fleet cards to purchase \$163 million worth of goods and services. The corporate charge cards are for employee business expenses and local procurement for items up to \$15,000.

### 3.1. Administration of Corporate Charge Cards

The Auditor reported that charge cards were generally issued in accordance with company policy; however, there were issues related to the administration of the corporate-card program. Instances included, for example, non-compliance with policies regarding the management of accounts, proper documentation on the cancellation of corporate charge-card accounts, and cases in which credit and cash-advance privileges had limits that were often inappropriate when compared to actual usage.

The Auditor recommended that to improve administration and control over the corporate-charge-card program, Hydro One should ensure that proper documentation and approvals are obtained for setting up local charge-card coordinators; follow-up on, and if necessary, cancel inactive charge cards and active cards that are assigned to terminated and inactive employees; and review current credit and cash-advance limits placed on corporate charge cards to ensure that the limits are reasonable given the individual's responsibilities and the intended use of the card.

### Status Report on Initiatives (2007)

The Corporation has completed the following undertakings:

- implemented a process requiring that all Local Charge Card Coordinators be approved by the Corporate Charge Card Coordinator;
- introduction of a process to review, and if necessary, cancel certain cards, namely, inactive cards if not cancelled by the expiry date, and active cards assigned to inactive and terminated employees;
- introduction of a sample audit procedure to ensure compliance with Hydro One policies;
- introduction of a process to review the continuing need for all high dollar limits at least semi-annually; and
- reinstatement of a sample compliance audit including confirmation of the existence of documentation providing the reason a credit card has been cancelled, recovered or destroyed.

At the time of the hearings Hydro One had completed discussions with its service provider regarding the following:

- the cancellation of inactive cards/closure of inactive cards upon expiry; and
- targeted implementation to add inactive status reporting to the monthly Supervisors' control reports.

### Committee Hearings

#### *Improved Administration*

Hydro One Inc. reviewed certain improvements in the administration and control over the corporate charge card program, for example, proper documentation to support business expenses; use of sample compliance audits; the role of local charge card co-ordinators; and the management of inactive charge cards.

Corporate cards are used more frequently for purchases and reimbursements than is the custom in other businesses. Hydro One is a very large decentralized organization, resulting in instances where cards are a necessary method of payment to ensure that work progresses on a timely basis (e.g., emergency work across the province). Therefore, these cards facilitate procurement across the province by a decentralized workforce operating in diverse work locations, which may not be the practice in a more centralized form of business organization.<sup>41</sup>

#### Corporate Card Accountability

Hydro One clarified certain parameters for card usage to ensure accountability, for example:<sup>42</sup>

- corporate charge card purchases must comply with procurement policies and procedures;

- the matter of insufficient documentation will be addressed through a new compliance function;
- purchases are limited by the specific card level permitted for local purchases. Large expenditure are permitted on a corporate charge card over \$15,000 provided that there are three quotes to ensure value for money;
- each card is associated with a specific employee for accounting purposes. Cards associated with a project would be charged to the project, but would still be assigned to an individual's name; and
- a corporate card could be used if there are identified benefits to using a sole vendor (e.g., a telecommunications vendor).

### 3.2. Review of Monthly Statements

Corporate policy requires that cardholders submit charge card statements each month with supporting documentation for review and approval by their supervisor. The Auditor identified the following concerns:

- the majority of the statements tested during the audit had not been reviewed and approved within 28 days as required by corporate policy;
- Hydro One staff often did not use standard cash-use reports or complete forms correctly in their monthly statements for purposes of reconciliation. Without a thorough and timely review and approval process, it was unclear whether the employee owed money to the company or vice versa;
- supervisors had not adequately scrutinized corporate charge card expenditures (e.g., supporting documentation was not submitted or was incomplete);
- card holders were not consistently in compliance with corporate policy requiring that expenses be supported by a detailed explanation of the nature and purpose of the business expense (e.g., the names of participants and the purpose of the business function).

In 2004, Hydro One's internal audit group reported on the absence of receipts and inadequate documentation for charge-card purchases. The Auditor concluded that improvements were still necessary to ensure compliance with corporate-card policies and procedures. Corporate charge cards may have special privileges, for example, the Auditor reported that 47% of the corporate cardholders' accounts had cash advance privileges and 25% had cheque writing privileges.<sup>43</sup>

The Auditor recommended that to effectively manage the use of corporate charge cards and to ensure that all expenditures are incurred for business purposes, Hydro One should implement procedures to ensure that cardholders submit original detailed receipts with their charge card statements for review and approval; necessary explanations and other supporting information are provided to verify the business nature of expenses incurred; cash-advance expenditures are detailed and accompanied by supporting documentation to facilitate management review and approval; and monthly charge-card statements are reviewed for adequacy of supporting receipts and approved on a timely basis.

## Status Report on Initiatives (2007)

The Corporation completed initiatives related to this recommendation emphasizing compliance with corporate charge card policy, and reinstating its sample compliance audit, temporarily suspended in 2005. Hydro One will review the audit results with the appropriate Vice-President to ensure compliance with procedures. A communication emphasized that the cash advance and matching expenses are to be indicated and documented on the cash use summary report to facilitate review by supervisors.

### Committee Hearings

#### *Corporate Credit Card Cash Advance*

The cash advance feature is used to reimburse employees for expenditures incurred out-of-pocket, in accordance with established procedures. As noted, given the decentralized nature of the business and the distances travelled, this feature was seen to assist in minimizing costs overall, ensuring that the Corporation is dealing with expenditures on a timely and efficient basis. In certain circumstances the cash-use report option is less expensive to process, given that a cheque does not have to be processed. The credit card statement would identify cash advances on a given card, and the supervisor would approve business expenditures associated with the transaction, and the reimbursements.<sup>44</sup>

### Committee Recommendation

#### Review of the Cash Advance Feature

The Committee acknowledged the importance of standard business practices in the management of charge cards, such as ensuring that cardholders submit original detailed receipts with statements. In the case of a cash-advance, expenditures similarly require supporting documentation to facilitate approvals. It was noted during the hearings that Hydro One Inc. is reconsidering the cash-advance feature on a risk-versus-benefit-to-the-company basis.<sup>45</sup>

The Committee therefore recommends that:

**5. Hydro One Inc. report to the Standing Committee on Public Accounts on the overall management and accountability of the cash advance feature on corporate credit cards. The report should address the findings of the Corporation's assessment of this feature based on a risk-versus-benefit-to-the-company methodology, outlining any change in policy.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

### 3.3. Monitoring Corporate Charge Cards

Management is required to review summary-level departmental control reports on a monthly basis to ensure that cardholders are valid employees; monthly statements have been submitted for approval; credit limits reflect the current needs of cardholders; and that expenditures have been charged to the appropriate project and/or general ledger account. The Auditor concluded that the monthly reports were not being adequately reviewed and corrective action was not being taken.

Corporate charge cards are designed to record purchases automatically against a particular general ledger account and/or project to eliminate the need for journal entries. The Auditor's concern was that Hydro One could not determine the total amount it spent in 2005 for the various expenditure categories (e.g., travel and conferences) which in turn precludes overall monitoring of expenditures. Hydro One's *Employee Listing Report*, which highlights cardholders with invalid or missing employee ID numbers, is used for follow-up and corrective action. The Auditor noted that discrepancies had not been corrected on a timely basis.

The Auditor recommended that to effectively monitor corporate charge-card usage, Hydro One should implement procedures to ensure that management reviews and signs off on monthly charge-card departmental summary-level and exception reports to ensure that any items requiring follow-up are identified and addressed in a timely manner; and purchases made through corporate charge cards are fully allocated to projects and general ledger accounts so that project costs and expense accounts can be monitored over time for reasonableness.

#### Status Report on Initiatives (2007)

The Corporation has implemented a process with the following features:

- the Corporate Charge Card Coordinator follows up on discrepancies in the *Employee Listing Report* for two consecutive months, with explanations being retained on any exceptions;
- management has re-emphasized the importance of complying with Hydro One procedures (e.g., the allocation of credit card charges to either projects or appropriate general ledger accounts);
- service provider reports (analyzing total credit card expenditures by type of expenditure) will enable monitoring for reasonableness over time; and
- decision to reinstitute the sample compliance audit to assess compliance.

#### Committee Hearings

##### *Monthly Charge-card Accountability*

Charge cards are identified by a Hydro One logo with the employee's name, and policy requires that the individual retain receipts for submission with their monthly statement.<sup>46</sup> The Corporation explained that expenditures are documented by attachments and an employee's superior would approve a

statement.<sup>47</sup> If a receipt is missing and cannot be replaced it would be noted by the supervisor, and identified for the record.

### **Committee Recommendation**

#### **Internal Compliance Audit**

The Committee acknowledged that significant steps have been taken to address corporate charge card usage in response to the Auditor's recommendation. The decision to reinstitute sample compliance audits to assess compliance is an important undertaking and is of particular interest to the Committee. This step would ensure that project costs and expense accounts are being monitored over time for reasonableness.

The Committee therefore recommends that:

**6. Hydro One Inc. report to the Standing Committee on Public Accounts on the impact of the decision to reinstitute compliance audits. The report should include the results of any recent audits.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

### **3.4. Business Expenses and Employee Recognition**

Corporate policy provides that employee business expenses should be "reasonable under the circumstances;" however, there were no guidelines for purchases in recognition and appreciation of staff. Given the diverse nature of such purchases, the Auditor concluded that corporate guidance is required. The following concerns were reported:

- unreasonable business expenses (e.g., accommodation and meals) and excessive mileage claims;
- items charged to corporate charge cards that were not questioned as part of the review and approval process; and
- a case in which expenses were being charged to a subordinate's charge card and then approved by the person for whom the purchases were intended. In accordance with policy, such expenses should have been subject to the annual review of senior executive expenses conducted by the corporation's external auditor.

The Auditor recommended that to help ensure business expenses and employee recognition expenditures are in accordance with corporate policy and are reasonable under the circumstances, Hydro One should develop guidelines to establish corporate expectations regarding the reasonableness of expenditures under various circumstances; reinforce the obligation for management to thoroughly review expense claims prior to approval; and implement a more

comprehensive process to periodically review expense claims for compliance with corporate policy.

### Status Report on Initiatives (2007)

The Corporation has developed guidelines to be communicated to employees, and enforced, reinforcing the obligation of supervisors to thoroughly review expense claims thereby ensuring compliance with corporate policies. The following actions have been taken and communicated to staff:

- reinstated the sample compliance audit with the results being communicated to the divisional vice presidents for action where required;
- revised the Policy on Employee Business Expenses to include the expense reports of the Administrative Assistants reporting to the senior executives in the review to be performed by the external auditor; and
- revised the Policy on Employee Business Expenses to require that approval of Administrative Assistant expenses be carried out by the superior of his/her immediate supervisor, and require that for any expenditure where more than one Hydro One employee is involved, the most senior person associated with the expenditure must have it approved by their superior.

### Committee Hearings

#### *Agency Review Panel (2007)*

The Committee raised the matter of recurring issues in the province's power sector related to remuneration, bonuses, and the management of expense accounts.<sup>48</sup> There were discussions in 2006 on compensation packages awarded to executives in the province's power sector, and later that year the Auditor reported on related matters.<sup>49</sup> Of concern to the Committee is the ongoing nature of these matters and the need to take corrective measures through sound policies and demonstrated compliance based on a culture of oversight and accountability.<sup>50</sup>

The government established an external panel in 2007 to address public sector comparators in its review of compensation in the various companies and agencies.<sup>51</sup> The Agency Review Panel's mandate includes a review of executive compensation in energy companies and agencies, and a consideration of comparable public sector organizations.<sup>52</sup> The panel is to report on or before December 31, 2007.<sup>53</sup>

#### *Former President/CEO's Resignation*

The Committee focused on the reasonableness of expenditures and management's responsibility to review and approve claims specifically for the former President and CEO. The protocol requires that on a monthly basis the Board Chair would review and approve such expenses, and in fact over time the reported expenditures were found to be in order. However, certain expenses incurred by the former CEO were reported on his assistant's credit card, which the CEO had approved.



## CEO's Resignation and Severance Provisions

The resignation was discussed in relation to the appropriateness of the former CEO continuing in a leadership position, and the justification for the severance package.<sup>54</sup> It was acknowledged that the management of the CEO's expense account resulted in the inappropriate approval of certain claims which the Board was not aware of until identified by the Auditor.<sup>55</sup> The Corporation acknowledged that the issues addressed in the Auditor General's report should not have happened, and that the CEO's expenditures should have been approved by the Chair of the Board. The CEO provided the Board with a summary of expenses, and following a review it was concluded that some expenses were not legitimate business expenses. Hydro One Inc. asked for repayment of those items.<sup>56</sup>

The Corporation confirmed that there had been lapses in compliance, and that termination for cause was not an option given that there were no legal grounds.<sup>57</sup>

The board agreed that his [former President and CEO] departure would be in the best interests of the company and elected to honour the severance provisions of his contract, which allow the company to terminate his employment without notice and without cause for any reason whatsoever, in which case he would be paid a severance. The former CEO, in discussion with the board, elected to resign so that his presence would no longer be a distraction for the organization.<sup>58</sup>

The Corporation provided the following context for the events leading to the resignation:

- the Board Chair had conversations with the Minister and provided information to the shareholder on the Auditor General's report;
- the Board is independent and it was agreed, following a discussion with the former President and CEO, that this individual's departure would be in the best interests of the Corporation; and
- the Board informed the shareholder of this decision and that the provisions of the contract would be exercised, specifically termination without cause.<sup>59</sup>

The Corporation provided a severance package of approximately \$3 million upon resignation, consistent with the severance provisions in the employee's contract.<sup>60</sup>

### *Remedial Measures - New Procedures*

In response to the audit report Hydro One has instituted procedural changes.<sup>61</sup> The Corporation reiterated the initiatives undertaken, as set out in the 2007 update, such as communicating policies to employees on documentation requirements for expenses, the creation of a compliance group to monitor progress and ensure

adherence to policies; the clarification of guidelines on corporate expectations for expenditures; and enhanced review and approval procedures for expense reports.<sup>62</sup>

New procedures pertaining to the approval of expense claims, as follows:<sup>63</sup>

- administrative assistants' expenses will now be included in the review/audit framework. The Finance Department reviews expenses for the Chair and the CEO every six months, reporting to the audit and finance committee of the Board;
- Hydro One's external auditor is required to prepare a year-end review of the expenses of the Board Chair, the CEO, the CFO, the general counsel, one other randomly selected direct-report and all administrative assistants, and to report to the corporate audit and finance committee; and
- the CEO's expenses and those of the executive assistant are approved by the Chair of the Board.

### **Committee Recommendation**

Amended Approval Procedures – Employee Business Expenses

The Committee acknowledged that the Corporation has taken steps to address the problems encountered in reporting business expenses. Corporate expectations have been redefined and enhanced guidelines and procedures developed to promote compliance with corporate policy.

The Committee therefore recommends that:

**7. Hydro One Inc. report to the Standing Committee on Public Accounts on the impact of the new procedures pertaining to the management and approval of employee business expenditures. The report should include the results achieved from the implementation of the following components of the new guidelines:**

- **the reinstated sample compliance audit (the results being communicated to the divisional vice presidents for action where required); and**
- **the enhanced review by the external auditor (to include the expense reports of the administrative assistants reporting to senior executives).**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

#### **4. INTERNAL AUDITS – HYDRO ONE INC.**

The Committee noted that the Auditor General's report included a number of instances in which the Corporation's internal audit department reported

purchasing function weaknesses that remained to be addressed. The Auditor General had followed up on these matters providing supplementary direction for timely action by the Corporation.

### **Committee Recommendation**

Internal Auditing Function – Hydro One Inc.

The Committee is of the opinion that internal audits have a very important role in promoting accountability, efficiency and effectiveness in the management of an organization. However, in this audit it was necessary for the Auditor General to follow-up on specific internal audit matters that had not been remedied.

The Committee therefore recommends that:

**8. Hydro One Inc. confirm to the Standing Committee on Public Accounts that it will give priority to the timely follow-up of internal audit findings within a defined management protocol.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## APPENDIX NO. 1

### Status of Hydro One Inc.'s Response to the Auditor General's 2006 Recommendations

#### Summary Status Table in Response to the 2006 Report of the Auditor General of Ontario Chapter 3, Section 3.07, Acquisition of Goods and Services Hydro One Inc.

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
<p><b><i>PROCUREMENT OF GOODS AND SERVICES</i></b></p> <p><i>Needs Assessment and Justification for Purchases</i></p>		
<p><b><u>Recommendation 1:</u></b></p> <p>To help ensure that the corporate needs are adequately assessed and that purchases are properly justified prior to acquisition, Hydro One should:</p> <p>a. Follow the requirements for a documented business case for major purchases;</p> <p>b. Verify that sufficient information has been provided to supply management buyers; and</p> <p>c. Adequately evaluate corporate needs, including consideration of alternatives and existing resources, prior to proceeding with the acquisition.</p>	<p>a. We reinforced with those exercising the Requisitioning Authority, the requirement to follow the requirement for a documented business case for major purchases.</p> <p>b. (i) A review was commenced in May 2006 to review all 2006 purchase order files and 2005 major vendor files for completeness.</p> <p>b. (ii) These files were populated to meet the documentation requirements and the review of the files was completed by December 31, 2006.</p> <p>b. (iii) In May 2006, we instituted a process to ensure that all future purchase order files are complete prior to filing.</p> <p>b. (iv) A sample compliance audit will be performed quarterly to ensure that all purchase order files contain the necessary documentation. Documentation will be retained to support the work done. The audit will also review the quality of the documentation in the purchase</p>	

**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
Chapter 3, Section 3.07, Acquisition of Goods and Services  
Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
	<p>file and report to CFO.</p> <p>b. (v) The purchase file checklist has been revised to include the relevant purchase justification documents (e.g. approved business case, sole sourcing approval, other approval documents.) A business case is to be included for all purchases requiring either Executive Committee or CEO approval. For purchases below \$5 million, the Material Requisition will reference the approved project. A business case, where required to be prepared under Hydro One policies, will be included for consulting engagements.</p> <p>c. The Corporate Policy on Consultants and the Corporate Procedure for Retention of Consultants have been revised to include a requirement to evaluate and document, (i) the rationale for hiring contract staff, including consultants, before the contract is awarded, (ii) that all options to perform the work internally have been exhausted.</p>	
<i>Blanket Purchase Orders</i>		
<p><b><u>Recommendation 2:</u></b></p> <p>To ensure goods and services are acquired at the lowest overall cost, Hydro One should:</p> <p>a. Establish blanket-purchase-order agreements through a competitive process unless sound documented rationale for sole-sourcing has been</p>	<p>a. We have communicated and will enforce the requirement that blanket purchase orders ("BPOs") are to be established using a competitive process unless single-sourcing has been approved.</p>	

**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
Chapter 3, Section 3.07, Acquisition of Goods and Services  
Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
<p>approved;</p> <p>b. Review existing long-standing blanket purchase orders to determine if they should be re-tendered;</p> <p>c. Ensure that prices being paid are those set out in the blanket-purchase-order agreements; and</p> <p>d. Develop procedures regarding significant modifications to the terms and conditions of blanket purchase orders.</p>	<p>b. (i) A process for renewing and reducing the extension of BPOs was implemented in May 2006.</p> <p>b. (ii) A report is now prepared on an ongoing basis that includes the status of all expiring and renewed BPOs and plan to have them competitively bid.</p> <p>c. (iii) A plan has been implemented to address long standing BPOs.</p> <p>d. Implemented as part of b (i) and (ii).</p> <p>e. We have communicated and will enforce the requirement that significant modifications to the terms and conditions of blanket purchase orders be documented and approved by individuals having the authority under the OAR.</p>	
<i>Competitive Selection</i>		
<p><b><u>Recommendation 3:</u></b></p> <p>To help ensure it is getting value for money, and purchases are acquired through an open, fair and competitive process, Hydro One should:</p> <p>a. follow established procurement policies and guidelines, and</p> <p>b. adequately document decisions made in the selection of vendors.</p>	<p>a. (i) We have communicated and will enforce the need to comply and fully document in accordance with Hydro One Policies.</p> <p>a. (ii) We have communicated and will enforce the requirement to obtain three quotes and retain documentation to evidence that quotes were obtained and to support vendor selection. Original quote documents,</p>	

**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
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Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
	<p>analysis, etc. to be retained by the requisitioner.</p> <p>a. (iii) We have reviewed the three written quotes requirement and dollar range to ensure they remain appropriate. The three quote requirement will apply to purchases in excess of \$15,000 and to consulting work in excess of \$50,000.</p> <p>b. Included in (a)(i)</p>	
<i>Single Sourcing</i>		
<p><b><u>Recommendation 4:</u></b></p> <p>To ensure that single sourcing is used only when it is not possible or practical to go through the normal competitive process, Hydro One should implement oversight procedures to ensure that adequate justification for single sourcing is documented and properly approved prior to awarding the business.</p>	<p>a. We have clarified the acceptable business circumstances for "single source" purchases to allow for prudent business decisions.</p> <p>b. We have reassessed the limits for requiring single source approval to allow for prudent business decisions. The single-source approval requirement will apply to purchases in excess of \$15,000 and to consulting work in excess of \$50,000.</p> <p>c. We have developed, and will communicate, a process to ensure that adequate justification for single sourcing is documented in accordance with Hydro One policy and properly approved before the business is awarded.</p>	

**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
Chapter 3, Section 3.07, Acquisition of Goods and Services  
Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
<i>Managing and Controlling the Purchase of Goods and Services</i>		
<p><b><u>Recommendation 5:</u></b></p> <p>To properly manage and control the procurement of goods and services, Hydro One should:</p> <p>a. Ensure that it has signed contracts or other documentation that define the responsibilities of both parties, including price and specific deliverables;</p> <p>b. Ensure purchase orders and contracts accurately reflect the agreed upon terms and conditions under which the contract was awarded;</p> <p>c. Ensure that any changes to the original contract terms and conditions are adequately justified, appropriately approved, and properly documented;</p> <p>d. Identify the minimum documentation that is essential for each purchase and put in place a monitoring process to ensure that purchasing files are consistently maintained with all required information; and</p> <p>e. Evaluate all vendors upon completion of work, as required, and examine the costs and benefits of setting up a central depository of information about vendors' performance for use throughout the corporation.</p>	<p>a. (i) A review was commenced in May, 2006 to review all 2006 purchase order files and 2005 major vendor files for completeness.</p> <p>a. (ii) These files were populated to meet the documentation requirements and the review of the files was completed by Dec. 31, 2006.</p> <p>a. (iii) A process was implemented in May 2006 to review all future purchase order files for completeness prior to filing.</p> <p>a. (iv) A sample audit will be performed quarterly to ensure that all purchase order files contain the necessary documentation. Documentation will be retained to support the work done.</p> <p>b. We have updated the procurement procedure to require that a PO reflects the contract terms. Deviations are to be approved by the procurement individual having the OAR authority.</p> <p>c. Same as (b).</p> <p>d. No further action is necessary since this recommendation is implemented through the actions outlined in (a).</p> <p>e. The Procedure for Retention of</p>	



**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
Chapter 3, Section 3.07, Acquisition of Goods and Services  
Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
	<p>Consultants has been revised to provide the purchasing individual in the LOB with a template form to evaluate the performance of a vendor. The completed form is to be sent by the LOB to the Supply Chain mail box to act as an interim central repository.</p>	
<p><i>Procurement and Payment Approval</i></p>		
<p><b><u>Recommendation 6:</u></b></p> <p>To help ensure that purchases of goods and services are properly authorized and that the appropriate amounts are paid, Hydro One should:</p> <p>a. Complete the development of its authority register to clarify signing authority requirements;</p> <p>b. Reinforce the requirement that Supply Management Services staff have all required approvals on hand before proceeding with the purchase; and</p> <p>c. Make payments on a timely basis to avoid late charges and take advantage of early payment discounts.</p>	<p>a. We have completed the development and implementation of the new Authority Register.</p> <p>b. See Action Plans to implement Recommendation 1.</p> <p>c. (i) We have sent a communication to employees emphasizing the importance of making payments on time to avoid late payment penalties and obtain early payment discounts.</p> <p>c. (ii) Explore whether there is a cost effective technological solution to monitor payment dates, etc. to track early payment discounts and avoid late payment penalties.</p>	<p>c. (ii) Feasibility to be addressed as part of information technology upgrade.</p>
<p><b><u>Recommendation 7:</u></b></p> <p>To help ensure that it is receiving the best value for the \$1 billion it is spending on its 10-year outsourcing agreement, Hydro One should:</p> <p>a. Consider benchmarking all</p>	<p>a. No further action is planned at this time. Available comparables will be considered</p>	

**Summary Status Table in Response to the  
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Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
<p>outsourced lines of business in future benchmarking studies;</p> <p>b. Collect service credits it is entitled to;</p> <p>c. Reconcile summary reports from the service provider with the amounts recorded as expenses in the general ledger on a monthly basis; and</p> <p>d. Tender significant information-technology projects in accordance with corporate policy.</p>	<p>in future benchmarking studies.</p> <p>b. We will exercise our legal entitlements to obtain service credits to which we are entitled.</p> <p>c. We have implemented a process to reconcile the monthly reports to the general ledger going forward as suggested by the Auditor General.</p> <p>d. We have communicated and will enforce the requirement that single source approvals awarding work to Inergi must be fully compliant with Hydro One single source policies. For significant information technology projects, where a Single Source award to Inergi is not appropriate, and subject to the impact on "in-scope services", the projects will be competitively bid with due regard to the services provided and the services being provided in a manner which considers the overall cost and business risk.</p>	
<p><b><i>CORPORATE-CARD PURCHASES</i></b></p>		
<p><b><u>Recommendation 8:</u></b></p> <p>To improve administration and control over the corporate charge-card program, Hydro One should:</p> <p>a. Ensure proper documentation and approvals are obtained for setting up local charge-card coordinators;</p> <p>b. Follow up on and, if necessary, cancel,</p> <p style="padding-left: 20px;">(i) inactive charge cards, and</p> <p style="padding-left: 20px;">(ii) active cards that are assigned to terminated and inactive employees;</p>	<p>a. A process has been implemented requiring all Local Charge Card Coordinators to be approved by the Corporate Charge Card Coordinator.</p> <p>b. A process will be introduced to review, and if necessary, cancel,</p> <p style="padding-left: 20px;">(i) inactive cards if not cancelled by the expiry date,</p> <p style="padding-left: 20px;">(ii) active cards assigned to inactive and terminated employees.</p>	<p>b. (i) and (ii) Timeline: We have completed discussions with our service provider whose targeted implementation date is February 28 for cancellation of inactive cards and to close inactive cards upon expiry; and targeted implementation of March 31 to add inactive status</p>

**Summary Status Table in Response to the  
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Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
<p style="text-align: center;">and</p> <p>c. Review current credit and cash advance limits placed on corporate charge cards to ensure that the limits are reasonable given the individual's responsibilities and the intended use of the card.</p>	<p>b. (iii) A sample audit procedure has been introduced to ensure compliance with Hydro One policies.</p> <p>c. (i) A process has been introduced to review the continuing need for all high dollar limits at least semi-annually. (ii) A sample compliance audit has been reinstated, including confirmation of existence of documentation providing the reason a credit card has been cancelled and whether the card was recovered or destroyed.</p>	<p>reporting to the monthly Supervisors' control reports.</p>
<p><b><u>Recommendation 9:</u></b></p> <p>To effectively manage the use of corporate charge cards and to ensure that all expenditures are incurred for business purposes, Hydro One should implement procedures to ensure that:</p> <p>a. Cardholders submit original detailed receipts with their charge-card statements for review and approval;</p> <p>b. Necessary explanations and other supporting information are provided to verify the business nature of expenses incurred;</p> <p>c. Cash advance expenditures are detailed and accompanied by supporting documentation to facilitate management review and approval; and</p> <p>d. Monthly charge-card statements are reviewed for adequacy of supporting receipts and approved on a timely basis.</p>	<p>a. Management has:</p> <p>(i) emphasized compliance with the CCCP</p> <p>(ii) reinstated its sample compliance audit that was temporarily suspended in 2005 and will review the audit results with the appropriate Vice-President to ensure compliance with the procedures</p> <p>b. Included in (a).</p> <p>c. A communication to employees has emphasized that both the cash advance and matching expenses be shown on the cash use summary report to facilitate review by supervisors. Supporting documentation will continue to be attached.</p> <p>d. Current policy requires all expense claims to have adequate</p>	

**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
Chapter 3, Section 3.07, Acquisition of Goods and Services  
Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
	documentation. Management has reinforced this requirement in a communication to employees.	
<p><b><u>Recommendation 10:</u></b></p> <p>To effectively monitor corporate charge-card usage, Hydro One should implement procedures to ensure that:</p> <p>a. Management reviews and signs off on monthly charge-card departmental summary level and exception reports to ensure that any items requiring follow-up are identified and addressed in a timely manner; and</p> <p>b. Purchases made through corporate charge cards are fully allocated to projects and general ledger accounts so that project costs and expense accounts can be monitored over time for reasonableness.</p>	<p>a. We have implemented a process</p> <p>(i) for the Corporate Charge Card Coordinator to follow up on any discrepancies appearing on Hydro One Inc.'s Employee Listing Report for two consecutive months, and</p> <p>(ii) Explanations will be retained for any exceptions.</p> <p>b. (i) Management has re-emphasized to employees the importance of complying with Hydro One procedures, including the allocation of credit card charges to either projects or appropriate general ledger accounts. Service provider reports analyzing total credit card expenditures by type of expenditure will enable monitoring for reasonableness over time.</p> <p>b. (ii) To assess compliance, we have reinstated the sample compliance audit that was temporarily suspended in 2005.</p>	
<p><b><u>Recommendation 11:</u></b></p> <p>To ensure that corporate charge cards are used only for the purposes intended, namely employee business expenses and local purchases less than \$15,000, Hydro One should:</p> <p>a. Minimize the use of charge-</p>	<p>a. (i) An email was issued by our Chief Financial Officer in April,</p>	

**Summary Status Table in Response to the  
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Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
<p>card cheques; and</p> <p>b. Use the finance department to process large payments to major vendors.</p>	<p>2006 to reinforce the appropriate use of corporate charge-card cheques.</p> <p>(ii) We have reinforced the policy that the use of credit card cheques be limited to the circumstances outlined in the Corporate Credit Card Procedure.</p> <p>(iii) We have introduced a 100% compliance audit for all cheques over \$15,000.</p> <p>b. To strengthen the controls, Management has ensured that effective controls are in place for payments and has introduced an ongoing audit program for all charges in excess of \$15,000 to review, assess and report compliance with Hydro One policies.</p>	
<p><i>Employee Business Expenses and Recognition</i></p>		
<p><b><u>Recommendation 12:</u></b></p> <p>To help ensure that business expenses and employee recognition expenditures are in accordance with corporate policy and are reasonable under the circumstances, Hydro One should:</p> <p>a. Develop guidelines to establish corporate expectations regarding the reasonableness of expenditures under various circumstances; and</p> <p>b. Reinforce the obligation for management to thoroughly review expense claims prior to approval; and</p> <p>c. Implement a more comprehensive process to periodically review expense claims for compliance with corporate policy.</p>	<p>a. We have developed guidelines going forward. The guidelines will be communicated to employees, implemented, and enforced.</p> <p>b. Hydro One has send a communication to employees reinforcing the obligations of supervisors to thoroughly review expense claims to ensure compliance with Hydro One policies.</p> <p>c. (i) Hydro One has reinstated its sample compliance audit that was temporarily suspended in 2005. The results will be</p>	

**Summary Status Table in Response to the  
2006 Report of the Auditor General of Ontario  
Chapter 3, Section 3.07, Acquisition of Goods and Services  
Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
	<p>communicated to the divisional vice presidents for action where required.</p> <p>c. (ii) We have revised the Policy on Employee Business Expenses to,</p> <ul style="list-style-type: none"> <li>• include the expense reports of the Administrative Assistants reporting to the senior executives in the review to be performed by the external auditor.</li> </ul> <p>c. (iii) We have revised the Policy on Employee Business Expenses to:</p> <ul style="list-style-type: none"> <li>• Require that approval of Administrative Assistant expenses be carried out by the superior of his/her immediate supervisor, and</li> <li>• Require that for any expenditure where more than one Hydro One employee is involved, the most senior person associated with the expenditure must have it approved by their superior.</li> </ul> <p>d. We have sent a communication to staff outlining the revised policy and procedures.</p>	
<b><i>Monitoring of Fleet Charge Cards</i></b>		
<p><b><u>Recommendation 13:</u></b></p> <p>In order to ensure that it is being billed the correct amount for authorized repairs, service maintenance, and fuel costs, Hydro One should:</p> <ul style="list-style-type: none"> <li>• Consider a more rigorous verification of the monthly fleet-card billings; and</li> <li>• Retain adequate documentation associated with</li> </ul>	<ul style="list-style-type: none"> <li>• Fleet Services has expanded the sample size to 100 items (including fuel and maintenance charges) and will retain adequate documentation to support the monthly verification.</li> </ul>	

**Summary Status Table in Response to the  
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Hydro One Inc.**

AG Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
the verification of monthly billings.		

Source: Hydro One Inc., February 1, 2007.

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## APPENDIX No.2

### Hydro One Inc. Procurement Policy (2007)

#### Procurement Policy

<b>Policy Statement</b>	<ol style="list-style-type: none"><li>1. The Procurement Policy provides the framework for all purchasing processes and decisions. For specific purchasing and materials management procedures, refer to the Procurement Procedure and the Hydro One Supply Chain website.</li><li>2. All procurement activities are governed by the Hydro One Executive Authority and Organizational Authority Registers (EAR and OAR, respectively) and Code of Business Conduct.</li></ol>
<b>Governing Principle</b>	<ol style="list-style-type: none"><li>1. Hydro One procures materials, supplies and services in a manner consistent with good business practices, ethical conduct and professionalism.</li></ol>
<b>Scope</b>	<ol style="list-style-type: none"><li>1. The Procurement Policy applies to all personnel who influence purchasing and material management processes and decisions.</li></ol>
<b>Corporate Requirements</b>	<ol style="list-style-type: none"><li>1. Hydro One Supply Chain and Inergi LP Supply Management Services (SMS) facilitate the efficient execution of work by delivering the right goods and services to the right place at the right time. Goods and Services should be procured through an auditable and competitive process open to qualified vendors unless business circumstances dictate that an alternative process is necessary to support the efficient execution of work.</li><li>2. In the specific circumstance of a declared emergency goods and services will be obtained by whatever means necessary to support the business and documented as necessary to support the restoration efforts.</li><li>3. To reduce total cost of ownership, where appropriate we will establish security of supply, strategic material and services contracts, Blanket Purchase Orders (BPO), and vendor alliances and will manage an inventory of commonly used items. Such arrangements shall be for a defined period of time and be monitored. All purchases of materials and services covered by such relationships must be made from the contracted supplier unless business circumstances dictate an alternative is necessary to effectively operate the business.</li><li>4. Purchases will be made only by those authorized in accordance with the EAR and OARs.</li></ol>



5. Hydro One will acquire and dispose of its materials and acquire its services without favoritism.
6. Hydro One will normally solicit competitive tenders or proposals from which to make a choice for award of a PO or contract. The form of competitive bidding, solicitation and contract will be the most appropriate for the related requirement.
7. Hydro One will procure goods and services only from qualified suppliers.
8. Only authorized employees can enter into contractual arrangements on behalf of Hydro One. This is limited to procurement staff with sufficient and appropriate authority unless specifically authorized under Local Purchasing authority defined in the EAR and OAR.
9. Procurement of Hydro One legal services certain treasury services and certain real estate transactions may follow procedures established by them and appropriately approved by the President and CEO.
10. It is the responsibility of line managers to ensure that the Corporate Procurement Policy and OARs are followed.

**Specific  
Circumstances**

**Single Source**

1. Goods and Services should normally be procured through an auditable and competitive process open to qualified vendors. Business circumstances may from time to time dictate that to support the efficient execution of work goods or services be purchased on a single source basis.
2. Such circumstances may include but are not limited to, when:
  - there is only one supplier with the required capability or legal rights to sell the material or services required,
  - there is only one supplier who can do the work without causing Hydro One to suffer an unacceptable delay or incur unreasonable costs of another supplier's learning curve,
  - purchase avoids expensive modifications to the system,
  - the purchase supports the strategy to ensure security of supply,
  - urgency is created by circumstances or actions of persons external to Hydro One.
3. Except in cases where Local Purchasing rules apply, approval must be obtained in advance from Supply Chain for a Single Source procurement.

### **Conflict of Interest**

1. Employees will consider only the interests of Hydro One in all procurement transactions.
2. Hydro One employees, agents and suppliers will not offer, give, solicit, or receive any form of bribe or kickback. They will exercise due diligence to ensure that other agents or representatives acting on behalf of Hydro One or its suppliers are not themselves offering or receiving bribes and kickbacks. Employees shall not accept any gifts, gratuities or benefits from vendors, agents, distributors, dealers, contractors, consultants or other members of the supplier community other than as permitted by the Hydro One Code of Conduct.
3. Employees shall not disclose confidential or proprietary information to any person, including fellow employees, who have no "need to know." When "need to know" has been established as someone other than a Hydro One or SMS employee, a confidentiality agreement must be executed prior to disclosure.
4. Employees will promptly report unethical practices on the part of a supplier or an employee or any real, potential or perceived conflict of interest as defined in the Code of Conduct to the Chief Ethics Officer.

### **Dealing with Suppliers**

1. Suppliers will be treated with courtesy, fairness, respect, honesty and professionalism.
2. Hydro One will ensure that no supplier has an unfair advantage over its competitors through pre-tender/proposal discussions intended to develop the scope or strategy of the procurement.

### **Disclosure of Information**

1. All information relating to Hydro One goods and services requirements is to be considered proprietary and will be disclosed to suppliers only when in the interest of Hydro One to do so. While a tender or proposal is under consideration, no information will be shared with suppliers or employees who have no "need to know" that may afford a supplier an unfair advantage over its competitors.

### **Quality Assurance**

1. Hydro One requires its suppliers of material and services to demonstrate their commitment to quality assurance and continuous improvement.

**Strategic Sourcing**

1. Where advantageous to Hydro One, we will develop long-term contractual relationships with suppliers to optimize the cost of goods and services and to ensure the preferential availability and timely supply of critical items.
2. Strategic Sourcing contracts may be multi year and may contain provisions for extension when in the interest of Hydro One to do so.

**Health, Safety and Environment**

1. Hydro One is committed to purchasing materials and services that at time of purchase are free of known harmful effects on the health and safety of its employees.
2. Hydro One is committed to purchasing materials and services that do not contain substances in amounts which are known at time of purchase to be injurious to the environment during use and at end-of-life disposal.
3. Goods that are manufactured outside of Canada from material or by using processes that are not permitted in Canada will be excluded from consideration.

**Investment Recovery**

1. Hydro One will re-deploy or dispose of surplus equipment and material to derive the maximum overall benefit with emphasis on reuse, revenue from sale, employee and subsequent purchaser safety and environmental protection consistent with the principles of the Hydro One Health, Safety and Environmental Management System.
2. Surplus sales authority is the authority to sell items that have been declared surplus in accordance with Investment Recovery Procedures. Only Local Sale of Surplus authority may be delegated to staff outside of SMS.
3. When exercising Local Sale of Surplus authority, responsibility for adhering to Investment Recovery Procedures rests with the LOB.

**Definitions**

1. Purchase authority as defined in the OAR is the authority to commit funds external to Hydro One. Only Local Purchase authority is delegated to staff outside of the Supply Chain organization. Local Purchase authority limits include all taxes (other than GST), freight, insurance and applicable import duties. Disaggregation of a requirement is not permitted.

- References**
- Refer to Corporate Executive Authority Register and Organizational Authority Registers
  - Refer to the Hydro One Code of Conduct
  - Refer to the Procurement Procedure
  - Refer to the Hydro One Supply Chain website
  - Refer to Corporate Charge Card procedures
  - Refer to Investment Recovery Procedures
  - Refer to Corporate Policy on Consultants
  - Refer to the Corporate Procedure for the Retention of Consultants

**Functional  
Responsibility**      Supply Chain

**Approved by**      Executive Committee- February 14, 2007  
Previous review and approval- March 19, 2003

**Reviewed**      February 14, 2007  
March 19, 2003

Source: Hydro One Inc., February 2007.

## NOTES

- <sup>1</sup> Ontario, Office of the Auditor General, *2006 Annual Report* (The Office: Toronto, Ontario, December 2006), pp. 161 and 162.
- <sup>2</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 13 February 2007, P-231.
- <sup>3</sup> *Ibid.*, P-242.
- <sup>4</sup> *Ibid.*
- <sup>5</sup> *Ibid.*
- <sup>6</sup> *Ibid.*, P-232.
- <sup>7</sup> *Ibid.*
- <sup>8</sup> *Ibid.*, P-233.
- <sup>9</sup> *Ibid.*
- <sup>10</sup> *Ibid.*
- <sup>11</sup> The introduction to each section in this report is based directly on the Auditor General's findings, as reported in the *2006 Annual Report*. The text consists of paraphrasing and in some instances partial quotes from the Auditor General's report.
- <sup>12</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 13 February 2007, P-240.
- <sup>13</sup> *Ibid.*, P-234 and 241.
- <sup>14</sup> *Ibid.*, P-234.
- <sup>15</sup> *Ibid.*, P-257 and P-258.
- <sup>16</sup> *Ibid.*, P-258.
- <sup>17</sup> *Ibid.*, P-240 and P-241.
- <sup>18</sup> *Ibid.*, P-241.
- <sup>19</sup> *Ibid.*
- <sup>20</sup> *Ibid.*, P-234.
- <sup>21</sup> Hydro One Inc. provided the Standing Committee on Public Accounts with a status report, entitled *Summary Status Table in Response to the 2006 Report of the Auditor General of Ontario, Chapter 3, Section 3.07, Acquisition of Goods and Services, Hydro One Inc.* and dated February 1, 2007. It provides an update on the Corporation's completed and outstanding undertakings to address the Auditor General's 2006 recommendations. Each section in this Committee report referring to this document is based directly on the auditee's submission.
- <sup>22</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 13 February 2007, P-243.
- <sup>23</sup> *Ibid.*, P-243.
- <sup>24</sup> *Ibid.*
- <sup>25</sup> *Ibid.*, P-250.
- <sup>26</sup> *Ibid.*
- <sup>27</sup> *Ibid.*, P-243.
- <sup>28</sup> *Ibid.*, P-257.
- <sup>29</sup> *Ibid.*, P-258.
- <sup>30</sup> *Ibid.*
- <sup>31</sup> *Ibid.*
- <sup>32</sup> *Ibid.*
- <sup>33</sup> *Ibid.*
- <sup>34</sup> *Ibid.*, P-248.
- <sup>35</sup> *Ibid.*, P-253.
- <sup>36</sup> *Ibid.*
- <sup>37</sup> *Ibid.*
- <sup>38</sup> *Ibid.*, P-254.
- <sup>39</sup> *Ibid.*
- <sup>40</sup> *Ibid.*
- <sup>41</sup> *Ibid.*, P-249.

<sup>42</sup> Ibid., P-249 and P-250.

<sup>43</sup> Ontario, Office of the Auditor General of Ontario, *2006 Annual Report* (Toronto, the Office, December 2006), p. 171.

<sup>44</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 13 February 2007, P-250.

<sup>45</sup> Ibid., P-244.

<sup>46</sup> Ibid., P-236 and P-237.

<sup>47</sup> Ibid., P-237.

<sup>48</sup> Ibid., P-238.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid., P-232.

<sup>53</sup> Ibid., P-260.

<sup>54</sup> Ibid., P-256.

<sup>55</sup> Ibid., P-259.

<sup>56</sup> Ibid., P-255.

<sup>57</sup> Ibid., P-236, P-239 and P-240.

<sup>58</sup> Ibid., P-259.

<sup>59</sup> Ibid., P-245.

<sup>60</sup> Ibid., P-232 and P-233.

<sup>61</sup> Ibid., P-259.

<sup>62</sup> Ibid., P-234 and P-235.

<sup>63</sup> Ibid., P-233 and P-259.