

Office of the BC Ferries
Commissioner

Procurement Performance Review

Final Report

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1. Executive Summary

Introduction

The Office of the BC Ferries Commissioner ('BC Ferries Commissioner' or 'Commissioner') has legislative authority to conduct independent and insightful process performance reviews of British Columbia Ferry Services Inc. ('BC Ferries'). As such, the Commissioner engaged EY to assist the Commissioner in a performance review of BC Ferries' procurement policies and practices.

Objective

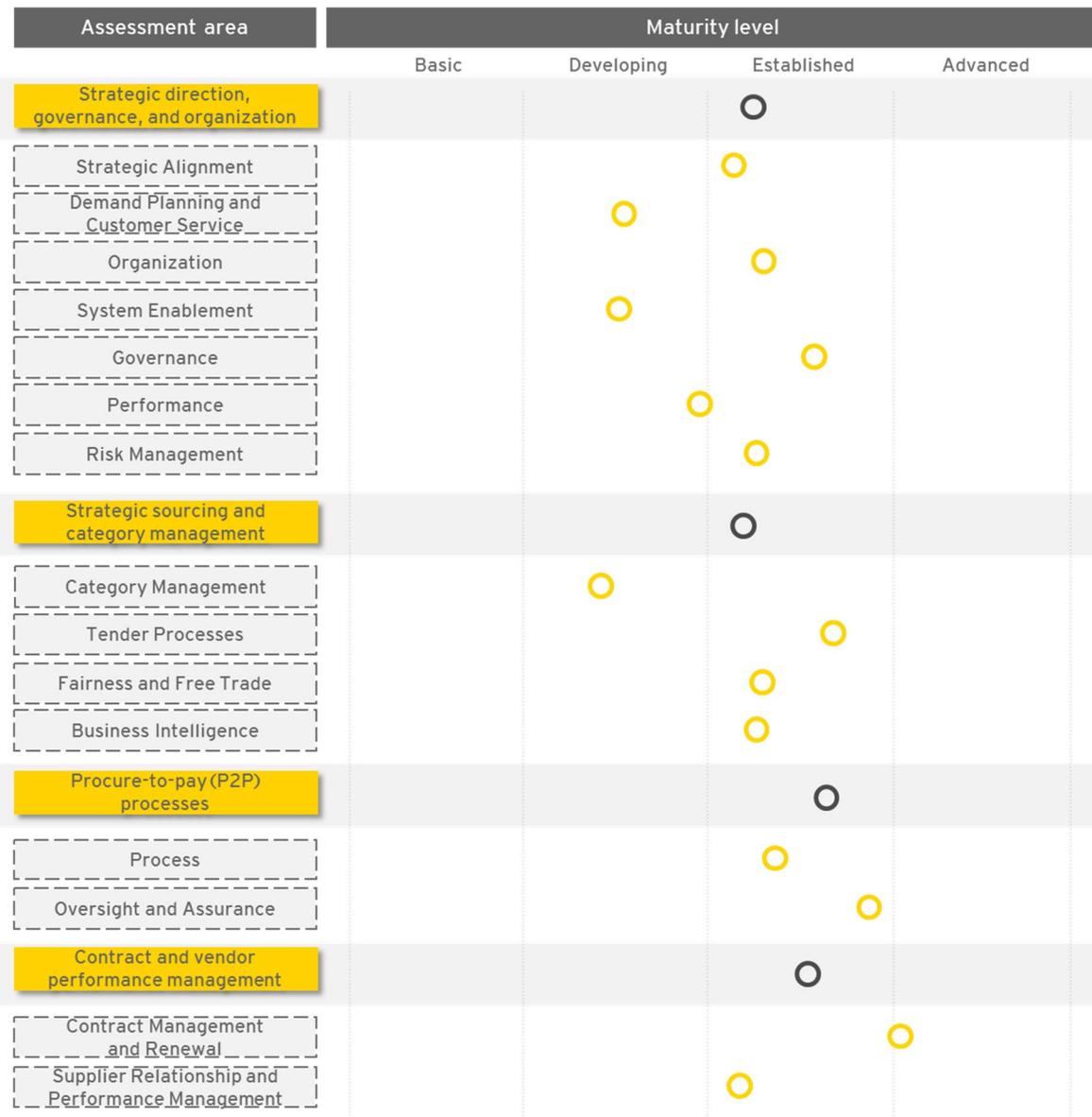
The objective of the Procurement Performance Review was to provide the Commissioner with an independent review of procurement practices currently in place at BC Ferries, including assessing the extent to which:

- ▶ Procurement policies and practices align with industry leading practice
- ▶ Procurements and resulting contracts deliver BC Ferries with value-for-money with respect to pricing, contractual terms and conditions, and price protections
- ▶ Tendering and procurement practices for projects or service arrangements actively encourage supplier participation, competition, and value-for-money
- ▶ Contract and vendor management practices enable timely re-procurement and encourage supplier accountability for delivery
- ▶ Procurements are conducted in accordance with policies, practices, and key financial and risk management controls

We conducted our review through internal and external stakeholder interviews, comprehensive policy and practice documentation review, and case study analysis. The latter reviewed selected procurements for adherence to corporate policy, quality, effectiveness, and comprehensiveness of evaluations. BC Ferries' procurement practices were assessed against EY's global Supply Chain Management Maturity Model.

Findings and Conclusion

Overall, BC Ferries' procurement policies and procedures are relatively mature and in line with what we would expect to see based on our work with comparable organizations. A summary of our maturity assessment below shows the findings in each area of our review.



BC Ferries has solid procurement policies and practices in place, with good practices identified in numerous areas and in their ongoing continuous improvement activities. BC Ferries has a strong capital planning process that supports proactive planning for related procurement activities to enable alignment of strategic objectives. Additionally, a well-defined policy and governance framework supports strong consistency, risk management and control within procurement processes, and procurement and supply chain performance is regularly measured and reported.

Contract mechanisms and vendor management enable BC Ferries to monitor and enforce supplier accountability, further supporting the achievement of value-for-money. Case studies support that tendering and procurement are conducted in compliance with internal policies, free trade requirements, and mandated regulatory approvals. They also encourage supplier participation and competition through open and transparent processes. Procurement risk management, oversight and

assurance practices are strong in delivering the organization with value-for-money. Notwithstanding this, we identified isolated opportunities to strengthen contract mechanisms to further mitigate and transfer risk from BC Ferries.

A recent change in the organizational structure to restructure Supply Chain Management as an integrated part of Operations was carried out in November 2017. This further aligns the organization's operational and procurement strategies and performance metrics. Related to this, we identified a number of opportunities to align practices with leading practice:

- ▶ Strategic planning accountability and reporting can be enhanced by including better demand planning of procurement and supply chain needs to better enable timely procurement initiation and strategic sourcing activities.
- ▶ The risk of relying on key positions and resources can be mitigated through both formal succession planning and improved information management practices.
- ▶ Further process efficiencies can be realized through investment in technology systems – an existing priority for BC Ferries – and through strategic category management.
- ▶ The recent re-organization also needs to be reflected in the BC Ferries governance framework in a way that ensures the separation of financial and policy controls over operational efficiency.

Recommendations and detailed findings are included in section 4: Findings and Recommendations.

2. List of Acronyms Used

Acronym	Definition
Authority	BC Ferry Authority
BC Ferries	British Columbia Ferry Services Inc.
BC Ferries Commissioner	Office of the BC Ferries Commissioner
CETA	EU-Canada Comprehensive Economic and Trade Agreement
CFA	Coastal Ferry Act
CFTA	Canadian Free Trade Agreement
Commissioner	Office of the BC Ferries Commissioner
IT	Information Technology
ITQ	Invitation to Quote
NAFTA	North American Free Trade Agreement
NWPTA	New West Partnership Trade Agreement
P2P	Procure to Pay
PMO	Project Management Office
RFEOI	Request for Expression of Interest
RFI	Request for Information
RFP	Request for Proposal
RFPO	Request for Pre-Qualifications
RFQ	Request for Qualifications
RFx	Request for X (tender document)
SCM	Supply Chain Management
SOR	Statement of Requirements
TSOR	Technical Statement of Requirements

3. Background

To support the mission to provide safe, reliable and efficient marine transportation services that exceed service expectations of customers, employees and communities, the Office of the BC Ferries Commissioner ('BC Ferries Commissioner' or 'Commissioner') engaged EY to undertake a performance review of British Columbia Ferry Services Inc. ('BC Ferries') procurement policies and practices. As part of this review, the Commissioner desired to assess key procurement policies and practices of BC Ferries that support the strategic and financial model in place, as well as identify opportunities for continuous improvement with respect to effectiveness, efficiency and leading practice.

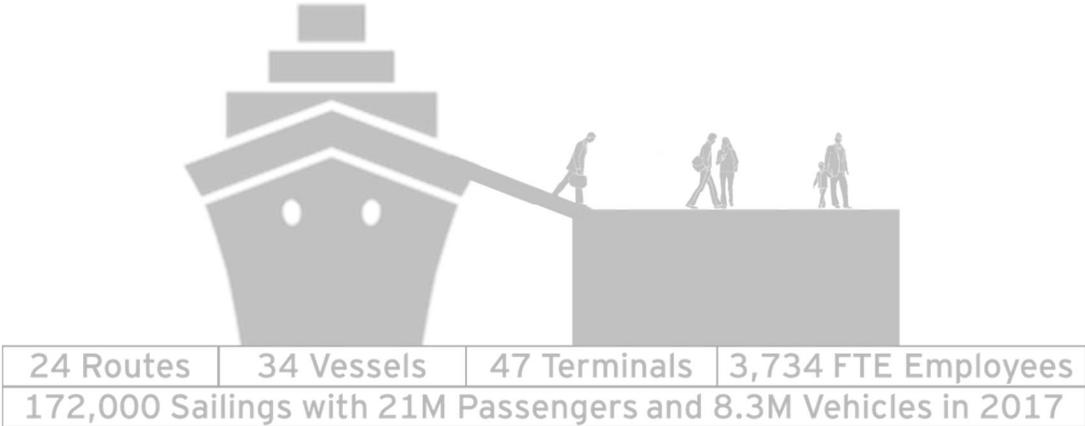
BC Ferries provides coastal ferry services under the Coastal Ferry Services Contract on a portfolio of 24 routes, delivered through BC Ferries' 34 vessels, 47 terminals, and over 4,500 full- and part-time employees. With responsibilities for operating a frequent year-round transportation service along more than 1,600 kilometers of BC coastline, BC Ferries undertakes numerous significant procurements every year, ranging from capital to IT projects and professional services, in order to support its operations.

3.1. History

Following a decision to restructure the organization to separate the operation of ferry services from the establishment of ferry policy, BC Ferries transitioned from a Crown corporation into a commercial organization in April 2003 under the Company Act. BC Ferries is governed by an independent Board of Directors that is appointed by the BC Ferry Authority (Authority), a no-share corporation created under the Coastal Ferry Act (CFA) that holds the single-issued voting share for BC Ferries. All preferred shares for BC Ferries are held by the provincial government. At the same time, the Province of British Columbia and BC Ferries signed a 60-year services contract, called the Coastal Ferry Services Contract, which is a commitment by BC Ferries to provide sailings for 24 saltwater routes that represent core transportation services to BC's coastal and remote communities. The 60-year contract is segmented into four-year performance terms that enable the adjustment of fare increase price caps at the commencement of each term, which is set by the Commissioner.

Governed under the CFA with respect to the operating relationship between BC Ferries and the Authority, the CFA also establishes the Office of the BC Ferries Commissioner, or Commissioner, an independent regulatory body for BC Ferries. A core role of the Commissioner is to independently balance the interests of ferry users, taxpayers and the financial stability and sustainability of ferry operators

by setting a price cap on fare increase levels for BC Ferries on the 24 saltwater routes outlined



in the Coastal Ferry Services Contract. Under the CFA, the Commissioner also approves major capital expenditures above established thresholds, reviews BC Ferries' mid- and long-term capital plans, and conducts ongoing performance reviews to monitor the efficiency of BC Ferries' operations.

3.2. Performance Terms

Performance terms are driven from the Coastal Ferry Services Contract and are divided into four-year intervals, with the exception of the original five-year performance term between 2003 and 2008. BC Ferries is currently in the fourth performance term that spans from April 2016 to March 2020, with anticipation for the upcoming performance term and the respective planning required to support this next stage starting 18 months in advance of term commencement. The Commissioner conducts regular performance reviews on an ongoing basis to gain sufficient information on management practices and BC Ferries' operating model to allow the appropriate setting price caps for the upcoming term on designated ferry routes. Core service levels are defined for each performance term and are subsequently evaluated during the next performance term review. The price cap is finalized prior to the commencement of the upcoming performance term.

4. Approach and Methodology

4.1. Objectives and Scope

In anticipation of the upcoming performance term and setting of price caps on fare increases, the BC Ferries Commissioner initiated a Performance Review of Procurement at BC Ferries, an area that is both of significant importance to the organization's long-term capital planning, and material to the organization in terms of financial expenditures. The objective of the Procurement Performance Review was to provide the Commissioner with an independent review of procurement practices currently in place at BC Ferries, including assessing the extent to which:

- ▶ Procurement policies and practices align with industry leading practice in the areas of strategic direction, governance, organizational structure, category management and strategic sourcing, procure-to-pay processes, and contract and vendor performance management
- ▶ Procurements and resulting contracts deliver BC Ferries with value-for-money with respect to pricing, contractual terms and conditions, and price protections
- ▶ Tendering and procurement practices for projects or service arrangements actively encourage supplier participation, competition, and value-for-money
- ▶ Contract and vendor management practices enable timely re-procurement and encourage supplier accountability for delivery that is on-time, on-budget, and meets performance expectations
- ▶ Procurements are conducted in accordance with policies, practices, and key financial and risk management controls as established by management

Findings and recommendations were documented to strengthen procurement practices and align with leading practice in a final report to the Commissioner.

The scope of the review focused on BC Ferries' procurement practices across the organization, and its performance in helping BC Ferries achieve its objectives while obtaining value-for-money. The review leveraged EY's global Supply Chain Management Maturity Model, which defines leading practice procurement as incorporating the following elements and activities:

- ▶ Strategic direction, governance, and organization: including strategic alignment, demand planning and customer service, performance measurement, governance, risk management, organization, and system enablement
- ▶ Strategic sourcing and category management: appropriate category management, tender processes, business intelligence capabilities, and fairness and free-trade practices
- ▶ Procure-to-pay (P2P) processes: formal and consistent P2P, and appropriate oversight and assurance mechanisms
- ▶ Contract and vendor performance management: contract management and renewal, and supplier relationship and performance management

The scope of the review included an assessment of corporate procurement policies and practices, with a deeper case study analysis of five recent procurements across the categories of (1) vessels, (2) terminals, (3) services, and (4) IT projects.

Out of scope

The scope excluded the information technology projects previously reviewed by the Commission, including the Automated Customer Experience Program and Fare Flexibility and Digital Experience Initiative.

BC Ferries' internal controls are subject to assurance activities on an annual and cyclical basis. Internal controls over financial reporting are assessed annually under the financial statement audit conducted by an independent external service provider. BC Ferries' Internal Audit Function completes periodic audits of operations and internal controls, which has included the assessment of procurement processes and controls' design and operating effectiveness. In contrast, while this Procurement Performance Review provides an assessment and recommendations on organizational procurement practices against industry standard and leading practices, this review did not include detailed testing of the operating effectiveness of key internal controls over procurement and as such, does not provide assurance in accordance with the application standards for assurance engagements as set by professional bodies with jurisdiction including the Chartered Professional Accountants of Canada.

4.2. Review Approach

The Procurement Performance Review was conducted through a three-phased approach: (1) Project kick-off and planning, (2) Assessment and analysis, and (3) Reporting. Each phase of the review is further defined in detail in the subsequent sections below and includes key activities, milestones and deliverables.



4.2.1 Project Kick-Off and Planning



The first phase of work began with a project kick-off meeting with the Commissioner to validate objectives, develop a project work plan and seek approval of the overall project timeline. Following a preliminary review of BC Ferries' corporate policies, the detailed scope and various analysis procedures were refined, documented and submitted to the Commissioner through the means of a comprehensive Project Plan, which was finalized in December 2017.

A formal kick-off meeting was held with BC Ferries in early January 2018 to discuss the overall project approach and proposed stakeholder engagement. Following this meeting, EY confirmed internal and external stakeholders to be interviewed, selected and confirmed five procurement case studies, and requested all relevant procurement and supply chain management documentation from BC Ferries to complete an in-depth documentation review.

4.2.2 Assessment and Analysis



The assessment phase included deeper analysis of governance and process documentation, stakeholder interviews, and detailed case study reviews to provide a comprehensive picture of

organizational procurement capability. EY's assessment of policies and procedures included:

- ▶ **Documentation Review:** review of corporate policies and guidelines, strategic and operational plans, annual reports, organizational structures, procurement methodology and frameworks, and procurement and contracting tools and templates.
- ▶ **Internal Stakeholder Interviews:** key internal stakeholders were interviewed to gain perspective on procurement practices, confirm roles and responsibilities, and identify opportunities to improve overall value-for-money through processes in scope for this review.
- ▶ **External Stakeholder Interviews:** interviews with external suppliers were conducted to gain perspective on BC Ferries' procurement practices from a supplier viewpoint and to identify any opportunities that would benefit or enhance the process.
- ▶ **Case Studies:** five sample procurements were selected for detailed case study analysis of the procurement process. The high-level objective was to review actual procurement processes and supporting documentation in order to provide commentary on:
 - Adherence to corporate policy and governance requirements for oversight, control and approval (including CFA Section 55 approval procedures)
 - Procurement strategies used to achieve project or service objectives and value-for-money, including use of strategic sourcing tools and models
 - Quality of tender documentation
 - Effectiveness of outreach to potential bidders
 - Quality and sufficiency of proposals received
 - Effectiveness and comprehensiveness of evaluation procedures and decisions
 - Effectiveness of negotiation and resulting contracts in protecting the interests of ferry users, BC Ferries and taxpayers
 - Procurement risk management and mitigation activities
- ▶ **Current State and Leading Practice Analysis:** Based on analysis and observations gathered through the documentation review, interviews, and case studies, EY assessed BC Ferries' current state using EY's Supply Chain Management Maturity Model.



- ▶ Developing Findings and Recommendations: Findings from the assessment phase were compiled together with recommendations to address gaps and to align BC Ferries' procurement approach with leading practice.

Upon completion of the assessment phase, EY conducted a debrief meeting with the BC Ferries Commissioner to confirm preliminary findings and recommendations. Throughout the assessment and following reporting phases, EY provided weekly status updates to the Commissioner to update on overall project progression and summarized key findings.

4.2.3 Reporting



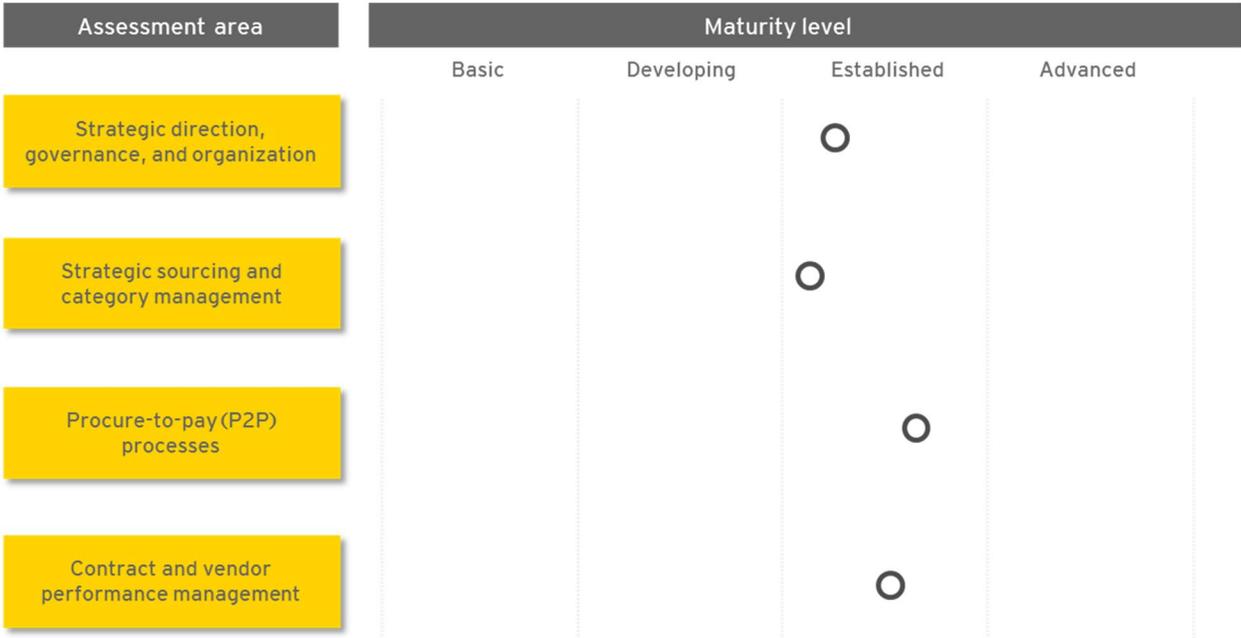
The reporting phase included the preparation of a final report submitted to the Commissioner, which contained key findings and recommendations based on the assessment work carried out in the prior phase. Recommendations were included to improve overall procurement process and practices at BC Ferries.

5. Findings and Recommendations

This section outlines the review findings for BC Ferries' procurement practices, incorporating and reporting in alignment with four key areas as defined by EY's Supply Chain Management Maturity Model. Throughout this section, we consider and discuss findings of BC Ferries' procurement practices as it stands in its current state, noting where possible some improvement initiatives underway at the time of the report even though they may not be fully implemented yet. Key findings have been highlighted for each element within the four main sections introduced above, using a balanced approach to reporting to identify both good practices currently in place (denoted with a 'check box') and opportunities for improvement. Recommendations are focused on findings related to opportunities for improvement.

5.1. Summary of Maturity Assessment Findings

A visual representation of where BC Ferries' procurement practices are against leading practice (basic, developing, established or advanced) are depicted below. Overall procurement practices are making progress toward *Advanced*, currently reflecting maturity that is *Established* or near-*Established* in all areas assessed, which is more mature than the majority of comparable organizations we have assessed over the past several years.



5.2. Strategic Direction, Governance and Organization

Critical to the efficiency and effectiveness of procurement as an organizational enabler is its strategic direction, governance and organization within the context of the organization's strategy, governance and structure. At a high level, this includes:

- ▶ Effective strategic alignment between the organization's strategy and its procurement strategy
- ▶ Integrated planning processes that enable demand planning and consistent customer service
- ▶ Defined and impactful performance measurement
- ▶ A formal governance framework that is organizationally effective and efficient
- ▶ Adequate risk management in procurement procedures and strategies
- ▶ An organizational structure that supports both process consistency and alignment with business needs
- ▶ Automation and efficiency through IT enablement

5.2.1 Strategic Alignment



Strategic alignment between the organization's strategy and its capital planning and procurement strategy allows for procurement strategies to effectively enable operations and capital projects, and in advanced organizations the procurement strategy can ultimately influence the organization's strategy and long term plans.

BC Ferries has a robust top-down capital planning process in place to articulate the long-, medium- and short-term needs for major capital projects and infrastructure including vessels, terminals, and other major projects. The nature of capital projects has resulted in a robust planning process across BC Ferries due to both the importance of assets in service availability and the materiality to the organization, and is supported by four Project Management Offices (PMOs) functionally focused on vessel construction, vessel repair, terminals and IT. Tied to the Procurement Policy and related organizational governance, Supply Chain Management (SCM), responsible for centralized procurement processes and inventory management, is actively involved in the planning process of major capital projects and defining procurement strategies, both outlined in the Project Governance Framework and Guideline and demonstrated by Cross-Functional Team composition within each of the five case studies.

Finding 1: Strategic alignment between the organization and SCM is established, and is more robust for major capital projects and infrastructure than operations.

BC Ferries has articulated strategies for the organization's objectives, long-term and annual capital plans, as well as maintenance repair and operations that drive preventive maintenance of assets. However, the review noted that while BC Ferries has a regular and robust annual planning process, alignment between the SCM and organizational strategic objectives and activities was not clear.



Noted as a good practice, organizational leadership is leveraging a recent organizational restructuring to better align SCM's strategic objectives and mandate with this new structure and the organization's overall strategy. Interviews with management indicate that SCM's strategy and objectives are currently being reviewed to better align with BC

Ferries' operational strategy and business needs, and to reflect the integration of SCM within Operations.

Recommendations

1. Align procurement and organizational strategy: Continue to prioritize SCM's strategic objectives to better align with organizational strategy and operational needs. This includes defining procurement activities, intended outcomes, and appropriate performance measures.
2. Enhance SCM's strategic planning activities: Include future demand for procurement needs from the business units into the planning process. Seek divisional needs in each planning cycle to provide visibility and avoid roadblocks.

5.2.2 Demand Planning and Customer Service



Formal and regular procurement planning enables demand planning to be managed proactively to support both policy compliance and timely customer service provided by SCM to business units. This is particularly important when there is partial or full centralization of procurement processes and activities.

Finding 2: While some procurement needs are planned in advance, operational procurement needs outside of SCM are not consistently planned or communicated to SCM, resulting in inconsistent engagement and timeliness of service. This opportunity for improvement has been identified by management.



Noted as a good practice, capital project procurement needs are defined and documented as part of the planning process in accordance with corporate project management guidance. BC Ferries' articulated capital plans, including the Fleet and Terminal Master Plans, long term and annual Capital Plans, support the proactive demand planning of procurement needs to enable compliance with policies and timeliness of service for business units. Procurement needs for individual capital projects are defined and documented by the cross-functional teams, which include SCM, as part of the planning process. Preventative maintenance and repair procurement needs are supported by an annual maintenance program and inventory management.

While demand planning is more robust in some areas as highlighted above, demand planning for the day-to-day and operational needs outside of SCM, which represent approximately 34% of total expenditures, are not consistently planned or communicated, resulting in inconsistent timeliness in engaging SCM to enable strategic sourcing. Demand management is functionally facilitated by Purchasing Agents, but strategic demand planning is also not well-articulated in the SCM Business Plan. The area we noted as having the highest inconsistency is operational purchasing, with interviews

indicating they can be driven by contract end dates versus a defined sourcing strategy. Interviews support that SCM provides business support as needed, but there is a risk of lost opportunity for strategic procurement due to short lead times.

Recommendations

3. Enhance procurement demand planning: Divisional planning activities should identify where procurement support is required from SCM (in accordance with the Procurement Policy). This will enable robust demand and strategic sourcing planning and allow SCM to further implement Category Management, formalize customer service levels and enhance performance measurement. Existing data on process efficiency can support SCM and business units to establish a framework for demand planning.

5.2.3 Performance



Performance measurement enables management to measure both operations at the transactional level and achievement of objectives at the strategic level.

Finding 3: Current performance measurement offer insight into operational and transactional processes, but provide limited insight into the achievement of strategic objectives.



Noted as a good practice, transactional performance metrics are defined, measured and reported regularly. There is an exhaustive list of procurement performance metrics that are related to overall operational and transactional performance, with standard metrics such as inventory turn rate, budget variance, and other process efficiency measures for purchase requisition, purchase order, and contract processing times. SCM also requests feedback from internal customers on overall satisfaction with both delivery and supplier safety performance. Transactional customer service metrics are defined, measured, monitored, and reported within SCM and brought to the executive team.



While transactional performance metrics for SCM are defined, measured and reported regularly, there is limited performance measurement of the achievement of strategic objectives and outcomes, such as value-added or reduction of total cost of ownership. There is an acknowledged opacity on how SCM performance measures contribute to organizational performance, and management has indicated they are taking action: interviews indicate that as part of the SCM organization and strategic re-alignment, existing performance metrics are currently being reviewed and refined to better align with BC Ferries strategic priorities.

Recommendations

4. Review strategic performance indicators: Prioritize and align current performance indicators to BC Ferries' organizational strategy, including measures that aim to quantify the strategic value and long-term effectiveness of procurement activities. Suggested metrics include cycle time, FTE per \$

spend, % on blanket/ supply arrangements, spend fragmentation, vendor fragmentation and inventory turns.

5.2.4 Governance



A formal procurement governance framework is required to establish appropriate processes, risk management and control requirements for key procurement activities.

BC Ferries has a well-defined policy framework supported by guidance and practices that capture appropriate spending authorities, purchase initiation and approval processes, roles and responsibilities, procurement policies, contract management processes, and tendering documents. Policies and practices are supported by enabling tools, templates and standard terms and conditions to enable efficient procurement activities, consistency with financial authority levels, and management of procurement-related risks. Case studies support that policies, practices and procedures are adhered to.

Finding 4: The current governance structure of SCM has yet to be updated in the procurement governance framework and associated policies.

SCM, which is responsible for centralized procurement processes and control, was moved from Finance to Operations in November 2017, with accountability shifting to the Chief Operating Officer. Procurement policies and practices continue to reflect the previous governance and accountability structure under Finance. The existing framework includes corporate policies and practices concerned both with appropriate financial control and stewardship of assets as well as procurement enablement and efficiency, reflecting the dual-role that SCM must fulfil with respect to being an enabler of procurement and a facilitator of policy compliance. It is important to ensure adequate separation of policy function and operations. Generally, we would expect to see the policy and risk oversight function within the mandate of Finance while supply chain operations is aligned with the business. While BC Ferries' procurement governance model has many characteristics of *Advanced* maturity, the need to reflect the new organizational structure within an efficient and effective governance framework supports a more conservative maturity rating.

Recommendations

5. Update governance framework to reflect organizational change: Review the procurement governance framework to ensure key processes and controls continue to be followed under the new organizational structure. The Chief Financial Officer should retain responsibility for policies that define financial authority, segregation of duties and internal control requirements, while the Chief Operating Officer should be responsible for implementation-focused policies regarding procurement thresholds, competitive tendering requirements, and procedural guidance.
6. Validate control framework effectiveness following governance changes: Review internal controls to confirm design effectiveness with respect to financial management control, segregation of duties, and oversight to ensure robust and reliable management control framework.

5.2.5 Risk Management



Procurement policies, processes and controls should be designed to manage key risks to the organization including financial, operational and reputational risks within the procurement process. Policies designed to mitigate risks are in place and outline specific approvals and controls for key process steps including purchase initiation and approval, expenditure approval, segregation of duties within the procure-to-pay process, and use of purchase cards and supporting systems.

Finding 5: Risk management practices and contracting mechanisms are generally effective in transferring and mitigating risks that face BC Ferries.



Procurement policies and practices exhibit strong risk management strategies and the case studies further support that risk management strategies are established with appropriate detail based on size, scope and complexity of procurement activity. SCM also documents key issues, challenges, and risks within their Business Plan, and while management is currently in the process of defining and creating a SCM-specific Risk Register, one is not actively in place.

Contracting mechanisms used are generally designed to mitigate key risks to the organization through favourable terms and risk transference to suppliers: some examples include use of fixed price contracts to transfer financial management risk to the supplier, IP ownership residing with BC Ferries to enable continuity and standardization, and bid bond guarantees to further reduce financial risk related to supplier sustainability. Contract structures are also effective in minimizing risk by using independent warranty and trial procedures to verify performance and reduce project amendments and costs borne by BC Ferries. The review identified a few isolated opportunities where BC Ferries can strengthen risk mitigation within contracts:

- ▶ In comparison with leading practices for the procurement of construction services, BC Ferries stipulates a fairly conservative range for the cost of delay from suppliers

- ▶ BC Ferries contracts stipulate entitlement to liquidated damages and protections for obtaining payment, however there is an opportunity to explore if requiring liquid security would further reduce risk to BC Ferries
- ▶ Contracts with specific inventory retention and exposure requirements for vendors are structured in a manner that results in material buy-back obligation from BC Ferries' on contract termination, creating the risk that the cost of changing suppliers could create a barrier re-procurement and its competitive and innovative value outcomes

Recommendations

7. Revise standard contract terms to reduce risk: Revise contract terms to mitigate risks based on identified clauses and define and document key procurement risks and risk management activities at the functional level to support advanced-level risk management.

5.2.6 Organization



Procurement is centrally coordinated by SCM and for large projects such as Vessels, Terminals and IT projects, is functionally driven by business units with local PMO support. SCM involvement is required for purchases over \$75,000 CAD, and case studies show that SCM is consistently engaged to run procurement and tender processes in accordance with policy. In November of 2017 SCM was re-structured within the organization from Finance to Operations under the Chief Operating Officer, with interviews indicating that this shift is intended to better align the supply chain practices with operational needs and resources.

 Within the PMO procurement processes, cross-functional teams are established during initiation to enable input from key stakeholders across the organization. SCM and business units are both integral members of the procurement cross-functional team and are actively involved in the procurement lifecycle. Case studies and interviews indicate that cross-functional teams work well in defining procurement and business needs that take into account the needs and requirements from stakeholder groups across the organization.

Finding 6: Reliance on key resources and positions necessitates succession planning.

Analysis supports that resources with procurement responsibility are knowledgeable and technically skilled to provide appropriate input when defining procurement and business needs. BC Ferries supplements internal resource skills with external professional services in specific areas such as marine contract negotiations on an as-needed basis relevant to the subject matter. While BC Ferries is currently well-equipped with the technical skills required to derive best value from procurement and contracting activities, both interviews and the SCM business plan highlight the need for succession planning related to key positions to support training and transition efforts in order to effectively retain corporate knowledge and leading practices.

Recommendations

8. Develop succession plan for key resources: Develop and implement long-term succession planning for key resource positions in procurement and contracting. This includes positions that require high-technical proficiency and those that currently have minimal redundancy within the organization. A recruitment strategy and roadmap should support the succession planning.

5.2.7 System Enablement



Information Technology (IT) systems can be used to significantly increase the level of process efficiency and automation in areas like procurement, contracting, and inventory management. The review found that IT applications are used to enable some workflow automation, compliance, and process efficiency, and BC Ferries uses a number of system platforms and modules that support supplier management, procurement, contract management, and some web-enabled inventory and order management.

Finding 7: There is an opportunity to further enable process automation and analytics through though a phased investment in application modernization. This work is currently being initiated.

While a number of transactional procedures benefit from system-enabled efficiencies and systems are maintained with respect to core functionality and security requirements, a number of systems and software packages have aged over time with limited re-configuration. Interviews indicate that while management recognizes there are many potential enhancements to existing systems, limited in-house expertise and proficiency in system use and configuration, as well as varying levels of system integration, has contributed to an information gap in accurate real-time inventory data and prevented full process automation. Tools to support procurement, such as spend analytics, e-sourcing and contract management have been deployed in a limited manner.



The need for improved system enablement to support both procurement and reliable and safe management of assets is recognized by management and Executive as a key priority. As a result, the Chief Information Office and Chief Operating Officer are joint business owners of a project that is proposed to support sustainable, modern, and standardized asset management via a business solution and enable better ERP integration, data analysis, and reporting for decision-making. The project is anticipated to address existing system limitations related to procurement. This is a positive step forward and we encourage its continuation.

Recommendations

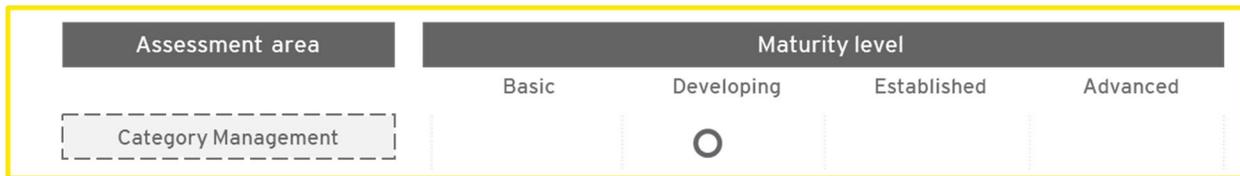
9. Enhance system enablement: Prioritize IT enablement and enhancement of procurement tools, system integration, data analysis, and reporting to support strategic procurement. User requirements should reflect the performance metrics being reviewed in recommendation 4 to ensure systems support desired analytics and reporting capabilities.

5.3. Category Management and Strategic Sourcing

Procurement is elevated from a transactional administrative function to a strategic enabling function through effective category management and strategic sourcing practices. These practices can be defined broadly as:

- ▶ **Category management:** the evaluation and demand planning of products and services with similar purchasing characteristics (e.g. categories of products and services), to enable strategic purchasing, volume consolidation, vendor consolidation and economies of scale to drive best value
- ▶ **Strategic sourcing:** a procurement and bid solicitation process that leverages category planning and encourages competitiveness, quality partnerships and economic sourcing (as opposed to transactional tendering).
- ▶ **Business intelligence:** knowledge and analytics on market and supplier quality and capability to drive optimal supplier spending and innovation
- ▶ **Fairness and free trade:** the procurement process is objective and merit-based, and is aligned to the free trade principles of openness, fairness, and transparency

5.3.1 Category Management



Effective category management for key categories of products and services enables organizations to produce economies of scale through purchases while also meeting business objectives. A driver of category management is the availability of spend data and regularity of analysis for emerging trends or redundancy in purchasing. Overall, there is some emphasis placed on category management, and categorized spend data is available and used for analysis at the business unit, service code, and supplier-level.

Finding 8: Procurement effort is still largely spent on lower-value transactions.

Economies of scale are leveraged in some areas, with noted strength in areas like inventory that are managed and coordinated centrally by SCM. Because procurement is largely decentralized with minimal requirement for coordination of purchases under \$75,000 CAD, there is still significant effort spent across the organization on a large volume of low-value individual expenditures. Existing policies position SCM as a strategic advisor that business units can engage to assist with strategic sourcing, and while processes themselves are not inherently inefficient, volume and spend analysis, indicates there is opportunity to better use category management to streamline procurement for low-value and recurring transactions.

Finding 9: Opportunity to conduct procurements at the program-level.

The review found that procurements are being conducted using defined and formal procurement strategies through informed business needs facilitated by cross-functional teams. Interviews and case studies both while category management and strategic sourcing is done well at the project-level, one

key area that has not benefitted from category management is vessel procurement. BC Ferries strategic plan to standardize vessel classes to enhance reliability and true interoperability is hindered by the functional difficulty in procuring identical vessels over a long period of time and under different circumstances. Existing procurement practices have not successfully enabled program-level procurement, and are limited to individual projects.

Recommendations

10. Develop a category management approach and sourcing strategy: Develop and implement a category management and strategic sourcing strategy that allows purchasing to reduce its effort on repetitive and lower value procurements. This should include formal processes and procedures for evaluating spend, establishing future demand, developing category and sourcing strategies, and establishing Master Supply Arrangements and Standing Offers for goods and service categories. Master Supply Arrangement or Standing Offer mechanisms should be used to elevate procurement value beyond transactional deals and individual projects. A 2007 benchmark report from Aberdeen indicates that the average benefits realized by leveraging category management and strategic sourcing is 9.4% of addressable¹ spend. EY's experience is consistent with this benchmark, with benefits typically in the range of 5% to 10%. Further analysis of spend would be required to identify the addressable spend by category and apply relevant savings estimates to each category before arriving at any benefit target.

5.3.2 Tender Process



A formally defined tender process supports organizations with acquiring quality and sustainable business partners with competitive submissions of information, proposals, and bids. In keeping with the organization's Procurement Policy, BC Ferries has a formal tender process for all purchases over \$75,000 CAD. Interviews and case studies support that procurements adhere to the competitive bidding process in place with resulting contracts being awarded to suppliers with a combination of competitive pricing and technical quality to meet specifications. Different tender strategies are used based on project materiality and complexity.

Finding 10: Opportunity to enhance tender process and evaluation framework

While the case study examples of procurement adhere to the defined policy requirements for competitive tender, analysis noted gaps in the level of definition, documentation, and application of an evaluation framework, including quantitative scoring criteria and weighting methodologies to support the objective evaluation of proposals and submissions. Case studies support that high-level criteria are consistently defined and supplier selection results are documented by cross-functional teams facilitating the procurement, but detailed criteria weighting to support objective and consistent

¹ Addressable spend refers to the portion of total spend on which benefit levers can be applied. For example, contract expirations may be far enough into the future such that the spend cannot be addressed. In the case of BC Ferries, likely all of the vessel spend would not be considered addressable as it is already managed strategically.

evaluation procedures were not consistently documented. It was noted that some evolution was noted with respect to the use of a formal evaluation framework and scoring criteria, with an exemplary strategy and methodology used in the recent procurement of Salish-class vessels in 2013. Based on policies and practices, the requirement for re-tendering for existing arrangements for goods, services or construction that are needed on an ongoing basis are contract-specific, and not formally required by policy.

Recommendations

11. Define tender evaluation and re-procurement requirements in policy: BC Ferries can improve the tender process by:

- ▶ Mandating defined evaluation frameworks for competitive tender processes. This includes strong quantitative scoring criteria and weighting to support evaluation procedures. As part of the evaluation framework, BC Ferries can incorporate leading practice principles in weighting methodology: organizations often proportionally weigh technical scoring more significantly for complex projects. This is to recognize that 'best value' is defined differently based on the nature and materiality of goods or services being procured. Additionally, financial rating criteria should incorporate assessing the total cost of ownership to drive further economic benefits and support strategic performance measurement.
- ▶ Updating procurement policies and practices to define requirements for re-procurement thereby challenging market capabilities, value and innovation.

5.3.3 Business Intelligence



There is a high level of transactional business intelligence within procurement, and formal requests for expressions of interest (RFEOI) and requests-for-information (RFI) are used to gauge potential supplier interest for a given category. Web-enabled procurement and inventory management provides some system enabled data on vendor performance. SCM currently conducts business analysis on a number of internal processes, and a list of reports such as Supplier Performance, Inventory Turn Rate, Tender (RFx) Performance, and Transactional Performance are populated by SCM and monitored either daily, weekly, monthly or annually for respective reports. Existing procurement performance metrics are communicated to the Executive to provide insight on department performance.

Finding 11: Opportunity to build on market intelligence practices.

There is some emphasis placed on category management, but overall formal sourcing strategies are not developed and market scans of available suppliers and enhanced market capabilities are initiated by the need to procure. Case studies and interviews indicated that current market scans, often in the form of RFEOIs and RFIs, have the opportunity to offer enhanced business intelligence with more proactive planning and lead time, building on recommendation 2 to identify procurement needs to support enhanced planning.

Recommendations

12. Proactively use market scans to drive value and innovation: Building on recommendation 2, continue to employ market capability scans and incorporate the results into procurement planning activities.

5.3.4 Fairness and Free Trade



The review examined BC Ferries' compliance and alignment with key trade agreement requirements for the conduct of competitive tender processes, including established procurement thresholds and adherence to the principles of transparency, openness, and fairness. Agreements in scope includes the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), North American Free Trade Agreement (NAFTA), and inter-provincial Canadian Free Trade Agreement (CFTA) and New West Partnership Trade Agreement (NWPTA). The review found that BC Ferries' policies and practices comply and align with free trade principles for competitive and open procurement, and noted leading practice examples with respect to publishing of tender notices and documents, and proposal and contract negotiation processes. Procurement procedures are in line with trade agreement specifications and requirements for applicable procurements and thresholds.

Finding 12: Opportunity to increase transparency of the supplier and proposal evaluation process as part of competitive tenders.

Analysis, case studies, and interviews strongly support that BC Ferries' procurements are conducted consistently, fairly, and objectively, with enhanced measures used on complex procurements. However, there is an opportunity to further incorporate leading practices for clarifying evaluation procedures on how suppliers' and their proposals will be evaluated to support consistency of internal documentation and to publicly demonstrate the objectivity of BC Ferries' tender process. Interviews with external suppliers have indicated that further transparency about how technical proposals will be scored would also provide a better understanding of how proposed innovation and alternative solutions would be evaluated.

Recommendations

13. Continue conducting open, competitive and efficient procurements and enhance transparency: Continue to employ open and competitive procurement practices in line with international trade leading practice. In addition to recommendation 11, employ a formalized evaluation framework and communicate it to suppliers. Specifically, evaluation procedures around innovative ideas or alternative solutions proposed by suppliers should be clear. BC Ferries should also separate submission and evaluation of technical and financial proposals. Leading practice dictates that centralized procurement resources are generally responsible for calculating financial evaluation scores and business units, like the cross-functional teams, are responsible for evaluating proposals against technical criteria. Final scoring is determined only once financial and technical evaluation processes have been completed independently.

5.4. Procure-to-Pay Process

Organizations require a formal and consistent procure-to-pay (P2P) process in order to fully realize the benefits of a well-defined procurement and sourcing strategy. Supported by an organization's internal control framework, P2P processes support completeness, stewardship, and appropriateness of oversight, and can be defined at a high-level as:

- ▶ An efficient and integrated P2P process that supports corporate policy compliance, consistency, and efficiency in operations
- ▶ Oversight and assurance practices in place to enable the timely review and assessment of compliance with policy and overall consistency of procurement practices in achieving value-for-money

5.4.1 Process



An efficient and integrated P2P process is driven by corporate policy and reinforced by guidance, systems, tools and templates that support compliance and efficiency. The review found that a formal P2P process is defined and documented in BC Ferries' corporate policies and procedures.



Recognized as a good practice that contributes to a strong management control framework, the formally defined P2P process is implemented effectively. The purchase initiation workflow is semi-automated, with POs automatically sent to the appropriate spending authority only once systems have confirmed that initial approval was received.

Invoices are largely submitted electronically. Documentation analysis and case studies support that BC Ferries' P2P process is consistently understood and working effectively, with all case study procurements complying with policy and procedural requirements.

Additionally, the P2P process has flexibility to allow for different tender methods based on the size, complexity and overall significance of goods/services/construction being procured. SCM is highly involved in procurement over defined thresholds (\$75,000 CAD). The maturity assessment level is largely reflective of efficiency within the P2P process, which can be described as evident in pockets but not holistically. Inventory management is partially system enabled, but challenges over real-time data accuracy persist. The use of web enabled procurement or online purchasing is used for limited supplies. Many of these challenges are within the scope of the enablement project discussed in finding 7.

Finding 13: Opportunity to improve procurement documentation and information management.

Overall, the level of documentation surrounding the procurement process is robust. Further to this, individual procurement activities are generally well-documented with respect to the tender process and high-level information on supplier evaluations. While decision-making is formally documented, there is a noted opportunity to improve documentation and information management practices with respect to the project procurement strategy, detailed evaluation criteria and procedures, documentation of supplier oral presentations, and decision-making resulting from proposal and contract negotiations.

Recommendations

14. Employ consistent documentation and information management of procurement: Implement consistent documentation and information management around procurement and contracting. This will reduce reputational risk of perceived fairness and support corporate knowledge retention. Minimum documentation requirements for procurement activities and key decisions should be implemented across centralized and decentralized units to improve knowledge continuity.

5.4.2 Oversight and Assurance

Assessment area	Maturity level			
	Basic	Developing	Established	Advanced
Oversight and Assurance			○	

Management and regulatory oversight over procurement is defined and documented as part of BC Ferries' management control framework, and articulates oversight and approval requirements at the Executive, Board and BC Ferries Commissioner-level based on dollar value, nature of the expenditure, and applicable regulation. Oversight is more formally defined and integrated with management for expenditures above \$75,000 CAD, which is deemed appropriate based on materiality thresholds, trade agreements and standard industry practice.



Controls exist to support the pre-approval and appropriateness of expenditures for invoices received, and BC Ferries has mechanisms in place to provide oversight and assurance over the design and operating effectiveness of these controls. Procurement internal controls are reviewed for operating effectiveness on a quarterly basis, as part of management's self-assessment over internal control, the results of which are reported to the Executive. Annually, key internal controls over financial reporting, many of which enable the P2P process, are a part of the external financial statement audit. Periodically, control design and operating effectiveness is reviewed as defined and planned within the Internal Audit function's annual audit plan. It is recognized as a good practice that various assurance activities provide insight into BC Ferries operations and controls.

Finding 14: Opportunity to assess management's progress against recommendations on a more frequent basis.

Internal audits typically make a number of recommendations for the improvement of procedural governance, internal control and risk management to improve processes in scope. Interviews supported that a follow-up engagement is typically planned 12 to 18 months following initial recommendations to assess management's progress against planned actions. In keeping with leading practice, there is an opportunity to increase the frequency of management action reporting to reduce the time between recommendations and follow up activities to further mitigate the risk of control

deficiencies.

Recommendations

15. Implement frequent follow-up on management actions: Within Internal Audit, BC Ferries should increase frequency of management action monitoring and reporting to the Audit Committee. Leading practices typically show Internal Audit conducting follow-up with management on a quarterly or semi-annual basis for reporting, leading to timely escalation of ongoing control deficiencies.

5.5. Contract and Supplier Relationship Management

Leading practice describes procurement as a lifecycle that does not cease upon contract establishment, but continues into contract and supplier relationship management, performance management, and re-procurement. Strong contract and supplier relationship management can be defined as:

- ▶ Robust contract management practices that encourage proactive management and re-procurement on a timely basis to encourage strategic re-procurement and reduce risk of organizational disruption
- ▶ Supplier relationship and performance management practices in place to encourage open and two-way communication and assess whether suppliers are meeting performance expectations and delivering value

5.5.1 Contract Management and Renewal



Effective contract management practices encourage proactive management and re-procurement on a timely basis. Overall, the review noted strong contract management and renewal processes in place. Contracts are required for expenditures above \$75,000 CAD, with standard contract templates available for IT services, software and hardware, shipbuilding and vessel projects, catering, and general supply contracts. Departure from standard contractual terms and conditions requires Corporate Counsel (legal function) review and approval, although contract negotiations and Corporate Counsel acceptance are not always well-documented, addressed in finding 13. There is a formal database structure to store contracts electronically and the majority use BC Ferries standard applicable Contract templates. Practical contracting strategy is defined and executed for significant projects and categories, but less defined for operational needs.

Analysis supports that strong and pragmatic contract negotiation processes are in place. Contract negotiations involve all stakeholders within the cross-functional team to ensure ultimate objectives are achieved with favourable terms and conditions for BC Ferries. Balancing the fact that contract terms and conditions were found to manage the majority of BC Ferries' contract-related risks, feedback from external suppliers was consistently positive with respect to BC Ferries' contract negotiation practices. Interviews with both internal and external stakeholders support that negotiation processes are transparent, clear, and conducted in good faith. Resulting contracts are seen as commercially beneficial to both BC Ferries and respective suppliers. When required, BC Ferries supplements in-house expertise with specialized professional services to ensure that value objectives are consistently met.

Finding 15: Contract management and renewal occurs regularly, with opportunity to proactively plan contract renewal cycles.

While copies of contracts are physically stored with SCM as part of the contract database and repository, ongoing contract management as part of the contract lifecycle is generally undertaken by business units. While analysis and case studies demonstrate that contracts are actively managed to

ensure goods, services, and construction are delivered on-time, on-budget, and meet scope, the process around contract renewal is less formal. As a result, contracts managed in a decentralized manner can result in short-lead time or unplanned contract renewals based on operational needs. While this is an opportunity for improvement, this observation was specific to ongoing or managed service contracts and is seen as an isolated risk not relevant to the delivery of major capital projects or one-off purchases. This is additionally addressed in recommendation 11.

Recommendations

16. Enhance contract renewal and re-procurement planning: To assist with demand planning and strategic sourcing, procurement planning should identify contract timelines and re-procurement cycles for ongoing or managed service contracts.

5.5.2 Supplier Relationship and Performance Management



Supplier management practices help organizations to develop strong communication practices with suppliers and drive optimal supplier performance. Overall, the review found that supplier management practices are in place across BC Ferries. Historical supplier performance data is used strategically in the qualification/re-qualification process (e.g. RFQ/RFP process). Suppliers are selected using pre-defined criteria, taking into account financial stability and organizational sustainability. The proposal evaluation process considers previous supplier performance through the manner of performance metrics for individual suppliers.

Key supplier metrics produced from Performance Evaluation Report Forms and Vendor Feedback Forms, including contract compliance, are collected and compiled across the organization. The level of availability of real-time performance data varies across units managing contracts (SCM, various PMOs).



BC Ferries' has four PMOs aligned to its major projects and asset categories. Functionally-driven project management increases the alignment of project delivery and business needs, but can create risk such that corporate processes and controls are not undertaken consistently or are less robust in some areas. To mitigate the risk of PMOs functioning in isolation, PMO leadership has initiated a continuous improvement process where leadership meets regularly to share lessons learned and leverage initiatives to encourage improvement at the enterprise level. Continuous improvement collaboration, such as regular meetings between PMO functions, is recognized as a good practice.

Recommendations

17. Continue to share lessons learned across the organization: PMOs across the organization should continue to share information that encourages consistency and continuous improvement. This includes sharing supplier and contract performance management leading practices to encourage delivery of best value.

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