



AUDIT AT A GLANCE

BACKGROUND

The City of Toronto awards public contracts worth over \$1 billion annually for construction of vital infrastructure including bridges, roads, and water supply. Between 2010 and 2015, the Transportation Services Division spent on average over \$100 million annually on road repair and maintenance contracts.

WHY THIS AUDIT MATTERS

Given the significant amount spent on construction contracts, they can be a prime target for corruption and collusion activities. City staff need to be vigilant in monitoring and detecting unusual bid patterns. The audit identified several red flags of potential bid rigging by certain contractors in paving contracts and highlighted the risk of conflict of interest between contractors and City employees.

BY THE NUMBERS

- \$2 million per year in paving contract costs can be saved by addressing unbalanced bidding
- Inflated prices by Contractor A cost the City an additional \$2.5 million in contract costs over 5 years
- Contractor A dominated one district by winning 92 per cent of the contracts it bid
- 6 audit recommendations to help mitigate the City's risk exposure to bid rigging by certain contractors

Auditor General's Office (AGO)

Integrity, Excellence and Innovation

Detection of Warning Signs for Potential Bid Rigging Should be Strengthened

What we found

Proper monitoring and management controls were not in place to ensure a competitive tendering environment. Red flags identified should raise concerns about the potential for bid rigging by certain contractors.

Red Flags	Evidence Noted	Summary of Key Observations
1. Market Domination <i>over a series of awards, one bidder always wins, regardless of competition</i>	Yes	Two contractors who together won 71 per cent of all local road resurfacing contracts issued between 2010 and June 2015. In District 1, Contractor A's odds of winning were nearly 92 per cent, winning 11 out of 12 bids it submitted.
2. Market Division <i>an agreement among suppliers not to compete in designated geographic regions or for specific customers</i>	Yes	In District 4, the market appeared to be divided into east and west segments with two contractors each winning almost all of the contracts in their respective segment year-over-year.
3. Bid Suppression or withdrawal <i>is an agreement among suppliers either to abstain from bidding or to withdraw bids</i>	Yes	In District 4, there were only 5 unique bidders for all tenders over 5 years, averaging 4 bidders per tender. By comparison, District 2 had 16 unique bidders and on average 6 bidders per tender.
4. Cover Bidding <i>gives the impression of competitive bidding, but in reality, suppliers agree to submit token bids that are usually too high to win</i>	Yes	One contractor bid 24 times but never won; another contractor bid 49 times and only won 3 times. Contractors submitting high prices with rounded numbers, or submitting an exceedingly high price for one line item in one bid and a low price for an identical line item in another bid.
5. Coordinating Bids <i>Competitors' bids are received together or showing signs of working together</i>	Yes	Pricing from two bidders at times appeared to be coordinated such that their prices were either 10 per cent above or 10 per cent below each other on many items.
6. Physical Characteristics <i>of Bids -Two or more proposals contain similar handwriting, typos, or mathematical errors; Bids may contain white-outs or other physical alterations indicating last-minute price changes</i>	Yes	One contractor frequently made white-out changes to the bid and the change sometimes favored the contractor. In three different tenders, two companies which submitted bids showed: <ul style="list-style-type: none"> • the presidents had the same last name, • the companies shared the same address on their websites • both contractors submitted their bids at exactly the same time – to the minute.
7. Subcontracting <i>When the winning contractors hire other contractors to carry out the work</i>	Yes	Contractors included subcontractors in their bids that are competing for the same contract. The winning contractor then hired a losing bidder as its subcontractor.