



**THE REGIONAL MUNICIPALITY OF NIAGARA
AUDIT COMMITTEE
FINAL AGENDA**

AC 3-2020

Monday, December 7, 2020

1:00 p.m.

Meeting will be held by electronic participation only

This electronic meeting can be viewed on Niagara Region's Website at:

<https://www.niagararegion.ca/government/council/>

Due to efforts to contain the spread of COVID-19 and to protect all individuals, the Council Chamber at Regional Headquarters will not be open to the public to attend Council meetings until further notice. To view live stream meeting proceedings, please visit: [niagararegion.ca/government](https://www.niagararegion.ca/government)

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| 6.3. | <u>AC-C 9-2020</u>
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7. CLOSED SESSION

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A Matter of Litigation or Potential Litigation under s.239(2)(e) of
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9. OTHER BUSINESS

10. NEXT MEETING

The next meeting will be held on Monday, February 8, 2021 at 1 p.m.

11. ADJOURNMENT

If you require any accommodations for a disability in order to attend or participate in meetings or events, please contact the Accessibility Advisor at 905-980-6000 ext. 3252 (office), 289-929-8376 (cellphone) or accessibility@niagararegion.ca (email).

MEMORANDUM

AC-C 10-2020

Subject: 2021 Audit Committee Schedule
Date: December 7, 2020
To: Audit Committee
From: Helen Chamberlain, Director, Financial Management and Planning
Frank Marcella, Manager, Internal Audit

The following is a list of proposed dates in 2020 that have been identified to hold meetings of the Audit Committee:

February 8, 2021

May 10, 2021

September 20, 2021

December 6, 2021

Of particular note is the meeting scheduled for May 10 as it will ensure the timely approval of the 2020 Niagara Region consolidated financial statements. The Niagara Region's current audit services agreement term ends with financial reports dated March 31, 2021. Staff plan to undertake an RFP process following the approval of financial statements for the selection of external auditors. It is expected the results of that RFP will be presented at the September Audit Committee meeting. Additional Audit Committee meetings may be called by the Chair as required, and changes to planned agenda items may occur depending on direction from Audit Committee.

A resolution of Committee is required to approve the meeting dates. Suggested wording is as follows:

That the Audit Committee meetings, **BE HELD** on Mondays at 1:00 p.m. on the following dates in 2021:

February 8, May 10, September 20 and December 6.

Respectfully submitted and signed by

Frank Marcella, Manager
Internal Audit

Helen Chamberlain, Director
Financial Management &
Planning

Subject: 2021 Audit Workplan
Report to: Audit Committee
Report date: Monday, December 7, 2020

Recommendations

1. That the draft 2021 Internal Audit Plan **BE APPROVED.**

Key Facts

- The 2021 Internal Audit Plan was developed following consultation with Senior Management and previous interviews with Audit Committee members and other Councillors.
- Internal Audit also conducted a scan of other peer municipalities to determine the audit trends in formulating this plan.
- A final plan will be presented at the initial Audit Committee meeting in 2021 including an implementation schedule.
- The objective of this 2021 Internal Audit Plan is to provide independent, objective assurance and advisory services designed to add value and improve the organization's operations and system of internal controls.

Financial Considerations

The consulting budget to acquired external support is set at \$200,000 with ability to complete follow-up audits internally to ensure all audits are completed within budget.

Analysis

The following internal audits are being considered with additional projects to be added in the new year as requested by Audit Committee and CLT.

- IT Cyber Audit – focus on access controls and vulnerability testing (proposed Q1 start date)
- IT Penetration Testing –evaluation of network access, IT gateways, external access controls and SCADA testing (proposed start Q3)
- PCard follow-up – review of the impact of MAP action plans on improving the overall control framework of managing PCard usage (proposed start Q2)

- BioSolids Value for Money – Evaluation of the BioSolids with a focus on efficiency and effectiveness (proposed start Q3)
- Non-competitive Procurement Follow-up Audit – review of the impact of MAP action plans on improving the overall control framework of managing non-competitive audits (proposed start Q4)

Alternatives Reviewed

For the majority of audits an external audit firm will be engaged. It is proposed based on available funding that the two follow-up audits be conducted internally by the Manager, Internal Audit.

Relationship to Council Strategic Priorities

Internal Audit along with related audit functions such as Value-for-money (VFM) audits and compliance reviews were identified and approved within the current Council's Strategic Priority – Sustainable and Engaging Government. The goal of this strategic initiative is a commitment to high quality, efficient, fiscally sustainable and coordinated core services through enhanced communication, partnerships and collaborations with the community.

Other Pertinent Reports

N/A

Prepared by:

Frank Marcella, Manager
Internal Audit

Recommended by:

Todd Harrison, CPA, CMA
Commissioner, Corporate Services/
Treasurer

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

Non-Competitive Procurement Audit Presentation

Audit Committee

AC-C 11-2020

December 7, 2020

Rob Hacking, Manager Advisory Services, KPMG LLP



The Regional Municipality of Niagara

Audit Committee – Presentation of Non-Competitive Procurement Audit

December 7, 2020

Niagara Region – Audit Committee Presentation

Key findings from Non-Competitive Procurement Audit

Scope: To determine whether adequate and sufficient documentation is provided which supports non-competitive procurement decisions. This included a review of the justification provided within PeopleSoft to ensure justifications were thorough, fulsome and in line with the relevant sections of the procurement by-law, and whether appropriate approvals were provided. We selected a sample of 245 non-competitive and 30 competitive procurement transactions to test as part of our review.

Areas of good practice	<ul style="list-style-type: none">• Approval workflows exist within the PeopleSoft system, which have been created based on the authorities listed in the Procurement By-law. Our testing identified no exceptions around the approval of transactions.• Procurement PO analytics is undertaken periodically to identify and monitor high spend across the Region.• Training is scheduled for Region staff on Procurement, which is due to be delivered in December 2020.
Opportunities for improvement	<ul style="list-style-type: none">• Justification for non-competitive procurements were not always sufficiently detailed when recorded on PeopleSoft.• Our testing noted a number of instances where purchase orders were raised after receipt of an invoice.• We noted purchases procured through the competitive route however were deemed non-competitive procurement transactions from our testing.• We noted inconsistencies between the Procurement By-law and current practices, in particular around reporting and publishing of purchases.• We identified additional analytics Procurement could use to monitor procurement activity, including the timeliness of purchase order raising.
Action plan highlights	<ul style="list-style-type: none">• Procurement to consider including justification requirements within PeopleSoft or through use of a separate justification form.• Upcoming training in December 2020 should include training on recording justification for non-competitive procurements, timeliness of purchase order raising, which procurement routes to select, and retention of documentation.• Procurement to incorporate additional items to their current monitoring and analytics. Actions are already underway to identify reports showing where invoices have been received in advance of the requisition being created. These will be sent to Directors/Commissioners on a periodic basis.

Subject: Non-Competitive Procurement Audit Final Report

Report to: Audit Committee

Report date: Monday, December 7, 2020

Recommendations

1. That the final audit report and presentation on Non-Competitive Procurements **BE RECEIVED** for information.

Key Facts

- At the January 2020 Audit Committee it was approved that an external firm be retained to complete an internal audit of all non-competitive procurements.
- Through a competitive process, KPMG was the successful proponent at a price of \$19,250.
- The audit commenced in mid-October and a draft report submitted on November 20, 2020.

Financial Considerations

The audit was completed within the prescribed timeframe and within the accepted bid price.

There are no financial impacts related to the recommendations and related management action plans are being implemented.

Analysis

The purpose of the audit was to provide assurance to Management and Niagara Region's Audit Committee on the effectiveness of the management control framework to support non-competitive procurement activities. The audit tested purchasing activities to evaluate the current controls and processes related to non-competitive transactions as prescribed in the Regional purchasing and procurement by-law. Finally, the audit attempted to determine the effectiveness of current procedures to ensure consistency, compliance and fairness/transparency throughout the corporation.

Alternatives Reviewed

No other alternatives were reviewed at this time.

Relationship to Council Strategic Priorities

Internal Audit along with related audit functions such as Value-for-money (VFM) audits and compliance reviews were identified and approved within the current Council's Strategic Priority – Sustainable and Engaging Government. The goal of this strategic initiative is a commitment to high quality, efficient, fiscally sustainable and coordinated core services through enhanced communication, partnerships and collaborations with the community.

Other Pertinent Reports

- AC-C 3-2020 – Non-Competitive Procurement Audit
- AC-C 2-2020 – Procurement Audit Final Report

Prepared by:

Frank Marcella
Manager, Internal Audit

Recommended by:

Todd Harrison, CPA, CMA
Commissioner, Corporate Services/
Treasurer

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

Appendices

Appendix 1 AC-C 11-2020 – Non-Competitive Procurement Audit Final Report



Regional Municipality of Niagara

Non-Competitive Procurement Audit

December 2020

KPMG LLP

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Executive summary

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Appendix A – Summary of Non-Competitive testing results

Appendix B – Summary of Competitive testing results

Appendix C – Data Analytics on Non-Competitive procurement

Appendix D – Staff Involvement and Documentation Reviewed

Status of Report

Discussion draft issued

November 23, 2020

Management responses received

November 27, 2020

Final report issued

December 3, 2020

Distribution

Bart Menage – Director, Procurement and Acquisitions

Todd Harrison – Commissioner of Corporate Services

Frank Marcella – Internal Audit Manager

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Executive summary

Introduction: We have undertaken an audit of the non-competitive procurement process across the Regional Municipality of Niagara ("The Region") assessing compliance with the Procurement By-law ("The By-law")

Summary of findings

As part of our audit we assessed the processes and controls in place around non-competitive procurement transactions, specifically those coded as single source, negotiation, special circumstances and Schedule A under the Procurement By-law. Further details of our audit objectives can be seen on slide four. We have summarized our findings below.

Our testing of a sample of 245 (deemed to be a statistically significant sample size) non-competitive procurement transactions noted 163 cases (67%) without clear justification for procuring through the non-competitive route recorded on PeopleSoft, which included justification for initial requisitions and for changes to purchase orders. Justification recorded was varied and while sometimes detailed in nature, it often did not include any sufficient reasoning as to why purchases were being procured non-competitively. A justification form should be completed and uploaded to PeopleSoft for all purchases of this nature.

Our testing of non-competitive transactions also noted instances where purchase orders had been raised after receipt of invoices, with no explanation recorded on the system. As part of the planned training for Region staff, Procurement should remind staff of the requirement to raise purchase orders in advance of receipt of invoices, therefore showing a commitment to the purchase on the system, and perform analytics on a periodic basis to identify instances of non-compliance for follow up with the respective operating units/departments. Our testing of non-competitive transactions also identified exceptions around the justification for changes in procurement routes and reporting requirements in line with the Procurement By-law. See Appendix A for further details.

We also reviewed a sample of 30 purchases procured through the competitive route between \$10,000 and \$25,000 to ensure they had sufficient supporting documentation and justification for being procured through that route. We identified exceptions around the storage of documents on the system, and identified eight cases which should have been procured through the non-competitive process. As noted above, Procurement is in the process of rolling out mandatory training for staff on procurement, and should ensure this provides guidance on when to procure through the competitive and non-competitive routes, and what documentation should be stored in PeopleSoft. See Appendix B for further details of our testing of competitive procurement transactions.

As part of our audit we also undertook data analytics on non-competitive procurement transactions between 2017 and 2020. This included analytics of instances where multiple purchases had been raised on the same day by the same operating unit for the same supplier, and purchases with values slightly below the authorization limits in the Procurement By-law, both of which may be an indication of purchase splitting (where purchases are split to fall beneath thresholds). Procurement should review and follow up the cases identified in our analytics, and undertake similar analysis going forward.

Executive summary (cont.)

Objectives

The overall objective of this audit is to determine whether non-competitive transactions (SNG, NGN, SPE, SCA) complied with the Region's Procurement By-laws and related purchasing policies and procedures. Below we set out the agreed specific objectives:

#	Objective	Description of work undertaken
1	To determine if adequate and sufficient documentation is provided which supports non-competitive purchasing decisions.	From our 245 samples selected, we tested each sample for adequate and sufficient supporting documentation, including quality of justification and evidence of supporting documents.
2	To confirm that the justifications provided are thorough, fulsome and tie the single source circumstance to the allowable exceptions identified within the relevant sections of the procurement by-law.	From our 245 samples selected, we tested each sample to validate whether the justification provided for the purchase requisition as well as the purchase order change (if applicable) are thorough, fulsome and in line with by-law requirements.
3	Within the non-competitive purchase population (shown in Tables 1 and 2), identify and prioritize risk areas/categories.	Based on the non-competitive transactions raw data (Jan 2017 to Oct 2020) provided, we performed data analytics and exercised judgement to identify high-risk transactions, which are subsequently selected as part of our sample.
4	To develop and execute statistically significant testing. Specifically testing approximately 50 purchase orders in each of 2017 and 2018 and approximately 60 purchase orders in each 2019 and 2020.	We selected and tested 245 samples for non-competitive transactions throughout the four years, which represented a 95% confidence level. We also tested 30 samples for transactions within \$10,000 to \$25,000 range not coded as non-competitive. Please see Appendix B.
5	To provide an opinion or recommendations to mitigate potential risks or issues related to non-competitive purchases.	We have developed our recommendations regarding the non-competitive procurement transactions based on our findings from the audit testing (as shown in the following slides). Potential solutions have been proposed to allow for improved tracking and reporting on non-competitive procurements.
6	To identify potential solutions, which would enable staff to identify, track and report out on non-competitive procurements within the Region.	

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
1	<p>Policies and procedures</p> <p>Our review of the Region's Procurement By-laws & procedures as well as audit testing noted the following:</p> <ol style="list-style-type: none"> 1) The by-law requires all single source awards to be published on the Regions bidding system, however this is not currently being done. 2) The by-law requires special circumstance purchases to be reported to the Procurement & Strategic Acquisitions within one business day, however this is currently not being done. (Although Procurement are aware through their approval on PeopleSoft, they are not reported separately) 3) There are currently no procedures in place outlining the key steps to follow as part of the procurement process, in particular around the storage of documentation (e.g. the need to record justification for purchases and quotes on the system) and that purchase orders should be raised in advance of receipt of invoices. <p>We recommend:</p> <ul style="list-style-type: none"> • Procurement ensure practices are carried out in compliance with the Procurement By-law for the items noted above. Procurement should ensure alignment between the By-law and current practices. • As part of the upcoming training, Procurement should ensure that this includes training on the timeliness of raising purchase orders and the recording and retention of information in the PeopleSoft system (including justification for purchases and quotes). • Procurement should also consider adopting more standardized procedures to accompany the training for staff to access and refer to on an on-going basis throughout the year. 	<p>Agreed</p> <p>Procurement will provide a link on the bids and tenders site, which links back to the Region website where a listing of the non-competitive awards will reside</p> <p>Procurement is the recipient of reports from the Operational Department outlining special circumstance purchases. The onus is on the latter to advise Procurement. Procurement will develop communication to re-iterate the requirements and the responsibilities of Regional staff to ensure adherence.</p> <p>Training tools and mandatory leader training will address the criticality of recording and retaining information and reinforce the requirements to provide fulsome justification.</p> <p>The By-law represents a hybrid of policy and procedural content, with developed training programs reinforcing this. Procedural content also resides on the Finance and Procurement Vine page. Procurement will consider any additional procedures and guidance required after the training session in December 2020.</p> <p>Owner: Bart Menage Director (Procurement & Strategic Acquisitions, Corporate Services) and Regional Staff</p> <p>Due Date: November and December 2020</p>

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
2	<p>Justification of purchases and PO increases</p> <p>Our testing of 245 non-competitive procurement transactions noted:</p> <ul style="list-style-type: none"> In 163/245 cases, the justification recorded on PeopleSoft for procuring non-competitively was either “partly clear” or “unclear”. Note that 108 of the 163 were below \$25,000 and so were not routed through procurement as part of the system workflow. For the 62 cases where a PO change approval was required, in six cases an appropriate justification was not recorded in PeopleSoft. While justifications are recorded in PeopleSoft, there is no guidance or justification form provided to staff. <p>For justifications deemed “partly clear” or “unclear” we were unable to fully determine whether the purchase was made under the correct non-competitive procurement route (single source, schedule A etc.) based on the information recorded on PeopleSoft.</p> <p><u>We recommend:</u></p> <p>To enhance the documentation in PeopleSoft and ensure valid and consistent justifications for non-competitive procurements, the Region should adopt a justification form which should include, at a minimum:</p> <ul style="list-style-type: none"> The transaction type (e.g. single source), supplier and value Specific reference to the Procurement By-law which indicates the purchase is applicable Thorough justification as to why the purchase is applicable under the by-law reference A clear reason as to why alternative vendors cannot be used 	<p>Agreed</p> <p>These recommendations are included in the training materials (Navigator and Essentials). The justification form which existed pre PeopleSoft was replaced with the current process (header text of requisition) when the ERP system was implemented in 2016. Procurement will assess whether PeopleSoft can be modified to include the justification requirements for staff to complete within the system. Alternatively, the Region will consider implementing a justification form to be uploaded into PeopleSoft.</p> <p>While Procurement is not in the workflow approval path for requisitions valued at less than \$25,000, we do have direct oversight over all requisitions in excess of this value and as such, we scrutinize these to confirm that an appropriate reference to the Procurement By-law is included along with ensuring that a fulsome justification is provided which ties into the By-law exception which is being leveraged</p> <p>Upon review of the exceptions identified during the audit, the Region has identified purchases coded as “single source” which should have been coded to “Schedule A”.</p> <p style="text-align: right;"><i>(continued overleaf)</i></p>

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
2	Justification of purchases and PO increases (cont.)	
	<p>In addition, Management should review and investigate the exceptions to identify any purchases which may have been coded incorrectly. Should this be the case, Procurement should ensure training is provided on when to apply the different non-competitive procurement routes as part of the upcoming training course in December 2020. In addition, random spot checks should be performed by Procurement going forward to confirm compliance with the by-law around the non-competitive procurement routes chosen.</p>	<p>Schedule A purchases do not require as detailed justification as opposed to other non-competitive procurement as the only requirement is that the purchase meets one of the listed goods or services in the by-law. As part of the upcoming training Procurement have included training around coding of different non-competitive procurement transactions. Additional spot checks of “single source” coded purchases to ensure they are correctly coded will be undertaken where necessary.</p> <p>Owner: Bart Menage Director (Procurement & Strategic Acquisitions, Corporate Services), Erin Amirault (Associate Director, Finance Operations and Systems) and Regional Staff.</p> <p>Due Date: Q1 of 2021</p>

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
3	<p>Retaining evidence and justification for changing procurement routes</p> <p>Our sample testing of 245 non-competitive transactions noted 29 cases where the requisition was not approved appropriately in line with purchasing authorities in the Procurement By-law for non-competitive purchases.</p> <p>Through further investigation we noted that all cases were originally coded to the competitive procurement route, and so were approved appropriately under the informal quotation limits before being changed to the non-competitive route. However, we noted that there was no clear justification provided on PeopleSoft as to why the purchase was converted from the competitive route to the non-competitive route.</p> <p><u>We recommend</u></p> <p>As part of the upcoming training course, Procurement should ensure training is provided on when to procure through the competitive and non-competitive routes, the differences between each, and how they are recorded on PeopleSoft.</p> <p>Should there be a need to convert transactions to another procurement route then a clear justification should be recorded on the system.</p>	<p>Agreed</p> <p>The mandatory leader training will address the requirements for procuring through the competitive and non-competitive routes, and the criticality of recording and retaining information and justification for procurement decisions and purchases.</p> <p>Procurement will consider any additional procedures and guidance required after the training session in December 2020</p> <p>Owner: Bart Menage Director (Procurement & Strategic Acquisitions, Corporate Services) and Regional Staff</p> <p>Due Date: December 2020</p>

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
4	<p>Timeliness of raising of purchase orders</p> <p>Our sample testing of 245 non-competitive transactions and 30 competitive transactions noted the following:</p> <ul style="list-style-type: none"> In 133/245 non-competitive transactions tested, the purchase order was raised after the receipt of the invoice. Where this occurred, the average time between the two events was 33.2 days. In 14/30 competitive transactions tested, the purchase order was raised after the receipt of the invoice. Where this occurred, the average time between the two events was 19 days. <p>Please see Appendix A for further details of our testing and the operating units where exceptions were noted.</p> <p><u>We recommend</u></p> <p>In some limited circumstances it may be necessary to carry out purchases at short notice or in emergency situations which may lead to invoices being received prior to the raising of a purchase order. In these instances, a purchase order should be raised as soon as possible and clear justification should be recorded on the system.</p> <p>As part of the upcoming training course, Procurement should specify the importance of raising purchase orders as soon as a purchase is committed to and prior to the receipt of an invoice.</p> <p>To ensure compliance is met, and to reiterate the messaging around timeliness of raising purchase orders, Procurement should perform periodic analytics to identify transactions where purchase orders are not raised in a timely manner and present these to Commissioners to show the rate of compliance for their department. Commissioners should ensure they follow up any cases where required.</p>	<p>Agreed</p> <p>The By-law and the recently developed training reinforce the requirement that appropriate approvals are obtained prior to the acquisition (Navigator available to all staff now and from December 2020 additional training on formal and informal procurement processes will be available for leaders and Project Managers via Essentials Leader training)</p> <p>ERP has already completed development of a query that identifies when an invoice was received in advance of the requisition being created. Procurement will generate these reports on a periodic basis to identify instances of non-compliance and share these with Directors and Commissioners of the Regional Department for review.</p> <p>Owner: Bart Menage Director (Procurement & Strategic Acquisitions, Corporate Services) and Regional Staff.</p> <p>Due Date: Q1 of 2021</p>

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
5	<p>Competitive transaction testing – retention of quotes and eligibility of competitive process</p> <p>Our sample testing of 30 competitive procurement transactions noted the following:</p> <ul style="list-style-type: none"> In eight cases tested, purchases were deemed “single source” transactions and therefore had been coded incorrectly. The majority of these purchases were under a Council approved agreement, however the initial agreement was procured under the single source route and so purchases under the agreement should also be classified as single source purchases. In two cases tested, evidence of three quotes could not be found on PeopleSoft. We noted inconsistencies in the level of detail and information required to be stored on PeopleSoft for competitive transactions (quotes/contract references/Council approvals) <p><u>We recommend</u></p> <p>We understand a mandatory training course is soon to be rolled out by the Region. The Region should ensure that this includes training on the requirements around competitive and non-competitive transactions.</p> <p>In addition, in line with recommendation one, the Region should consider implementing standardized procedures outlining the requirements for storing documentation.</p>	<p>Agreed</p> <p>In addition to the By-law, the training programs identified herein address/provide detailed information on Formal and Informal procurement processes and the roles and responsibilities of all Staff who have been delegated the authority to undertake these processes. While the above does not provide procedural direction, Procurement will consider any additional procedures and guidance required after the training session in December 2020</p> <p>Procurement will further investigate whether a new requisition type which was developed for requisitions against PeopleSoft contracts could be implemented for unique purchases as part of a wider, Council Approved, purchasing agreement/contract.</p> <p>Owner: Bart Menage Director (Procurement & Strategic Acquisitions, Corporate Services) and Regional Staff.</p> <p>Due Date: Q1 of 2021</p>

Recommendations

#	Findings and Recommendation	Management Response, action plan & owner, due date
6	<p>Analytics over procurement transactions</p> <p>While Procurement undertake their own monitoring and analytics of non-competitive procurement transactions, we noted additional items which should be incorporated going forward, including:</p> <ul style="list-style-type: none"> • Reviewing those transactions with significant PO change values to ensure there is appropriate justification for the increase. • Reviewing instances where multiple purchase orders are raised on the same day for the same supplier by the same operating unit, to ensure purchases have not been purposely split to bypass approval limits. • Reviewing instances where purchase amounts are close to authorization limits as per the Procurement By-law (e.g. close to \$25,000/\$100,000 etc.) to ensure that purchases have not been purposely split. • Reviewing the timeliness of raising purchase orders and receiving invoices to ensure compliance is met. (see recommendation four for further details) <p>We also noted that PeopleSoft does not distinguish between “single” and “sole” sourced transactions.</p> <p><u>We recommend</u></p> <ul style="list-style-type: none"> • The Procurement team incorporate the above analytics into their regular monitoring of transactions and ensure they follow up on any cases where required. See Appendix C for our analytics performed. • Management assess whether “single” and “sole” source transactions can be differentiated for easier monitoring. 	<p>Agreed</p> <p>Procurement will expand on this current process of reporting PO data analytics. Procurement will consider preparing a report published immediately or deferred to the first Procurement Advisory Committee meeting scheduled for March 2021 and to each meeting thereafter</p> <p>As noted in our response to recommendation four, ERP has already completed development of a query that identifies when an invoice was received in advance of the requisition being created. Procurement will run this analysis periodically and share these with Directors and Commissioners of the Regional Department.</p> <p>Owner: Bart Menage Director (Procurement & Strategic Acquisitions, Corporate Services)</p> <p>Due Date: Q4 of 2020</p>

Disclaimer

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Appendices

Appendix A – Summary of Non-Competitive testing results

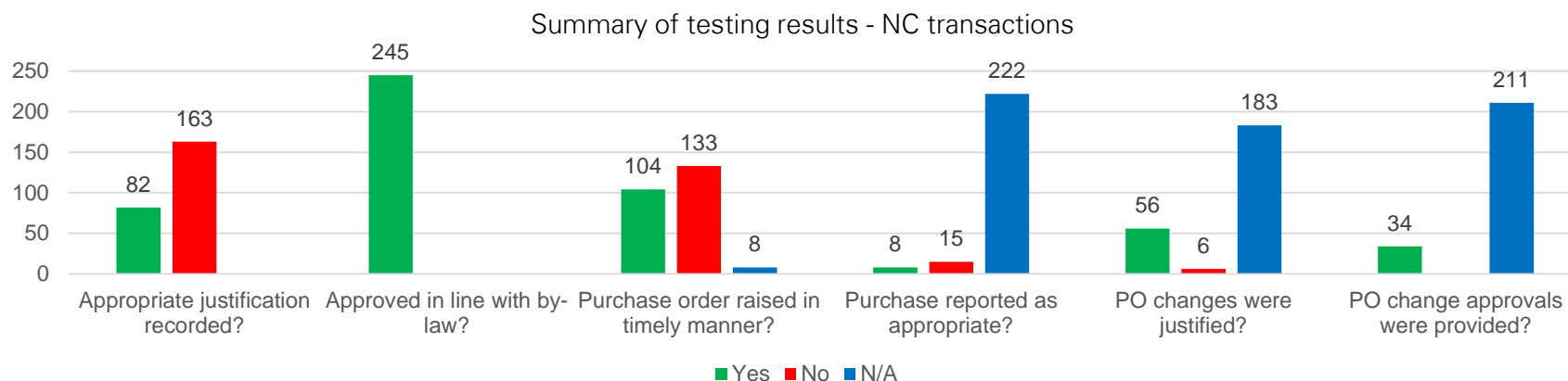
We selected a sample of 245 non-competitive procurement transactions from the 2017/2020 years. Our samples were selected across four non-competitive transaction sources as listed in the Procurement By-law:

- Single Source (SNG) – **205 samples**
- Negotiation (NGN) – **11 samples**
- Special Circumstances (SPE) – **15 samples**
- Schedule A (SCA) – **14 samples**

In our testing, we tested whether:

- Appropriate justification was recorded on PeopleSoft for procuring the goods
- Purchases were approved in line with the Procurement By-law
- Purchase orders were raised in advance of receipt of the invoice
- The purchase was reported as appropriate in the Procurement By-law, including to the Procurement team and Council
- Purchase order changes were appropriately justified where required
- Approvals to purchase order changes were provided where required

Non-Competitive transaction testing results



Appendix A – Summary of Non-Competitive testing results (cont'd)

KPMG Commentary on testing

- In 163/245 cases, a clear justification for procuring the goods through the non-competitive procurement process was not recorded on the system. To assess whether justification was appropriate, we distinguished between justification which was:
 1. “Clear”: By-law reference along with clear reasoning for procuring goods non-competitively
 2. “Partly clear”: By-law reference only
 3. “Unclear”: Insufficient and/or no reasoning provided, and no reference to the Procurement By-law163 cases fell under points two and three above. **(See Recommendation Two)**
- For all cases tested we were able to evidence the appropriate approval recorded on PeopleSoft. However, we noted 29 cases which were originally coded as competitive transactions but then changed to non-competitive, and as a result had been approved initially under the informal quotation procurement limit. We noted there was no clear justification for purchases being converted to a non-competitive transaction recorded on the system. **(See Recommendation Three)**
- In 133/245 cases the purchase order was raised after the receipt of the invoice. Note that eight cases were marked as “n/a” as an invoice had not yet been received. **(See Recommendation Four)**
- Reporting to Council or the Procurement team was required in 23 cases, however in 15 cases no evidence was provided. In all 15 cases, purchases were classed as “special circumstances” and were required to be reported to Procurement. We were informed that purchases are reported through the approval process on Peoplesoft however not in line with the Procurement By-law which requires reporting to Procurement within one business day (i.e. reported separately and outside of the system.) **(See Recommendation One)**
- PO change justifications and approvals are recorded on Peoplesoft. For 6/62 cases, change justifications were not provided. **(See Recommendations Two)**

On the following slides we have provided some analytics showing our testing results, and further information around our testing exceptions.

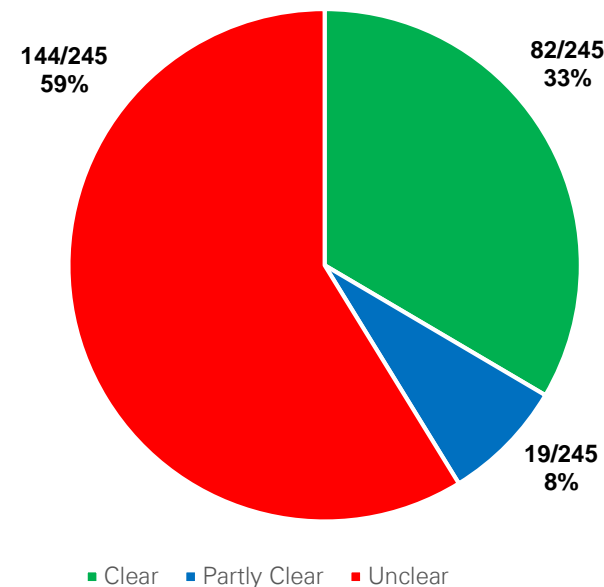
Appendix A – Summary of Non-Competitive testing results (cont'd)

Justification of non competitive procurement

163 out of the 245 samples did not have justification for procuring non-competitively recorded on PeopleSoft. We have broken these down by operating unit below:

Operating Unit	Exceptions (partly clear or unclear)	Sample selected per operating unit
Waste Management Services	44	54
Community Services	35	70
Water and Wastewater services	27	47
Public Works Levy	19	22
Corporate Services	19	27
Emergency Services	10	11
Public Works Transit Levy	3	3
Public Health Department	3	5
Corporate Administration	2	4
Corp IT (Corporate Services, Water & Wastewater services)	1	1
TOTAL	163	

Quality of justification of purchase



Waste Management Services had the highest number of exceptions, with 44 of our 163 exceptions coming from that operating unit. We selected 54 samples from Waste Management Services and 44 of these were exceptions (81%).

In total, 163 cases were identified as either partly clear or unclear, making up 67% of our total sample of 245.

Appendix A – Summary of Non-Competitive testing results (cont'd)

Justification of non competitive procurement (cont.)

163 out of the 245 samples did not have justification for procuring non-competitively recorded on PeopleSoft. We have shown these by source type below.

	Single Source	Negotiation	Special Circumstances	Schedule A	TOTAL
Clear	72	2	5	3	82
Partly Clear	14	0	0	5*	19
Unclear	119	9	10	6*	144
TOTAL	205	11	15	14	245

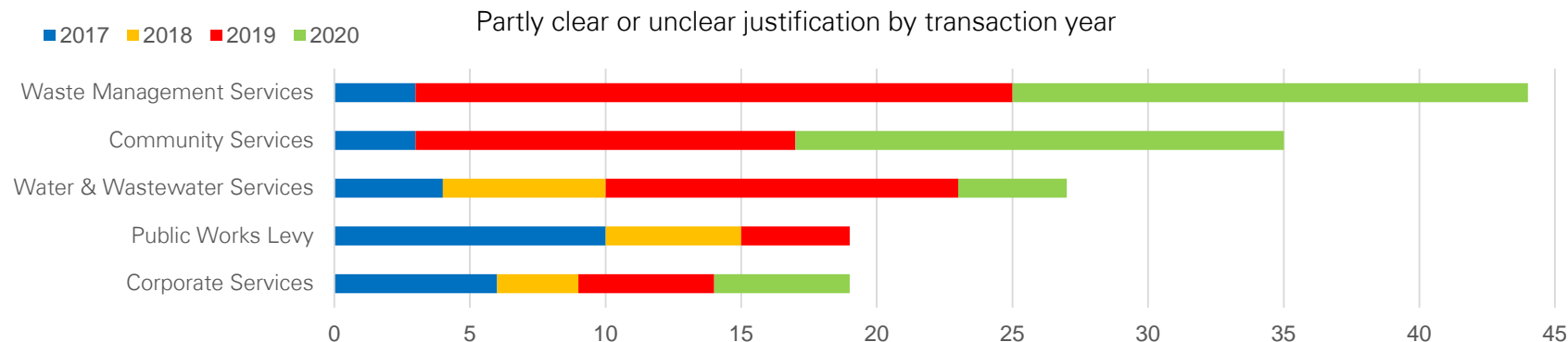
From our samples selected, 133 single source purchases were classified as having “partly clear” or “unclear” justification recorded on PeopleSoft. This represented 65% of the single source purchases tested.

*Schedule A purchases do not require as detailed justification as other non-competitive procurements as the only requirement is that the purchase meets one of the listed goods or services in the By-law. Despite this, we noted inconsistencies in the level of detail recorded on the system for these purchases. Procurement should consider adopting a justification form to help ensure consistency in the level of detail provided in the PeopleSoft system.

Appendix A – Summary of Non-Competitive testing results (cont'd)

Justification of non competitive procurement (cont'd)

Below we have broken down the 163 exceptions by operating unit (top 5) and year in which the transaction occurred.

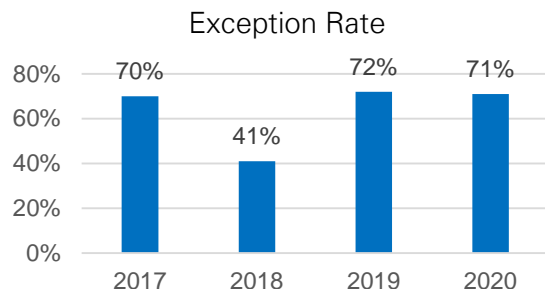


	2017		2018		2019		2020	
	Exceptions	Tested	Exceptions	Tested	Exceptions	Tested	Exceptions	Tested
Waste Management Services	3	3	0	0	22	28	19	23
Community Services	3	13	0	11	14	19	18	27
Water & Wastewater Services	4	5	6	10	13	24	4	8
Public Works Levy	10	11	5	7	4	4	0	0
Corporate Services	6	6	3	5	5	8	5	8

Of the 28 Waste Management Services samples selected in 2019, 22 were exceptions (i.e. justification recorded in PeopleSoft was either “partly clear” or “unclear”). We also noted a high exception rate in 2020, where 19 out of 23 samples were exceptions (82%). Exceptions were also noted in 2019 and 2020 for Community Services, with 14 exceptions from the 19 samples selected in 2019 and 18 exceptions from the 27 samples selected in 2020.

Appendix A – Summary of Non-Competitive testing results (cont'd)

Justification of non competitive procurement (cont'd)



The graph opposite shows the number of exceptions (instances of “partly clear” or “unclear” justification recorded on PeopleSoft) across all 245 samples by year .

28 of our 40 samples selected in 2017 had partly clear or unclear justification (70% exception rate). Rates remained consistent in 2017, 2019 and 2020. 41% of our sample selected in 2018 identified exceptions, the lowest percentage rate.

Purchases converted from competitive to non-competitive procurement routes

As per our commentary on slide 15, we noted 29 cases which were originally marked as competitive but then converted to non-competitive, and so were approved under the competitive procurement limits in the Procurement By-law. Through review of these 29 cases, we noted that clear justification for the change was not provided. The 29 instances where purchases were converted between the two procurement routes fall under the following operating units.

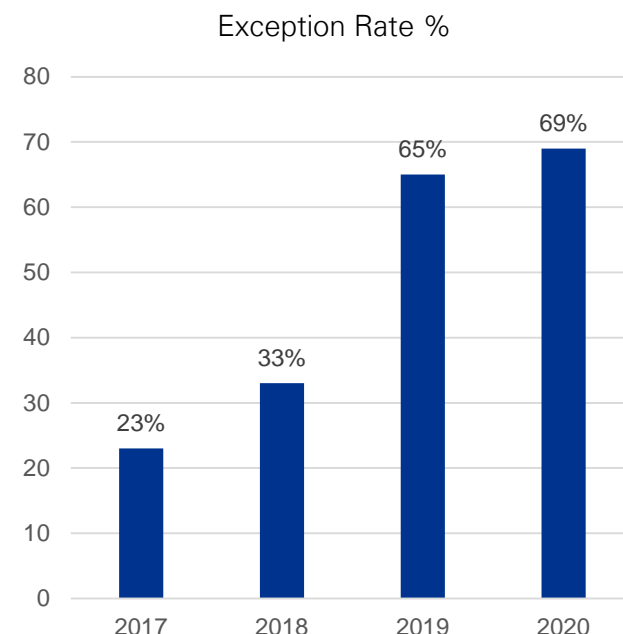
Operating Unit	Procurement route converted
Community Services	12
Water and Wastewater services	8
Emergency Services	4
Corporate Services	3
Waste Management Services	2
TOTAL	29

Appendix A – Summary of Non-Competitive testing results (cont'd)

Timeliness of raising purchase orders

133 out of our 245 samples noted a purchase order being raised after receipt of an invoice, increasing the risk of inappropriate or invalid payments being made. We have shown these by operating unit and by year below.

Operating Unit	Purchase order raised after invoice	Sample selected per operating unit
Waste Management Services	50	54
Community Services	38	70
Water and Wastewater Services	17	47
Corporate Services	8	27
Public Works Levy	6	22
Emergency Services	5	11
Public Health Department	4	5
Public Works Transit Levy	3	3
Corporate Administration	2	4
TOTAL	133	



Waste Management Services had the highest number of exceptions, with 50 instances identified where a purchase order had been raised after receipt of an invoice. We noted exceptions in 50 of our 54 samples from Waste Management Services, which equates to 93%. Exceptions were also noted in Community Services (38) and Water & Wastewater Services (17).

The graph on the right shows the number of exceptions (purchase order raised after invoice received) across all 245 samples by year. From our 40 samples selected in 2017 we noted exceptions in nine cases (23% exception rate). The exception rate increased year on year between 2017 and 2020, rising from 23% in 2017 to 69% in 2020.

Appendix A – Summary of Non-Competitive testing results (cont'd)

PO change justification

For the 62 cases which required PO change justifications to be recorded in Peoplesoft, in 6 cases no justification had been recorded. We have shown these by operating unit and year below

Operating Unit	Exceptions	2018	2019	2020
Community Services	4	0	3	1
Emergency Services	1	1	0	0
Waste Management Services	1	0	1	0
TOTAL	6	1	4	1

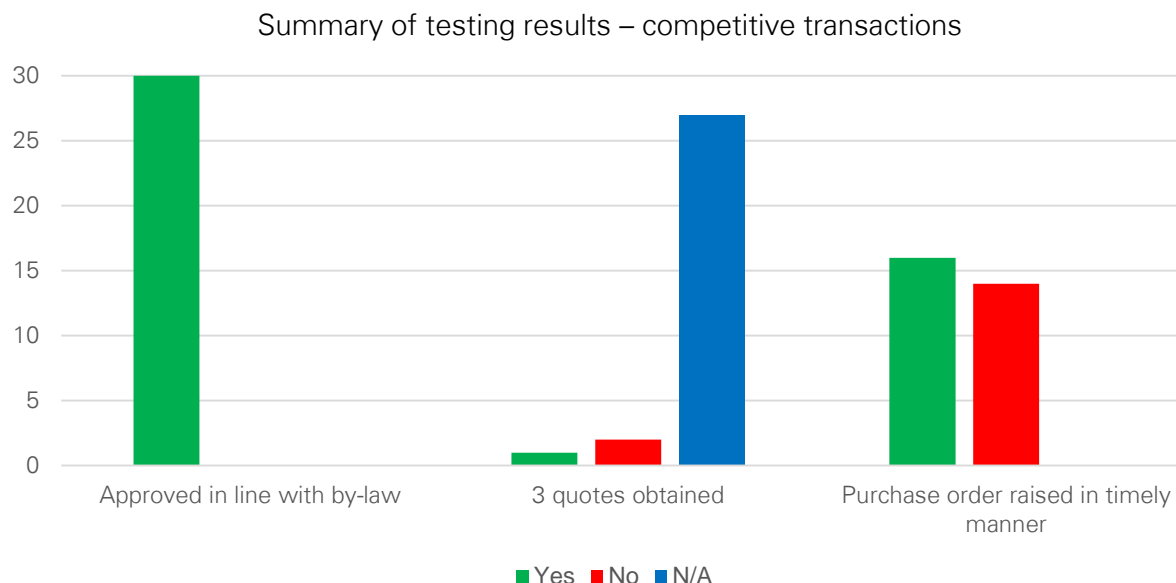
Community Services had the highest number of exceptions, making up four of the six exceptions identified during our testing.

Appendix B – Summary of Competitive testing results

We selected a sample of 30 competitive procurement transactions between \$10,000 - \$25,000 from the 2017-2020 years to test the following:

- Whether purchases were approved in line with the Procurement By-law
- Whether three quotes were obtained for the works in line with the requirements for procuring competitively
- Whether purchase orders were raised in advance of receipt of the invoice

Competitive transaction testing results



Appendix B – Summary of Competitive testing results (cont'd)

Competitive transaction testing results (cont'd)

KPMG Commentary on testing

- In all 30 cases tested, the relevant approval had been recorded on PeopleSoft for the purchase.
- In two cases tested (Public Works Levy and Community Services), we were unable to evidence three quotes recorded on PeopleSoft. **(See Recommendation Five)**
- For the 27 cases marked as “n/a”, eight (all within Community Services) were deemed to be “single source” purchases however had been recorded as competitive transactions. The remaining 19 cases were purchases made as part of a contract which were awarded through an RFP process. Evidence of this and the contract numbers was provided, however this was not always recorded on the system. **(See Recommendation Five)**
- In 14/30 cases tested, a purchase order was raised after receipt of an invoice. **(See Recommendation Four)**

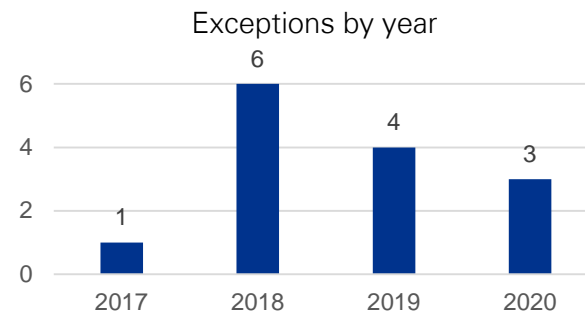
On the following slides we have provided some analytics showing our testing results, and further information around our testing exceptions.

Appendix B – Summary of Competitive testing results (cont'd)

Competitive transaction testing results (cont'd)

In 14 cases a purchase order was raised after the invoice was received. These are shown by operating unit and year below.

Operating Unit	Purchase order raised after invoice
Community Services	8
Waste Management Services	3
Water and Wastewater Services	2
Public Health Department	1



Appendix C – Data Analytics on Non-Competitive Procurement

We have performed data analytics across the data provided to us as part of the audit. Data was provided for the 2017-2020 years, showing all purchase orders raised across the four non-competitive procurement transaction listings in our scope of work (Single source, negotiation, special circumstances and schedule A purchases) for all values over \$10,000. The total number of transactions was 2380.

Top 5 suppliers by year (based on value of PO's raised)

Supplier	PO's raised in 2017
City of St. Catharines	\$5,656,693
N-Viro Systems Canada Inc.	\$4,573,275
Walker Environmental Group Inc.	\$4,318,207
Thomas Nutrient Solutions	\$4,199,049
City of Welland	\$3,878,211

Supplier	PO's raised in 2019
Municipal Property Ass'mt Corp.	\$6,132,487
Minister of Finance - Oshawa	\$5,279,560
Thomas Nutrient Solutions	\$3,643,064
N-Viro Systems Canada Inc.	\$3,300,000
City of St. Catharines	\$3,199,071

Supplier	PO's raised in 2018
Steed & Evans	\$4,593,036
Thomas Nutrient Solutions	\$4,422,853
N-Viro Systems Canada Inc.	\$3,390,000
Demers, Manufacturer inc.	\$2,824,512
Walker Environmental Group Inc.	\$1,969,986

Supplier	PO's raised in 2020
Municipal Property Ass'mt Corp.	\$6,229,772
Minister of Finance - Oshawa	\$4,724,017
N-Viro Systems Canada Inc	\$3,750,000
Thomas Nutrient Solutions	\$3,744,278
City of Niagara Falls	\$1,726,608

For the last two years, Municipal Property Assessment Corporation has seen the highest spend based on PO's raised by the Region, totaling over \$12m. Spending in the last four years has also been common with N-Viro Systems Canada and City of St. Catharines.

Appendix C – Data Analytics on Non-Competitive Procurement

Top 5 Operating Units per year (based on value of PO's raised)

Operating Unit	PO's raised in 2017
Water and Wastewater Services	\$25,572,622
Public Works Levy	\$10,916,315
Waste Management Services	\$7,530,852
Corporate Services	\$5,226,433
Community Services	\$3,658,400

Operating Unit	PO's raised in 2019
Water and Wastewater Services	\$24,679,362
Public Works Levy	\$13,068,219
Net Revenue Budget	\$6,147,641
Community Services	\$4,535,595
Corporate Services	\$3,838,635

Operating Unit	PO's raised in 2018
Water and Wastewater Services	\$19,761,364
Public Works Levy	\$13,763,901
Corporate Services	\$6,649,264
Emergency Services	\$4,007,298
Waste Management Services	\$2,981,428

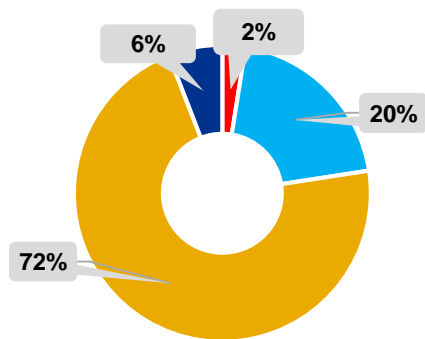
Operating Unit	PO's raised in 2020
Water and Wastewater Services	\$11,765,392
Public Works Levy	\$9,071,350
Net Revenue Budget	\$6,245,230
Community Services	\$5,845,769
Corporate Services	\$2,878,885

Water & Wastewater Services and Public Works Levy have been the highest spending operating units based on PO's raised over the last four years, with amounts totaling roughly \$80m and \$45m respectively. Spending has also been consistently high within Corporate Services and Community Services.

Appendix C – Data Analytics on Non-Competitive Procurement

Non Competitive transaction types

Non-competitive Transaction Type



“Single Source” was the most frequent transaction type over the four year period, making up 72% of all the transactions. 20% of all transactions were “schedule A” transactions and 6% “special circumstances”. “Negotiation” was the least frequent transaction type, only making up 2% of the entire population.

■ Negotiation ■ Schedule A ■ Single Source ■ Special Circumstance

Operating Unit (top 4 by \$)	Transactions	% Single S.	% Schedule A	% Special C.	% Negotiation
Water and Wastewater Services	638	77	12	9	2
Public Works Levy	359	64	20	6	10
Corporate Services	237	89	8	2	1
Community Services	304	81	5	14	0

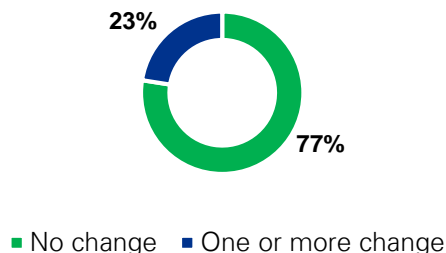
Corporate Services had the highest % of Single Source transactions at 89%. Overall, the top four operating units by spend followed a similar % split of transaction type as the total population. Some minor outliers were Public Works Levy (10% negotiation compared with the total population split of 2%) and Community Services (5% Schedule A compared with population split of 20%).

Appendix C – Data Analytics on Non-Competitive Procurement

Analytics on the following three slides highlight instances of multiple PO changes, PO's raised close to authorization limits and PO's raised on the same day by the same department and supplier. Note that this information has been included for information purposes to show the types of analytics available to Procurement. We have not confirmed whether these purchases are appropriate or not, and acknowledge that they may be fully justified.

Non –Competitive transactions with PO changes

Non-competitive Transactions
with PO Change



77% of transactions in the four year period did not have any changes from the initial purchase amount. The remaining 23% had one or more change, with changes ranging between 2 and 8 over the period.

Operating Unit	Type	PO Changes	PO Total*
Public Works	Single Source	8	\$513,617
Public Works	Single Source	6	\$598,950
Community Services	Single Source	5	\$304,580
Corporate Services	Single Source	5	\$101,923
Community Services	Single Source	4	\$213,500
Emergency Services	Single Source	4	\$51,000
Water & Wastewater Services	Single Source	4	\$75,000

A transaction within Public Works Levy had the highest number of PO changes at 8 changes. The top 7 PO changes were all single source transactions. As part of on-going monitoring of procurement transactions, the Region should ensure those with multiple PO changes are monitored to ensure appropriate justification has been provided. **(See Recommendation Six)**

Appendix C – Data Analytics on Non-Competitive Procurement

Multiple PO's raised on the same date for the same supplier and operating unit

The table below shows instances where multiple purchase orders had been raised on the same day by the same operating unit for the same supplier. The table shows all instances of five or more PO's raised on the same day.

Operating Unit	Type	Date	PO's raised	PO Total	Supplier
Economic Incentives	Schedule A	7/03/2017	11	\$654,485*	City of St Catharines
Community Services	Single Source	3/20/2017	7	\$208,346*	Arjohuntleigh Canada Inc.
Water and Wastewater Services	Schedule A	7/20/2018	7	\$629,203*	City of Welland
Waste Management	Single Source	6/24/2020	6	\$92,383	Source Warehousing
Community Services	Single Source	2/21/2018	6	\$257,563	J. Oulton & Associates
Community Services	Single Source	1/10/2019	6	\$500,606*	Gordon Food Service
Water and Wastewater Services	Single Source	12/7/2017	5	\$492,157*	City of Niagara Falls
Water and Wastewater Services	Schedule A	8/29/2019	5	\$454,200*	City of Welland
Water and Wastewater Services	Single Source	1/11/2017	5	\$390,000*	City of Welland

While there may be appropriate reasoning for the above cases, having multiple purchase orders raised on the same day for the same supplier and operating unit may give an indication of purchase splitting. Those marked as * were noted as having rounded PO amounts, such as \$100,000 or \$9,000. The Region may wish to investigate these further. In addition, as part of on-going monitoring of procurement transactions, the Region should ensure that a similar review of multiple purchase orders raised on the same day is undertaken. **(See Recommendation Six)**

In addition to the above, we also noted six instances where four PO's had been raised on the same date (by the same operating unit and for the same supplier), 27 instances where three PO's had been raised on the same day and 107 cases where two PO's had been raised on the same day.

Appendix C – Data Analytics on Non-Competitive Procurement

PO's raised close to authorization limits

As part of our testing, we also reviewed PO's with amounts slightly below the approval limits as per the Procurement By-law. The table below shows all instances where values were within \$1,000 of an approval limit (\$25,000, \$100,000, \$250,000 and \$1m) and were numbers which were rounded (e.g. \$100,000, \$9,500 or \$18,250)

Operating Unit	PO ID	Amount
Capital Financing Costs	42874	\$24,500
Community Services	36953	\$24,500
Corporate Services	52155	\$24,500
Emergency Services	41662	\$24,900
Water and Wastewater Services	30561	\$24,925
Water and Wastewater Services	75924	\$24,600
Water and Wastewater Services	76273	\$24,700
Water and Wastewater Services	65208	\$24,500
Water and Wastewater Services	76143	\$24,750
Water and Wastewater Services	29902	\$24,900
Water and Wastewater Services	79657	\$24,500
Planning and Development	79188	\$99,000
Water and Wastewater Services	65606	\$99,200
Community Services	73756	\$99,000

While there may be appropriate reasoning for these cases, amounts close to approval limits may suggest PO's have been split to avoid going to the next approval limit. The Region may wish to investigate these further. In addition, as part of on-going monitoring of procurement transactions, the Region should ensure that a similar review of amounts close to authorization limits is undertaken.

(See Recommendation Six)

Appendix D – Staff involvement and documentation reviewed

Staff involvement

We undertook interviews and email communication in November 2020 to inform this work, including:

- Bart Menage, Director of Procurement & Strategic Acquisitions, Corporate Services
- Helen Chamberlain, Director of Financial Management and Planning
- Erin Amirault, Associate Director, Finance Operations and Systems, Corporate Services
- Frank Marcella, Manager, Internal Audit
- Tim Richards, Senior ERP Business Analyst
- Nora Charette, Manager ERP Business Support
- Support Staff (purchase requesters and managers) across departments

Documentation reviewed

We received the following documentation over the course of our fieldwork:

- Procurement By-Laws (Bill 02-2016)
- Detailed procurement transactional data file (Jan 2017 to Oct 2020)
- PeopleSoft system: Purchase requisitions, purchase orders, associated invoices, council approvals, contracts
- PeopleSoft Financials requisition review guide
- Completed Internal Audit reports on Procurement (2018)
- Workflow Approval Process Matrix (2019-07-08)



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Subject: Supplemental Information Report to the KPMG final audit report on Non-Competitive Procurement Audit (AC-C 11-2020)

Report to: Audit Committee

Report date: Monday, December 7, 2020

Recommendations

1. That this supplemental information report to the KPMG final audit report on Non-Competitive Procurement Audit (AC-C 11-2020) **BE RECEIVED** for information.

Key Facts

- Niagara Region hired KPMG to audit staff's correct use of electronic systems and processes when sourcing contracts.
- The KPMG report identified several areas in need of improvement when documenting and selecting the appropriate requisition type based on the type of purchase. The audit found staff incorrectly documented or mislabelled procurements in 163 instances.
- To ensure compliance moving forward, the Region has developed tools, training sessions, enhanced reporting and will perform subsequent audits to track improvement and ongoing compliance.

Financial Considerations

At the January 2020 Audit Committee, staff were directed to retain the services of an external firm to undertake an audit of all non-competitive procurements.

KPMG completed the audit within the prescribed timeframe at their bid price of \$19,250.00. Staff are confident that there will be no financial impact associated with the implementation of the management action plans, which address the recommendations contained within their report.

Analysis

The purpose of the audit was to provide assurance to Management and Niagara Region's Audit Committee on the effectiveness of the management control framework to support non-competitive procurement activities. The audit tested purchasing activities

to evaluate the current controls and processes related to non-competitive transactions as prescribed in the Procurement By-law. Finally, the audit attempted to determine the effectiveness of current procedures to ensure consistency, compliance, fairness and transparency throughout the corporation.

Supplemental Management Response

In accordance with the Procurement By-law (By-law), Niagara Region continually strives to obtain the best value for the Corporation when procuring goods and services. The By-law prescribes a variety of acquisition methods and staff endeavour to utilize the most appropriate method based on the particular circumstances related to the acquisition. KPMG reviewed the variety of non-competitive procurement options identified in the By-law to determine if an appropriate justification was provided which justified undertaking a non-competitive procurement process.

As defined in the By-law, non-competitive processes include:

- Schedule A: The methods of procurement set out in the By-law shall not apply to purchase of specific goods and services;
- Sole Source: There is only one source of the goods and/or services that meets the requirement of the Corporation;
- Single Source: A non-competitive procurement process to acquire goods and/or services from a specific supplier even though there may be more than one supplier capable of delivering those goods and/or services; and
- Special Circumstances: Where an event that is exceptional or could not be foreseen and is likely to pose a threat to the health, safety or welfare of the public (e.g. COVID-19).

KPMG reviewed 245 non-competitive procurements and concluded that 163 had inadequate documentation within PeopleSoft (PS) ERP which is the Region's financial management and procurement system to justify a non-competitive process.

Following completion of KPMG's testing, Procurement worked with program staff to gather additional information related to the 163 PO (Purchasing Order) cases identified in recommendation 2 of the KPMG report.

The following table provides further explanation of these 163 PO cases of which:

- 30 represent clerical errors in the selection of the PO type or where no justification within PS is required;
- 126 had justification residing outside of PS; and
- 7 have yet to be verified by staff at the time of authoring the report.

These 7 cases, which are still to be verified total \$124,500 or 1 per cent of the total dollars associated with the 163 cases.

Dollars	% of total	# of Procurements	legend	Explanation
\$ 1,749,704	8%	14	A	Schedule A – no documentation required
\$ 2,504,389	11%	3	B	Coding error, competitive process did take place either formal or informal
\$ 1,748,886	8%	13	C	Should have been Schedule A, coding error
\$ 397,000	2%	20	D	Special Circumstance
\$ 3,503,224	16%	36	E	Sole Source (only one source for good or service)
\$ 4,570,898	21%	11	F	Sole source with a contract and council approval
\$ 6,807,496	31%	51	G	Single Source with Council approval
\$ 382,614	2%	8	H	Single Source with staff approval
\$ 124,500	1%	7	I	Non-competitive process under review
\$ 21,788,711	100%	163		

With reference to the table above:

- 14 cases where Schedule A was coded, these transactions require a by-law reference only, as per the Procurement By-law. Examples of these types of purchases include memberships, utility costs, legal fees and CN railway costs.
- 3 cases were coding errors and should have been coded resolved as per a competitive procurement process; Specifically, this case dealt with the winter maintenance contract and extension. A reminder that only informal quotes are required for procurements valued at between \$10,000 and \$25,000 for goods or services.
- 13 cases should have been coded as Schedule A; therefore, transactions would have required a reference only to the Procurement By-law. The incorrect selection was simply an administrative error. Again, examples of these types of purchases include memberships, utility costs, and legal fees.
- 20 cases of Covid-19-related POs. Due to the expediency, these purchase orders should have been coded as Special Circumstance but were coded incorrectly.

Special Circumstance would have required a different level of documentation and justification. In this case, examples related to COVID-related screeners for long-term care (LTC) homes and in instances related to emergency water-wastewater repairs.

- E. 36 cases of Sole Source transaction. While the By-law does include separate definitions for Single and Sole Source, currently, PeopleSoft does not distinguish between them in terms of requisition type; (treated as single source). KPMG, in their report, recommends this distinction be considered for the future. The By-law defines Sole Source as instances where only one supplier is able to provide a good and/or service. Examples of the types of transactions identified were lease payments, purchase of cardboard for recycling, vendor maintenance agreement and a cooperative procurement with St. Catharines Transit.
- F. 11 cases of Sole source with a contract and council approval.
- G. 51 cases of Single Source with Council Contract. As stated above, the By-law does distinguish between single and sole source, in many cases a sole source contract was approved by Council. Examples included specialized chemical purchases, an ambulance purchase, sludge removal with N-VIRO, emergency property repair for water wastewater, and source warehousing waste management.
- H. 8 case of Single Source with staff approval: Specifically, some occurrences were related to food supply in LTC homes wherein the original transaction was below \$10,000 but the scope expanded, therefore staff increased the dollar amount for service. Another example was in Homelessness Services, where services were acquired to meet immediate need (Housing Help Centre for Hamilton-Wentworth)
- I. 7 cases of Non-competitive process are in the process of being reviewed.

As a matter of practice, staff are required at the time of requisitioning goods and/or services, to justify the selection of a non-competitive route (option) although no formal template exists that would track such justification. While there are fields within the requisition document to provide justification however as noted by KPMG there is an opportunity to improve the documentation of justifications for these transactions. The Region is in the process of strengthening these protocols via training to ensure staff provide sufficient information and are consistent in following procedure.

Management accepts and acknowledges the KPMG recommendations for areas to improve and as noted in the management responses, Niagara Region has already actively initiated solutions (some of which have been implemented: Procurement Navigator), which will improve our practices via training, communication, system enhancements, reporting and auditing,

Alternatives Reviewed

No other alternatives were reviewed or considered.

Relationship to Council Strategic Priorities

Value-for-money (VFM) audits were identified and approved as the previous term of Council's Strategic Priority – Advancing Organizational Excellence. The goal of this Strategic Priority was to “Build a strong internal foundation for Niagara Region to enable a more prosperous Niagara.”

Other Pertinent Reports

- AC-C 3-2020 – Non-Competitive Procurement Audit
- AC-C 2-2020 – Procurement Audit Final Report
- AC-C 11-2020 - Final Report on Non-Competitive Procurement Audit

Prepared by:

Bart Menage, CSCMP, CRM, C.P.M
Director, Procurement & Strategic
Acquisitions

Recommended by:

Todd, Harrison, CPA, CMA
Commissioner, Corporate Services/
Treasurer

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

MEMORANDUM

AC-C 9-2020

Subject: CIR Response to NPCA 2019 Financial Statements
Date: December 7, 2020
To: Audit Committee
From: Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer, Corporate Services

At the September 21, 2020 meeting of the Audit Committee the following request was made:

Provide information respecting the reported variance in the Niagara Peninsula Conservation Authority (NPCA) 2019 Financial Statements (Correspondence Item AC-C 8-2020) in comparison to 2018. Councillor Redekop.

To that end the NPCA staff have provided Appendix 1 which was presented to the NPCA Board on May 21, 2020. The link to the complete package presented to the Board is provided below with pages 199-244 specifically referencing the audited financial statements, audit findings and variance analysis.

[https://npca.ca/images/uploads/board_files/Full_Authority_Agenda - May 21%2C 2020.pdf](https://npca.ca/images/uploads/board_files/Full_Authority_Agenda_-_May_21%2C_2020.pdf)

Respectfully submitted and signed by

Helen Chamberlain, CPA, CA
Director, Financial Management & Planning
Corporate Services

Appendix 1- Niagara Peninsula Conservation Authority December 31, 2019 Variance Explanations

NIAGARA PENINSULA CONSERVATION AUTHORITY

Statement of Operations

Year ended December 31, 2019, with comparative information for 2018

Appendix 3 - Report No. FA-24-20

	2019 Budget	2019 Actual	2018 Actual	Actual Variance	Comments
Revenues:					
Government transfers					
Province of Ontario – MNRF	\$ 174,496	\$ 90,083	\$ 174,496	-\$ 84,413	Reduction in MNRF funding for 2019 (48.37%)
Province of Ontario – Other	302,500	223,482	267,038	- 43,556	Niagara River RAP funding for 2019 - \$0 in Q1
Government of Canada	100,000	100,000	132,705	- 32,705	Niagara River RAP funding 2019 / 2018 incl deferred revenue from 2017
Municipal levies					
General	6,416,084	6,416,084	6,246,119	169,965	Regular levy Increase of 2.72% over 2018
Special	2,252,166	635,001	2,252,166	- 1,617,165	Niagara Region - \$1.1M from capital/\$500K land acquisition reserve
Authority generated					
User fees, sales and admissions	1,892,600	2,148,195	1,936,971	211,224	Improved operating performance in 2019 at campgrounds, and Festival
Administration fees	314,850	401,000	417,690	- 16,690	Variance not material (4%), and performance exceeds budget
Interest	60,000	214,063	155,013	59,050	Interest on bank balances + investments
Other	235,200	445,261	701,053	- 255,792	2018 - land donation (\$145K) + hazard tree removal (\$135K)
OPG - Welland river watershed		195,432		195,432	Recognition of deferred revenue from \$1.262M for approved projects
	11,747,896	10,868,601	12,283,251	- 1,414,650	
Expenses:					
CAO and Administration	2,002,676	3,068,776	2,019,335	- 1,049,441	Legal fees and settlements (incl all Board approved decisions)
Watershed	5,257,856	1,868,308	1,557,677	- 310,631	Corporate realignment - Restoration moved to Corp Resources
Corporate Resources	2,077,585	7,121,476	5,629,051	- 1,492,425	\$1.284M levy differential payout / corp realignment (Restoration)
	9,338,117	12,058,560	9,206,063	- 2,852,497	
Annual (deficit) surplus	2,409,779	- 1,189,959	3,077,188		
Accumulated surplus, beginning of year	27,542,991	27,542,991	24,465,803		
Accumulated surplus, end of year	\$ 28,335,605	\$ 26,353,032	\$ 27,542,991		

Subject: Management Action Plan Update

Report to: Audit Committee

Report date: Monday, December 7, 2020

Recommendations

1. That report AC-C 12-2020 regarding the current status of audit recommendations **BE RECEIVED.**

Key Facts

- The purpose of this report is to provide Audit Committee with a status update on management responses to audit recommendations since 2016 that are not fully implemented.
- This report will cover all audits completed and issued up to the previous Audit Committee meeting, September 21, 2020 and Corporate Services Committee meeting, June 17, 2020 that may have some action plans in progress.
- Management Action Plan (MAP) status updates are considered a best practice by the Institute of Internal Auditors (IIA) to ensure Audit Committee is aware of any outstanding risk areas within the corporation.
- A total of 15 outstanding high and medium risk audit recommendations and related management responses are detailed in this audit report.

Financial Considerations

There are no immediate budgetary considerations associated with this report. The audit recommendations and subsequent Management Action Plans (MAPs) had budgetary implications associated with their implementation and which are accommodated within current operating budgets.

Analysis

Many of the program areas have continued the implementation of management action plans as noted in the attached summary. Since the last report three management action plans have been completed and additionally, an update to the Burgoyne Bridge

Audit action plan has been provided. A more detailed and updated summary is attached to this report.

Alternatives Reviewed

No other alternatives were reviewed at this time.

Relationship to Council Strategic Priorities

Internal Audit along with related audit functions such as Value-for-money (VFM) audits and compliance reviews were identified and approved within the current Council's Strategic Priority – Sustainable and Engaging Government. The goal of this strategic initiative is a commitment to high quality, efficient, fiscally sustainable and coordinated core services through enhanced communication, partnerships and collaborations with the community.

Management Action Plan status updates satisfy IIA Performance Standard 2500 – Monitoring Progress. “The Chief Audit Executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented.”

Other Pertinent Reports

AC-C 5-2020 – Management Action Plan Follow-up Report

Prepared by:

Frank Marcella, MPA, BEd
Manager,
Internal Audit

Recommended by:

Todd Harrison, CPA, CMA
Commissioner, Corporate Services/
Treasurer

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

Appendices: Appendix 1 – AC-C 12-2020 Management Action Plan Update

Observation Status for Management Action Plan as of November 2020

Report Title	Report Issue Date	High & Medium Observations	Closed	In Progress	Past Due	On Hold	Deadline	Follow-up Action Plan
Burgoyne Bridge Performance Assessment	Feb-16	8	6		2		Mar-21	The two past due observations pertain to project cost estimating and document management. The projects have scope has changed and thus the overall deadline has also changed from the original MAP report. Asset Management Office (AMO) has developed a work plan for cost estimating model based on three phases. The first phase is to develop a cost estimating process, which has already started.
VFM - Snow Plowing, Road Maintenance and Landscaping Services	Jun-16	13	13				n/a	Targeted follow-ups may be planned focussing on performance measures, contract management and expenditure management.
Fleet, Equipment Management & Replacement Process	Jan-17	4	4				Dec-20	Internal Audit should conduct a follow-up on Fleet Management in 2022.
Fleet Parts Inventory & Fuel Audit	Nov-17	2	1			1	n/a	The observation on hold pertains to research the cost and benefit associated with installation of automatic fuel pumps. The research is dependent on Council's direction on Niagara Region's role in Material Recycling Facilities (MRF)
P-Card Audit	Oct-17	10	10				n/a	Follow-up audit planned for 2021
Information Technology Security and Data Backup Controls Audit	Apr-18	16	15	1			Apr-20	The three observations in process pertain to security assessments, remote sites of infrastructure devices and investigation of CMDB tool. Internal Audit is currently scoping out plans to conduct audits next year focussing on cyber security, access and control measures and penetration testing.

Grants and Incentive Program	Jun-18	4		4			Dec-20	The four observations in process pertain to program rationalization, standardization of operating procedures, establishment of performance measures and improvement of administrative efficiency in regional grants program
Payroll Audit: Phase 1 - Timekeeping Process	Aug-18	2	2	0			Dec-20	Follow-up audit planned for 2022
Procurement Audit	Jan-20	4		4			Dec-20	All the recommendations are in the process of implementation
Non-competitive Procurement Audit	Jan-20	3		3			Jul-20	All the recommendations are in the process of implementation
Health Benefits Claims Audit	Mar-20	3		3			Dec-21	
		69	51	15	2	1		