



## THE REGIONAL MUNICIPALITY OF NIAGARA AUDIT COMMITTEE AGENDA

AC 1-2021

Monday, February 8, 2021

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)

---

Pages

1. CALL TO ORDER
2. DISCLOSURES OF PECUNIARY INTEREST
3. SELECTION OF COMMITTEE CHAIR AND VICE-CHAIR
  - 3.1. Call for Nominations for Committee Chair
  - 3.2. Motion to Close Nominations for Committee Chair
  - 3.3. Voting for the Position of Committee Chair
  - 3.4. Call for Nominations for Committee Vice-Chair
  - 3.5. Motion to Close Nominations for Committee Vice-Chair
  - 3.6. Voting for the Position of Committee Vice-Chair
4. PRESENTATIONS
5. DELEGATIONS

**6. ITEMS FOR CONSIDERATION**

- 6.1. AC-C 2-2021 3 - 6  
3 Year Internal Audit Workplan

**7. CONSENT ITEMS FOR INFORMATION**

- 7.1. AC-C 1-2021 7 - 19  
Further Analysis of KPMG Final Audit Report on Non-Competitive  
Procurement Audit

**8. OTHER BUSINESS**

**9. NEXT MEETING**

The next meeting will be held on Monday, May 10, 2021, at 1:00 p.m.

**10. 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](mailto:accessibility@niagararegion.ca) (email).

---

**Subject:** 3 Year Internal Audit Workplan

**Report to:** Audit Committee

**Report date:** Monday, February 8, 2021

---

## Recommendations

1. That the three year Internal Audit Workplan **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 peer municipalities to determine audit trends in formulating this plan.
- The attached plan provides detailed project scope for those audits that will commence in 2021 as well as highlight additional audits that can be considered part of the longer term audit plan.
- 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 acquire external support is set at \$200,000 with ability to complete follow-up audits internally to ensure all audits are completed within budget.

## Analysis

### 2021 Internal Audits:

#### 1. IT Cyber Security and Vulnerability Audit:

- Access Control - Access to assets and associated facilities is limited to authorized users, processes, or devices, and to authorized activities and transactions.

- Data Security - Information and records (data) are managed consistent with the organization's risk strategy to protect the confidentiality, integrity, and availability of information.
- Information Protection Processes and Procedures - Security policies (that address purpose, scope, roles, responsibilities, management commitment, and coordination among organizational entities), processes, and procedures are maintained and used to manage protection of information systems and assets.
- Maintenance - Maintenance and repairs of industrial control and information system components is performed consistent with policies and procedures.
- Protective Technology - Technical security solutions are managed to ensure the security and resilience of systems and assets, consistent with related policies, procedures, and agreements.

## **2. IT Penetration Detection and Recovery Testing:**

- Anomalies and Events - Anomalous activity is detected in a timely manner and the potential impact of events is understood.
- Continuous Monitoring - The information system and assets are monitored at discrete intervals to identify cybersecurity events and verify the effectiveness of protective measures.
- Detection Control - Detection processes and procedures are maintained and tested to ensure timely and adequate awareness of anomalous events.
- Communications - Response activities are coordinated with internal and external stakeholders, as appropriate, to include external support from law enforcement agencies.
- Analysis - Analysis is conducted to ensure adequate response and support recovery activities.
- Mitigation - Activities are performed to prevent expansion of an event, mitigate its effects and eradicate the incident.
- Improvements - Organizational response activities are improved by incorporating lessons learned from current and previous detection/response activities.
- Recovery Planning - Recovery processes and procedures are executed and maintained to ensure timely restoration of systems or assets affected by cybersecurity events.
- Awareness Training - The organization's personnel and partners are provided cybersecurity awareness education and are adequately trained to perform

their information security-related duties and responsibilities consistent with related policies, procedures, and agreements.

**3. BioSolids Value for Money (detailed scope to be determined):**

- Evaluation of the BioSolids program with a focus on efficiency and effectiveness
- To determine whether the Niagara Region's Wastewater Treatment plants are effectively meeting its Biosolids Management Policy, program requirements, program goals and objectives.

**4. PCard Follow Up Audit:**

- To determine the impact of management action plans on the control framework supporting the PCard purchasing program.
- To determine, through limited testing, if PCard procurement issues still exist.

**5. Consulting Assignments Audit:**

- Review of the procurement, selection, oversight and post evaluation method for consulting assignments
- Assurance that applicable consulting recommendations have been effectively implemented.

**2022 Internal Audits (Planned):**

1. Contract Management (Long Term Contracts)
2. Contract Management (Capital Projects)
3. Paramedic Fleet Management
4. Non-Competitive Procurement Follow-up Audit
5. Bridge Management and Inspection Audit
6. Research and Pilot of Continuous Controls Monitoring (CCM)

**2023 Internal Audits (Planned):**

1. Pothole Repairs
2. Traffic Signals Audit
3. Quality Assurance Audit of Sexual Health Clinics
4. Ontario Works Payment and Contract Management Audit
5. Non-Monetary Grant Programs

**Other areas for consideration:**

- Housing Programs and Maintenance Management Audit
- IT Governance Review

## **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**

- AC-C 16-2020 – 2021 Audit Workplan

---

### **Prepared by:**

Frank Marcella, MPA, BEd  
Manager,  
Internal Audit

---

### **Recommended by:**

Todd Harrison, CPA  
Commissioner,  
Corporate Services

---

### **Submitted by:**

Ron Tripp, P.Eng.  
Acting Chief Administrative Officer

---

**Subject:** Further Analysis of KPMG Final Audit Report on Non-Competitive Procurement Audit

**Report to:** Audit Committee

**Report date:** Monday, February 8, 2021

---

## Recommendations

1. That this report providing further analysis of the KPMG final audit report on Non-Competitive Procurement Audit **BE RECEIVED** for information.

## Key Facts

- KPMG presented findings on their audit of non-competitive procurements at the Dec 7<sup>th</sup>, 2020 Audit Committee meeting.
- KPMG found no evidence of inappropriate procurements, however, they did identify several opportunities for improvement, specifically, related to the selection of the appropriate requisition type and the adequacy of the documentation supporting that choice, as provided within People Soft (PS) system.
- Staff provided at the same meeting, a preliminary response to the KPMG findings with staff report AC C 15 2020. Staff were directed by Committee to complete their review of these transactions and report back to committee. Staff has completed this review and have identified that supporting documentation was available outside of the People Soft system.
- Staff asked KPMG to review the supporting documentation generated for this report. KPMG has concluded that the supporting documentation for the transactions identified in their audit was provided in the staff analysis. As indicated this information was available from sources outside of the PeopleSoft system.
- KPMG's summary indicates that consistency and depth of the supporting documentation for the requisition needs to be improved. This is consistent with their previous findings. Staff accept these recommendations and have taken immediate action to ensure the level of documentation within the People Soft system is improved.

## **Financial Considerations**

Purchase Orders (PO) cannot be launched without appropriate budget or commitment control budget available in the department.

No invoice has been paid since the implementation of People Soft without an applicable Purchase Order (PO) except for circumstances that are exempt in Schedule A of the Procurement By-law.

## **Analysis**

On December 17, 2020, Regional Council approved the recommendations stemming from the December 7, 2020 Audit Committee which directed Staff to perform further analysis of the examples provided in the KPMG audit including justification, comparison to budget and contract splitting to the February 8, 2021 Audit Committee.

Similarly, this report provides an overview and update on staff training related to procurement processes

## **Response to the KPMG Audit - Justifications for procurements**

Staff initiated a review, led by Procurement to provide clarification on the findings from the KPMG Non-Competitive Procurement audit.

Specifically, this review related to the need for clarification for committee on the 163 cases that KPMG identified that the justifications recorded in PeopleSoft for these PO's, were either **“partly clear”** or **“unclear”**.

Staff undertook a process that has ensured for Council that justifications were available on all of these items. Procurement staff requested that the responsible operating staff provide a fulsome justification for each of the 163 Purchase Orders including the transaction type (e.g. single source), supplier and value (code correctly) including:

- specific reference to the Section in the Procurement By-law for which the purchase is applicable or should have been applicable (if not properly coded); and
- a thorough justification as to why the purchase is applicable under the by-law reference along with a clear reason as to why alternative vendors cannot be used.



Procurement staff have completed the analysis of all 163 transactions and staff are satisfied that for all items appropriate justification is evidenced, although as indicated in the audit by KPMG, not within People Soft. Staff developed a process that gathered the necessary information by Purchase Order (including emails, reports to Committee/Council and quotation etc.) that supports this conclusion.

This information was accumulated in the Region's shared network drive and a summary of these findings is shown in Appendix 1. This chart reconciles the final summary with the preliminary one originally reported in AC-C 15-2020. The Appendix summarizes the number of Purchase Orders by procurement type and provides the respective dollar value of each type. Also included in Appendix 2, is a summary of the same information segmented by Regional Department.

Staff engaged the services of KPMG to review this analysis which was undertaken by Regional Procurement; the scope of work for this assignment and the summary of findings is presented in Appendix 3 of this report. KPMG's summary supports that supporting documentation justifying the procurement was accumulated in this review. Similarly, the feedback from KPMG is the need to improve the consistency of the supporting documentation. Staff acknowledge that this is an action item for improvement.

Procurement will continue to educate and provide guidance on the importance of providing a justification which is fulsome and complete, reference to the By-law and why it applies such that anyone who reviews it, understands the rationale behind the purchase. Procurement recognizes that there are instances, where it may be straightforward to staff, but the key is to ensure that the justification is captured so that decision-making and rationale is clearly documented within the system.

### **Budget Authority to proceed with a procurement**

Two items of that Committee asked for additional information was related to authority to pay as shown below.

#### **No PO – No Pay**

Originally at the inception of implementing the People Soft system one of the key features was the requirement that a Purchase Order be generated prior to work starting or a product being acquired. This concept would ensure that no invoices would be received for payment without an applicable Purchase Order # (PO). This is true for all

forms of procurement except for circumstances that are exempt in Schedule A of the Procurement By-law. While Schedule A items are exempt from the competitive requirements of the By-law there are many circumstances within the Region where POs are still utilized and permitted for the purposes of tracking commitment of budget dollars.

As was identified by KPMG, there were instances that invoices were received without PO numbers provided. The control feature in place was that finance staff would follow up with the responsible operating staff and ensure that a PO number was issued prior to payment. In this way no invoices were paid without a PO.

On October 16<sup>th</sup>, 2020 this control was enhanced when the Commissioner of Corporate Services directed that finance staff return any invoices received for payment without PO numbers to the vendor so that they can follow up with the responsible staff and resubmit their invoice correctly.

It should be understood by committee that no invoices requiring a PO number have been paid either before Oct 16, 2020 or after.

### **Commitment Control**

A PO is preceded by a Requisition. At the time a Requisition is processed, the availability of budget dollars in the specific department or capital project is verified by the system and the funds are considered 'pre-encumbered' (set aside) for this purpose. When the PO is subsequently finalized after the Requisition, the budget is checked again and 'encumbered' (firmly committed) for this purpose. The Commitment Control operating budget mirrors the approved operating budget however as variances begin to occur throughout the year the Commitment Control budget may be adjusted using the same rules as Budget Adjustments in the Budget Control By-law. These adjustments do not adjust the approved budget so that spending variances can be reported transparently in the Quarterly Financial Report. However capital expenditure funding requirements are all managed relative to the approved capital budget and any budget adjustments necessary are made to the approved capital budget in accordance with the Budget Control By-law. Capital projects reported in the quarterly financial report are inclusive of any budget adjustments.

With these systems in place a PO cannot be launched without appropriate budget or commitment control budget available in the department. If budget is not available the PO can not be launched and the department owner will be required to comply with the

Budget Control By-law opportunities for creating a properly authorized budget amendment. Budget adjustments may occur in advance of initiating a PO or as a result of a budget error while in flight but a PO cannot be issued without available budget.

The Budget Control By-law provides in Section 6.5 that budget adjustments up to \$1 million have delegated authority to staff in accordance with the Appendix B and in excess of \$1 million with Council approval.

### **Purchase Order Splitting**

In consultation with KPMG, staff affirmed that KPMG did not report that purchase splitting had occurred, rather, that they had noted instances which could give an indication of purchase splitting in order to bypass approval limits, specifically where:

- PO's were initiated at amounts, which were slightly below approval limits; and
- multiple PO's issued on the same day by the same operating unit and for the same supplier,

For the purposes of this report Procurement received and analyzed the complete and fulsome information provided by Staff in response to the suppliers noted on page 29/30 of Appendix C of the KPMG report. With regards to Purchase splitting, Procurement completed its investigation and concluded that there was no evidence that purchase splitting had occurred.

Additionally, Procurement further reviewed system generated information related to PO's which were initiated at amounts slightly below approval limits and the preliminary results indicates that these requisitions were processed and approved in accordance with the Procurement By-law. (Single source, sole source, schedule A and negotiation, the latter with Council approval).

Procurement has consider the recommendations stemming from the KPMG Non-Competitive audit report inclusive of all appendices and identify potential data analytics which could be undertaking to identify PO data trends and potential areas that would benefit from further investigation. These findings and any ensuing recommendations will be presented to the Procurement Advisory Committee for further discussion and consideration.

## **People Soft Financials Enhancements**

The Regions ERP Support team is working directly with Procurement staff to research and implement opportunities to enhance PeopleSoft Financials to support the findings of the procurement audit. A working group of finance and procurement staff began meeting in December to discuss potential options as well as begin the requirements gathering process for configuration changes and customizations in the system.

These enhancements have two primary goals:

1. to further drive staff By-law compliance through action such as new fields for additional information, error messages preventing incorrect procurement types from being chosen depending on dollar value, and making the justification a required field for requisition submission; and
2. to develop additional tools that will allow procurement staff to more closely monitor By-law compliance, such as through the development of new reports and queries.

A comprehensive and technical list of requirements is under development with anticipated phased roll out of items over the next 6-12 months.

## **Procurement Process training Initiatives and Update**

Annually, Niagara Region acquires a significant amount of goods and services which support the delivery of programs and services. In late 2020 Procurement implemented two educational initiatives which provided staff with key information on all formal and informal procurement processes:

1. Procurement Navigator Tool, assists all staff in selecting the appropriate process based on responses to their specific questions; and
2. Procurement Essentials for Leaders mandatory training outlines the roles and responsibility of staff in formal and informal procurement processes.

At a high level, each initiative was developed to ensure that our leaders understand the value and purpose of the By-law, their role in these processes and have access to insightful knowledge of our procurement processes and how to apply them. Staff were also provided access to further resources, information and training to ensure continued compliance whilst achieving bringing best value to the constituents of Niagara.

On December 14, 2020, Procurement sent out 275 invitations to the Procurement Essentials for Leaders eLearning course to Regional Staff including Dept. ID owners (responsible for an operating and/or capital budgets), Project Owners, Procurement Team and Program Financial Specialist team. Participation in and completion of this course with a minimum score of 70 percent is mandatory.

As of the submission date of this report, Staff confirm that of the 275 invited, now 270 (five staff are either off on leave or no longer employed by the Region) 89% have completed the training, 4% are in progress and the remaining 7% have not started.

Procurement Navigator and Essentials is but one component of our broader education strategy. In the 2021, Procurement will look to share information about our Skill Builder webinar series featuring insight into Low Value Purchases (less than \$10,000), Informal Quotations and Single Source processes and other relevant procurement topics. New leaders, who join our organization, will also be required to enroll in and complete the essentials course. In Q1-2021, a similar eLearning course (to Essentials) will be available for all staff with a focus on staff who create requisitions in PeopleSoft Financials.

### **Alternatives Reviewed**

No additional 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
- AC-C 15-2020 - Supplemental Information Report to the KPMG final audit report on Non-Competitive Procurement Audit (AC-C 11-2020)

---

**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

**Appendices**

Appendix 1	Comparison to AC-C 15-2020
Appendix 2	Summary Analysis by Department
Appendix 3	Non-Competitive Procurement Audit – KPMG Summary Report

legend	Explanation	Dollars (\$)			# of Procurements			% of Total		
		Was	Now	Variance (*)	Was	Now	Variance	Was	Now	Variance (*)
A	Schedule A – no documentation required	\$ 1,749,704	\$ 1,776,844	\$ 27,140	14	14	0	8%	8%	0%
B	Coding error, competitive process did take place either formal or informal	\$ 2,504,389	\$ 2,613,411	\$ 109,022	3	8	5	11%	12%	1%
C	Should have been Schedule A, coding error	\$ 1,748,886	\$ 1,614,253	\$ (134,633)	13	9	(4)	8%	7%	-1%
D	Special Circumstance	\$ 397,000	\$ 343,654	\$ (53,346)	20	20	0	2%	2%	0%
E	Sole Source (only one source for good or service)	\$ 3,503,224	\$ 1,826,820	\$ (1,676,404)	36	15	(21)	16%	8%	-8%
F	Sole source with a contract and council approval	\$ 4,570,898	\$ 7,316,169	\$ 2,745,271	11	4	(7)	21%	34%	13%
G	Single Source with Council approval	\$ 6,807,496	\$ 3,926,450	\$ (2,881,046)	51	51	0	31%	18%	-13%
H	Single Source with staff approval	\$ 382,614	\$ 2,371,108	\$ 1,988,494	8	42	34	2%	11%	9%
I	Non-competitive process under review	\$ 124,500	\$ -	\$ (124,500)	7	0	(7)	1%	0%	-1%
		\$ 21,788,711	\$ 21,788,709	\$ (2)	163	163	0	100%	100%	0%

(\*) Totals reflect decimal place rounding

Program Area	A	B	C	D	E	F	G	H	I	Total
Community Services	4			12	2		8	9		35
Corporate Services	4		4		2			10		20
Corporate Administration	2									2
Emergency Services					2	2		6		10
Public Health	1	2								3
Public Works Levy	1	6	4	1			1	6		19
Public Works Transit Levy					3					3
Waste Management					1		41	2		44
Water and Waste Water	2		1	7	5	2	1	9		27
<b>Total by Explanation</b>	<b>14</b>	<b>8</b>	<b>9</b>	<b>20</b>	<b>15</b>	<b>4</b>	<b>51</b>	<b>42</b>	<b>0</b>	<b>163</b>
<b>Appendix 2 Revised Total</b>	<b>14</b>	<b>8</b>	<b>9</b>	<b>20</b>	<b>15</b>	<b>4</b>	<b>51</b>	<b>42</b>	<b>0</b>	<b>163</b>

legend	Explanation
A	Schedule A – no documentation required
B	Coding error, competitive process did take place either formal or informal
C	Should have been Schedule A, coding error.
D	Special Circumstance
E	Sole Source (only one source for good or service)
F	Sole source with a contract and council approval
G	Single Source with Council approval
H	Single Source with staff approval
I	Non-competitive process, in the process of being reviewed.





# The Regional Municipality of Niagara

**Non-Competitive Procurement Audit – KPMG Summary Report**  
**February 2021**

# Niagara Region – Non-Competitive Procurement Audit – KPMG Summary Report

## Summary of Findings

### Background

Following our Non-Competitive Procurement Audit from December 2020, the Region's Procurement department undertook further analysis of the 163 instances in our 2020 report where justification for purchases were not clearly recorded in the PeopleSoft system. Procurement consulted with Regional staff to obtain appropriate justifications for the purchases in question, and have completed a spreadsheet with justifications provided, along with supporting documentation, for each of the 163 cases.

### Scope

We have outlined the scope of our work in the table below:

Scope	
<b>Objective One</b>	<p>We have reviewed the further analysis undertaken by the Procurement team in relation to our final audit report of Non-Competitive Procurement. As part of this we have:</p> <ul style="list-style-type: none"><li>• Reviewed the additional justification notes and explanations provided for the 163 exceptions listed in the procurement audit spreadsheet and assessed whether justifications were documented sufficiently; and</li><li>• Selected a sample of 40 purchases from the 163 and tied the explanations and justifications recorded back to supporting documentation.</li></ul>

### Summary of findings

We reviewed the supporting documentation for a sample of 40 purchases and in all cases were provided with documentation to support the non-competitive procurement transaction. There was improvement in the level and detail for the justifications provided for the non-competitive procurement transactions. In some cases the documentation of the justification can be expanded upon, including references to the procurement by-law and additional context for purchasing non-competitively.



[kpmg.ca](https://kpmg.ca)



© 2021 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.