



THE REGIONAL MUNICIPALITY OF NIAGARA  
AUDIT COMMITTEE  
AGENDA

AC 1-2020

Monday, January 20, 2020

1:00 p.m.

Council Chamber

Niagara Region Headquarters, Campbell West

1815 Sir Isaac Brock Way, Thorold, ON

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	Pages
1. <u>CALL TO ORDER</u>	
2. <u>DISCLOSURES OF PECUNIARY INTEREST</u>	
3. <u>PRESENTATIONS</u>	
4. <u>DELEGATIONS</u>	
5. <u>ITEMS FOR CONSIDERATION</u>	
5.1 <u>AC-C 1-2020</u> 2020 Audit Committee Schedule	3
5.2 <u>AC-C 2-2020</u> Procurement Audit Report	4 - 29
5.3 <u>AC-C 3-2020</u> Non-competitive Procurement Audit Report	30 - 46
6. <u>CONSENT ITEMS FOR INFORMATION</u>	
6.1 <u>AC-C 31-2019</u> Approved Audited Statement of Revenues and Expenses for 527 Carlton Street, Niagara Regional Housing Project  <i>This item was forwarded to the Audit Committee for information by         resolution of the Niagara Regional Housing Board of Directors at its         meeting held on October 18, 2019.</i>	47 - 55

- 6.2 PHD 15-2019 56 - 65  
Approval of the 2018 Healthy Babies, Healthy Children Program  
Schedule of Revenues and Expenses

*This item was forwarded to the Audit Committee for information by resolution of the Public Health and Social Services Committee at its meeting held on September 10, 2019.*

- 6.3 COM 34-2019 66 - 80  
Approval of 2018 Child Care Services Schedule of Revenues and  
Expenses

*This item was forwarded to the Audit Committee for information by resolution of the Public Health and Social Services Committee at its meeting held on September 10, 2019.*

7. OTHER BUSINESS

8. NEXT MEETING

The next meeting will be held on Monday, February 10, 2020 at 1 p.m. in the Council Chamber.

9. 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).

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## MEMORANDUM

AC-C 1-2020

**Subject: 2020 Audit Committee Schedule**  
**Date: January 20, 2020**  
**To: Audit Committee**  
**From: Frank Marcella, Manager, Internal Audit**  
**Helen Chamberlain, Director, Financial Management & Planning**

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

**February 10, 2020**  
**May 11, 2020**  
**September 21, 2020**  
**December 7, 2020**

Of particular note is the meeting scheduled for May 11 as it will ensure the timely approval of the 2019 Niagara Region's consolidated financial statements. 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 2020:

February 10, May 11, September 21 and December 7.

Respectfully submitted and signed by

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Frank Marcella, Manager  
Internal Audit

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Helen Chamberlain, Director  
Financial Management & Planning

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## MEMORANDUM

**AC-C 2-2020**

**Subject:** Procurement Audit Report

**Report to:** Audit Committee

**Report date:** Monday, January 20, 2020

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### Recommendations

1. That report AC-C 2-2020 **BE RECEIVED** for information; and
2. That staff **BE DIRECTED** to implement the recommendations in Appendix 1 of Report AC-C 2-2020, respecting Procurement Audit Report.

### Key Facts

- The purpose of this report is to provide Audit Committee with a summary of findings noted during the Procurement Audit which focused on the control framework in place to support contracting and procurement activities.
- This report contains the findings, implications and recommendations for the observations discovered during the Audit in addition to a Management Action Plan (MAP) from program staff for each of the recommendations.
- Four observations with eleven total recommendations have been detailed in the audit report.

### Financial Considerations

There are no immediate budgetary considerations associated with this report. It is anticipated that some of the recommendations may have an implementation cost associated to them. If management chooses to pursue the recommendations then all costs will be funded through the regular annual budget process.

### Analysis

This audit project was identified in the 2018 Audit Plan approved by Audit Committee (see **AC-C 6-2017**). 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 contracting and procurement activities. The audit also tested whether all purchasing activities are processed in a manner that is compliant with current Regional purchasing and procurement by-laws. Finally, the audit attempted to determine the effectiveness of current procedures to ensure consistency, compliance, competitiveness and fairness/transparency.

### **Alternatives Reviewed**

No other alternatives were reviewed at this time.

### **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."

Following the completion of the 2015 and 2016 audits, Council approved a permanent Internal Audit function. The permanent internal audit function was named Internal Control and Organizational Performance division.

The 2018 Annual Audit Plan, which included an audit of procurement was approved by Audit Committee on October 31, 2017.

### **Other Pertinent Reports**

AC-C 6-2017 - 2018 Internal Audit Plan

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#### **Prepared by:**

Frank Marcella, MPA, BEd  
Manager,  
Internal Audit

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#### **Recommended by:**

Todd Harrison, CPA, CMA  
Commissioner/Treasurer  
Enterprise Resource Management  
Services

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#### **Submitted by:**

Ron Tripp, P.Eng.  
Acting, Chief Administrative Officer

### **Appendices**

Appendix 1                      Procurement Audit Report



## Internal Audit

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### Procurement Audit

**Operating Unit:** Niagara Region

**Date of Audit:** September – December 2018

**Auditors:** Frank Marcella, Manager, Internal Auditor  
Henrik (Xiang) Gao, Internal Audit Analyst  
Bart Gora, Internal Audit Co-op Student

**Distributed To:** Niagara Region Audit Committee  
Ron Tripp, (Acting) Chief Administrative Officer  
Todd Harrison, Commissioner, ERMS  
Bart Menage, Director, Procurement and Strategic Acquisitions  
Tracie Byrne, Manager, Purchasing Services  
Jeffrey Mulligan, Manager, Strategic Sourcing

**Date Issued:** December 20, 2018

## EXECUTIVE SUMMARY

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### BACKGROUND

In accordance with the 2018 Audit Plan, Internal Audit performed a comprehensive review of the procurement process as well as the role of the Procurement division in supporting and monitoring purchasing activities. The audit was conducted within professional standards published by the Institute of Internal Auditors.

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 contracting and procurement activities. The audit also tested whether all purchasing activities are processed in a manner that is compliant with current Regional purchasing and procurement by-laws. Finally, the audit attempted to determine the effectiveness of current procedures to ensure consistency, compliance, competitiveness and fairness/transparency.

The methodology used by Internal Audit included a review of relevant documentation, analysis of financial data, interviews with key individuals involved in the processes and re-performance of certain procedures. The period covered by the audit was from February 1, 2016 to October 31, 2018.

### SCOPE

A risk based auditing approach was used to determine the scope of the audit. The following processes, procedures and items were considered in scope:

- Risk identification and assessment of procurement processes to determine areas of greatest exposure,
- Review of Regional purchasing and procurement bylaws and directives, including operating procedures, guidelines and training materials,
- Interviews with key staff and clients involved in the procurement process to determine their overall roles and responsibilities, oversight, and monitoring functions, and
- Review and test a sample of procurement documents/contracts to ensure compliance with procurement directives.

The following were considered out of scope:

- Purchasing Card transactions as these were audited in 2017,
- Single Source transactions which will be reviewed in 2019, and
- Procurements related to Niagara Regional Housing and Niagara Regional Police Service.

## INTERNAL AUDIT FINDINGS

The report is broken into the following four separate sections:

- Informal Processes – those transactions below \$25,000 that can be executed by program areas without the direct support of the Procurement and Strategic Acquisitions Division (subsequently referred to as Procurement division),
- Formal Processes – those transactions that exceed \$25,000 and require the direct support of the Procurement division,
- Strategic Management – considering the role of advisory committees and strategic plans/initiatives to advance procurement processes, and
- Operational Management – the current structure of the Procurement division, as well as bylaws, operating procedures and IT systems in place to ensure the effective management and oversight of the procurement process

The audit focused on procurements following the implementation of PeopleSoft Financials, approximately February 2016. In some cases, capital projects were selected that started prior to 2016 but were ongoing after PeopleSoft implementation. Tables 1 and 2 display the volume and amount expended during the study periods by procurement type and departments, through the use of purchase orders only, not using purchasing cards.

<b>Table 1: Procurement by Procurement Type</b>						
	<b>2016</b>		<b>2017</b>		<b>2018 (to Sept 30<sup>th</sup>)</b>	
	<b># of PO</b>	<b>Amount</b>	<b># of PO</b>	<b>Amount</b>	<b># of PO</b>	<b>Amount</b>
<b>Formal</b>	335	\$148,155,836	399	\$103,889,601	110	\$68,046,053
<b>Informal</b>	9786	\$55,226,323	12718	\$50,604,748	9625	\$44,862,999
<b>Single Source</b>	412	\$21,763,669	459	\$41,113,417	279	\$14,486,169
<b>Other</b>	799*	\$142,627,488	267	\$10,127,573	310	\$24,256,820
<b>Total</b>	11332	\$367,773,319	13843	\$205,735,340	10324	\$151,652,042

\*Includes Converted POs, those started prior to PeopleSoft implementation but not completed until after implementation.

The Procurement Audit attempted to ensure that all procurement activity considered the four main pillars of the Procurement By-law: Consistency, Compliance, Competitiveness and Fairness/Transparency.

Prior to 2013, the overall procurement function was disbursed with procurement agents located within each department (a decentralized model). Following a study and report from Deloitte Consulting it was decided that the Procurement Office should be consolidated to develop a center-led approach. This business model would achieve greater efficiencies, improve corporate monitoring and reporting of procurement activity, utilize vendor data to pursue better discounts and category management procurement capabilities and increase oversight to ensure the four main procurement objectives are satisfied.

Overall the following positive observations were noted.

- The implementation of PeopleSoft in 2016 allows for greater data analysis of purchasing activities and trends,
- PeopleSoft has significantly improved controls by ensuring proper approvals are executed prior to money being spent, and



- PeopleSoft has created a platform for documentation, such as invoices, insurance, contracts, and staff notes to be uploaded to improve information access and auditability of transactions.

From our testing Internal Audit concluded that the direct support provided by the Procurement division with regard to preparing, posting, evaluating and awarding contracts is efficient and effective. Additionally, Procurement division has established a sound document retention system to ensure, that for formal tenders, the Region can demonstrate fairness, competitiveness and transparency. Finally, the Procurement division has updated and created several templates to be used for formal procurements that simplify and streamline the process while ensuring consistency across the corporation.

Our testing, as will be discussed in greater detail later in the report, found very few issues with the operational aspects of formal procurements. Specifically, the Procurement division provides a degree of support to ensure all bidders have equal access to information, evaluation criteria is established in advance and is defensible and the spirit of competition is achieved.

The following is a summary of findings for areas where opportunities for improvements were noted:

1. High degree of inconsistent procurement practices and non-compliances within Informal Purchases.
2. Procurement Division provides sound administrative and procedural support to program staff to execute Formal transactions, however, it can improve in the delivery of value added services.
3. Procurement Division has identified and is working towards implementing several strategic initiatives, yet has not benefited from the support of the Procurement Advisory Committee (PAC).
4. Procurement Division may not have the appropriate resources, team composition and is currently not fully utilizing the necessary skills to deliver value added, strategic services.

## OBSERVATIONS AND RECOMMENDATIONS

The following are all the observations from the audit along with recommendations and Management's Action Plans to address these issues. See Appendix I for the risk ranking justification.

### Observation #1 - High degree of inconsistent procurement practices and non-compliances within Informal Purchases.

#### Risk Ranking

**HIGH**

Table 3 details the number and the dollar value of the sample purchase orders (POs) included in the audit. The analysis looked at the following areas:

- Consistency in coding,
- Completeness of documentation,
- Compliance to bylaws,
- Oversight and monitoring, and
- Data/vendor analysis.

**Table 3 – Informal Procurement Sample**

Year	# of POs	Value of POs
2016	11	\$163,393
2017	13	\$126,567
2018	28	\$231,844
Total	52	\$521,804

#### A. Consistency in Coding

To reiterate, Online transactions have the following characteristics:

- Do not exceed \$25,000,
- Delegated responsibility to program management (not Procurement division),
- Program management is responsible for documentation review and approvals, and
- They may also include when a purchase order is applied to an existing contract, which may have been competitively tendered.

In early 2018, Procurement division produced a detailed report from PeopleSoft data and noted that over 92% of purchases are Online or Informal. The analysis conducted by Procurement staff only considered how a transaction was coded by program staff within PeopleSoft but did not review whether the transaction was coded correctly.

For transactions between \$10,000 and \$25,000, the audit tested for compliance requirements, most notably the existence of multiple bids to ensure competition. In 40 out of 52 sample POs reviewed the category of Online was selected yet staff did not pursue other bids. In Internal Audit's opinion other bids should have been pursued. Business units are expected to obtain three separate bids, if possible, and as a result, these can be considered single source purchases and should have been coded as such. Differences in results are presented in Table 4 below.

<b>Table 4 – Differences in Coding (2017 Data)</b>				
	<b>Procurement Division Study*</b>		<b>Internal Audit Sample</b>	
	<b>Total # of POs</b>	<b>% of Transactions</b>	<b>Sample # of POs</b>	<b>% of Transactions</b>
Online	16,908	92%	12	23%
Single Source	603	3%	40	77%

\*Procurement Division study – January 2018 (includes NRH and NRPS)

PeopleSoft automatically notifies the appropriate approver based on the transaction category selected. For example, in most cases, transactions below \$25,000 are coded as Online prompting the responsible manager to be notified. In our study, there were five cases where the transaction was coded incorrectly leading to the incorrect approver being notified, in this case a Manager, not a Director. In addition, there were three transactions that should have been sent to the Commissioner for approval, yet due to coding within PeopleSoft went to the Director.

In analyzing vendor data, the audit found several cases where dozens of individual POs were created toward a similar vendor for similar services over the course of the year. In these cases ICOP was not provided with a contract or justification why these services were not competed. For example, we found one vendor, that although the transactions were coded as Informal, in reality they were single sourced. That same vendor provided service to the Region on 56 different occasions. While all transactions were classified as low dollar value the cumulative total exceeded \$195,000 for the period of January to September 2018.

## **B. Completeness of Documentation**

Based on the Procurement Bylaw (2016), in most cases, Informal transactions require documentation such as contracts, certificate of insurance and WSIB certification. Internal Audit reviewed 52 POs and the results are shown in Table 5.

<b>Table 5 – POs Missing Documentation</b>				
<b>Documentation</b>	<b>Required and Available</b>	<b>Required and Unavailable</b>	<b>Not Required</b>	<b>Total</b>
Insurance/WSIB	33	7	12	52
Contract	33	11	8	52

Based on the table above, there were several instances of non-compliance to the bylaw. In discussion with program staff, many provided a lack of knowledge of the documentation requirements of the bylaw as the rationale. Training and education for PeopleSoft and other Procurement division material is available and accessible to all staff. The training is not mandatory nor tracked as to whether staff have reviewed the material.

## **C. Compliance to Bylaws**

The current Procurement Bylaw provides four different options for purchases below \$25,000. Staff can select between PCard, Informal Quotations, Formal Process or Single Source. Depending on which option is selected different procedural, approval and documentation requirements present themselves. The majority of the sampled POs selected being Informal transactions require, in most cases, the creation of a requisition, at least three written quotations, contracts/agreements with vendors, the creation of a purchase order and the provision of insurance/WSIB documentation.

Through sample testing the following was observed:

- Several cases of POs being created to no contract or expired contract,
- One instance of purchase splitting and single source where a bid exceeded the \$25,000 threshold yet was broken down into four separate POs to allow the price to be considered low dollar value and not require bids or be considered Single Source, and
- In some cases, vendors POs were created low and then adjustments made to increase the total over the course of the year. Internal Audit noted that the Region historically procured amounts from those same vendors that exceeded the original PO amount and also eclipsed the \$25,000 Informal threshold.

#### **D. Oversight and Monitoring**

The oversight of procurement activity, specifically those transactions below \$25,000 resides with program management. PeopleSoft electronically notifies the appropriate manager for approval based on the procurement amount. The accountable manager would then be required to ensure that all procedures have been followed and documentation is available to verify compliance.

Currently, due to staffing capacity in the Procurement division, there is no central monitoring of Informal transactions to ensure consistency and compliance. With the volume of Informal transactions at approximately 17,000, accountability and responsibility is delegated to program management. The audit tested for automated controls to determine if there are prompts within PeopleSoft to request the uploading of documentation or staff justifications as a compensating control to manual reviews. While PeopleSoft has this capacity it would require customized add-ons that may not be cost effective at this point.

#### **E. Data/Vendor Analysis**

Audit testing determined that some of the vendors hired by the Region conduct business beyond their original PO amount and in some cases for several departments simultaneously. Our vendor data analysis discovered several vendors that provide services to many different department IDs with little coordination or communication between these departments. For example, one vendor provides medical supplies to EMS under a contract, yet we found two other areas in the organization that do business with the same vendor but not under the umbrella of that contract.

Part of the rationale for the center-led model proposed by Deloitte and accepted by the Region in 2013 was to conduct greater data/vendor analysis and identify potential economic opportunities. Procurement activities are not being sufficiently monitored or assessed to ensure that economic opportunities and value are maximized, most notably within the Informal transactions. While the data is available, the resources to undertake or coordinate negotiations at a corporate level – in other words the benefits of the center-led approach, has not been realized.

## Implication

Improper coding of transactions results in non-compliance to the objectives of the Procurement By-law, most notably, a lack of competition. In addition, improper coding also results in PeopleSoft directing the approval to the wrong accountable person.

Lack of insurance or WSIB documentation puts the Region at financial/liability risk in the event of an injury or negligence from a contractor/consultant.

Lack of central oversight and monitoring and inconsistent local management controls may create non-compliance to the current by-law, specifically, fairness and competition.

Lack of resources prevents Procurement division from conducting thorough data/vendor analysis to facilitate program areas in their purchasing decisions and improve the overall procurement control framework.

## Recommendation

1. Procurement division should consult with client groups to ensure procurement processes have strong controls and are effective and efficient while not impacting business needs.
2. Procurement division should study the cost benefit analysis of implementing automated controls within PeopleSoft to improve the overall procurement control framework and minimize management inconsistency and discretion. Automated controls can reduce coding errors, missing documentation and create notifications of expired contracts.
3. Procurement division should capitalize on available data and regularly conduct data/vendor analysis to ensure strategic purchasing opportunities are realized, such as vendor discounts, larger cross-corporation contracts and enhanced category management strategies.

## Management Action Plan

Person(s) Responsible	Director, Procurement and Strategic Acquisitions	Completion Date	July 2020
1. With the acknowledgement that strong controls are achieved via tools and training, Procurement will undertake an informal benchmarking process to determine best in class processes for informal procurement related training. Procurement will develop training/tools which will establish control which are effective and efficient while not impacting business needs Once developed, Procurement will consult with Regional groups to schedule times to deliver training which reinforces the principles of fair and transparent public procurements ensure continued adherence to the By-law.			

2. With support from the ERP Support Team, Procurement will explore, consider and where feasible implement currently available options within the PeopleSoft Financials system which have the potential to further automated controls. Additionally, Procurement (with the support of the ERP Support Team) will assess the feasibility of any additional system improvements which currently do not reside within PeopleSoft Financials to determine (via cost benefit analysis) whether the implementation of these will further strengthen the overall procurement control framework whilst minimizing management inconsistency and discretion.
3. The Procurement Division will continue efforts to review and assess analytical data related to Regional spend to ensure that potential opportunities to leverage corporate Regional acquisitions are effectively acted upon Procurement will consult with client groups to identify opportunities to facilitate procurements which leverage spend across the whole Corporation and report finding via the Procurement Advisory Committee.

**Observation #2 – Procurement Division can improve in the delivery of value added services with regard to formal transactions.**

**Risk Ranking**

**MEDIUM**

The Procurement Audit reviewed over 40 formal POs valued at over \$6 Million. The audit looked at three distinct phases of a procurement:

1. Project Planning - Those activities or components that are considered inputs to the procurement and occur after budget has been approved, such as development of business specifications, scoping documents, previous studies, approval reports and project estimates, if required.
2. Project Advertising and Awarding - The preparation and posting of tender documents, development of evaluation criteria, and awarding/communication of successful bids to all proponents,
3. Contract Management and Support - Supporting contract management including monitoring budgets, timelines, consultant/contractor evaluations and project close out reports.

Procurement division provides direct support to the business units in Phase 2 above, while phase 1 and 3 are considered the value-added services.

**A. Project Planning**

In advance of a project coming to the Procurement division for advertising and eventual awarding, the program staff would prepare some type of asset or business analysis. Program staff may also decide on the most appropriate contracting method, evaluation criteria, project scoping, as well as prepare estimates and a project requisition. The majority of the project planning happens in isolation of Procurement staff.

Sample testing revealed two capital projects from the same business area that decided to bundle several projects together to capitalize on the efficiencies of their consultants. One project commenced in 2012 and after several delays, issues and a consultant termination has yet to be completed. The project is currently being managed as two separate projects.

**Table 6 – Bundled Project #1**

	<b>Original Combined Bid</b>	<b>Separate Project 1</b>	<b>Separate Project 2 (to date)</b>	<b>Total of Separate Projects</b>	<b>Difference</b>
Design	\$283,585	\$118,857	\$227,271	\$346,129	(\$62,604)
Construction CA	\$146,828	\$254,393	nil	\$254,392	(\$107,564)
Total	\$430,413	\$373,250	\$227,271	\$600,521	(\$170,108)

While separated project #1 is nearing construction completion, the design component of separated project #2 was recently retendered. The costs have already exceeded the original bid by over \$170,000 and one of the projects is still at a very early stage. Due to the staff turnover, time delays, etc, the program area was not able to provide any business cases or risk assessments to determine the risks and benefits of bundling projects. In addition, the Procurement division had little to offer except for the preparation of procurement documents.



Approximately three years later, in 2015 the same program area bundled another two projects into one larger project. There was no business analysis, financial analysis or a risk assessment completed by either the program staff or Procurement division to contemplate the rationale for this type of contracting method. Within nine months the projects were separated again and are now being managed as two separate projects.

**Table 7 – Bundled Project #2**

	<b>Original Combined Bid</b>	<b>Separate Project 1 (to date)</b>	<b>Separate Project 2 (to date)</b>	<b>Total of Separate Projects</b>	<b>Difference</b>
Design	\$171,351	\$139,491	\$90,000	\$229,491	(\$58,140)
Construction CA	\$185,525	\$158,547	\$126,177	\$284,724	(\$99,199)
Total	\$357,876	\$298,038	\$216,177	\$514,215	(\$156,339)

In both cases, the audit did not see any evaluation of innovative contracting methods to ensure potential risks are considered and proactively mitigated. It was expected that a cost benefit analysis, business case, jurisdictional scan or stakeholder consultation would have been completed to determine the benefits of bundling projects. Program staff were not able to produce a post-mortem report of project #1 before project #2 was started.

For project planning it is expected that staff from the Procurement division would be viewed as business partners in the development of business cases researching the benefits and risks of innovative contracting methods. In addition, procurement staff should have participated in discussions with stakeholders and industry associations to determine the benefits, risks and trends in various contracting methodologies to evaluate the most applicable for the Region. Neither of those or other value added supports were provided in preparation of both projects being put out for tender.

## **B. Project Advertising and Awarding**

The samples POs reviewed demonstrated a very streamlined and efficient process in getting jobs documented and ready for the market. Documentation was readily available and organized in a manner to support a sound audit trail. In all cases, the documentation was prepared and work completed in compliance to by-law and procedural requirements.

Since the implementation of PeopleSoft, controls over capital projects have improved. Specifically, the separation of contingencies from overall project costs allows for better tracking of project deliverables against potential cost overruns. On the other hand, for many of the projects sampled, various project components had POs attached. For example, we found many cases where the design, contract administration, geotechnical and construction activities had different POs. This affects the ability to track all subcomponent costs into an overall project cost for comparisons to original estimates, timelines, etc.

Finally the audit was able to determine that all templates and documents available through the Procurement division effectively support staff. For example, auditors reviewed the Bid Document Input forms and, while quite lengthy and thorough, ensured that all factors are considered and the appropriate procurement method is selected, evaluation criteria reflect industry realities and business needs. For those areas where Procurement division staff provide direct operational and administrative support to program areas can be considered sound and effective.



### **C. Contract Management and Support**

Through the sample of POs, the audit tested the following contract management components:

- Are consultants and contractors being formally evaluated,
- How rigorous is the evaluation process,
- Where is the data stored to reference for future projects, and
- Is the cumulative scoring summary of individual vendors used for evaluating future tenders?

In addition, the audit requested project closure reports to determine if project experiences are being captured to provide learning opportunities for future staff.

Internal Audit was able to determine that there is no formal contractor/consultant evaluation process or continuous improvement cycle. With the recent creation of the Project Management Office (PMO), and potential Asset Management Office, Procurement division has the opportunity to actively lead the development and ongoing monitoring of project execution/completion data as they will be the only function that can view all different types of transactions across the entire corporation. Project data needs to be analyzed and best practices continually mined and communicated as ICOP noted several cases of different departments using similar vendors without cross-corporate knowledge-sharing or communicating each other's experiences.

PeopleSoft has the capability to support data analytics and reporting on project timelines and budgets. The Region currently does not have a strategy or central repository to capture project close out reports or capture key project/contract related data. These reports should contain information relative to time, budget and an evaluation of the contractor/consultant. This data repository is necessary for internal improvements but also to support Procurement division when discussing trends or issues with industry associations or bidders.

Finally, the audit requested data analysis on Formal projects looking at such things as trends in number of bids, quality of our estimating processes, number of addenda, number and value of change orders, and actual to final comparisons of budget and project timelines. This analysis is not done at a corporate level to be able to support future contract or consultant business models.

### **Implication**

Lack of a formalized project execution planning strategy including direct input from Procurement division, especially for non-traditional contracting methods, may result in procurement and contracting risks not being identified and appropriately mitigated.

Lack of post-contract closure reports and consultant/contractor evaluation processes may impact future procurement activity due to a lack of continuous improvement opportunities.

## Recommendation

1. Procurement Division should be involved during the development of a project execution strategy or project scoping to ensure that business-related risks are researched and addressed.
2. Procurement Division should develop a framework to capture the post project reports, consultant/contractor evaluations and then implement that data into future projects.

## Management Action Plan

Person(s) Responsible	Director of Procurement and Strategic Acquisitions	Completion Date	Ongoing
<ol style="list-style-type: none"><li>1. Procurement agrees with the concept that our involvement in preliminary discussions related to the development of a project procurement strategy is essential to ensuring the project's success. While Procurement has and will continue to regularly schedule planning meetings with client groups, we would equally look to Regional Department to seek Procurement input early in the discussions on the prioritization of their projects to develop strategies/processes which when enacting upon would mitigate these risks.</li><li>2. The Procurement By-law places the responsibility to monitor, report and communicate (to Procurement) instances where Supplier Performance is not acceptable with the individual Departments, Procurement will present a work plan item to develop a framework for Supplier Performance to the Procurement Advisory Committee (In March 2020) for their consideration among other work plan items including eBidding, By-law amendments and Standard Operating Procedures.</li></ol> <p>With regards to vendor performance captured by Departments in post project reports, these records could be duly considered to disqualify a supplier from bidding or reject a bid from a supplier in accordance with By-law Section 29 (b) (iii) if they have previously provided Goods and/or Services to the Corporation in an unsatisfactory manner. Once the framework is established, Procurement would view their role as one of support to the Department through ensuring compliance with contract terms and conditions and communicating instances where bidder performance is not satisfactory.</p>			

**Observation #3 – Procurement Division has identified and is working towards implementing several strategic initiatives, yet has not benefited from the support of the Procurement Advisory Committee (PAC).**

**Risk Ranking**

**MEDIUM**

In February 2016, the Procurement Division had formally approved an update to the Procurement By-law to reflect the implementation of PeopleSoft. The division is currently working on further updates that consider some of economic, organizational and technological changes. It is anticipated that the latest Procurement Bylaw will be presented to Council in 2019 and approved for 2020 implementation.

**A. Strategic Work Plan and Procurement Advisory Committee**

As part of the bylaw update, Procurement division developed a workplan that was presented to PAC in 2017. Some of the major short term initiatives include e-Bidding, negotiated Request for Proposals (RFPs), trade agreement updates and changes to reporting requirements. Once completed, these initiatives would be incorporated in the 2020 Procurement By-law. Other longer term initiatives include reviewing the following:

- Rationalization of Single Source and Negotiated RFPs,
- Conflict of Interest Definition,
- Procurement Limits and Procurement Types, and
- ‘Schedule A’ items (specialized services that can be single sourced).

Procurement Advisory Committee is a sub-committee of Corporate Services Committee comprised of a minimum of three to a maximum of eight Council members. In addition, several staff members participated including representation from Public Works, Corporate Services, Procurement and Legal. The main objectives of the committee are to review and recommend changes to the Procurement By-law and provide feedback for improvement to various processes and procedures.

During the last term of Council PAC met only three times (once in 2015 and twice in 2017) with a fourth meeting cancelled in 2018 due to lack of quorum. Again, while Procurement staff has developed and presented a detailed short and long term workplan that will incorporate procurement improvements over the next few years, the ongoing monitoring and support that a Council Sub-Committee can provide was relatively non-existent.

**B. Strategic Support Services**

Since 1991 Niagara Region has participated in the Niagara Public Purchasing Committee to achieve greater value in purchasing decisions through the acquisition of common commodities. The committee goes beyond municipalities to include other agencies, such as school boards, university, college, police services and other local agencies. Since inception, the operational and strategic plans are updated frequently.

From February 2016 to October 2018, the Region participated in 99 cooperative purchases, totaling over \$9.2 Million. Audit’s research was not able to view a report that demonstrated the value of the cooperative and estimates of potential savings. Several summaries have been prepared that list the types of commodities but it is also unknown if the Region or cooperative can expand the number of commodities to also include services and other common purchases. With the introduction of the negotiated RFPs, the Region has not determined if it can have open

ended contracts to allow other partners to join current Regional contracts at various timeframes. As an example, Niagara Region was able to opt into the Rogers cellular contract the Province of Ontario negotiated to capitalize on significant savings.

### Implication

Without an effective oversight committee, the workplan developed by the Procurement division may not meet Council expectations or be completed in a timely and effective manner.

Procurement division may not be fully capitalizing on procurement opportunities through insufficient data analysis or market research and increasing the volume of cooperative purchases with local partners.

### Recommendation

1. Procurement Advisory Committee should meet regularly to ensure that procurement trends and issues are reported with appropriate strategies attached. Procurement Advisory Committee should provide effective input, oversight and monitoring of the Procurement division workplan to ensure industry, business and Regional needs are satisfied.
2. Procurement division needs to continuously research market and procurement trends and report on these trends and innovations to Procurement Advisory Committee.
3. Procurement division needs to research the benefits of expanding the catchment number of goods and services within the Niagara Public Purchasing Committee and negotiate with its partners to capitalize on potential procurement opportunities.

### Management Action Plan

Person Responsible	Director, Procurement and Strategic Acquisitions	Completion Date	Ongoing
<ol style="list-style-type: none"> <li>1. On March 11, 2019 the Procurement Advisory Committee (PAC) approved Staff proposed amendments to the Terms of Reference some of which broadened the Committees responsibilities to include due consideration to procurement related trends, challenges and opportunities for innovation in Public Sector Procurement including but not limited to legislative changes. Additionally, the Committee is interested in hearing from Niagara Region staff or external delegates on public procurement matters, initiatives and trends. The new Terms of Reference have also increased the frequency of PAC meetings to Quarterly.</li> <li>2. Procurement is committed to remaining continually informed on current trends in public procurement via active participation with industry groups including Procurement for Local Prosperity, Niagara Construction Association, Niagara Public Procurement Committee and Public Works Officials meetings (as required). Additionally, via ongoing subscriptions to and participation in email trend updates and webinars from the Procurement Office, a</li> </ol>			

law firm in Toronto that specializes in public procurement. Ongoing memberships with the Supply Chain Canada and the Ontario Public Buyers Association for all Management and some staff ensure that the requisite skill sets are in place for Procurement. Any developments via our interactions with the aforementioned serve as the basis from which topics of interest and relevance for future PAC agenda items are identified for review, discussion and implementation where approved by PAC.

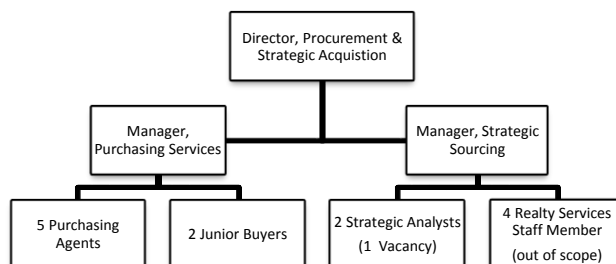
3. Niagara Region Procurement Division remains supportive of the Niagara Public Purchasing Committee (NPPC) provided it continues to employ a cooperative procurement strategy which seeks to continually modernize this group via the procurements which are undertaken. This is the only viable solution to ensure the groups continued relevancy; the progressive and broadening pursuit of new and innovative approaches to cooperative procurement and the goods/services which provide the potential to secure even greater value via the leveraged collective spend for all Agencies served.

**Observation #4 – Procurement Division may not have the appropriate resources, team composition and is currently not fully utilizing the necessary skills to deliver value added, strategic services.**

**Risk Ranking**

**MEDIUM**

Procurement and Strategic Acquisitions is divided into two main functions – Purchasing Services and Strategic Sourcing. Purchasing Services, through the direct support of Purchasing Agents and Junior Buyers support clients through all the phases of the tendering process. Currently there are five Purchasing Agents, two Junior Buyers and the Manager, Purchasing Services. Strategic Sourcing consists currently of one Strategic Sourcing Analyst and a Manager, Strategic Sourcing (a second Strategic Sourcing Analyst position is vacant). The Manager, Strategic Sourcing is also responsible for Realty Services, which is approximately four staff members.



Based on interviews and workload analysis, staff within Purchasing Services spend the majority of their time directly supporting clients. Work is assigned by the Manager based on timing and volumes and not necessarily technical specialty. As a result, Purchasing Agents are not assigned to a client department to become specialists in that area. There are no standards or efficiency performance measures in place to determine the quality of support provided, but audit testing did determine, through our sample POs, that almost all assignments were posted, closed, evaluated and awarded within established client timelines.

By the time Purchasing Services gets involved in Formal assignments many of the technical and scoping decisions have been made. This leaves Procurement staff with the responsibility of shepherding assignments through the administrative portion of the tendering process. In reviewing job descriptions it was difficult to determine how the Purchasing Agents completed three of the specific responsibilities:

- Continuously source and evaluate market for competitive pricing
- Conduct reference checks on bidders on behalf of departments as requested, and
- Manage the purchase or contract to ensure that all terms and conditions are met; many times complex and sometimes highly technical or confidential for items, materials or services.

The job description of the Strategic Sourcing Analyst revolves around two main functions:

- Optimize strategic sourcing practices and supplier relationships, and
- Detailed research and analysis to enhance procurement operations.

Some of the detailed responsibilities include leading cross-functional teams to resolve procurement issues, conducting procurement analysis and metrics, and developing performance indicators for stakeholder groups. The reality is that the majority of this position's time is consumed supporting clients with updates or issues around PeopleSoft, mostly PO adjustments.

It was noted that none of the job descriptions or detailed responsibilities focused upon contractor/consultant evaluations, evaluation of contracting methods or research into innovative or alternative procurement activities. In addition, the following skill sets were not actively being employed: change management, risk assessment/management or project management. Research and analysis, whether on industries, vendor groups or current Regional trends was not being reported. However, the Procurement division regularly provided updates to Council on Procurement activity, i.e. volume of tenders, etc but rarely identifies trends, issues or potential innovative procurement opportunities.

### Implication

Procurement division may not be viewed as a value added partner by client groups prompting program areas to conduct inconsistent procurement practices and not achieve the overall objectives of the Procurement By-law.

### Recommendation

1. Procurement division should review its overall mandate and staff accordingly based on resources and skill sets to ensure that operational and value added services are provided. Some of value added services include:
  - a. Data analysis and purchasing trends to capitalize on purchasing opportunities,
  - b. Develop a consultant/contractor evaluation methodology and repository to capture the quality of contract execution and use for future reference across the corporation, and
  - c. In conjunction with program areas, interact with industry associations to identify tendering issues and proactively mitigate potential procurement risks.
2. Ensure job descriptions meet the expected functional duties, client needs or future procurement work expectations.
3. Ensure that Procurement division is organizationally structured based on best practices and future operational needs to ensure long term work/strategic plans can be accomplished.

### Management Action Plan

Person Responsible	Director, Procurement and Strategic Acquisitions	Completion Date	Ongoing
1. Procurement remains committed to lead this publicly funded agency in obtaining optimum value through sustainable, innovative and progressive procurement in an ethical, transparent and professional manner. Procurement continues to support despite an identified resourcing shortfall and to mitigate this, In August 2019, Procurement completed and submitted a full Divisional Business Case with recommendation some of			



which have been enacted to restructure its Division to address and support the immediate operational needs of the Region. Procurement acknowledges that as part of the due diligence of that decision, consideration was given to the impact to the strategic side of the Division and as such recognizes that it has fallen short on value added items identified in items 1a and 1b. With regards, to value add item 1c, as previously stated in an earlier response, Procurement remains engaged and current with professional and industry associations.

2. Noting that with the exception of the Director, Managers, Realty Staff and Analysts, the remainder of the Procurement team is unionized. Procurement will complete a thorough review of all applicable Job Descriptions to ensure that the roles and responsibilities of all positions align with Management's expectations for each position both in the present and more importantly, for the future.
3. Procurement acknowledges how crucial its divisional structure is to not only effecting a positive impact on operational requirements but equally to investing in a strong foundational team which can add value and support corporately via client consultation, procurement planning, training programs, corporate initiatives, data analytics and leveraged spend etc.

Procurement is confident that it's recently proposed Divisional re-structuring plan if accepted, will in the short term address the current volume of work. Additionally, Procurement will undertake an investigative process to determine if the current structure and staffing levels of our Division is equally positioned for future success in all areas identified herein including value added services and current/future capital/operational projects.



## APPENDIX I - RATING SCALE

Rating	Definition
<b>CRITICAL</b>	Requires immediate action by Senior Management to avert a severe/disastrous risk event in the near-term. Internal controls are deemed to be ineffective, absent or poorly designed. Management Actions Plans (MAP's) are to be implemented immediately to mitigate risk of substantial financial losses, business interruption, loss of reputation and/or environmental, public health & safety risk.
<b>HIGH</b>	Requires prompt action by Management to avert, reduce or transfer a major risk event. Internal controls are deemed to be ineffective, absent or poorly designed. MAP's should be implemented to mitigate the risk of financial losses, loss of reputation, address fraud issues or legal/regulatory non-compliance.
<b>MEDIUM</b>	Requires timely actions by Management to reduce risks to a low level. Internal controls are deemed to be ineffective or poorly designed. Management action is required, but is not immediate. Moderate financial losses, temporary/minor reputational impairment, lesser potential for fraud or regulatory non-compliance may occur without timely MAP's.
<b>LOW</b>	Management actions are recommended to address the weaknesses identified. Internal controls are operating effectively or partially address the control objective; however they may be poorly designed and/or operational inefficiencies exist which may result in an opportunity for improvement. Low risk events may cause operational inconvenience or minor financial losses.

## APPENDIX II – MATURITY MODEL

The following table provides is an update to the Procurement Maturity Model developed by Deloitte Consulting in 2013. The 2013 assessment was completed by Deloitte based on the current practices and procedures employed at Niagara Region. The Target Maturity was also Deloitte's determination of where a typical organization of the Region's size and complexity should reside. The final column was Internal Audit's determination, based on the Deloitte criteria of where Niagara Region currently resides.

Implementation of Deloitte Purchasing Review Report Recommendations				
Assessment Framework	Recommendations	Maturity Assessment (2013) <sup>1</sup>	Target Maturity <sup>2</sup>	Current Maturity (2018) <sup>3</sup>
<b>Category Strategy and Governance</b>	<ul style="list-style-type: none"> <li>Develop category expertise within purchasing services group</li> <li>Assess movement of non-core, non strategic categories</li> <li>Assess opportunities to align to a Center-led procurement model</li> </ul>	<b>Level 1 Maturity</b>	<b>Level 3 Maturity</b>	<b>Level 2 Maturity</b>
<b>Sourcing and Supplier Management</b>	<ul style="list-style-type: none"> <li>Rationalize vendor details, develop vendor master</li> <li>Joint development of spend category strategies</li> <li>Develop formalized supplier performance program</li> </ul>	<b>Level 2 Maturity</b>	<b>Level 3 Maturity</b>	<b>Level 2 Maturity</b>
<b>Contract Management &amp; Procure-to-Pay</b>	<ul style="list-style-type: none"> <li>Implement 'No PO, No Pay' Policy</li> <li>Create central contract management solution</li> <li>Implement best-of-breed contract management tools</li> </ul>	<b>Level 1 Maturity</b>	<b>Level 3 Maturity</b>	<b>Level 2 Maturity</b>
<b>Financials</b>	<ul style="list-style-type: none"> <li>Implement standardized savings tracking methodology</li> <li>Validate savings with Finance and incorporate into budget process</li> <li>Utilize center-led spend analysis and reporting</li> </ul>	<b>Level 1 Maturity</b>	<b>Level 3 Maturity</b>	<b>Level 2 Maturity</b>

<sup>1</sup> The initial maturity rating of Niagara Region provided by Deloitte within their 2013 Purchasing Review Assessment.

<sup>2</sup> The recommended target maturity for Niagara Region provided by Deloitte within their 2013 Purchasing Review Assessment.

<sup>3</sup> ICOP's current maturity assessment based on the findings and results from sample testing conducted throughout the Procurement Audit.

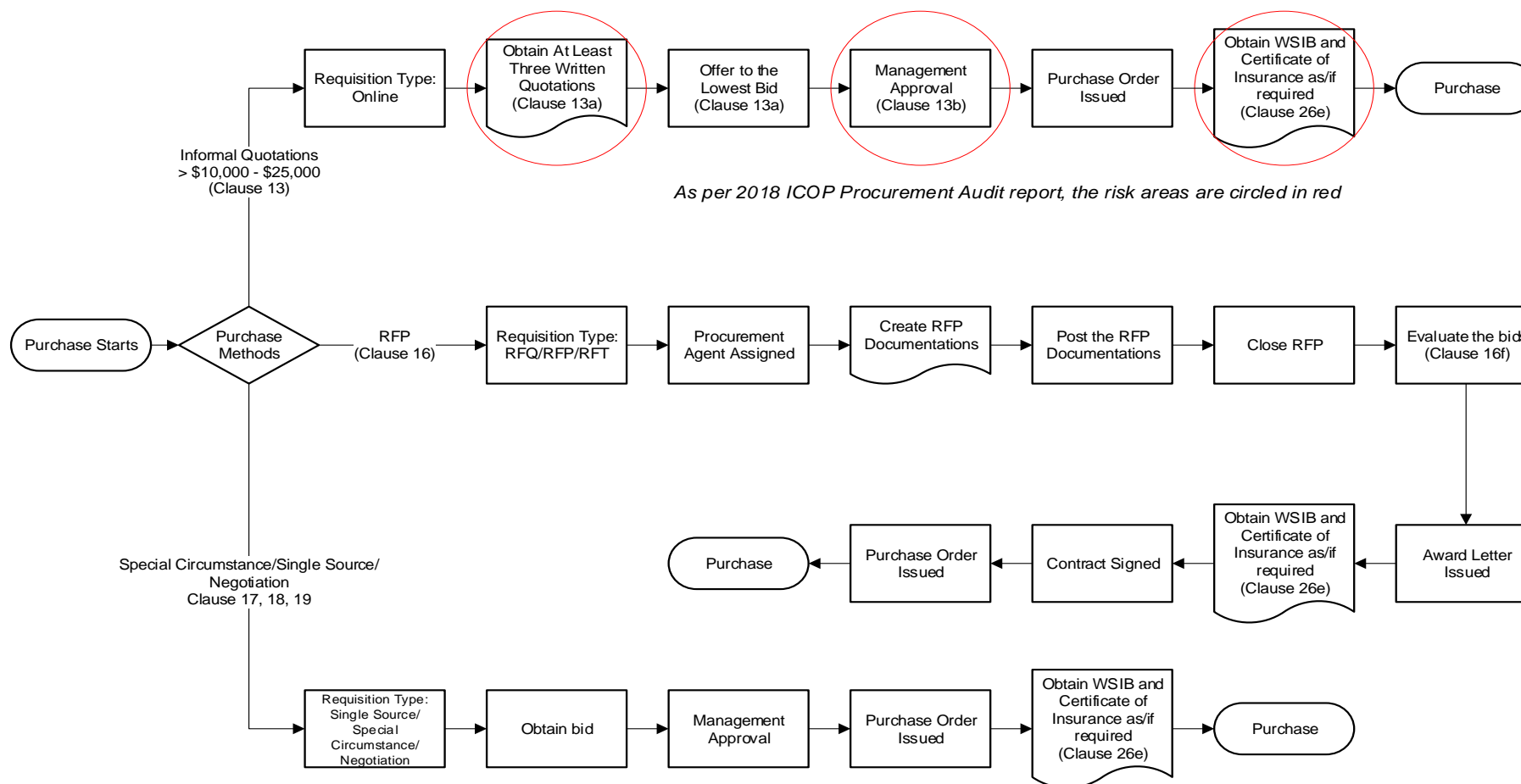
This table details the four main phases of a formal procurement including the pre-planning (or scoping), budget and project approval, tendering, evaluating and awarding and, finally, contract management. While the first and final phase are the responsibility of program areas, best practice procurement offices would support those functions by identifying potential risks, providing market analysis and finally ensuring project management is captured and used for future reference.

Internal Audit testing determined that Niagara Region's Procurement division provides highly effective support in the middle two phases (Project Approval & Budgeting and Tendering, Evaluating and Awarding) while in the Project Pre-Planning and Contract Management phases, program areas do not receive effective business support.

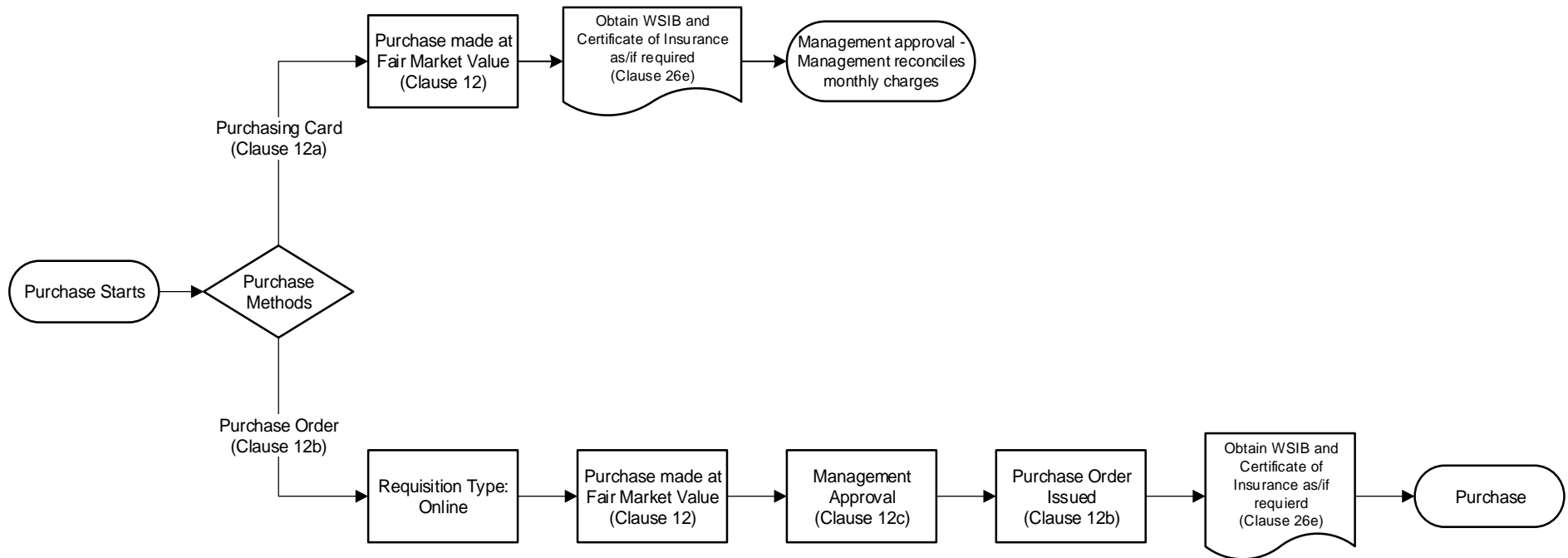
<b>Formal Transactions - Effectiveness of Support Provided by Procurement</b>				
	<b>Project Pre-Planning</b>	<b>Project Approval &amp; Budgeting</b>	<b>Tendering, Evaluating, Awarding</b>	<b>Contract Management</b>
<b>Description</b>	<ul style="list-style-type: none"> <li>• Participation with other groups in demand planning.</li> <li>• Analysis on industry, competitors or suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• Effectiveness and utilization of approval thresholds based on delegated authority levels.</li> <li>• Selection of appropriate requisitions for goods or outsourced services.</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to efficiently streamline necessary job documentation for the market.</li> <li>• Reliable, automated, and defined PO process.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective performance measurement tracking.</li> <li>• Effective performance reviews for future projects</li> <li>• Ability with forward visibility regarding contract renewals.</li> </ul>
<b>Effectiveness</b>	<b>LOW</b>	<b>HIGH</b>	<b>HIGH</b>	<b>LOW</b>

## APPENDIX III – PROCUREMENT BYLAW PROCESS

### Procurement By-Law Processes (Greater than \$10,000)



## Procurement By-Law Processes (Up to \$10,000)



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## MEMORANDUM

**AC-C 3-2020**

**Subject:** Non-competitive Procurement Audit Report

**Report to:** Audit Committee

**Report date:** Monday, January 20, 2020

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### Recommendations

1. That report AC-C 3-2020 **BE RECEIVED** for information; and
2. That staff **BE DIRECTED** to implement the recommendations in Appendix 1 of Report AC-C 3-2020, respecting Non-competitive Procurement Audit Report.

### Key Facts

3. The purpose of this report is to provide Audit Committee with a summary of findings noted during the Non-competitive Procurement Audit which focused on the control framework in place to support contracting and procurement activities.
4. This report contains the findings, implications and recommendations for the observations discovered during the Audit in addition to a Management Action Plan (MAP) from program staff for each of the recommendations.
5. Three observations with nine total recommendations have been detailed in the audit report.

### Financial Considerations

There are no immediate budgetary considerations associated with this report. It is anticipated that some of the recommendations may have an implementation cost associated to them. If management chooses to pursue the recommendations then all costs will be funded through the regular annual budget process.

### Analysis

This audit project was identified in the 2018 Audit Plan approved by Audit Committee (see **AC-C 6-2017**). 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 contracting and procurement activities. The audit also tested whether all purchasing activities are processed in a manner that is compliant with current Regional purchasing and procurement by-laws. Finally, the audit attempted to

determine the effectiveness of current procedures to ensure consistency, compliance, competitiveness and fairness/transparency.

### **Alternatives Reviewed**

No other alternatives were reviewed at this time.

### **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."

Following the completion of the 2015 and 2016 audits, Council approved a permanent Internal Audit function. The permanent internal audit function was named Internal Control and Organizational Performance division.

The 2018 Annual Audit Plan, which included an audit of procurement was approved by Audit Committee on October 31, 2017.

### **Other Pertinent Reports**

AC-C 6-2017 - 2018 Internal Audit Plan

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#### **Prepared by:**

Frank Marcella, MPA, BEd  
Manager,  
Internal Audit

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#### **Recommended by:**

Todd Harrison, CPA, CMA  
Commissioner/Treasurer  
Enterprise Resource Management  
Services

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#### **Submitted by:**

Ron Tripp, P.Eng.  
Acting, Chief Administrative Officer

### **Appendices**

Appendix 1                      Non-competitive Procurement Audit Report



## Internal Audit

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### Non-Competitive Procurement Audit

<b>Operating Unit:</b>	Niagara Region
<b>Date of Audit:</b>	July – October 2019
<b>Auditors:</b>	Frank Marcella, Manager, Internal Audit Henrik (Xiang) Gao, Internal Audit Analyst Katie Mamede, Internal Audit Co-op Student
<b>Distributed To:</b>	Niagara Region Audit Committee Ron Tripp, (Acting) Chief Administrative Officer Todd Harrison, Commissioner, Corporate Services Helen Chamberlain, Director, Financial Management and Planning Bart Menage, Director, Procurement and Strategic Acquisitions Tracie Byrne, Manager, Purchasing Services Jeffrey Mulligan, Manager, Strategic Sourcing
<b>Date Issued:</b>	November 15, 2019



## EXECUTIVE SUMMARY

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### BACKGROUND

In accordance with the 2019 Audit Plan, Internal Audit performed a comprehensive review of the non-competitive procurement process, as well as the role of the Procurement and Strategic Acquisitions Division in supporting and monitoring non-competitive purchasing activities.

Niagara Region strives to competitively procure all goods and services. However, in specific circumstances a non-competitive approach is permitted as referenced in Niagara Region's Procurement By-law. The specific sections of the by-law are referenced on the next page, but fall under sections 16-19 of the Procurement By-law. The purpose of the audit was to provide assurance to Management and Niagara Region's Audit Committee on the effectiveness and efficiency of the management control framework to support non-competitive procurement activities. The audit tested whether non-competitive purchasing activities are processed in a manner that is compliant with the Regional Procurement Bylaw. Finally, the audit evaluated the effectiveness of current procedures to ensure openness, accountability, transparency and fairness.

The methodology used by Internal Audit included a review of relevant documentation, analysis of financial data, interviews with key individuals involved in the procurement process and a study of procurement bylaws and operating procedures in six other Ontario jurisdictions. The period covered by the audit was from July 1, 2017 to July 1, 2019.

### SCOPE

A risk based auditing approach was used to determine the scope of the audit. The following processes, procedures and items were considered in scope:

- Risk identification and assessment of procurement processes to determine areas of greatest exposure,
- Review of Regional Procurement Bylaw and directives, including operating procedures, guidelines and training materials,
- Comparison of the Bylaw sections and operating process related to non-competitive procurement in Niagara Region with six Ontario municipalities,
- Interviews with key staff and clients involved in the procurement process to determine their overall roles and responsibilities, oversight, and monitoring functions, and
- Review and test a sample of non-competitive procurement documents to ensure compliance with procurement directives.

The following were considered out of scope:

- Purchasing Card transactions as these were audited in 2017,
- Informal and Formal procurement transactions which were reviewed in 2018, and
- Procurements related to Niagara Regional Housing and Niagara Regional Police Service.

## INTERNAL AUDIT FINDINGS

Non-competitive purchasing activities are defined as purchases created under the following requisition types in PeopleSoft Financials and referenced in the Procurement By-law:

- S. 18 - Single Source (SNG): acquiring goods or services from a particular supplier even though there may be other suppliers that are capable of delivering the same good or service, (i.e. compatibility of existing equipment),
- S. 19 - Negotiation (NGN): negotiating directly with one or more suppliers with the intent to award a contract, (i.e. a contract extension),
- S. 17 - Special Circumstance (SPE): acquiring an essential good or service to immediately address a situation that may cause harm or pose a threat, (i.e. an emergency), and
- Schedule 'A' (SCA): specific goods or services listed in Schedule A of the Procurement By-law are exempt from engaging in a competitive procurement, (i.e. a grant).

The purchase should satisfy specified conditions as detailed in the Regional Procurement By-law (By-law No. 2019-06). For our study period, the following table details the total and sample populations.

<b>Table 1 – Comparison of Total and Sample Non-competitive Purchases</b>				
<b>Req Type</b>	<b>Population \$ PO</b>	<b>Population # PO</b>	<b>Sample \$ PO</b>	<b>Sample # PO</b>
<b>SNG</b>	\$54,941,059	993	\$3,990,036	108
<b>NGN</b>	\$23,858,721	209	\$10,064,057	37
<b>SPE</b>	\$3,394,749	58	\$2,142,585	38
<b>SCA</b>	\$22,960,423	372	\$2,201,625	50
<b>Grand Total</b>	\$105,154,952	1632	\$18,398,303	233

Overall, the following positive observations were noted:

- The implementation of PeopleSoft in 2016 allows for greater data analysis of purchasing activities and trends,
- Schedule 'A' purchases are compliant with the current bylaw, and
- Schedule 'A' exemptions in the Procurement By-law are similar to other comparable jurisdictions.

Under the current Procurement Bylaw, local managers are responsible for understanding their obligations to procure goods and services within compliance of the by-law. As budget owners, local managers have a responsibility to ensure they and their staff are in compliance with all procurement processes. With regard to non-competitive purchases, Procurement Division is notified and involved in purchases above \$25,000.

Overall, the management control framework for non-competitive purchases requires improvement. The following is a summary of findings for areas where opportunities for improvements were noted:

1. High volume of purchases (goods or services) occur prior to the creation and approval of a requisition or purchase order.
2. The justification process for non-competitive purchases needs to be improved and standardized to ensure consistency and accuracy of reporting.
3. The current procurement process minimizes effective strategic involvement from Procurement and Strategic Acquisitions Division and Regional Council.

Internal Audit appreciates the assistance of management and staff from the Procurement & Strategic Acquisition Division, as well as selected program staff from multiple other departments who responded to our audit requests.

## OBSERVATIONS AND RECOMMENDATIONS

The following are all the observations from the audit along with recommendations and Management's Action Plans to address these issues. See Appendix I for the risk ranking justification.

### Observation #1 – High volume of purchases (goods or services) occur prior to the creation and approval of a requisition or purchase order

#### Risk Ranking

**HIGH**

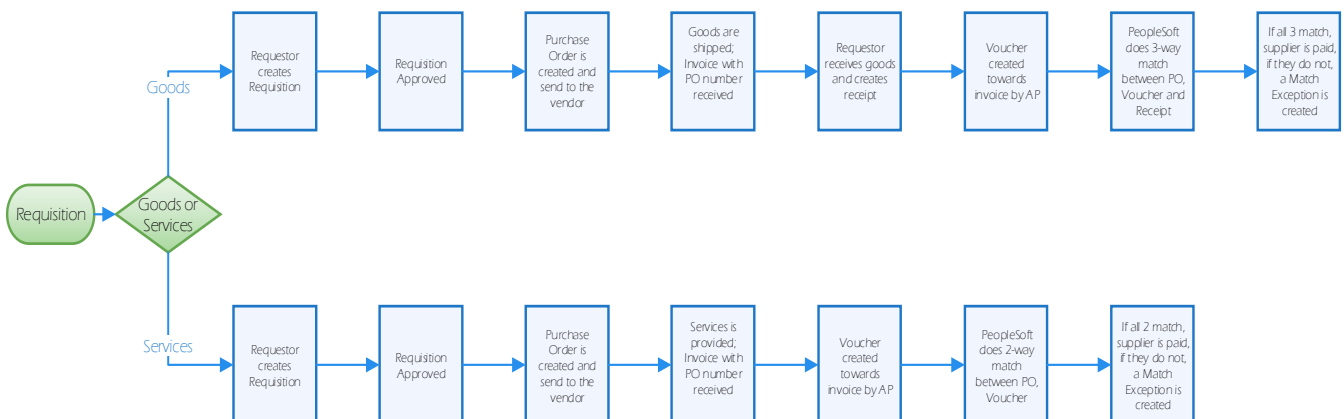
The analysis below details the number and dollar value of the sample purchase orders (POs) included in the audit. The analysis looked at the following areas:

- Timing and accuracy of the purchasing process, focusing upon:
  - Creation of requisition,
  - Approval of purchase order,
  - Actual purchase of goods or services
  - Compliance to By-law,
- Potential liability of procurement decisions, and
- The volume of purchase orders and oversight practices.

As stated previously, Niagara Region's policies, procedures, training materials and job descriptions require budget owners to be compliant with all procurement processes.

#### A. Purchase Timing

Following the implementation of PeopleSoft in early 2016, training was provided to all staff involved in purchasing activities with material readily available for future reference. As part of the training module entitled, "Requisitioning and Receiving Goods in PeopleSoft Financials", staff were instructed to ensure that a requisition was created and a purchase order approved prior to committing funds or formally acquiring goods and/or services. The training package included the following flow chart that visually depicts the purchasing scenario:



As depicted in the flow chart above, staff are required to create a requisition and a PO and have both approved prior to purchasing a good or service. This process ensures the following:

- Budget is secured and committed,
- Appropriate approver is aware and has approved the purchasing activity, and
- 2-way or 3-way matching is accomplished which includes segregation of duties.

Internal Audit sample testing identified that in 45% of non-competitive purchases reviewed, specifically single source, special circumstance and negotiation, purchases were completed prior to the requisition or purchase order being created or approved. With regard to Table 3, Schedule A purchases are less risky as have pre-specified justifications or payees, for example, payments to utilities, grant payments to local municipalities and provincial entities.

In the case of services, work was completed and invoices were received prior to the purchasing work steps occurring in PeopleSoft in numerous samples. While this was approximately 45% of the purchases in our sample, it represents \$1,970,095 or 12% of the dollar value sampled. The majority of transactions that have requisitions or purchases created following the delivery of goods or service(s) being provided are below \$25,000.

**Table 2 – Purchases Prior to Requisition**

Type	ICOP Sample		Requisition BEFORE Purchase		Requisition AFTER Purchase		% Non-compliance (volume)	% Non-compliance (\$)
<b>SNG</b>	108	\$3,990,035	72	\$3,027,364	36	\$962,671	33%	24%
<b>SPE</b>	38	\$2,142,585	18	\$1,280,341	20	\$862,244	53%	40%
<b>NGN</b>	37	\$10,064,057	11	\$9,918,877	26	\$145,180	70%	1%
<b>Total</b>	<b>183</b>	<b>\$16,196,677</b>	<b>101</b>	<b>\$14,226,582</b>	<b>82</b>	<b>\$1,970,095</b>	<b>45%</b>	<b>12%</b>

**Table 3 - Purchases Prior to Requisition**

Type	ICOP Sample		Requisition BEFORE Purchase		Requisition AFTER Purchase		% Non-compliance (volume)	% Non-compliance (\$)
<b>SCA</b>	50	\$2,201,625	18	\$388,085	32	\$1,813,540	64%	82%

## **B. Liability Due to Lack of Purchase Orders**

As was demonstrated in Table 2, many of the purchases being made, either goods or services, are done prior to the creation of purchase orders. In fact, in many cases it was determined that the work being purchased was actually completed prior to the purchase order being created or approved.

The purchase order created prior to acquiring goods or services acts as a contract with vendors. The absence of a PO transfers the risk and liability exposure back to the Region in the event of injuries or damages. Niagara Region may be at fault in the event of a claim by the contractor or third parties in the event of injury or property damage. Without the PO, the Region cannot refer to the vendor's certificate of insurance, which is typically received by the Region after a contract or PO is completed with a vendor.

The terms within a PO also details the expected quality of work from vendors. In the absence of a PO, the vendor may provide inadequate work with little ability for recourse from the Region. This could include nullifying warranties or requiring the vendor to correct deficiencies. It should be noted that an email or phone call to a vendor is not a legal substitute for a PO.

### **C. Purchase Order Volumes & other issues**

- Further testing on the sample POs that preceded requisitions revealed that many of the POs were to the same vendor performing similar work and created within a very short period of time. In many cases, staff are creating separate POs for individual invoices received, rather than bundling them together based on vendor and type of work. This is administratively time-consuming and inefficient.
- By separating POs it creates lower dollar value purchases and changes the approval path. For example, single source, special circumstance and negotiated purchase orders below \$10,000 need Manager approval while those between \$10,000 and \$25,000 require Director approval. This approval path does not include Procurement Division management.
- There were instances where program managers acquired services, had their administrative staff create the requisitions and POs after the invoices were received and then the same manager was approving the invoices for payment in PeopleSoft, thereby, effectively eliminating the appropriate segregation of duties.

### **Implication**

For non-competitive purchases, the audit revealed a high proportion of goods and service transactions completed prior to the creation of a requisition and/or PO. This increases the likelihood of the following:

- Reduction or elimination of segregation of duties,
- Justification demonstrating need to acquire non-competitively is not available or completed afterwards, contravening the Procurement By-law,
- Reduction or elimination of 2-way or 3-way matching conditions, and
- Does not ensure requisition is approved before the purchase is made

The high volume of POs created for same vendors conducting similar work alters the approval path and creates inefficiencies due to the time and effort required to fully process a PO.

The acquisition of services prior to the creation of a PO increases potential liability to the Region as there is no formal agreement between the Region and vendors for work being completed.

### **Recommendations**

1. The CAO should add a regular discussion item to the Corporate Leadership Team (CLT) meeting agenda to receive and discuss reporting from the Procurement Division regarding non-compliant procurement behaviour. CLT Members should subsequently follow-up with their direct reports on a timely basis to obtain explanations or correct exceptions identified in the reporting.
2. Procurement and Strategic Acquisitions Division should conduct and distribute regular data analytical reports while leveraging existing reports such as the Monthly Incomplete

Voucher Report and Match Exception Report to improve corporate compliance to the requisition process:

- a. Procurement and Strategic Acquisitions Division should analyze trends for non-compliant behaviour and report results to Corporate Leadership Team (CLT) on a quarterly basis to improve overall financial stewardship of local budget owners.
  - b. Procurement Division should generate regular transaction exception reports summarizing non-compliant activities and submit these reports to accountable Directors and Commissioners,
  - c. Findings should also be sent along with a communication plan to the Program Financial Specialists to improve transaction support at a departmental level, and
  - d. Based on the ongoing analytics, Procurement Division should develop and deliver regular communication/training to program areas and corporate-wide to ensure purchasing best practices are understood and complied with.
3. Program Financial Specialist within the Financial Management & Planning Division, should continue to liaise with the Procurement and Strategic Acquisitions Division by providing functional and procedural procurement guidance to their client areas. This should include receiving procurement trending reports from Procurement and Strategic Acquisitions Division, then following up with the client area to address reported issues.

### Management Action Plan

<b>Person(s) Responsible</b>	Chief Administrative Officer (response 1)	<b>Completion Date</b>	<b>2 a): March 2020 2 b), c) and d): July 2020</b>
	Director, Procurement & Strategic Acquisitions (response 2)		
	Director, Financial Management & Planning/Deputy Treasurer Corporate Services (response 3)		

1. CLT agrees with the recommendation and will ensure that non-compliance reports are brought to our attention on a regular and recurring basis. In addition, as CAO I will instruct all CLT members to communicate the analysis from the non-compliance reports to their staff to ensure all future transactions, regardless of dollar value, are compliant to the Procurement Bylaw.
2. a) Procurement Advisory Committee (PAC) approved 2019/2020 Work Plan which considered the development of quarterly spend analytical reports for all acquisition types, to identify opportunities to leverage spend, thereby driving cost savings. In March 2020, Procurement will bring the first of these quarterly reports forward to PAC and findings will also be share/reported to CLT. Future reporting can certainly give due consideration to reporting instance on non-compliance with the By-law.

2b) Procurement and Strategic Acquisitions Division will consider the feasibility (preparation/planning/resourcing) of broadening our analytical reporting to include an analysis of trends for non-compliant procurement activity for all requisition types.

2c) and 2d) Procurement and Strategic Acquisitions will report any ensuing results to Corporate Leadership Team (CLT) and PFS Group quarterly (in alignment with PAC meetings). Additionally, a reporting format will be developed and ensuing communication plan which provides training derived from our assessment of trends emanating from data being analysed and/or best in class procurement practice.

3. Program Financial Specialists (PFS) will continue to invite the Procurement Division leadership to the PFS team meetings to facilitate information sharing between Procurement Division and the client groups and to assist with the dissemination of Procurement initiatives and improvement to the client groups. Additionally the PFS will use this opportunity to engage the Procurement Division with feedback from the client groups regarding opportunities, risk etc



**Observation #2 – The justification process for non-competitive purchases needs to be improved and standardized to ensure consistency and accuracy of reporting**

**Risk Ranking**

**MEDIUM**

This audit reviewed 183 Single Source, Negotiation and Special Circumstance POs valued at over \$16 Million to test for compliance to the Procurement By-law with a focus on the justification reports and documentation available, (i.e. invoices, scope of work, etc.). As referenced in the background section of this report, non-competitive purchases fall under four related categories as per the Procurement By-law.

While the approval path varies based on the dollar value of the transaction, the necessity for justifying a non-competitive purchase are mandatory regardless of purchase value. The table below depicts some of the staff requirements and approvals for transactions. Schedule A transactions are excluded from Tables 4, 5 and 6 as their approval and justification requirement differ from other non-competitive purchases.

**Table 4 – Procurement Bylaw Purchasing Authority**

Method of Purchasing	Dollar Value	Purchasing Authority
Special Circumstance, Single Source and Negotiation	Up to \$10,000	Department Manager
	> \$10,000 to \$25,000	Department Director
	> \$25,000 to \$100,000	Department Director and the Manager of Procurement and Department Commissioner
	> \$100,000 to \$250,000	Department Director and the Manager of Procurement and Department Commissioner
	> \$250,000 to \$1,000,000	Department Commissioner and the Director of Procurement and Strategic Acquisitions and Commissioner of <b>Enterprise Resource Management Services/Treasurer</b>
	> \$1,000,000	Council

All non-competitive purchases should require a justification being inputted into PeopleSoft at the time of the purchase order creation. This allows the approver to make an informed decision as to why a competitive purchasing approach was not used. As per Procurement By-law, staff can code low dollar value transactions under \$10,000 as 'ONLINE', with no requirement to demonstrate competition or provide a justification.

Audit testing broke down transactions for Single Source, Negotiation, and Special Circumstance purchases and also isolated those above \$10,000.

**Table 5 – Justification Breakdown for ALL Non-competitive Purchases**

Audit Sample			No Justification		Bylaw Reference Only		Sufficient Justification	
Up to \$10k	\$249,173	50	\$138,002	35	\$63,809	9	\$47,362	6
\$10k - \$25k	\$1,495,763	81	\$533,665	30	\$313,099	16	\$648,999	35
\$25k - \$250k	\$3,321,200	46	\$492,242	8	\$513,900	11	\$2,315,058	27
\$250k+	\$11,129,305	6	\$0	0	\$0	0	\$11,129,305	6
<b>Total</b>	<b>\$16,195,441</b>	<b>183</b>	<b>\$1,163,909</b>	<b>73</b>	<b>\$890,808</b>	<b>36</b>	<b>\$14,140,724</b>	<b>74</b>

**Table 6 – Justification Breakdown for Non-competitive Purchases Over \$10,000**

Audit Sample			No Justification		Bylaw Reference Only		Sufficient Justification	
<b>SNG</b>	\$3,884,330	93	\$900,482	31	\$694,890	23	\$2,288,958	39
<b>SPE</b>	\$2,088,733	29	\$785,561	7	\$0	0	\$1,303,172	22
<b>NGN</b>	\$9,973,205	11	\$11,909	1	\$0	0	\$9,961,296	10
<b>Total</b>	<b>\$15,946,268</b>	<b>133</b>	<b>\$1,697,952</b>	<b>39</b>	<b>\$694,890</b>	<b>23</b>	<b>\$13,553,426</b>	<b>71</b>

Overall, approximately 40% (73 out of 183 POs) of transactions coded as one of the non-competitive categories had no justification to demonstrate why a competitive purchasing option could not have been chosen. Another 36 transactions or approximately 20% referenced a by-law section but did not elaborate as to why competition was bypassed. In total, 40% (74 out of 183 POs) of transactions coded as non-competitive, regardless of dollar value, had sufficient justification demonstrating the necessity to forego a competitive process.

The audit then looked at transactions over \$10,000 as the approval paths vary based on dollar value. For transactions between \$10,000 and \$25,000, staff have the option of coding the purchase as ONLINE but competition must be demonstrated. Given that the approval for non-competitive purchases may be elevated to department Director, Commissioner and/or Procurement and Strategic Acquisitions Division management, it can be expected that the quantity and quality of justifications would improve. The number of transactions over \$10,000 that had vague or no justification was about 30% (39 out of 133 POs), a slight improvement from the overall total. When combined with transactions that only reference a by-law section, the total is just under 50% (62 out of 133 POs), again a slight improvement from the overall picture. It should be noted that as the transaction amount increases, the justifications are more readily available while the quality of justification also improves for managers to view and use in their decision making.

### Implication

Based on the quality and inconsistent nature of non-competitive purchase justifications:

- Approvers may not be receiving sufficient or consistent justification information to support effective purchasing decisions,
- Prevents Procurement and Strategic Acquisitions Division from monitoring or analyzing transactions for compliance, and
- May not demonstrate compliance to the Procurement By-law

### Recommendations

1. Procurement and Strategic Acquisitions Division should develop a formal justification document that must be uploaded into PeopleSoft to create more consistent and improved justification reporting.
2. Procurement and Strategic Acquisitions Division should develop and provide training for all budget owners to improve the quality of non-competitive procurement justifications.

3. Program Financial Specialists within the Financial Management & Planning Division, should support the Procurement and Strategic Acquisitions Division in the execution of the non-competitive procurement justification training to their respective client areas.
4. Financial Management & Planning Division should investigate eliminating the requisition types of Single Source (SNG), Special Circumstance (SPE) and Negotiation (NGN) for transactions below \$10,000 to reflect the Procurement By-law.

#### Management Action Plan

<b>Person(s) Responsible</b>	Director, Procurement & Strategic Acquisitions (responses 1 and 2)  Director, Financial Management & Planning/Deputy Treasurer Corporate Services (response 3 and 4)	<b>Completion Date</b>	<b>1, 2: June 2020 4: March 2020</b>
<ol style="list-style-type: none"> <li>1. While the implementation of PeopleSoft Financial negated the need for the continued use of the Region's external formal justification form, Procurement is supportive of the development of a solution which introduces more rigour and consistency in reporting of justifications. Procurement will continue discussions to improve, strengthen and implement a preferred solution with within the first two quarters of 2020.</li> <li>2. As a supplement to the outcome proposed in our response to recommendation #1, Procurement and Strategic Acquisitions will develop training and guidance documents to accompany and support the justification document/process identified as the preferred option.</li> <li>3. Program Financial Specialists (PFS) will continue to invite the Procurement Division leadership to the PFS team meetings to facilitate information sharing between Procurement Division and the client groups and to assist with the dissemination of Procurement initiatives and improvement to the client groups. Additionally the PFS will use this opportunity to engage the Procurement Division with feedback from the client groups regarding opportunities, risk etc.</li> <li>4. ERP Support will add this as an enhancement request to our item log to review in Q1 2020. Although we do not believe that PeopleSoft Financials can accommodate this within the existing requisition process or workflow, we believe we may be able to configure what is called an event mapping to provide a pop-up message to users that an incorrect requisition type was chosen and prevent them from submitting the requisition until it is changed.</li> </ol>			

**Observation #3 – The current procurement process minimizes effective strategic involvement from Procurement Division and Regional Council.**

**Risk Ranking**

**MEDIUM**

The audit compared the various approval paths based on dollar value ranges to comparable municipalities to determine best practices in oversight and overall management framework. At Niagara Region, specifically for purchases below \$25,000, Procurement and Strategic Acquisitions Division has no involvement as the approval resides entirely with local management. While the threshold for involvement varies in the other municipalities, three jurisdictions have created a mandatory, standardized justification form that is uploaded into their financial system to allow procurement staff to view and analyze all non-competitive purchases regardless of the dollar value. Currently, Niagara has no justification form. The lack of a standardized justification form creates opportunity for the requestor to provide an insufficient or blank justification. Whereas in jurisdictions where a justification form is mandatory, the requestor is required to fill out the fields that are listed (e.g. bylaw reference, dollar amount, reason for not going competitive, etc.) to ensure the approver receives all required information to make an informed decision. In addition, all of the municipalities, except Toronto, have procurement staff directly involved in transactions beyond what is classified as a 'low dollar value' purchase. As a compensating control though, Toronto requires the completion of a justification form for any purchase greater than \$3,000. Niagara does not have a justification form nor is Procurement and Strategic Acquisitions Division involved in any non-competitive purchase less than \$25,000.

Among the comparator municipalities, Niagara Region has the highest threshold limit at \$1,000,000 whereby a non-competitive transaction requires Council approval. Three of the municipalities have regular reporting of all non-competitive purchases to Council – Hamilton reports quarterly, which is the most frequent.

**Table 7 – Approval Limits Comparison**

	Niagara	Toronto	Ottawa	Hamilton	Halton	Durham	Windsor
<b>Low Value Purchase Maximum</b>	\$10,000	\$3,000	\$2,500 for goods & \$15,000 for professional services	\$10,000	\$10,000	\$5,000	\$5,000
<b>Justification Form Required</b>	✗	✓	✓	✓	✗	✗	✗
<b>Procurement Office Approval/Involvement</b>	Over \$25,000	\$50,000 to \$500,000	Over \$2,500 for goods & over \$15,000 for professional services	\$10,000 to \$250,000	\$10,000 to \$100,000	\$5,000 to \$125,000	\$5,000 to \$150,000
<b>Council Approval</b>	Over \$1,000,000	Over \$500,000	✗	Over \$250,000	Over \$100,000	Over \$125,000	Over \$150,000
<b>Non-competitive Purchases Report to Council</b>	✗	Annually	Semi-annually	Quarterly	Annually	✗	✗

## Implications

Absence of regular council reports on non-competitive purchasing activities may limit the Niagara Region's ability to ensure transparency. In addition, the current limit at \$1,000,000 for Council approval causes very few non-competitive transactions to be presented to Niagara Region Council compared to other jurisdictions.

Lack of formal and standardized justification form, as well as involvement or oversight by Procurement and Strategic Acquisitions Division for transactions below \$25,000 results in potentially non-compliant purchasing patterns. For example, a number of POs starting out as non-competitive below \$25,000, are thereafter increased over the course of a project through PO changes.

## Recommendation

1. Procurement and Strategic Acquisitions Division in consultation with program areas, should report to Council regularly on non-competitive and non-compliant purchasing activities.
  - a. Council reports should stipulate the business rationale and/or justification for selecting a non-competitive transaction method.
2. Procurement and Strategic Acquisitions Division should recommend to Council, through its Procurement Advisory Committee to further research the merits of the current \$1,000,000 approval limit to improve Council awareness of non-competitive transactions and public transparency.

## Management Action Plan

Person Responsible	Director, Procurement & Strategic Acquisitions	Completion Date	March 2020
<ol style="list-style-type: none"><li>1. Procurement Advisory Committee approved 2019/2020 Work Plan Item #5 for the development of quarterly spend analytical reports for all acquisition types to identify opportunities, drive savings and compliance is in development. In March 2020, Procurement will bring the first of these quarterly reports forward to PAC.</li><li>2. Procurement's preference would be to not treat this as a standalone recommendation but rather, consider it as part of fulsome ongoing discussions with the PAC/Regional Council which would include a review of the forthcoming amendments to the Procurement By-law anticipated for 2020.</li></ol>			

## APPENDIX I - RATING SCALE

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Rating	Definition
<b>CRITICAL</b>	Requires immediate action by Senior Management to avert a severe/disastrous risk event in the near-term. Internal controls are deemed to be ineffective, absent or poorly designed. Management Actions Plans (MAP's) are to be implemented immediately to mitigate risk of substantial financial losses, business interruption, loss of reputation and/or environmental, public health & safety risk.
<b>HIGH</b>	Requires prompt action by Management to avert, reduce or transfer a major risk event. Internal controls are deemed to be ineffective, absent or poorly designed. MAP's should be implemented to mitigate the risk of financial losses, loss of reputation, address fraud issues or legal/regulatory non-compliance.
<b>MEDIUM</b>	Requires timely actions by Management to reduce risks to a low level. Internal controls are deemed to be ineffective or poorly designed. Management action is required, but is not immediate. Moderate financial losses, temporary/minor reputational impairment, lesser potential for fraud or regulatory non-compliance may occur without timely MAP's.
<b>LOW</b>	Management actions are recommended to address the weaknesses identified. Internal controls are operating effectively or partially address the control objective; however they may be poorly designed and/or operational inefficiencies exist which may result in an opportunity for improvement. Low risk events may cause operational inconvenience or minor financial losses.



**Mailing Address:**  
P.O. Box 344  
Thorold ON L2V 3Z3

**Street Address:**  
Campbell East  
1815 Sir Isaac Brock Way  
Thorold ON

Phone: 905-682-9201  
Toll Free: 1-800-232-3292  
*(from Grimsby and beyond Niagara region only)*

Main Fax: 905-687-4844  
Fax – Applications: 905-935-0476  
Fax – Contractors: 905-682-8301  
Web site: [www.nrh.ca](http://www.nrh.ca)

October 18, 2019

Ann-Marie Norio, Regional Clerk  
Niagara Region  
1815 Sir Isaac Brock Way  
Thorold, ON L2V 4T7

Dear Ms. Norio:

At their October 18, 2019 meeting, the Niagara Regional Housing Board of Directors, passed the following motion:

1. That the draft audited statement of revenues and expenses for 527 Carlton Street Project at July 31, 2019 (Appendix 1), **BE APPROVED**;
2. That staff **BE DIRECTED** to co-ordinate with the auditor to finalize the statement as presented; and
3. That this report **BE FORWARDED** to the Region's Audit Committee for information

Your assistance is requested in providing the attached report, NRH 13-2019, to the Audit Committee.

Sincerely,

Mayor Walter Sendzik  
Chair





**REPORT TO:** Board of Directors of Niagara Regional Housing

**SUBJECT:** Approval of Draft Audited Statement of Revenues and Expenses for 527 Carlton Street Project

---

## Recommendation

That the Niagara Regional Housing (NRH) Board of Directors **APPROVE** the following recommendations:

1. That the draft audited statement of revenues and expenses for 527 Carlton Street Project at July 31, 2019 (Appendix 1), **BE APPROVED**;
2. That staff **BE DIRECTED** to co-ordinate with the auditor to finalize the statement as presented; and
3. That this report **BE FORWARDED** to the Region's Audit Committee for information.

## Key Facts

- The purpose of the report is to obtain approval of the audited statement in order to satisfy the provincial funding requirements and release the remaining 10% portion of the agreed funding.
- The audited statement is in accordance to the provisions of the Service Manager Administration Agreements for Investment in Affordable Housing for Ontario-2014 Extension (IAH-E) and Social Infrastructure Fund (SIF) between the Ministry of Municipal Affairs and Housing (MMAH) and the Region, along with the Contribution Agreements for IAH-E and SIF between the Region and NRH.
- Approval of the audited statement by the governing Board of the Agency, Board and Commission (ABC) and referral to the Audit Committee for information is in accordance with C-F-020 Financial Reporting & Forecasting policy dated July 26, 2018.

## Financial Considerations

The statement of revenues & expenses for the 527 Carlton Street Project has been prepared in accordance with the financial reporting provisions of the Service Manager Administration Agreements for Investment in Affordable Housing for Ontario-2014 Extension (IAH-E) and Social Infrastructure Fund (SIF) between the Ministry of Municipal Affairs and Housing (MMAH) and the Region, along with the Contribution Agreements for IAH-E and SIF between the Region and NRH.

Provincial and federal funding in the amount of \$11,081,817 was approved for the project. Of the total funding, \$9,973,635.30 has been received to date. The remaining 10% portion of \$1,108,181.70 will be received upon submission of this audited statement.

A draft copy of the financial statement from the project start date to July 31, 2019 is attached as Appendix 1.



The Statement is prepared to assist NRH and the Region to comply with the financial reporting provisions of the funding agreements. The audit report indicates that the statement may not be suitable for another purpose.

## Analysis

The audit of the 527 Carlton Street Project was completed by the Region's auditors, Deloitte. The auditors have indicated that, based on their review, nothing has come to their attention that causes them to believe that this information is not, in all material respects, in accordance with the requirements identified.

Upon approval by the NRH Board of Directors, the statement will be submitted to the MMAH in accordance with funding agreement requirements and timelines and will be referred to Audit Committee for information.

The 527 Carlton Street Project commenced as part of the approval of the 2016 Capital Budget. At July 31, 2019, the project has expenses of \$14,928,079 resulting in a current project surplus of \$842,798 which will be returned to the NRH Owned Units Reserve. The expenses at July 31, 2019 maximize the agreed funding from MMAH and thus no funds are required to be returned.

The statement is subject to minor wording changes once the statement is finalized.

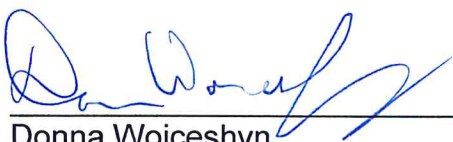
## Alternatives Reviewed

The audited schedules are a funding agreement requirement and therefore no alternatives are available.

## Other Pertinent Reports

N/A

Submitted by:

  
Donna Woiceshyn  
CEO

Approved by:

  
Walter Sendzik  
Chair

*This report was prepared by Stephanie Muhic, Program Financial Specialist, in consultation with Donna Woiceshyn, CEO.*

## Appendices

Appendix 1 Draft Audited Statement of Revenues and Expenses – 527 Carlton Street

Statement of revenues and expenses

**The Regional Municipality of Niagara**  
Niagara Regional Housing – 527 Carlton Street Project

July 31, 2019

# **The Regional Municipality of Niagara**

Niagara Regional Housing – 527 Carlton Street Project

July 31, 2019

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Deloitte LLP  
25 Corporate Park Drive  
Suite 301  
St. Catharines ON L2S 3W2  
Canada

Tel: 905-323-6000  
Fax: 905-323-6001  
www.deloitte.ca

## Independent Auditor's Report

To the Ministry of Municipal Affairs and Housing and the Regional Municipality of Niagara

### Opinion

We have audited the Niagara Regional Housing – 527 Carlton Street Project statement of revenues and expenses of the Regional Municipality of Niagara (the "Region") from the project start date to July 31, 2019, including a summary of significant accounting policies (collectively referred to as the "Statement").

In our opinion, the accompanying Statement of the Region from the project start date to July 31, 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the Service Manager Administration Agreements for Investment in Affordable Housing for Ontario (2014 Extension) – Rental Housing Component Year 3 and Year 4 dated September 29, 2014 ("IAH-E") and 2016 Social Infrastructure Fund – Rental Housing Component Year 1 ("SIF") dated August 16, 2016, between the Ministry of Municipal Affairs and Housing (the "Ministry") and the Region, along with the Contribution Agreements for IAH-E dated February 9, 2017 and April 1, 2017 and SIF dated February 9, 2017, between the Region and Niagara Regional Housing (the "Financial Reporting Framework").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statement* section of our report. We are independent of the Region in accordance with the ethical requirements that are relevant to our audit of the Statement in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 to the Statement, which describes the basis of accounting. The Statement is prepared to assist the Region to comply with the financial reporting provisions of the above noted agreements. As a result, the Statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Statement

Management is responsible for the preparation of the Statement in accordance with the Financial Reporting Framework, and for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Region's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Statement**

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Region's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
October 18, 2019

**The Regional Municipality of Niagara**  
Niagara Regional Housing - 527 Carlton Street Project  
Statement of revenues and expenses  
Project start date to July 31, 2019

	Budget	Actual
	\$	\$
<b>Revenues</b>		
Niagara Regional Housing reserves	4,689,060	3,846,262
Federal/Provincial funding:		
SIF Year 1 funding	2,387,817	2,387,817
IAH-E Year 3 funding	5,806,000	5,806,000
IAH-E Year 4 funding	2,888,000	2,888,000
	15,770,877	14,928,079
<b>Expenses</b>		
Construction:	12,021,312	7,883,953
Sprinklers	-	117,500
Mechanical	-	2,312,995
Electrical	-	1,080,000
Landcaping, paving, outdoor amenities	20,000	958,236
Land	1,050,000	1,068,153
Design	363,500	469,096
Site remediation and soil stabilization	312,000	289,332
Other	123,392	225,184
Non-recoverable HST	248,360	213,345
Kitchen appliances	127,500	120,884
Environmental and geotechnical	60,000	78,091
Legal	2,000	34,610
Property tax	-	26,895
Furnishings and equipment	20,000	22,265
Land registration and land transfer tax	-	14,743
Topographic surveying	8,675	9,744
Audit	3,000	3,053
Contingency	1,411,138	-
	15,770,877	14,928,079
<b>Net revenues over expenses</b>	-	-

The accompanying notes to the financial statement are an integral part of this financial statement.

# The Regional Municipality of Niagara

Niagara Regional Housing – 527 Carlton Street Project

Notes to the statement of revenues and expenses

July 31, 2019

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## 1. Significant accounting policies

The Statement is prepared for the Regional Municipality of Niagara (the "Region") and the Ministry of Municipal Affairs and Housing (the "Ministry") in accordance with the financial reporting provisions of the Service Manager Administration Agreements for IAH-E and SIF, between the Ministry and the Region, along with the Contribution Agreements for IAH-E and SIF, between the Region and Niagara Regional Housing. It is prepared in accordance with Canadian public sector accounting standards, except that it does not provide for employee future benefits and does not capitalize and amortize tangible capital assets.

Significant accounting policies are as follows:

### *Revenues and expenses*

Revenues and expenses are reported on the accrual basis of accounting.

The accrual basis of accounting recognizes revenues as they become available and measureable, expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal liability to pay.

### *Tangible capital assets*

This historical cost and accumulated depreciation of tangible capital assets are not recorded. Tangible capital assets acquired are reported as an expenditure and amortization is not recorded on the Statement.

## 2. Budget data

The budget data presented in the Statement is based on the budget data submitted to the Regional Municipality of Niagara.

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**Subject:** Approval of the 2018 Healthy Babies, Healthy Children Program Schedule of Revenues and Expenses

**Report to:** Public Health and Social Services Committee

**Report date:** Tuesday, September 10, 2019

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## Recommendations

1. That the draft audited schedule of revenues and expenses for the Healthy Babies, Healthy Children Program for the calendar year ended December 31, 2018 (Appendix 1 to Report PHD 15-2019), **BE APPROVED**;
2. That staff **BE DIRECTED** to co-ordinate with the auditor to finalize the statements as presented; and
3. That Report PHD 15-2019 **BE FORWARDED** to the Region's Audit Committee for information.

## Key Facts

- The purpose of this report is to obtain approval of the audited schedule in accordance with the provincial funding requirements.
- The annual Healthy Babies, Healthy Children Program questionnaire along with a draft copy of the audited schedule were submitted to the Ministry before the July 31, 2019 deadline.
- Once approved and finalized, the audited schedule for the year ended December 31, 2018 will be submitted to the Ministry.
- In accordance with report AC-C 32-2018 dated June 18, 2018, respecting the Audit Committee Terms of Reference, "other audited financial statements, to include special purpose and compliance-based schedules, are approved by the standing committee with oversight of the program and then referred to Audit Committee for information".

## Financial Considerations

The schedule has been prepared in compliance with legislation and in accordance with the requirements and policies stipulated by the Ministry.

A draft copy of the audited schedule for the year ended December 31, 2018 is attached as Appendix 1.

The schedule is prepared specifically for the purpose of meeting the requirements outlined in the service agreement with the Ministry.



The schedule for Healthy Babies, Healthy Children Program is a provincial requirement as noted in the audit report:

“The schedule is prepared to assist the Program in complying with the financial reporting provisions of the agreement dated January 1, 2018 between the Ontario Ministry of Children and Youth Services and the Regional Municipality of Niagara. As a result, the schedule may not be suitable for another purpose.”

## **Analysis**

The audited schedule was completed by the Region's external auditors, Deloitte. The auditors have indicated that, based on their review, nothing has come to their attention that causes them to believe that this information is not, in all material respects, in accordance with the Ministry requirements identified.

The approval of the audited schedule rests with the Committee to which the department responsible for the funding reports. In this case, approval by Committee and Council satisfies the Ministry requirement of having approval from the Niagara Region's Board of Health. Upon approval by the Committee, these schedules are referred to Audit Committee for information. Then the department's Commissioner and Treasurer will be authorized to sign the auditor's representation letter to obtain the auditors signed report.

As of December 31, 2018 the Healthy Babies, Healthy Children Program was not in a grant repayable position as all of the funding from the Ministry was spent during 2018.

The schedule is subject to minor wording changes once schedules are finalized.

## **Alternatives Reviewed**

The audited schedule is a Ministry requirement and therefore no alternative is available.

## **Relationship to Council Strategic Priorities**

Not applicable (pending the development of Council Strategic Priorities).

## **Other Pertinent Reports**

None.

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**Prepared by:**

Beth Brens, CPA, CA  
Acting Associate Director, Reporting &  
Analysis  
Corporate Services

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**Recommended by:**

M. Mustafa Hirji, MD MPH FRCPC  
Medical Officer of Health &  
Commissioner (Acting)  
Public Health

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**Submitted by:**

Ron Tripp, P.Eng.  
Acting Chief Administrative Officer

*This report was prepared in consultation with Noah Bruce, Program Financial Specialist.*

**Appendices**

Appendix 1 Healthy Babies, Healthy Children – Audited Schedule of Revenues and Expenses

Schedule of revenue and expenses

**The Regional Municipality of  
Niagara Public Health Department**  
Healthy Babies, Healthy Children Program

December 31, 2018

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# **The Regional Municipality of Niagara**

## **Public Health Department**

Healthy Babies, Healthy Children Program

December 31, 2018

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## Independent Auditor's Report

To the Members of Council of the Regional Municipality of Niagara and Ontario Ministry of Children and Youth Services

### Opinion

We have audited the accompanying schedule of revenue and expenses of the Regional Municipality of Niagara Public Health Department – Healthy Babies, Healthy Children Program (the “Program”) for the year ended December 31, 2018 notes to the schedule (collectively referred to as the “schedule”).

In our opinion, the accompanying schedule of the Program for the year-ended December 31, 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the agreement dated January 1, 2018 between the Ontario Ministry of Children and Youth Services and the Regional Municipality of Niagara.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedule* section of our report. We are independent of the Program in accordance with the ethical requirements that are relevant to our audit of the schedule in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Program in complying with the financial reporting provisions of the agreement dated January 1, 2018 between the Ontario Ministry of Children and Youth Services and the Regional Municipality of Niagara. As a result, the schedule may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Schedule

Management is responsible for the preparation of the schedule in accordance with the Guidelines, and for such internal control as management determines is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

In preparing the schedule, management is responsible for assessing the Program's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Program's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Schedule**

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this schedule.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Program's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the schedule or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Program to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants  
Licensed Public Accountants  
May 16, 2019

# The Regional Municipality of Niagara

## Public Health Department

Healthy Babies, Healthy Children Program

Schedule of revenue and expenses  
year ended December 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	\$	\$	\$
<b>Revenue</b>			
Ministry of Youth and Child Services funding	2,365,130	<b>2,365,130</b>	2,402,555
Other revenue	-	<b>388</b>	-
	<b>2,365,130</b>	<b>2,365,518</b>	<b>2,402,555</b>
<b>Expenses</b>			
Salaries and wages: unionized			
Public health nurses	1,189,394	<b>1,118,187</b>	1,117,703
Employee benefits	388,273	<b>357,011</b>	383,435
Lay home visitors	294,714	<b>319,076</b>	315,456
Clerical	96,785	<b>99,946</b>	104,839
WSIB	-	<b>417</b>	7,432
Health promoter	-	-	22,859
Salaries and wages: non-unionized			
Management	202,748	<b>210,352</b>	203,301
Administration ISCIS	57,637	<b>60,764</b>	53,499
Employee benefits	58,721	<b>58,737</b>	56,491
	<b>2,288,272</b>	<b>2,224,490</b>	<b>2,265,015</b>
<b>Operating costs</b>			
Administration costs (Note 3)	168,170	<b>151,290</b>	128,702
Travel - mileage	50,000	<b>57,863</b>	58,843
Professional development	6,985	<b>39,835</b>	18,010
Program supplies/resources	3,375	<b>18,325</b>	40,770
Telephone and communication	8,000	<b>11,431</b>	8,418
Office supplies	2,300	<b>7,289</b>	2,435
Audit fees	5,698	<b>5,795</b>	8,614
Cleaning allowance	500	<b>490</b>	450
	<b>245,028</b>	<b>292,318</b>	<b>266,242</b>
<b>Total expenses</b>	<b>2,533,300</b>	<b>2,516,808</b>	<b>2,531,257</b>
<b>Deficiency of revenue over eligible expenses</b>	<b>(168,170)</b>	<b>(151,290)</b>	<b>(128,702)</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# The Regional Municipality of Niagara

## Public Health Department

Healthy Babies, Healthy Children Program

Notes to the schedule of revenue and expenses

December 31, 2018

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### 1. Summary of significant accounting policies

#### *Basis of accounting*

This schedule has been prepared for the Ontario Ministry of Children and Youth Services. The agreement requires the schedule to be prepared in a manner consistent with generally accepted accounting principles ("GAAP"). Management of The Regional Municipality of Niagara has interpreted GAAP to be recognition and measurement principles in accordance with Canadian Public Sector Accounting Standards, except that it does not provide for employee future benefits and does not capitalize and amortize tangible capital assets. Management has further interpreted that GAAP does not include the presentation principles or the presentation of all financial statements and note disclosures required by GAAP for a complete set of financial statements.

#### *Revenue and expenses*

Revenue is reported on the accrual basis of accounting.

Expenses are recorded if they are eligible for the program and incurred in the period except for employee future benefits.

#### *Capital assets*

Tangible capital assets acquired are reported as expenses and amortization is not recorded.

#### *Employee future benefits*

Employee future benefits are provided which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, and life insurance, extended health and dental benefits for early retirees. These benefits are recorded on a cash basis.

#### *Use of estimates*

Since precise determination of many assets and liabilities is dependent upon future events, the preparation of a periodic schedule involves the use of estimates and approximations. These have been made using careful judgments.

Certain administrative expenses are allocated to the program based on usage drivers specific to each type of expenditure.

### 2. Grant receivable/repayable

The grant receivable/repayable to the Province of Ontario is subject to audit verification by the Ontario Ministry of Children and Youth Services. The grant receivable/repayable is non-interest bearing and is normally recovered in the subsequent year. The surplus repayable to the Province of Ontario for the year ended December 31, 2018 is \$nil (2017 - \$nil).

	2018	2017
	\$	\$
Grant receivable, beginning of year	-	-
Deficiency of revenue over eligible expenses	151,290	128,702
Expenses not recoverable	(151,290)	(128,702)
Grant receivable, end of year	-	-



# The Regional Municipality of Niagara

## Public Health Department

Healthy Babies, Healthy Children Program

Notes to the schedule of revenue and expenses

December 31, 2018

### 3. Administration costs

	2018 Budget	2018 Actual	2017 Actual
	\$	\$	\$
Accounting services	4,378	2,644	2,605
Payroll services	39,156	42,599	32,748
Human resources services	24,928	16,592	21,214
IT program support services	71,877	61,034	60,765
Legal services	-	-	256
Insurance costs	1,182	1,126	1,110
Printing costs	2,524	3,569	2,578
Capital financing allocation	24,125	23,726	7,426
	168,170	151,290	128,702

### 4. Budget data

The budget data presented in the schedule is based on the budget data submitted to the Ontario Ministry of Children and Youth Services.

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**Subject:** Approval of 2018 Child Care Services Schedule of Revenues and Expenses

**Report to:** Public Health and Social Services Committee

**Report date:** Tuesday, September 10, 2019

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## Recommendations

1. That the 2018 Child Care Services draft schedule of revenues and expenses for the year ended December 31, 2018 (Appendix 1) **BE APPROVED**;
2. That staff **BE DIRECTED** to co-ordinate with the auditors to finalize the statements as presented;
3. That this report **BE FORWARDED** to the Region's Audit Committee for information

## Key Facts

- The purpose of the report is to obtain approval of the audited schedule of revenues and expenses ("schedule") for Child Care Services in accordance with the provincial requirements
- The Ministry submission deadlines for Child Care Services Program is July 31, 2019. Draft schedules have been submitted to the Ontario Ministry of Education ("the Ministry") and the final schedules will be submitted upon Council approval.
- In accordance with report AC-C 32-2018 dated June 18, 2018, respecting the Audit Committee Terms of Reference, which refers to "other audited financial statements, to include special purpose and compliance based schedules, are approved by the standing committee with oversight of the program and then referred to Audit Committee for information.

## Financial Considerations

The schedules have been prepared in compliance with the legislation and in accordance with the requirements and policies stipulated by the Ministry.

A draft copy of the schedule has been attached as Appendix 1.

The financial schedules are prepared specifically for the purposes of meeting the requirements outlined in the agreements with the funding Ministry.

The schedule for Child Care Services is a provincial requirement as noted in the audit report:

“The Schedules are prepared to assist the Regional Municipality of Niagara to comply with the financial reporting provisions of the above noted agreements. As a result, the Schedules may not be suitable for another purpose.”

## **Analysis**

The audited schedule was completed by the Region’s external auditors, Deloitte. The auditors have indicated that, based on their review, nothing has come to their attention that causes them to believe that this information is not, in all material respects, in accordance with the Ministry requirements identified.

The approval of the audited schedule rests with the Committee to which the department is responsible for the funding reports. Upon approval by Council, the schedule will be submitted to the Ministry in accordance with the funding agreement and also referred to Audit Committee for information.

As of December 31, 2018 Child Care Services has a returnable of \$490,030 reflected in the Region’s 2018 consolidated financial statements. This returnable is a result of the difference of actual Wage Enhancement Grant applications received compared to the Ministry estimate of applications when funding was advanced.

The schedule is subject to minor wording changes once schedules are finalized.

## **Alternatives Reviewed**

The audited schedule is a Ministry requirement and therefore no alternatives are available.

## **Relationship to Council Strategic Priorities**

Not applicable (pending the development of Council Strategic Priorities).

## **Other Pertinent Reports**

None

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**Prepared by:**

Beth Brens, CPA, CA  
Acting Associate Director, Reporting &  
Analysis  
Corporate Services

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**Recommended by:**

Adrienne Jugley  
Commissioner  
Community Services

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**Submitted by:**

Ron Tripp, P.Eng.  
Acting, Chief Administrative Officer

*This report was prepared in consultation with John Pickles, Program Financial Specialist.*

**Appendices**

Appendix 1            Child Care Services – Schedule of Revenues and Expenses

Schedules of revenue and expenses

## **The Regional Municipality of Niagara Child Care Services**

December 31, 2018

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# **The Regional Municipality of Niagara Child Care Services**

December 31, 2018

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## Independent Practitioner's Review Engagement Report

To the Members of Council of the Regional Municipality of Niagara and the Ministry of Education

We have reviewed the accompanying schedules of revenue and expenses – Child Care Services of the Regional Municipality of Niagara for the year ended December 31, 2018 (the "Schedules"), which have been prepared in accordance with the financial reporting requirements in the Child Care Transfer Payment Agreement dated January 1, 2018 and the 2018-2019 Ontario Early Years Child and Family Centre Amending Agreement dated March 29, 2018, between the Ontario Ministry of Education ("the Ministry") and the Regional Municipality of Niagara (the "agreements").

### Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedules in accordance with the agreements, and for such internal control as management determines is necessary to enable the preparation of the Schedules that are free from material misstatement, whether due to fraud or error.

### Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying Schedules based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of the Schedules in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on the Schedules.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Schedules do not present fairly, in all material respects, the results of the operations of Child Care Services of the Regional Municipality of Niagara for the year ended December 31, 2018, in accordance with the agreements.

### Basis of Accounting

Without modifying our conclusion, we draw attention to Note 1 to the Schedules, which describes the basis of accounting. The Schedules are prepared to assist the Regional Municipality of Niagara to comply with the financial reporting provisions of the above noted agreements. As a result, the Schedules may not be suitable for another purpose. Our conclusion is not modified in respect of this matter.

Chartered Professional Accountants  
Licensed Public Accountants  
September 19, 2019

Niagara Region  
Schedule of Revenues and Expenditures – Child Care Services  
For the year ended December 31, 2018  
(Unaudited)

	REVENUES				
	Ministry of Education	Legislated Cost Share		Expansion Plan Year 2	Total
		%	(\$-Calculated)		(Calculated)
<b>Core Services Delivery Operating Allocation</b>					
Core Services Delivery (100% provincial)	7,753,769	0%	0	420,216	
Core Services Delivery - Cost Shared Requirement 80/20	15,796,412	20%	3,949,103	N/A	
Core Service Delivery - Cost Shared Requirement 50/50 - Administration	483,226	50%	483,226	N/A	
<b>Total Core Services Delivery</b>	<b>24,033,407</b>		<b>4,432,329</b>	<b>420,216</b>	<b>28,885,952</b>
<b>Special Purpose Operating Allocation</b>					
Language	707,704	0%	0	12,412	
Indigenous	159,250	0%	0	2,793	
Cost of Living	904,208	0%	0	15,858	
Rural and Remote	13,860	0%	0	243	
Capacity Building	180,546	0%	0	3,075	
Repairs and Maintenance	66,196	0%	0	1,197	
Utilization Adjustment	2,562,485	0%	0	N/A	
Capping Adjustment	(144,184)	0%	0	N/A	
Licensed Home Child Care (LHCC)	419,175	0%	0	N/A	
<b>Total Special Purpose Operating Allocation</b>	<b>4,869,240</b>		<b>0</b>	<b>35,578</b>	<b>4,904,818</b>
<b>Other Allocations</b>					
Small Water Works	538	0%	0	N/A	
TWOMO Reimbursement - Child Care		0%	0	N/A	
Wage Enhancement/HCEG	4,561,185	0%	0	N/A	
Wage Enhancement Administration	250,340	0%	0	N/A	
Fee Stabilization Support	1,195,069	0%	0	N/A	
Journey Together - Operating	250,212	0%	0	N/A	
Journey Together - Capital	1,777,500	0%	0	N/A	
Expansion Plan Year 1	5,049,356	0%	0	N/A	
Operating Funding for Expansion Plan Capital Spaces				23,948	
ELCC Allocation	2,526,240	0%	0	N/A	
<b>Total Other Allocations</b>	<b>15,610,440</b>		<b>0</b>	<b>23,948</b>	<b>15,634,388</b>
<b>TOTAL CHILD CARE ALLOCATION</b>	<b>44,513,087</b>		<b>4,432,329</b>	<b>479,742</b>	<b>49,425,158</b>



EXPENDITURES BY AGE GROUP															
	0-4 (Infant, Toddler, and Preschooler)			4-6 (Kindergarten)			6-12 (School Aged)			Unspecified Age Group			Total Expenditures		
	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/Parental full fee/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures
			Calculated			Calculated			Calculated			Calculated	Calculated	Calculated	Calculated
Full Flexibility (Schedule 2.3)															
General Operating	6,897,228		6,897,228	1,423,238		1,423,238	2,627,516		2,627,516				10,947,982	0	10,947,982
Fee Subsidy - Regular	11,626,035	(1,514,675)	10,111,360	2,399,023	(312,552)	2,086,471	4,428,967	(577,019)	3,851,948				18,454,024	(2,404,246)	16,028,756
Fee Subsidy - Camps and Authorized Recreation						0	1,058,436	(77,950)	980,486				1,058,436	(77,950)	980,486
Ontario Works and LEAP - Formal	1,672,075		1,672,075	345,031		345,031	636,981		636,981				2,654,087	0	2,654,087
Ontario Works and LEAP - Informal	0		0			0	0		0				0	0	0
Pay Equity Memorandum of Settlement										338,161		338,161	338,161	0	338,161
Special Needs Resourcing	1,742,610		1,742,610	359,586		359,586	663,851		663,851				2,766,047	0	2,766,047
Administration										2,814,979	(6,009)	2,808,970	2,814,979	(6,009)	2,808,970
Repairs and Maintenance	246,585		246,585	50,882		50,882	93,938		93,938				391,405	0	391,405
Play-based Material and Equipment	0		0			0			0				0	0	0
Transformation	0		0			0			0				0	0	0
									0						
Total (full flexibility)	22,184,532	(1,514,675)	20,669,858	4,577,760	(312,552)	4,265,208	9,509,688	(654,969)	8,854,720	3,153,140	(6,009)	3,147,131	39,425,121	(2,488,205)	36,936,916
Limited Flexibility (Schedule 2.3)															
Capacity Building	297,128		297,128	61,312		61,312	113,192		113,192				471,632	0	471,632
Small Water Works										1,089		1,089	1,089	0	1,089
Total (limited flexibility)	297,128	0	297,128	61,312	0	61,312	113,192	0	113,192	1,089	0	1,089	472,721	0	472,721
No Flexibility															
TWOMO Reimbursement (Schedule 2.7)												0	0		0
Wage Enhancement/HCEG (Schedule 4.3)										4,201,204		4,201,204	4,201,204		4,201,204
Wage Enhancement Administration (Schedule 4.3)										210,011		210,011	210,011		210,011
Total (no flexibility)	0	0	0	0	0	0	0	0	0	4,411,215	0	4,411,215	4,411,215	0	4,411,215
TOTAL	22,481,660	(1,514,675)	20,966,986	4,639,072	(312,552)	4,326,520	9,622,880	(654,969)	8,967,912	7,565,444	(6,009)	7,559,435	44,309,057	(2,488,205)	41,820,852

EXPENDITURES BY AUSPICE					
	Non - Profit Operations	Profit Operations	Direct Operations	Other Auspice	Auspice Consolidated
Adjusted Gross Expenditures	28,738,507	6,234,824	4,038,551	2,808,970	41,820,852

EXPENDITURES BY SETTING					
	Centre Based	Home Based	Other Setting		Total
Adjusted Gross Expenditures	37,996,252	1,015,630	2,808,970		41,820,852

Niagara Region  
Schedule of Revenues and Expenditures – Child Care Services - Expansion Plan Funding  
For the year ended December 31, 2018  
(Unaudited)

EXPENDITURES BY AGE GROUP									
	0-4 (Infant, Toddler, and Preschooler)			Unspecified Age Group			Total Expenditures		
	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures
			Calculated			Calculated	Calculated	Calculated	Calculated
<b>Full Flexibility</b> <i>(Schedule 2.3A)</i>									
General Operating	4,712,828		4,712,828				4,712,828	0	4,712,828
Fee Subsidy - Regular			0				0	0	0
Ontario Works and LEAP - Formal			0				0	0	0
Ontario Works and LEAP - Informal			0				0	0	0
Special Needs Resourcing	226,693		226,693				226,693	0	226,693
Administration				552,910		552,910	552,910	0	552,910
Repairs and Maintenance			0				0	0	0
Play-based Material and Equipment			0				0	0	0
Transformation			0				0	0	0
<b>Total (full flexibility)</b>	<b>4,939,521</b>	<b>0</b>	<b>4,939,521</b>	<b>552,910</b>	<b>0</b>	<b>552,910</b>	<b>5,492,431</b>	<b>0</b>	<b>5,492,431</b>
<b>Limited Flexibility</b> <i>(Schedule 2.3A)</i>									
Capacity Building	36,667		36,667				36,667	0	36,667
<b>Total (limited flexibility)</b>	<b>36,667</b>	<b>0</b>	<b>36,667</b>				<b>36,667</b>	<b>0</b>	<b>36,667</b>
<b>TOTAL</b>	<b>4,976,188</b>	<b>0</b>	<b>4,976,188</b>	<b>552,910</b>	<b>0</b>	<b>552,910</b>	<b>5,529,098</b>	<b>0</b>	<b>5,529,098</b>

EXPENDITURES BY Auspice					
	Non - Profit Operations	Profit Operations	Direct Operations	Other Auspice	Auspice Consolidated
Adjusted Gross Expenditures	4,179,998	796,190	0	552,910	5,529,098

EXPENDITURES BY Setting					
	Centre Based	Home Based	Other		Total
Adjusted Gross Expenditures	4,976,188	0	552,910		5,529,098

EXPENDITURES BY AGE GROUP															
	0-4 (Infant, Toddler, and Preschooler)			4-6 (Kindergarten)			6-12 (School Aged)			Unspecified Age Group			Total Expenditures		
	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/Parental full fee/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures	Gross Expenditures	Offsetting Revenues (Parent contribution/other offsetting)	Adjusted Gross Expenditures
			Calculated			Calculated			Calculated			Calculated	Calculated	Calculated	Calculated
Full Flexibility (Schedule 2.3B)															
General Operating	1,372,908		1,372,908	301,460		301,460	478,822		478,822				2,153,190	0	2,153,190
Fee Subsidy - Regular			0			0			0				0	0	0
Fee Subsidy - Camps and Authorized Rec			0			0			0				0	0	0
Ontario Works and LEAP - Formal			0			0			0				0	0	0
Ontario Works and LEAP - Informal			0			0			0				0	0	0
Special Needs Resourcing	65,252		65,252	14,501		14,501	23,823		23,823				103,576	0	103,576
Administration										252,624		252,624	252,624	0	252,624
Repairs and Maintenance			0			0			0				0	0	0
Play-based Material and Equipment			0			0			0				0	0	0
Transformation			0			0			0				0	0	0
Community Based Capital Projects			0			0							0	0	0
Total (full flexibility)	1,438,160	0	1,438,160	315,961	0	315,961	502,645	0	502,645	252,624	0	252,624	2,509,390	0	2,509,390
Limited Flexibility (Schedule 2.3B)															
Capacity Building	10,652		10,652	2,345		2,345	3,853		3,853				16,850	0	16,850
Total (limited flexibility)	10,652	0	10,652	2,345	0	2,345	3,853	0	3,853				16,850	0	16,850
TOTAL	1,448,812	0	1,448,812	318,306	0	318,306	506,498	0	506,498	252,624	0	252,624	2,526,240	0	2,526,240

EXPENDITURES BY Auspice					
	Non - Profit Operations	Profit Operations	Direct Operations	Other Auspice	Auspice Consolidated
Adjusted Gross Expenditures - Community based Capital Projects					0
Adjusted Gross Expenditures - All Operating Expenditures	1,909,837	363,779		252,624	2,526,240
Total Adjusted Gross Expenditures	1,909,837	363,779	0	252,624	2,526,240

EXPENDITURES BY Setting					
	Centre Based	Home Based	Other		Auspice Consolidated
Adjusted Gross Expenditures	2,273,616	0	252,624		2,526,240

**Niagara Region**  
**Schedule of Revenues and Expenditures – Child Care Services - Fee Stabilization**  
**For the year ended December 31, 2018**  
**(Unaudited)**

	Fee Stabilization Support
Total adjusted gross expenditures excluding administration expenditures	1,075,562
Total adjusted administration expenditures	119,507

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Niagara Region  
Schedule of Revenues and Expenditures – Child Care Services - Journey Together  
For the year ended December 31, 2018  
(Unaudited)

	Community Based Capital	Journey Together	Adjusted Operating Expenses One Time	Adjusted Operating Expenses Ongoing	Total Adjusted administration expenditures
	Project Name	Project Type			Adjusted Community Based Capital expenditures
Journey Together Project 1	FENFC Early Years Program	Joint / Conjoint	79,232		1,117,500
Journey Together Project 2	Niagara Indigenous Child and Family Centre	Joint / Conjoint	170,980		660,000
Journey Together Project 3					
Journey Together Project 4					
Journey Together Project 5					
Journey Together Project 6					
Journey Together Project 7					
Journey Together Project 8					
Journey Together Project 9					
Journey Together Project 10					
<b>Total</b>			<b>250,212</b>	<b>0</b>	<b>1,777,500</b>

Niagara Region  
Schedule of Revenues and Expenditures – EarlyON  
For the year ended December 31, 2018  
(Unaudited)

	Description	Expenditures
<b>Operating</b>		
Salaries and Benefits - Program Staff		
Salaries and Benefits - Non Program Staff		
Lease and Utilities - Operational		10,452
Other Expenses - Operational		3,364,758
Subtotal Operational Expenses		3,375,210
Professional Learning and Capacity Building		681,043
<b>Child Care &amp; Early Years Planning (CCYEP) and Data Analysis Services (DAS)</b>		
Salaries and Benefits		154,531
Other Expenses		14,099
Subtotal		168,630
<b>Administration</b>		
Salaries and Benefits		
Other Expenses		43,665
Offsetting Revenue		
Subtotal		43,665
<b>Offsetting Revenues</b>		
Offsetting Revenue 1		
Offsetting Revenue 2		
Offsetting Revenue 3		
Subtotal		0
<b>EarlyON Total Adjusted Gross Expenditures</b>		<b>4,268,548</b>

Niagara Region  
Schedule of Revenues and Expenditures – EarlyON Journey Together  
For the year ended December 31, 2018  
(Unaudited)

				Adjusted Gross Expenditure							
		Operating Ongoing	Operating One Time	Capital	Operating Ongoing	Operating One Time	Offsetting Revenues Operating	Administration	Offsetting Revenues Administration	Capital One Time	Offsetting Revenues Capital
	Description	Allocation	Allocation	Allocation							
Journey Together Project 1 Journey Together Project 2 Journey Together Project 3 Journey Together Project 4 Journey Together Project 5 Journey Together Project 6 Journey Together Project 7 Journey Together Project 8 Journey Together Project 9 Journey Together Project 10											
Total		0	0	0	0	0	0	0	0	0	0

# The Regional Municipality of Niagara

## Child Care Services

Note to the schedules of revenue and expenses  
December 31, 2018

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### 1. Significant accounting policies

The Schedules include the revenue and eligible expenses in relation to the Regional Municipality of Niagara's Child Care Services Program for the year ended December 31, 2018. The Schedules have been prepared in accordance with the financial reporting requirements in the Child Care Transfer Payment Agreement dated January 1, 2018 and the 2018-2019 Ontario Early Years Child and Family Centre Amending Agreement dated March 29, 2018 between Ontario Ministry of Education ("the Ministry") and the Regional Municipality of Niagara.

#### *Revenue recognition*

Revenue is reported on the accrual basis of accounting.

Government transfers are recognized in revenue in the Schedules when the transfer is authorized, any eligibility criteria are met, and a reasonable estimate of the amount can be made except when and to the extent that stipulations by the transferor give rise to an obligation that meet the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

#### *Expenses*

Expenses are recorded if they are eligible for the program and incurred in the period.

Gross expenses are reported on the Schedules in order to understand the full cost of the program. Expenses in excess of base funding, as per the funding agreements, have been removed for the purpose of determining the grant repayable.

Certain administrative expenses are allocated to the program based on usage drivers specific to each type of expense.

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