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

Report to: Audit Committee

Report date: Monday, February 8, 2021

Recommendations

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

Key Facts

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

Financial Considerations

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

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

Analysis

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

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

Response to the KPMG Audit - Justifications for procurements

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

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

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

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

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

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

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

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

Budget Authority to proceed with a procurement

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

No PO – No Pay

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

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

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

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

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

Commitment Control

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

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

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

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

Purchase Order Splitting

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

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

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

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

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

People Soft Financials Enhancements

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

These enhancements have two primary goals:

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

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

Procurement Process training Initiatives and Update

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

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

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

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

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

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

Alternatives Reviewed

No additional alternatives were reviewed or considered.

Relationship to Council Strategic Priorities

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

Other Pertinent Reports

- AC-C 3-2020 – Non-Competitive Procurement Audit
- AC-C 2-2020 – Procurement Audit Final Report
- AC-C 11-2020 - Final Report on Non-Competitive Procurement Audit
- AC-C 15-2020 - Supplemental Information Report to the KPMG final audit report on Non-Competitive Procurement Audit (AC-C 11-2020)

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Appendices

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