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# Memorandum

**CSC-C 8-2025**

**Subject:** Internal Controls in Procurement

**Date:** April 9, 2025

**To:** Corporate Services Committee

**From:** Hari Vemuri, Manager, Internal Audit and Bart Menage, Director of Procurement Services

## Background

This memo has been prepared in response to Council's request on Report CSD 5-2025 to provide information respecting internal audit controls and the use of independent auditors that report to Council considering the proposed changes to the Procurement By-law. The purpose of this memo is to demonstrate how the existing control framework, through checks and balances embedded in systems, policies, and oversight processes, continues to ensure transparency, accountability, and integrity in procurement operations. To address this, the memo is structured into two distinct components:

1. Internal Controls in Procurement – detailing controls within:
   a. Procurement Governance and Oversight
   b. IT Application Controls in Financial Enterprise Resource Planning (ERP)
   c. Reporting and Transparency Mechanisms
2. Independent Internal Audits and External Reviews – Describing how audits validate, enhance, and reinforce procurement controls.

## 1a. Procurement Governance and Oversight

The Regional Municipality of Niagara's procurement framework, established under By-law No. 02-2016, is designed to uphold transparency, fairness, and accountability in the acquisition of goods and services. As mandated by Section 270(1) of the Municipal Act, 2001 (Ontario), all municipalities must maintain a procurement policy. The last update in 2019 is now under review to enhance oversight, improve operational efficiency, and align with best practices.

Authorization and Approval Controls

- The Commissioner of Corporate Services/Treasurer administers the Procurement By-law.

- Schedule "B" of the Procurement By-law defines the purchasing authority thresholds and assigns this responsibility at different levels of management. Staff must follow clearly defined approval pathways to ensure consistency and compliance across all procurement activities.

| Current Purchasing Authority | Proposed Purchasing Authority |
|---|---|
| Director | Manager |
| Commissioner | Director |

- Schedule "B" of the Procurement By-law also defines the authority by which contracts can be executed. These contracts require proper authorization at the departmental or executive level, depending on the contract value.

| Current Execution Authority | Proposed Execution Authority |
|---|---|
| Director | Manager |
| Commissioner | Director |

- While all transactions exceeding specified thresholds are approved based on increasing level of approval authority, culminating in higher levels approvals which must be reviewed and approved by senior executives (e.g., Deputy CAO or Commissioner of Corporate Services/Treasurer) who are independent of the department initiating the procurement.

- While Council approval will still be required for non-competitive (single source) requests in excess of $1 Million, the ability to delivery projects more efficiently can be achieved with Council's support of delegating their award approval for contracts in excess of $5 Million and contract amendments in excess of $1 Million (which are currently considered single source) to an appropriate level of independent senior staff (Treasurer and Deputy CAO) provided Council is kept informed of awards/amendments.

Proposed updates to the Procurement By-law include a realignment of approval authorities to improve efficiency and ensure decision-making is closer to operational activities. The introduction of Associate Director and Deputy CAO roles as purchasing, and document execution authorities decentralizes approval responsibilities while maintaining necessary safeguards for high-value acquisitions.

The proposed changes, as outlined in CSD 5-2025, are subject to further refinement in consultation with the Council to ensure they effectively support Niagara Region's operational and governance objectives.

Budget Controls

- No procurement is authorized without confirming budget allocation and funding availability to prevent financial overcommitment.
- Contract amendments or scope additions must have confirmed budget availability.
- Contract changes require approval based on financial impact and risk.
- Additional work must be justified, directly linked to the original contract, and not constitute scope creep.
- Non-qualifying amendments follow stricter single-source approval mechanisms to uphold procurement integrity.

Competitive Bidding and Procurement Process Controls

- Procurement By-law requires the use of defined procurement processes at the specified dollar value.

| Method | Current Threshold | Proposed Threshold |
|---|---|---|
| Low Value Purchases | Up to $10,000 | Up to $25,000 |
| Informal Quote - optional to obtain three quotes | $10,000 -$25,000 | $25,000 -$100,000 |
| Formal Quote (RFQ) – Bid solicitation to obtain a minimum of three quotes | $25,000 -$100,000 | $100,000 – $133,800 |
| Request for Tender (RFT) | >$100,000 | > $133,800 |

- In addition to the above methods of procurement, a request for proposal (RFP) method is used in cases where:
    - the purchase is to seek solutions which solve a problem, satisfy a requirement, or achieve an objective
    - the selection of the supplier depends more upon the effectiveness of the proposed solution, rather than the price alone
    - a precise scope of work cannot be clearly defined, and it is expected that suppliers will further define them

| Additional Method | Current Threshold | Proposed Threshold |
|---|---|---|
| Request for Proposal (RFP) | > $10,000 | > $25,000 |

Competitive bidding process is conducted in accordance with Section 21 of the Procurement By-Law to award the contract using the RFP method.

- For high-value procurements, a Pre-Qualification process may be conducted to assess and ensure that suppliers possess the necessary experience, technical capability, and financial stability appropriate to the scope and complexity of the project.
- The overarching intention of any procurement process is to deliver best value solutions, cost savings, risk mitigation and fiscal prudence.

Vendor Management and Conflict of Interest Controls

- Departments are responsible for monitoring and managing vendor performance, but the current approach allows flexibility in the methodology, frequency, and complexity of such reviews. To address this variability and ensure consistency, the new Procurement By-law will be supported by the introduction of 18 new comprehensive and standardized procedural documents including one specific to vendor performance which will incorporate key recommendations from the KPMG Vendor Performance Management Audit (December 2024).
- The following procedural documents will be developed to support these processes:
  - Supplier Code of Conduct – Outlining expectations of ethical behavior and compliance.
  - Supplier Performance Evaluation – Standardizing how performance is measured and tracked.
  - Contract Management Procedures – Clarifying roles, responsibilities, and milestones throughout the contract lifecycle.
  - Supplier Suspension Protocols – Providing guidance on suspension, appeal, and reinstatement procedures for non-compliant vendors.
- Employees must declare conflicts of interest before engaging in all procurement activities including when asked to participate as an evaluator in a Request for Proposal process (based on the respondents to that process)
- A multi-disciplinary team evaluates procurement protests, supplier suspensions, and policy compliance matters.

Segregation of Duties and Accountability Controls

- Schedule "B" of the Procurement By-law prescribes differing and increasing levers of approval authority for Staff related to purchasing, document execution, and payment release responsibilities.
- Procurement Services reviews and administers all formal purchasing methods.

- Direct awards without competition cannot proceed without the appropriate approval authority which escalates on the value stipulated in the Council approved exceptions and a justification which supports the exception being leveraged.

Contract and Financial Risk Controls

- Bid Solicitations may include requirements for bidders to provide bid deposits, performance bonds, or insurance.
- All purchases must be supported by either a Purchase Order or a formal written agreement, except for low-value or routine operational items that are exempt under Schedule A of the Procurement By-law (e.g., utilities, training sessions, memberships, or other recurring low-risk expenses.)
- Supplier contracts include indemnification clauses, insurance requirements, performance terms, scope change approval requirements, dispute resolution and legal safeguards to protect against financial and operational risks.
- Suppliers must submit proof of insurance and WSIB clearance as part of the document execution process, prior to commencing work.

Fraud Prevention and Risk Mitigation Controls

- Robust supplier enrolment process and enhanced due diligence process when any supplier profile changes are made.
- Bid documents provide for addressing bid discrepancies or non-compliance.
- Suppliers may formally dispute procurement decisions, ensuring accountability.
- Strict asset disposal procedures prevent conflicts of interest and ensure fair sales.

## 1b. IT Application Controls in Financial Enterprise Resource Planning (ERP)

The Region's procure-to-pay processes are integrated with the financial enterprise resource planning system (ERP). The ERP is setup in alignment with the Procurement By-law and Niagara Region's organizational structure. Key IT controls in procurement include:

- Automated workflow approvals based on Schedule 'B' of the By-law.
- Electronic validation of requisitions, purchase orders, invoices, and payments
- Two-way and three-way matching processes for invoice reconciliation
- Budgetary controls to prevent over-commitment in line with Council-approved budgets and the Budget Control By-law

- Escalation mechanism on requisition approvals to ensure smooth flow of purchases.
- Compliance checks for IT procurement to align with corporate technology standards.

The integration of IT controls in procurement ensures a seamless, compliant, and transparent procurement lifecycle. For further details, refer to CSC-C 7-2025 Procure-to-Pay Overview.

**1c. Reporting and Transparency Mechanisms**

To enhance transparency and accountability, a structured reporting framework has been established for procurement activities. In addition, reporting is provided to Corporate Services Committee or Council as follows:

| Category | Current Reporting/Approval Protocol | Proposed Reporting/Approval Protocol |
|---|---|---|
| Competitive contract awards | <ul><li>Publicly reported through bids and tenders</li><li>Contracts exceeding $5 million require Council approval</li></ul> | <ul><li>Publicly reported through bids and tenders</li><li>Contracts exceeding $5 million will be reported to Council post award</li></ul> |
| Non-competitive purchases | <ul><li>Non-competitive purchases exceeding $100,000 are reported to Corporate Services Committee</li><li>Purchases exceeding $1 million require Council approval</li></ul> | <ul><li>Non-competitive purchases exceeding $100,000 are reported to Corporate Services Committee</li><li>Purchases exceeding $1 million require Council approval</li></ul> |
| Contract amendments | Amendments exceeding $100,000 are reported to Corporate Services Committee | Amendments exceeding $1 million are reported to Council post award |

The proposed modernization of the Procurement By-law, combined with IT integration and independent audits, strengthens the Region's procurement framework. These initiatives ensure an effective, efficient, and accountable procurement process that supports the Region's strategic objectives.

## 2. Independent Internal Audits and External Reviews

Procurement activities undergo regular audits to ensure compliance and effectiveness. Key procurement-related audits from 2019-2024 include:

| Audit Topic | Auditor | Objective |
|---|---|---|
| Accounts Payable (2019) | MNP LLP | Assess internal controls over vendor payments |
| Procurement (2020) | Internal Audit Manager | Evaluate procurement compliance and efficiency |
| Non-Competitive Procurement (2020) | Internal Audit Manager | Assess adherence to policies regarding direct awards |
| Non-Competitive Procurement (2020) | KPMG | Independently assess effectiveness of internal controls on non-competitive procurement |
| Purchasing Card (2021) | Internal Audit Manager | Review internal controls over purchasing card transactions |
| Non-Competitive Procurement (2023) | Internal Audit manager | Follow-up audit to review implementation status of previous audit recommendations |
| Purchasing Card (2024) | Internal Audit Manager | Review internal controls over purchasing card transactions |
| Vendor Performance Management (2024) | KPMG | Assess Tier 1 vendor oversight mechanisms |
| Vendor Governance and Relationship Management (2024) | KPMG | Examine strategic vendor relationship controls |

These audits have driven enhancements in procurement practices, ensuring risk mitigation and compliance with governance structures.

Respectfully submitted and signed by


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