



Internal Audit

Non-Competitive Procurement Audit

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|------------------------|---|
| Operating Unit: | Niagara Region |
| Date of Audit: | July – October 2019 |
| Auditors: | Frank Marcella, Manager, Internal Audit Henrik (Xiang) Gao, Internal Audit Analyst Katie Mamede, Internal Audit Co-op Student |
| Distributed To: | 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 |
| Date Issued: | November 15, 2019 |

EXECUTIVE SUMMARY

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.

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

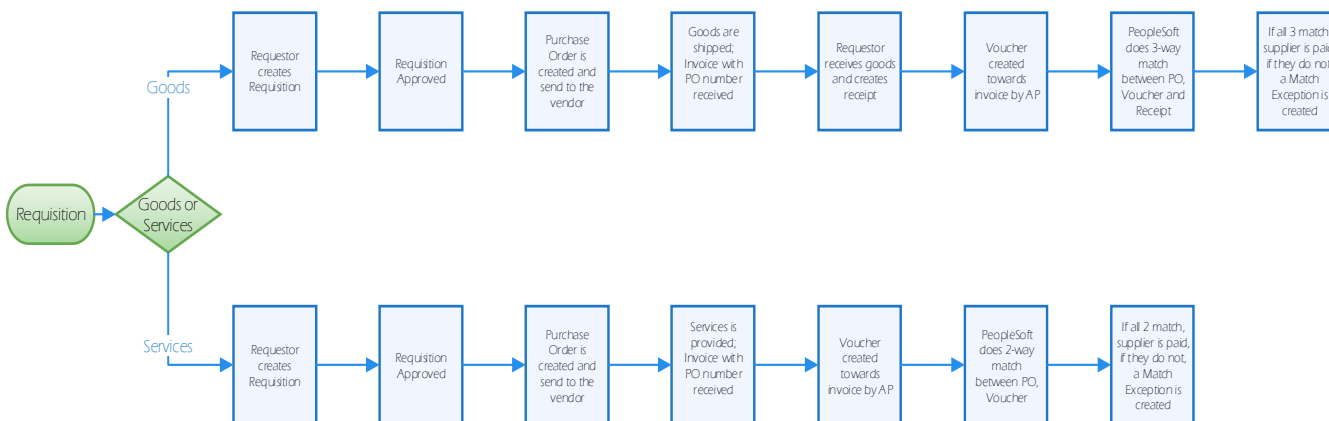
The analysis below details the number and dollar value of the sample purchase orders (POs) included in the audit. The analysis looked at the following areas:

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

Table 3 - Purchases Prior to Requisition

| Type | ICOP Sample | | Requisition BEFORE Purchase | | Requisition AFTER Purchase | | % Non-compliance (volume) | % Non-compliance (\$) |
|------------|-------------|-------------|-----------------------------|-----------|----------------------------|-------------|---------------------------|-----------------------|
| SCA | 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

| | | | |
|----------------------------------|--|----------------------------|--|
| Person(s) Responsible | Chief Administrative Officer (response 1) | Completion Date | 2 a): March 2020 2 b), c) and d): July 2020 |
| | 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 Enterprise Resource Management Services/Treasurer |
| | > \$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 |
| Total | \$16,195,441 | 183 | \$1,163,909 | 73 | \$890,808 | 36 | \$14,140,724 | 74 |

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

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

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

| Person(s) Responsible | Director, Procurement & Strategic Acquisitions (responses 1 and 2) Director, Financial Management & Planning/Deputy Treasurer Corporate Services (response 3 and 4) | Completion Date | 1, 2: June 2020 4: March 2020 |
|--|---|-----------------|----------------------------------|
| <ol style="list-style-type: none"> 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. 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. 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. 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. | | | |

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 |
|--|------------------|-----------------------|--|-----------------------|-----------------------|----------------------|----------------------|
| Low Value Purchase Maximum | \$10,000 | \$3,000 | \$2,500 for goods & \$15,000 for professional services | \$10,000 | \$10,000 | \$5,000 | \$5,000 |
| Justification Form Required | ✗ | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ |
| Procurement Office Approval/Involvement | 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 |
| Council Approval | Over \$1,000,000 | Over \$500,000 | ✗ | Over \$250,000 | Over \$100,000 | Over \$125,000 | Over \$150,000 |
| Non-competitive Purchases Report to Council | ✗ | 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">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.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. | | | |

APPENDIX I - RATING SCALE

| Rating | Definition |
|-----------------|---|
| CRITICAL | 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. |
| HIGH | 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. |
| MEDIUM | 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. |
| LOW | 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. |