
MEMORANDUM

AC-C 2-2020

Subject: Procurement Audit Report

Report to: Audit Committee

Report date: Monday, January 20, 2020

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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Appendices

Appendix 1 Procurement Audit Report



Internal Audit

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

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.

	2016		2017		2018 (to Sept 30 th)	
	# of PO	Amount	# of PO	Amount	# of PO	Amount
Formal	335	\$148,155,836	399	\$103,889,601	110	\$68,046,053
Informal	9786	\$55,226,323	12718	\$50,604,748	9625	\$44,862,999
Single Source	412	\$21,763,669	459	\$41,113,417	279	\$14,486,169
Other	799*	\$142,627,488	267	\$10,127,573	310	\$24,256,820
Total	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.

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.

Table 4 – Differences in Coding (2017 Data)				
	Procurement Division Study*		Internal Audit Sample	
	Total # of POs	% of Transactions	Sample # of POs	% of Transactions
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.

Table 5 – POs Missing Documentation				
Documentation	Required and Available	Required and Unavailable	Not Required	Total
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

	Original Combined Bid	Separate Project 1	Separate Project 2 (to date)	Total of Separate Projects	Difference
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					
	Original Combined Bid	Separate Project 1 (to date)	Separate Project 2 (to date)	Total of Separate Projects	Difference
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">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.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. <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
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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.
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

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.

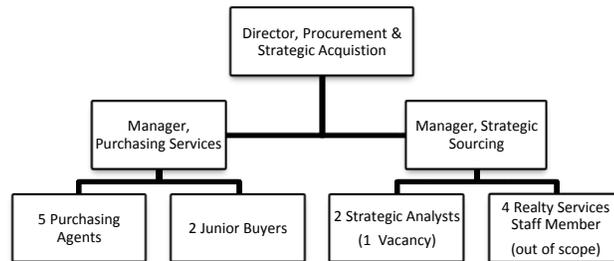
3. Niagara Region Procurement Division remains supportive of the Niagara Public Purchasing Committee (NPPC) provided it continues to employ a cooperative procurement strategy which seeks to continually modernize this group via the procurements which are undertaken. This is the only viable solution to 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
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.

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)¹	Target Maturity²	Current Maturity (2018)³
Category Strategy and Governance	<ul style="list-style-type: none"> • Develop category expertise within purchasing services group • Assess movement of non-core, non strategic categories • Assess opportunities to align to a Center-led procurement model 	Level 1 Maturity	Level 3 Maturity	Level 2 Maturity
Sourcing and Supplier Management	<ul style="list-style-type: none"> • Rationalize vendor details, develop vendor master • Joint development of spend category strategies • Develop formalized supplier performance program 	Level 2 Maturity	Level 3 Maturity	Level 2 Maturity
Contract Management & Procure-to-Pay	<ul style="list-style-type: none"> • Implement ‘No PO, No Pay’ Policy • Create central contract management solution • Implement best-of-breed contract management tools 	Level 1 Maturity	Level 3 Maturity	Level 2 Maturity
Financials	<ul style="list-style-type: none"> • Implement standardized savings tracking methodology • Validate savings with Finance and incorporate into budget process • Utilize center-led spend analysis and reporting 	Level 1 Maturity	Level 3 Maturity	Level 2 Maturity

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

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

³ ICOP’s current maturity assessment based on the findings and results from sample testing conducted throughout the Procurement Audit.

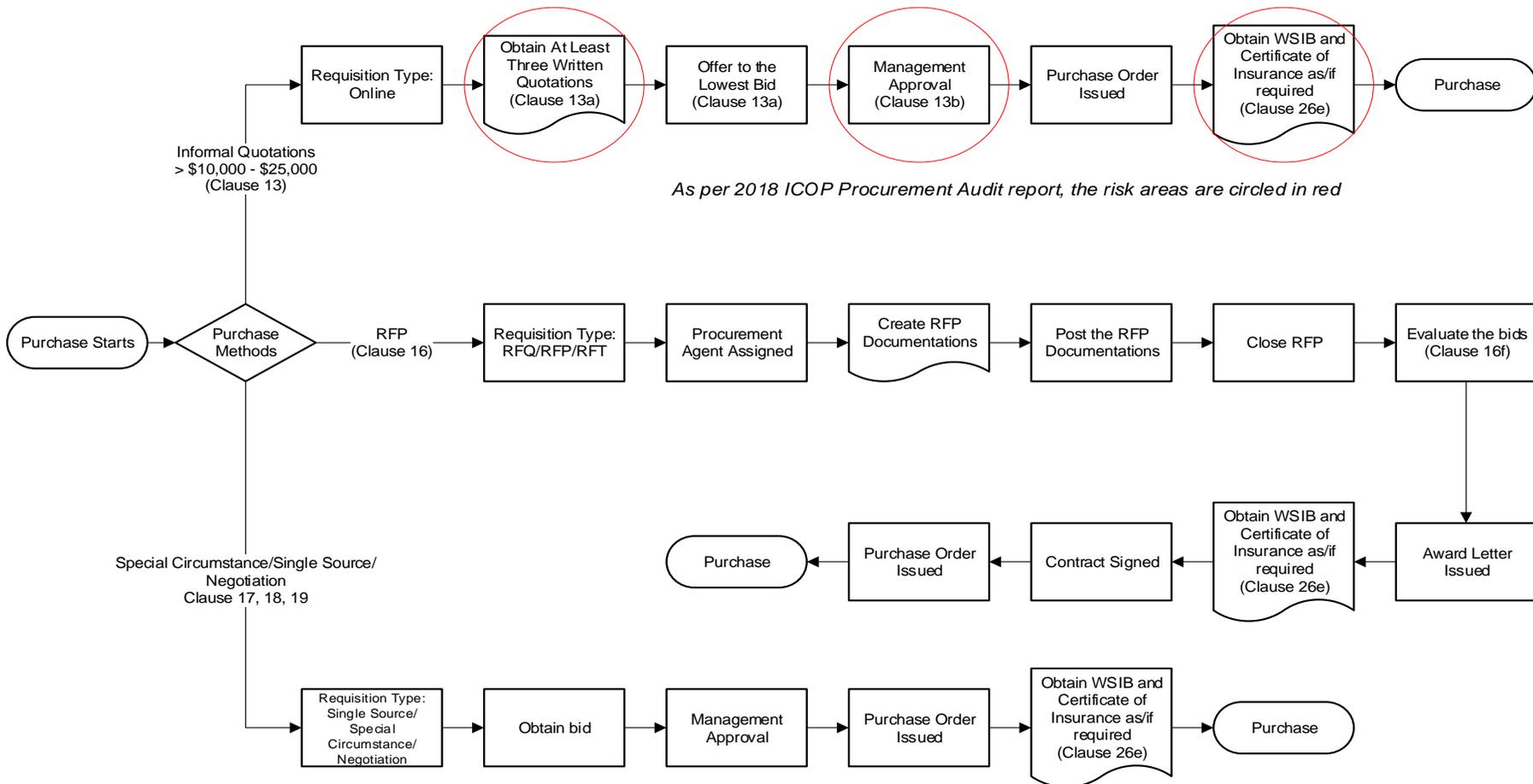
This table details the four main phases of a formal procurement including the pre-planning (or scoping), budget and project approval, tendering, evaluating and awarding and, finally, contract management. While the first and final phase are the responsibility of program areas, best practice procurement 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.

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

APPENDIX III – PROCUREMENT BYLAW PROCESS

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



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

