

Property Management

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Main points

Each year, Saskatchewan Property Management (SPM) purchases or helps purchase over \$100 million of supplies and services. *The Purchasing Act, 2004* requires SPM to obtain supplies centrally for government departments, boards, commissions, and Crown corporations. In this chapter, we report on whether SPM has adequate processes at October 31, 2005 to purchase supplies valued at over \$25,000.

To purchase supplies valued at over \$25,000, we expected that SPM would:

- ◆ define the need and specifications for required supplies
- ◆ obtain quotations fairly
- ◆ select suppliers for required goods
- ◆ monitor performance of the purchasing process

As at October 31, 2005, SPM had adequate processes to purchase supplies over \$25,000 except for monitoring the performance of the purchasing process. SPM needs to get prompt feedback from user agencies to monitor the quality of supplies and performance of suppliers. SPM also needs to monitor compliance with the *Purchasing Act, 2004* whether it purchases the supplies directly or delegates the purchase to public agencies.

Introduction

The Purchasing Act, 2004 requires Saskatchewan Property Management (SPM) to obtain supplies centrally for provincial government departments, boards, commissions, and Crown corporations (user agencies).¹ To meet its user agencies' needs, SPM needs to purchase the right goods and services, on time, and economically. Each year, SPM purchases or helps purchase over \$100 million of supplies and services.

The Act defines supplies as “all goods, wares, and merchandise that are required by a public agency or public institution for the transaction of its business...” The nature of the supplies varies widely. For example, SPM obtains furniture, computers, laboratory equipment, plumbing supplies, vehicles, tires, fuel, asphalt, and food.

Many factors make SPM's task challenging. Some product prices are very sensitive to global pressures and conditions. Some products are in short supply and there are large daily swings in price. This rapid change in supply markets means SPM must monitor availability and price of some supplies. For example, fuel, lubricants, steel products, rubber tires, coal, and paper supplies require special attention.

Efficient purchasing requires electronic business-to-business transactions, a wide supplier base, and some long-term contracts with complex pricing. Without adequate controls over the purchasing process, SPM risks wasting public money, reducing service efficiency, or limiting access to quality supplies on time. For example, if SPM's purchasing practices are not fair, open, and competitive, there may be risks to its reputation and future access to quality products.

Audit objective, criteria, and conclusion

The objective of the audit was to assess the adequacy of Saskatchewan Property Management's processes at October 31, 2005 to purchase supplies valued at over \$25,000. The audit did not include the purchase of services.

¹ *The Purchasing Act, 2004* section 2.

We focused on supplies valued at over \$25,000 because these significant purchases are influenced by trade agreements. For example, the Agreement on Internal Trade between the provincial, territorial, and federal governments does not allow preferential treatment to suppliers within their jurisdiction when obtaining supplies valued at over \$25,000. Such restrictions emphasize the importance of documenting the purchasing process and the rationale for purchasing decisions.

We based the audit criteria on available literature including reports of other auditors. SPM accepts the criteria as reasonable standards for assessing its processes. Our criteria describe the following key processes that we expect SPM to use to purchase supplies valued at over \$25,000:

- ◆ Define the need and specifications for required supplies
- ◆ Obtain quotations fairly
- ◆ Select suppliers for required goods
- ◆ Monitor performance of the purchasing process

We concluded that at October 31, 2005, Saskatchewan Property Management had adequate processes to purchase supplies over \$25,000 except for monitoring the performance of the purchasing process.

Findings on processes to purchase supplies

Throughout our audit, we followed the *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. We describe below what we expected (in italics) and what we found for our four criteria.

Define the need and specifications for required supplies

To define the need and specifications for required supplies, we expected SPM to:

- ◆ *define the need in sufficient detail for understanding*
- ◆ *define specifications to encourage open and effective competition*
- ◆ *specify other requirements (e.g., warranty, delivery, packaging)*

- ◆ *use specifications that support government policy*
- ◆ *confirm specifications with users*

A public agency that requires supplies (the user agency) starts the process to purchase supplies with a written request that describes what the user needs. SPM talks to users to clarify the supplies needed. This process generally results in a complete description of the required supplies.

SPM uses the written request to define the specified products in a tender on which suppliers may bid. Tender is the term used by the industry to request bids from suppliers. The specifications in the tenders and contracts are understandable. Where tenders contain technical information, it is in a format that the industry understands, enabling an effective competition.

The use of brand names or specifications unique to one supplier can restrict the use of alternate suppliers making the competition less open. In many of its tenders, SPM uses brand names to explain what product is required. SPM sometimes adds “or similar product” to the product description. Where possible, it would be more fair to use exact specifications rather than a brand description. Alternatively, SPM should ensure that its tenders consistently refer to “similar products.” SPM adequately describes other requirements such as warranty, delivery, and packaging.

SPM puts standard terms and conditions in its tenders and contracts to make it clear suppliers must comply with the law. Also, for some tenders and contracts, SPM adds clauses about occupational health, safety, transport of dangerous goods, labour standards, etc.

We expected SPM to support Government policies with its processes to purchase supplies. For example, SPM’s tenders state it may give preference to environmentally friendly products. In general, SPM expects the user agency to identify any Government policy or strategy that could influence the selection of the supplier.

SPM obtains user agency approval of draft tenders, often by phone, to confirm the draft tender is complete and accurate. Before it makes tenders public, we encourage SPM to ask user agencies to confirm their

purchase requirements in writing (e.g., fax, e-mail). This step would ensure that both SPM and user agencies have sufficient accurate documentation to support decisions to spend public money.

Obtain quotations fairly

To obtain quotations fairly, we expected SPM to:

- ◆ *identify feasible sources of supply*
- ◆ *obtain authorization to initiate each tender*
- ◆ *give equal and fair treatment to potential suppliers*

SPM posts information about the supplies required on *SaskTenders*, SPM's service website.² For some supplies (e.g., commonly sought supplies, highly technical supplies), SPM approves potential suppliers prior to making the tender public. To manage the risk that some suitable suppliers may not be aware of *SaskTenders*, SPM regularly advertises this website in trade magazines such as the *Saskatchewan Business Magazine*. Also, SPM holds biannual trade shows attended by about 600 suppliers.

SPM's guidelines require that tenders be posted on *SaskTenders* for at least two weeks (14 days). During 2005, SPM posted about 16% of its tenders for 5-10 days. SPM explained that shorter time periods are sometimes required because of user agencies' immediate needs (e.g., food, fuel, asphalt).

The Purchasing Act, 2004 and *The Purchasing Regulations* generally define the Government's purchasing process. The *Regulations* outline the information required to solicit a bid. SPM's buyers consistently obtained appropriate SPM authority to initiate tenders.

SPM gives equal and fair treatment to potential suppliers. SPM tells potential suppliers what they need to know to decide if they wish to bid on a tender. For example, SPM consistently provides suppliers with the criteria SPM will use to select a supplier.

² www.sasktenders.ca

SPM's guidelines allow it to purchase some supplies without an open competition, for example, when there is only one supplier that can provide the product required. In these cases, user agencies ask SPM to obtain the supplies without an open competition. SPM reviews each request for reasonableness. For example, a user agency may require compatible equipment or matching furniture. SPM often gives notice on *SaskTenders* prior to awarding the contract to allow suppliers to challenge the decision to purchase supplies without an open competition.

Select suppliers for required goods

To select suppliers for required goods, we expected SPM to:

- ◆ *evaluate tenders for best value (e.g., use same process for all bids, evaluate price, quality, delivery, service, warranty)*
- ◆ *obtain appropriate approval to purchase supplies*
- ◆ *inform bidders of tender decision*

SPM appropriately evaluated suppliers for the required supplies. SPM evaluated and selected suppliers based on criteria documented in the tender. User agencies accepted SPM's recommended supplier because SPM involved users in the evaluation and selection process.

SPM's buyers consistently obtained appropriate SPM approval to purchase supplies. Generally, the process to approve purchases was timely. In a few situations, the process was not timely and SPM did not document the reason for the delay. For example, it took three and a half months to award a contract for laboratory supplies. SPM told us it allowed time to test the equipment to ensure it would meet the precise needs of the user agency's laboratory although this evaluation was not specified in the award criteria.

SPM contacts successful bidders to inform them of the tender decision. In addition, SPM told us that beginning in 2006, *SaskTenders* will name the supplier chosen for each tender. This will make purchase decisions more transparent.

At the request of unsuccessful bidders, SPM conducts debriefings on their tender decisions. Feedback to suppliers about their bids may help retain suppliers over the long term. In particular, information about the rationale for the tender decision (e.g., award criteria, exceptional service)

may help suppliers to submit successful bids. It could also improve supplies and services received by the Government.

Monitor performance of the purchasing process

To monitor performance of purchasing processes, we expected SPM to:

- ◆ *obtain timely feedback*
- ◆ *take internal action on feedback*
- ◆ *report performance problems*

As of October 31, 2005, SPM's process to monitor its performance was not timely and was not related to specific supplies or suppliers. In 2003, SPM asked user agencies to rate SPM's services in general. In 2004, SPM surveyed suppliers about the SPM purchasing process. SPM did not survey users or suppliers during 2005. SPM told us it intends to repeat these surveys every two years.

SPM does not have a formal or informal user-feedback process to identify immediate problems with the supplies the user agency receives. Because there is no timely feedback process, SPM may not notify suppliers of deficiencies, and suppliers may not fix the problems quickly. Also, SPM may award new contracts to suppliers who have not appropriately fulfilled the terms of past contracts. Without a good feedback process, SPM may not know if its purchasing process is effective.

- 1. We recommend Saskatchewan Property Management get prompt feedback from user agencies to monitor the quality of supplies and the performance of suppliers.**

To monitor performance of all purchasing processes, SPM needs to know if legislation and policies are followed consistently.

SPM is the Government's central agency for purchasing. SPM directly purchases all supplies in excess of \$5,000. It does not evaluate whether it is meeting its objectives for effective, value added services.

SPM delegates some purchasing authority to public agencies (e.g., purchases under \$5,000). SPM does not monitor if these public agencies use purchasing processes that comply with *The Purchasing Act, 2004* and other delegated policies.

2. We recommend Saskatchewan Property Management monitor compliance with the *Purchasing Act, 2004* whether it purchases the supplies directly or delegates the purchase to public agencies.

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