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Main points

Each year, SaskPower buys over \$450 million of goods and services. This chapter focuses on adequacy of SaskPower's processes at July 31, 2007 to buy goods and services with individual transaction amounts of less than \$100,000. It reports that SaskPower had adequate purchasing processes over these transactions except it needs to do the following:

- ◆ consistently follow its established processes that require its staff to: set out the reasons for selecting the purchase method used, and obtain the required approval of purchases before making the purchase decision
- ◆ provide its staff with guidance on setting acceptable bid submission deadlines for goods and services that it purchases
- ◆ track problems with key suppliers and make this information available for purchasing decisions

Introduction

SaskPower is the principal supplier of electricity in Saskatchewan, operating primarily under the mandate and authority of *The Power Corporation Act*. SaskPower's mission is to deliver power in a safe, reliable, and sustainable manner.

Effective acquisition of goods and services is crucial to SaskPower. As set out in its purchasing objective, it expects “to ensure SaskPower and its subsidiaries purchase goods and services in a manner that maximizes value, competition, and fairness and results in the best possible balance of benefits to SaskPower and to the people of Saskatchewan.”¹

Each year, excluding its salaries and related benefits, SaskPower buys over \$150 million of goods and services (e.g., materials, contract management) and, in 2007, it plans to spend about \$300 million on capital projects. Capital projects include turbine and boiler upgrades, transmission lines, and wood pole replacement. Each year, SaskPower does business with over 5,000 suppliers.

In this chapter, we report the results of our audit of SaskPower's processes to buy goods and services.

Audit objective and criteria

The objective of this audit was to assess the adequacy of SaskPower's processes to buy goods and services valued at under \$100,000 for the seven-month period ending July 31, 2007.

We looked at processes related to the purchase of goods and services² with individual transaction amounts of less than \$100,000. We included goods, materials, supplies, and equipment; we did not include salaries and related benefits.

On average, goods and services with individual transaction amounts of less than \$100,000 account for nearly 98% of SaskPower's purchase transactions and for about one-third of dollars it spent. Decisions for

¹ *SaskPower Purchasing Policy and Procedures*, September 2007, p. 4.

² SaskPower's Purchasing Policy and Procedures interpret goods and services as any labour, services, goods, materials, supplies or equipment.

smaller purchases normally require the involvement of fewer staff. Decisions for larger purchases typically require involvement of more staff and, at times, that of the Board.

We assessed SaskPower’s processes against the criteria summarized in Exhibit 1. We selected these criteria based on our review of relevant literature and those used by other legislative audit offices. SaskPower agreed with these criteria. We describe the criteria in more detail under key findings.

Exhibit 1 – Processes to buy goods and services audit criteria

Adequate processes to buy goods and services include:

- ◆ Defining the need and specifications for required goods and services
- ◆ Obtaining quotations fairly
- ◆ Selecting suppliers for required goods and services
- ◆ Monitoring performance of the processes to buy goods and services

We followed the *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants in carrying out this audit.

SaskPower has set out purchasing guidance primarily in its *Procurement to Payment Policy and Procedures Manual*.³ In the summer of 2007, SaskPower updated some of its purchasing guidance. In September 2007, SaskPower’s Board approved the *Purchasing Policy and Procedures Manual (2007 Manual)*. Policies and procedures in the 2007 Manual come into effect on January 1, 2008.

Unless stated otherwise, “written policies and procedures” and “purchasing guidance” refer to guidance in manuals in effect at July 31, 2007.

Conclusion and findings

For the seven-month period ending July 31, 2007, SaskPower had adequate processes to purchase goods and services valued at

³ *SaskPower Procurement to Payment Policy and Procedures Manual*, SaskPower, September 24, 2004.

under \$100,000 except for the matters described in the recommendations below.

The following describes our expectations (in italics), key findings, and related recommendation(s) by criteria.

Defining the need and specifications for required goods and services

To define the need and specifications for required goods and services, we expected SaskPower to have processes that would

- ◆ *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*

SaskPower has reasonable written policies and procedures that guide its staff in making purchase decisions. Both SaskPower's Executive Committee and Board of Directors approve these policies and procedures through their approval of the related manuals.

SaskPower's purchasing guidance requires staff to define the purchase requirements, in writing, in sufficient detail for suppliers to understand. The level of detail varies depending on the size and nature of the required goods or services.

Also, for most purchases over \$25,000, its written policies require staff to justify, in writing, why the purchase is necessary. For some types of purchases, SaskPower relies on other processes to determine when a purchase is necessary. For example, it relies on programmed reorder points⁴ and maximum inventory levels for the purchase of certain inventory items. Although not explicitly required in its written policies, SaskPower's business units, that manage inventory, re-evaluate re-order points and inventory levels periodically.

In the 2007 Manual, SaskPower more clearly assigned responsibility to monitor reorder points and maximum inventory levels to determine that

⁴ The point which, when inventory reaches a pre-determined number of items, an order to replenish the stock is automatically issued.

the levels are based on SaskPower's needs.⁵ However, the manual did not set out when staff must re-evaluate them.

For goods that it expected to acquire on an on-going basis, SaskPower evaluated products and related suppliers to determine whether they meet its standards and requirements. It kept track of them electronically on an approved products list.

Generally, we found that SaskPower set specifications that encouraged open and effective competition. Purchase documents clearly showed the product or service requirements; the requirements were generally not restricted to specific brand names. In some cases, due to safety and quality standards, requested products were limited to those on the approved product list. Also, instructions to suppliers usually included a request for suggested alternatives that might also fit SaskPower's needs.

SaskPower sufficiently described other requirements. These included insurance coverage, delivery dates, bar coding requirements, detailed plans for rejected products (i.e. rework or disposal), and relevant government policies.

Its tender documents and contracts routinely included standard terms and conditions that made it clear to suppliers that they must follow the law. Also, where appropriate, the tenders and contracts included terms about occupational health, safety, transport of dangerous goods, and labour standards.

SaskPower also encouraged suppliers to ask for more detail or clarification of its requirements. When SaskPower thought its response to a supplier's question would benefit all participating suppliers, it shared this information.

Obtaining quotations fairly

To obtain quotations fairly, we expected SaskPower to have processes that would:

- ◆ *give equitable and fair treatment to potential suppliers*

⁵ *SaskPower Purchasing Policy and Procedures*, September 2007, p. 46.

- ◆ *identify feasible sources of supply*
- ◆ *obtain appropriate authorization to initiate purchase*

SaskPower's guidance to staff requires staff to carry out an "adequate review of potential suppliers to ensure maximum participation from qualified firms and to achieve maximum benefit for the corporation and the Province of Saskatchewan."⁶

Its policies require staff to use approved purchase methods for specific situations. These methods include using purchase orders, tenders, contracts, or single sourcing.

The criteria for each purchase method are based, primarily, on the estimated dollar size of the purchase and the nature of the goods or services to be purchased. In general, SaskPower's guidance sets out:

- ◆ where a purchase order is not required (such as purchases less than \$2,500)
- ◆ where a purchase order is required (such as purchases between \$2,500 and \$5,000)
- ◆ where use of tender is required (purchases over \$5,000)
- ◆ where contracts are negotiated (e.g., for purchases of real property, natural gas)
- ◆ what to do when only one vendor/supplier is determined as being capable of providing the goods or services required (single sourcing)

Its guidance further requires staff to use purchase orders for purchases made as part of long-term contracts.⁷

As a rule, as the estimated purchase amount increases, SaskPower requires increased involvement of senior management in the purchase decision. Also, as the estimated purchase amount increases, SaskPower requires staff to more extensively and formally identify and document feasible sources of supply. Selecting the appropriate purchase method is critical in making sure potential suppliers are treated equitably and fairly.

⁶ *SaskPower Procurement to Payment Policy and Procedures Manual*, SaskPower, September 24, 2004, section 1-5.

⁷ *SaskPower Procurement to Payment Policy and Procedures Manual*, SaskPower, September 24, 2004.

Also, SaskPower is sensitive to the potential for conflicts of interest between its staff and potential suppliers. The Code of Conduct requires staff to avoid all real or perceived conflict of interest situations. Both suppliers and staff are provided with guidance on steps to take where either party becomes aware of the potential for a conflict of interest. Management told us it treats breaches seriously (e.g., disqualification of bid).

For the most part, SaskPower identified feasible sources of supply. It kept listings of suppliers and potential suppliers along with their related products. For example, to build new relationships with suppliers and maintain existing ones, it held supplier open house sessions throughout Saskatchewan. For larger purchases requiring tender, it provided staff with sound guidance on the tender process and ways to identify potential suppliers. For example, it developed bidder lists primarily through vendor registration. It used its website to provide potential suppliers with information on how to register as a bidder.

During our audit, for most but not all items tested, the purchase method that staff selected to make the purchase with appeared reasonable; where choices were available, staff documented the reasons for their decisions; staff followed the process expected for the selected purchase method; and staff obtained the necessary approvals. However, we noted instances where:

- ◆ the rationale for selecting the purchase method used was unclear and as a result, we could not determine if the method was appropriate
- ◆ staff did not obtain the required approval before finalizing the purchase decision
- ◆ the time between the issuance of the tender and submission deadline seemed unnecessarily short

Staff must document its rationale in situations where it determines that only one supplier is capable of providing the goods or services required (sometimes referred to as single sourcing) and obtain additional approvals. Staff did not always follow this process. For example, in one instance, staff did not document the reason for this decision and did not obtain the required additional approval for single sourcing. In another example, staff documented the reason for single sourcing and sought the required additional approval after making the purchase decision.

SaskPower’s guidance suggests staff use requests for proposals more frequently when seeking competitive bids. We noted one instance where staff did not document the reason for inviting selected suppliers to submit bids (i.e., invitation to tender) instead of using a request for proposal.^{8,9} Both “invitation to tender” and “request for proposal” are competitive bid purchasing methods.

Furthermore, in another instance, staff did not obtain the required approval of the appropriate level of management prior to making the purchase decision.

- 1. We recommend that where SaskPower allows for a choice of an approved purchase method, it consistently follow its established processes that require its staff to document the rationale for the method chosen.**

The 2007 Manual more clearly sets out the criteria for each approved purchase method. This additional guidance should help staff better document the rationale for the purchase method chosen.

- 2. We recommend that SaskPower consistently follow its established processes that require its staff to obtain the appropriate approval of the purchase prior to finalizing the purchase decision.**

To treat suppliers equitably and fairly, SaskPower accepts late bids only in exceptional circumstances and had well-defined processes to handle the submission of bids with one exception.¹⁰ It does not provide staff with guidance on setting acceptable submission deadlines.¹¹ Such guidance would help ensure suppliers have a reasonable amount of time to submit bids.

For purchases sent to suppliers for bids (e.g., invitation to tender, request for proposal, and request for quotation), suppliers need sufficient time to

⁸ An invitation to tender is a formal communication to selected suppliers inviting them to submit bids for supplying specified goods and/or services.

⁹ A request for proposal or request for quotation are open invitations to suppliers inviting them to submit bids for supplying specified goods and/or services.

¹⁰ A bid is the price and conditions at which a supplier is willing to provide the requested goods and/or services.

¹¹ Bid submission deadline is last date on which an agency would accept bids from suppliers.

evaluate the request, and prepare and submit a bid. A shorter time can reduce the number of bids submitted and may impact the quality of the bids. At times, a short time is unavoidable due to emergencies or unforeseen circumstances; at other times, a short time may result from insufficient planning or scheduling.

We noted several instances where the time between the invitation or request and deadline was five days or less. We found that the short time was not always due to emergencies or unforeseen circumstances. In one of these instances, only two suppliers responded instead of the desired minimum number of three.

3. We recommend that SaskPower provide staff with guidance on setting acceptable bid submission deadlines.

Management told us SaskPower agrees with the above recommendations and plans to take the following steps to address these concerns:

- ◆ A new Purchasing Policy and Procedures Manual (the policy) that provides increased clarity regarding appropriate purchasing processes has been developed and was approved by the SaskPower Board of Directors in September 2007.
- ◆ Training on the new Purchasing Policy and Procedures will commence on November 14, 2007, for employees who participate in the procurement process. A number of sessions will take place prior to year-end with additional sessions planned in 2008.
- ◆ SaskPower is developing reporting on non-compliance with the policy which will be provided to the Executive on a regular basis beginning in the first quarter of 2008.

Selecting suppliers for required goods and services

To select suppliers for required goods and services, we expected SaskPower to have processes that would:

- ◆ *evaluate potential supplier(s) for best value (e.g. for tenders, use same process for all bids - evaluate price, quality, delivery, service, warranty; for non-tendered purchases, use consistent process for similar goods and services)*
- ◆ *obtain appropriate approval to buy goods and services*
- ◆ *inform bidders of tender decision*

SaskPower provides its staff with reasonable guidance on evaluating suppliers and sets out the appropriate approval necessary to buy goods and services.

We found SaskPower adequately evaluated identified potential suppliers based on specifications set and purchase method selected. Where it used tenders, SaskPower contacted successful and unsuccessful bidders, as required, to inform them of the tender decision. However, it did not tell unsuccessful bidders or suppliers why they were not successful (e.g., the product was not on the approved products list). Unless confidentiality or competitive reasons exist, providing feedback to unsuccessful suppliers, on a proactive basis, can improve relationships and may create a valuable future source of goods or services. Informing bidders of tender decisions also helps make purchase decisions more open and transparent.

Monitoring performance of the processes to buy goods and services

To monitor performance of the processes to buy goods and services we expected SaskPower to:

- ◆ *take internal action on performance problems*
- ◆ *report performance problems to suppliers*

As part of its payment process, staff must document the receipt of the goods or services. To do this, staff must monitor whether SaskPower received the expected goods or services. Staff are expected to handle issues with suppliers or products on a case-by-case basis. However, receipt of the good or service does not necessarily mean that SaskPower was satisfied with the quality of that good or service (that is, the performance of the supplier or product).

We found that SaskPower used its approved products list to keep track of the quality of products it expected to acquire on an ongoing basis.

SaskPower encouraged staff to report performance problems to suppliers through use of a form (i.e., Supplier Corrective Requests). These forms help staff outline the problem and set out action taken. Suppliers can then work with SaskPower to correct the problem.

As previously noted, SaskPower kept lists of suppliers. In its 2007 Manual, SaskPower provided staff with additional guidance on making changes to supplier lists. This included setting out acceptable reasons for removing a supplier from its lists (such as documented ongoing problems).

Only one business unit (i.e., Transmission and Distribution) consistently tracked problems with products and suppliers (through its material defects database). Some others, such as the purchasing division, documented issues with individual suppliers' performance. However, information kept was not summarized or easily accessible to others within the corporation. Not keeping track of supplier performance increases the risk that SaskPower may continue to use suppliers with known performance problems. Given the large number of suppliers with whom it does business, SaskPower would need to focus on keeping information on those suppliers whose goods and services are important to its ongoing operations. Keeping information on key suppliers' performance, in a usable format, would help SaskPower better use this information when making purchase decisions.

4. We recommend SaskPower track problems with key suppliers and make this information available for purchasing decisions.

If a supplier contacts SaskPower about problems, SaskPower works with the supplier to resolve the issue. In June 2007, SaskPower surveyed a number of randomly-selected suppliers. It asked them about their experience with and perceptions of SaskPower. The survey provided SaskPower with objective information on areas where it performed well and a few areas where it could improve. SaskPower used the survey results when developing its 2007 Manual.

Management told us SaskPower plans to examine methods for improving the way that it tracks and shares performance information on its key suppliers in 2008.