

Chapter 13

SaskTel—Purchasing Fibre Optic Network Upgrade and Other Network Hardware

1.0 MAIN POINTS

Almost one-quarter of SaskTel's purchases in 2016 were for its fibre optic network upgrade and other network hardware.

In 2016, SaskTel had generally effective processes to purchase goods and services for its fibre optic network and other network hardware. It needs to strengthen its processes in the following areas.

SaskTel needs to log the names of staff evaluating purchase proposals to avoid the risk of a perceived bias or conflict of interest. It must obtain appropriate approvals in situations when expected dollar values of purchases of materials increase after initial approval was obtained. In addition, it needs to track supplier feedback, and provide guidance for resolving unsatisfactory performance of suppliers. Feedback from suppliers provides information useful in improving purchasing processes. Guidance for resolving supplier's issues helps ensure suppliers are treated in a consistent manner.

Not having strong processes to buy goods and services increases the risk SaskTel may not be transparent, fair, and achieve best value.

2.0 INTRODUCTION

SaskTel, a Crown corporation, is the largest provider of telecommunications services in the province including wireless phone service, wired phone service, internet access, and cable television.¹ *The Saskatchewan Telecommunications Act* outlines the purpose of SaskTel, which includes the *construction, maintenance and operation of a telecommunication system*.

This chapter reports the results of our audit of SaskTel's processes to buy goods and services related to its fibre optic network upgrade and other network hardware.

2.1 SaskTel Purchasing—Fibre to the Premises

In the 12-month period ended December 31, 2016, SaskTel bought \$552.1 million of goods and services. As shown in **Figure 1**, in 2016, 24% of its purchases were for equipment and related services for its fibre optic network upgrade and other network hardware.

¹ www.sasktel.com/about-us/company-info/company-information (25 January 2017).

**Figure 1 – Three-year History – SaskTel's Purchases of Goods and Services**

	2016	2015	2014
	(in millions)		
Total Goods and Services Purchases	\$ 552.1	\$ 571.3	\$ 574.7
Network Hardware	\$ 84.6	\$ 81.2	\$ 69.7
Fibre Optic Network Upgrade	46.6	43.5	40.3
Total Network and Fibre Optic Network Upgrade	\$ 131.2	\$ 124.7	\$ 110.0
% of Total Purchases	24%	22%	19%

Source: SaskTel.

Modern telecommunications networks increasingly rely on fibre optics. Fibre optics allow for improved service as compared to traditional copper cables.

In April 2012, SaskTel launched a program to expand the reach of its fibre network in the province and improve service to its customers. It calls this program the Fibre to the Premises program.² SaskTel expects to spend \$670 million³ over 12 years under this program.⁴ During this program, SaskTel aims to replace the copper-based network in Saskatchewan's nine major centres: Saskatoon, Regina, Moose Jaw, Prince Albert, Weyburn, Estevan, Swift Current, Yorkton, and North Battleford.⁵

SaskTel has a vital role in maintaining communications infrastructure in Saskatchewan. The fibre optic network upgrade will help SaskTel's telecommunications services keep pace with new technology. Given the cost and 12-year duration of the project, SaskTel's purchases must be transparent, fair, and support the achievement of best value.

3.0 AUDIT OBJECTIVE, SCOPE, CRITERIA, AND CONCLUSION

The objective of this audit was to assess SaskTel's processes, for the 12-month period ended December 31, 2016, to purchase equipment and related services for its fibre optic network upgrade and other network hardware.

We examined SaskTel's purchasing policies, procedures, and reports and interviewed various staff about purchasing processes. We focused our testing of purchases on those related to the Fibre to the Premises program and network hardware. We also accompanied staff inspecting Fibre to the Premises installations.

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate SaskTel's processes, we used criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. SaskTel agreed with the criteria (see **Figure 2**).

² www.sasktel.com/about-us/news/2015-news-releases/sasktel-announces-saskatchewan-network-investment (25 January 2017).

³ SaskTel, *2015/16 Annual Report*, (2016), p. 5.

⁴ *Ibid.*, p. 66.

⁵ *Ibid.*

Figure 2—Audit Criteria

- 1. Set policies for procurement of goods and services**
 - 1.1 Develop and approve policies for purchasing goods and services
 - 1.2 Align policies with externally-imposed requirements (e.g., New West Partnership Trade Agreement,^A Agreement on Internal Trade,^B CIC Crown Sector Procurement Preference Policy)
 - 1.3 Update policies periodically
 - 1.4 Communicate purchasing policies
 - 1.5 Monitor and report on compliance with policies
- 2. Define the needs and specifications for required goods and services**
 - 2.1 Define the need in sufficient detail for supplier and agency understanding
 - 2.2 Define specifications to encourage open and effective competition
 - 2.3 Specify other requirements (e.g., warranty, delivery, packaging, performance guarantees)
 - 2.4 Use specifications that support government and organization policies
- 3. Obtain quotations fairly**
 - 3.1 Identify feasible sources of supply
 - 3.2 Obtain appropriate authorization to initiate purchase (e.g., approval to tender)
 - 3.3 Give equal and fair treatment to potential suppliers
- 4. Select suppliers for required goods and services**
 - 4.1 Evaluate potential suppliers for best value
 - 4.2 Document decision for supplier selection
 - 4.3 Obtain appropriate approval to buy goods and services
 - 4.4 Inform bidders of purchasing decision (e.g. request for proposal, tender)
 - 4.5 Obtain written contractual agreements
- 5. Manage suppliers**
 - 5.1 Validate suppliers
 - 5.2 Pay suppliers in accordance with written contracts
 - 5.3 Take internal action on performance problems
 - 5.4 Report performance problems to supplier

^A The New West Partnership Trade Agreement (NWPTA) is an accord between the governments of British Columbia, Alberta, Manitoba, and Saskatchewan that creates Canada's largest, barrier-free, interprovincial market. www.newwestpartnershiptrade.ca/the_agreement.asp (25 January 2017).

^B The Agreement on Internal Trade (AIT) is an intergovernmental trade agreement signed by Canadian First Ministers that came into force in 1995. Its purpose is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investment within Canada to establish an open, efficient, and stable domestic market. www.ait-aci.ca/overview-of-the-agreement/ (25 January 2017).

We concluded that for the 12-month period ended December 31, 2016, SaskTel, except for the following areas, had effective goods and services purchasing processes related to the fibre optic network upgrade and other network hardware.

SaskTel needs to log the names of staff evaluating tenders, and review purchase approvals when costs or quantities of materials increase after initial approval. In addition, it needs to track supplier feedback, and provide guidance for resolving unsatisfactory performance of suppliers.

4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we describe our key findings and recommendations related to the audit criteria in **Figure 2**.



4.1 Policies for Purchasing Goods and Services Current and Reasonable

SaskTel has current, reasonable, and approved policies for purchasing goods and services. The key policies include Procurement (purchasing), Final Authorization,⁶ and Corporate Signing Authority policies.⁷

SaskTel has made the Supply Chain Management division of its Corporate Services branch responsible for purchasing all goods and services for SaskTel, including those related to the fibre optic network upgrade. This division's responsibilities include keeping policies current and complied with.

SaskTel updated most of these policies in 2016. It strengthened and clarified them. Late in 2016, SaskTel combined the Final Authorization and Corporate Signing Authority policies into a single Board-approved policy. Also in 2016, SaskTel updated its executive-approved purchasing policy. The updated purchasing policy requires SaskTel staff to review and update it every four years. SaskTel used its updated purchasing policy for all of 2016.

SaskTel's policies link purchase decisions to the total dollar value of the purchase. For example, its Final Authorization Policy assigns authority to approve purchases based on the expected and actual dollar value of the transaction.

The updated purchasing policy sets clear requirements for purchasing activities and is also based on expected dollar value. The policy provides guidelines on obtaining quotes, and tendering.

As shown in **Figure 3**, SaskTel uses purchasing cards for lower dollar value purchases, and obtains quotes for medium dollar value purchases. For high dollar value purchases, SaskTel follows a competitive purchasing process. This process includes posting to SaskTenders⁸ and formally evaluating the bids it receives. The policy requires approval of both the originating area in SaskTel and the purchasing area before initiating a purchase. The updated purchasing policy aligns with externally imposed requirements such as the New West Partnership Trade Agreement (NWPTA) and applicable policies of the Crown Investments Corporation, SaskTel's parent company. SaskTel is exempt from the Agreement on Internal Trade due to the competitive nature of its business.

As a Crown corporation, some of its larger purchases fall under the NWPTA.⁹ The agreement requires tendering goods over \$25,000 and services or construction projects over \$100,000.

The updated purchasing policy includes the requirements of the Government of Saskatchewan Best Value Procurement Policy. Under these requirements, SaskTel must consider both the supplier price offered and other factors such as quality and expertise.

⁶ Final authorization refers to the conditions upon which SaskTel employees can authorize cash inflows and revenues, cash outflows and commitments and external investments. It also establishes authorization authority for key non-monetary and general management decisions.

⁷ Corporate signing authority requires the review of contracts related to the acquisition (by sale, lease or otherwise) of goods and services between SaskTel and third parties by appropriate groups before finalization.

⁸ SaskTenders is a government website (www.sasktenders.ca) administered by the Ministry of Central Services. This website facilitates government purchases of goods and services.

⁹ www.newwestpartnershiptrade.ca/the_agreement.asp (25 January 2017).

The aim of this approach is to make a purchasing decision that generates the highest possible value for SaskTel.

SaskTel systematically communicates new and revised policies to staff. It maintains all policies on its internal website. SaskTel uses other processes to communicate and reinforce new and revised policies. For example, it had face-to-face meetings, workshops, and videoconferences.

Figure 3—Minimum Tendering and Quotation Requirements

Purchase Description	Purchase Methods
Low Dollar Value (<\$5,000) (e.g., stationery supplies)	<ul style="list-style-type: none"> › Purchasing card › Purchase Order for goods › Obtain three quotes to get best value (optional)
Medium Dollar Value (>\$5,000 to <\$10,000 for goods, or >\$5,000 to <\$25,000 for services or goods/services combo)	<ul style="list-style-type: none"> › Obtain three written quotations › Purchase Order for goods is required › Agreement for services or a combination of goods and services is required
High Dollar Value (>\$10,000 for goods, or >\$25,000 for services or goods/services combo)	<ul style="list-style-type: none"> › Competitive purchasing process must be used such as an RFP, RFQ,^A Tender, or ACAN^B (unless exempted) › Post to www.sasktenders.ca › A formal evaluation matrix with evaluation criteria is required › A written contract with the successful supplier is required

Source: SaskTel Purchasing Policy.

^A RFP – Request for Proposal, RFQ – Request for Quote.

^B ACAN – an Advanced Contract Award Notice is a formal notification by SaskTel to the public at large of the intention of SaskTel to award a contract to a supplier without SaskTel engaging in the normal competitive purchase process.

4.2 Templates Support Consistent Use of Purchasing Policies

SaskTel makes forms and templates (Material Request Forms, Purchase Requisition Forms, standard wording for agreements) available to assist staff and promote consistent application of those policies.

For example, we found that SaskTel's RFP template, used to obtain quotes, is consistent with SaskTel's purchasing policy. It specifies the key external requirements (e.g., preference to NWPTA region suppliers, use of best value approach). The template also includes other factors such as consideration of supplier experience, reliability of supplier, technical support, quality, price, warranties, and financial stability. SaskTel uses these factors to evaluate proposals.

4.3 Legitimacy of Suppliers Validated Prior to Use

SaskTel checks the legitimacy of a supplier before it approves the use of a supplier.

SaskTel only invites approved suppliers to participate in supplying it with goods and services. Interested suppliers must register with SaskTel beforehand. It makes the process for suppliers to register readily available through SaskTel's website.¹⁰ It does

¹⁰ www.sasktel.com/wps/wcm/connect/content/home/about-sasktel/supplier-info/ (15 March 2017).



various checks (e.g., website checks, duplicate suppliers, registered GST number) before it accepts and approves new suppliers for use.

The IT contract management system (called Ariba) has controls for the approval of new suppliers. For the four new suppliers we tested in its contract management system, all were supported as legitimate suppliers for the program.

SaskTel uses its contract management system to capture key information about approved suppliers (e.g., name, address, GST number). It gives registered suppliers the ability to log into this system to check for purchasing events.¹¹

4.4 Process to Resolve Supplier Issues Not Formalized

While the informal process SaskTel uses to discuss issues with supplier performance and escalate unresolved issues is well known to staff, it is not set out in a policy or procedure.

The purchasing policy requires monitoring of supplier performance. But it does not outline performance communication required to suppliers or to SaskTel management.

A majority of SaskTel employees¹² work with suppliers to some extent.

Not having written guidance for resolving supplier issues increases the risk of staff not treating suppliers consistently. For example, staff may not report, escalate and resolve supplier issues in a consistent manner or as SaskTel expects. In addition, written guidance would facilitate consistent communication to suppliers about performance problems and implications of providing SaskTel with poor performance.

1. We recommend that SaskTel provide written guidance for resolving supplier performance issues.

4.5 Supplier Performance Tracked and Considered when Making Purchases

SaskTel monitors performance problems with suppliers and uses this information when making purchase decisions.

Annually, SaskTel surveys its staff on the performance of key suppliers. It records the survey results in its IT contract management system. This makes the results accessible to staff involved in purchasing. Also, it give its key suppliers feedback based on the survey results. SaskTel also completes inspections of Fibre to the Premises installations and works with installation technicians to resolve issues (e.g., training).

In addition, it formally considers supplier past performance when making purchase decisions by including supplier performance in its supplier evaluation criteria.

¹¹ A purchasing event includes all types of request for proposals or quotes.

¹² SaskTel has about 4,000 employees (SaskTel, *2015/16 Annual Report*, (2016), p. 25).

As part of its monthly reporting on purchases, SaskTel gives its executive (Vice President, Human Resources and Corporate Services) information on unsatisfactory supplier performance.

4.6 Compliance with Purchasing Policies Formally Monitored

SaskTel actively monitors and reports on compliance with its purchasing policies. It captures key information in its IT contract management system to assist this process.

SaskTel implemented this system in March 2015. The system provides scheduled reporting for SaskTel suppliers on purchasing events. The system can provide information to support assessment of non-compliance with purchasing policies.

Starting June 2016, purchasing staff use the system to monitor the purchases and non-compliance with the policies related to the area for which they are responsible. They use the dashboard-reporting feature in the system to monitor key information. Dashboards provide at-a-glance views of key performance information (e.g., expiring contracts, supplier approvals, source supplier contracts, field service orders)

Management also uses the dashboards to oversee purchasing. Management assesses the capacity and workflow for purchasing staff, including compliance with payment terms/contract extension options. Management meets regularly with purchasing staff to discuss issues such as contracts, supplier performance, and number of purchasing events.

In addition, SaskTel's executive receives reports on purchasing and discusses them with management each month. These reports highlight key issues and supplier performance (e.g., key suppliers/contracts, supplier performance, number of purchasing events, and key topics). Periodically, management gives the Board of Directors reports on key items such as Fibre to the Premises program updates.

As of January 2017, management had begun to monitor compliance with the updated purchasing policy.

4.7 Policies Used in Purchasing Goods and Services for the Program

In the following section, the program includes SaskTel's fibre optic network upgrade and other network hardware.

4.7.1 Decisions on Fibre to the Premises Program and Network Hardware Used as Basis for Purchasing Plans

For the Fibre to the Premises program, SaskTel decides which areas of the province it plans to upgrade to fibre services, and uses this plan to forecast its purchasing needs.



To identify the goods and services needed for this program, the SaskTel purchasing staff collaborate with the Fibre to the Premises staff and engineering staff. Examples of goods and services needed include fibre cable, conduit, cabinets, steel pedestals, and installation services. For certain larger purchases, Fibre to the Premises staff prepared business cases setting out the purchase needs in more detail. SaskTel executive and the Board reviewed and approved these business cases before initiating purchases.

In 2016 for this program, SaskTel issued 62 tenders and one Advanced Contract Award Notice (ACAN) for the purchase of equipment and related services.

4.7.2 Purchase Method and Approval to Initiate Purchase Appropriate

SaskTel followed its purchasing policy when selecting the method (see **Figure 3**) to purchase goods or services for the program.

SaskTel's purchasing area worked with the Fibre to the Premises staff on selecting the purchase method. We found that for most of the purchases we tested that SaskTel used a competitive process.

For four items we tested where SaskTel did not use a competitive purchasing method (i.e., used sole-source¹³ method), it documented its reasons for not using a competitive process as its policy expected (using Request for Exemption Form). For these items, the reasons were consistent with those permitted in its policy (e.g., urgency, only one supplier has the good or service required, confidential nature). In addition, for each of these items, SaskTel obtained the appropriate approval prior to initiating the purchase (i.e., internal committee of three SaskTel executives decided the exemption was appropriate and approved the request).

For 12 items we tested where SaskTel selected a competitive purchasing method (e.g., tender, RFP, RFQ), the method that SaskTel selected was consistent with its purchasing policy. A competitive process allows for an equal and fair opportunity for potential suppliers.

For one of the items we tested, SaskTel used an ACAN. In this instance, an internal committee required an ACAN to check for other potential suppliers. If other potential suppliers exist, SaskTel proceeds to a competitive process. In this instance, a potential supplier challenged the use of the ACAN and SaskTel used a competitive process.

In addition, for all items we tested, SaskTel obtained appropriate approval to initiate and proceed with the purchase (see **Section 4.1**). The approval to proceed with a purchase provides evidence that a second individual agrees with the purchase method selected. Selecting a purchase method appropriate to the circumstances and consistent with its policies provides equal and fair treatment to potential suppliers.

¹³ A common phrase to describe a non-competitive process is single source or sole source.

4.7.3 Needs and Specifications Sufficiently Detailed

For all 12 competitive items we tested, SaskTel communicated its needs and specifications neutrally and in sufficient detail to solicit suppliers interested in the purchase.

For all 12 items we tested, the purchase specifications sufficiently detailed the goods or services needed. These specifications were not overly restrictive which helps to encourage open and effective competition. In addition, for these items, SaskTel used SaskTenders to communicate the specifications for products and services to potential suppliers. When specifications included sensitive information, it required potential suppliers to sign non-disclosure agreements prior to accessing the sensitive information.

For 11 of the 12 items we tested, multiple suppliers submitted bids. Receipt of multiple bids supports the achievement of best value and suggests potential suppliers understood and found specifications of sufficient detail to make a bid.

The remaining one item received only one bid. Management considered this reasonable given the circumstances of the purchase (e.g., nature of the requested work and size of community). We agree.

SaskTel allows bidders to ask questions through its IT contract management system so that all potential bidders can see the question and responses. This helps ensure all potential suppliers receive the same information at the same time.

For the 12 items we tested requesting bids, time between the posting of the bid or RFP and the submission deadline date was consistent with SaskTel's procurement policy. The policy requires a minimum of five business days for standard tendering time; and longer posting time for more complex purchases.

4.7.4 Suppliers Selected Based on Criteria But Evaluators Not Documented

For the program, SaskTel used evaluation criteria as the basis of selecting suppliers but did not keep track of names of individuals who did the evaluation.

For the 12 items we tested requesting bids or proposals, SaskTel set the supplier evaluation criteria at the RFP stage and prior to receipt of potential supplier responses as its policy expects. For each, it developed an evaluation checklist that included other factors (e.g., quality, expertise, warranty) to help determine the best value. In addition, for these items, SaskTel used and documented its assessment of potential suppliers based on evaluation criteria and selected suppliers consistent with the results of their evaluation.

For 11 of those 12 items we tested, SaskTel awarded the successful supplier within one month of the submission deadline date. For one item, it awarded the successful supplier about seven months after the deadline date due to unforeseen circumstances. It advised the supplier of the situation and kept the supplier informed of the delay.

However, for 8 of the 12 items we tested, SaskTel did not document the names of staff who did the evaluation. Documenting the names of staff involved in the evaluations



decreases the risk of a perceived bias or conflict of interest. Also, it provides a clear record of who made the supplier selection.

2. We recommend that SaskTel, for each competitive purchase, log the names of staff evaluating proposals from potential suppliers.

4.7.5 Purchase Changes for Materials Not Approved

For the program, SaskTel obtains approvals for purchases consistent with expected dollar value of purchases but does not require staff to obtain approval when expected total dollar value of purchases of materials¹⁴ increase.

As noted in **Section 4.1**, SaskTel links approvals for purchase decisions to the expected total dollar value of the purchase. Higher expected dollar value purchases require approval of a staff member with a higher level of authority.

For all but 1 of the 22 items examined, SaskTel obtained approval from an individual with the appropriate authority consistent with its Final Authority Policy. It used a variety of methods to document this approval (e.g., Purchase Requisition Forms, Material Request Forms, Supplier Comparison/Approval Forms, and Business Cases).

In one instance, while it obtained the appropriate approval based on the initial expected dollar value of materials it planned to buy, it did not obtain a higher level of approval when it increased the purchase quantity (and therefore increased the expected dollar value of the purchase). We found SaskTel does not require its staff to reconsider the appropriateness of approvals when quantities or costs increase the expected dollar value of the purchase of materials. Management advised us that such changes are infrequent.

Not reconsidering the appropriateness of approval obtained for increases in quantity of materials and related costs increases the risk of inappropriate purchases and non-compliance with SaskTel's Final Authorization Policy.

3. We recommend that SaskTel implement a process to obtain appropriate level of approval when expected dollar values of purchases of materials increase after initial approval.

4.7.6 Communication of Selection of Supplier Timely but Tracking of Supplier Feedback Sessions Needed

For the program, SaskTel communicates with successful and unsuccessful bidders in a timely manner. SaskTel does not track the occurrence or the results of debriefing sessions with unsuccessful bidders.

For all 12 competitive items we tested, SaskTel communicated with successful and unsuccessful suppliers within a reasonable period. It used various methods such as award

¹⁴ Standard materials stocked in SaskTel's warehouses.

and rejection letters, issuing purchase orders, and/or posting the successful supplier on SaskTenders.

SaskTel advises unsuccessful suppliers that they can request a debrief session with SaskTel. This allows unsuccessful suppliers to both receive and provide valuable feedback on the purchasing process. We found that SaskTel does not track the occurrence of these sessions or the resulting discussions.

Documenting the feedback from suppliers would provide SaskTel more information to improve its best value purchase decisions, and improve its purchasing process.

4. We recommend that SaskTel track supplier feedback to inform purchasing process improvements.

4.7.7 Contracts Timely and Payments Appropriately Approved

For the program, SaskTel signed contracts within a reasonable timeframe with selected suppliers (where contracts were warranted) and paid suppliers based on agreed upon terms. As noted in **Section 4.2**, SaskTel uses standardized wording for contracts and agreements.

Thirteen of 17 items we tested required a contract. For each of these items, SaskTel's legal team was involved in both the creation and execution of the contracts. In addition, SaskTel and the supplier completed and appropriately signed the contract within a reasonable time after the selection of the successful supplier.

For all items we tested, SaskTel verified the supplier delivered the agreed upon goods or services, verified the amount invoiced agreed to the contract or purchase order, appropriately approved payment, and paid suppliers consistent with the agreed upon terms of the purchase.

5.0 SELECTED REFERENCES

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