

## Chapter 8

# Northern Lights School Division No. 113—Purchasing Goods and Services

### 1.0 MAIN POINTS

Northern Lights School Division No. 113 purchases various goods and services to deliver educational services to students in northern Saskatchewan. In 2017-18, the Division bought almost \$26 million of goods and services.

This chapter sets out the results of our audit on the Division's processes to purchase goods and services.

At November 2018, the Division did not have effective processes to purchase goods and services.

The Division needs to better align its purchasing requirements with good purchasing practices. This includes setting requirements over the use of purchasing methods (i.e., single or sole source, request for quotes, request for tenders), requiring staff involved with purchases to declare real or perceived conflicts of interest, recognizing requirements of applicable external trade agreements, and improving its guidelines for purchase cards.

To mitigate possible financial, legal, and reputational risks to the organization, the Board of Education needs to approve the Division's key purchasing policies. The Division can also mitigate these risks by assessing the robustness of its service contract and purchase order templates, and finalizing contracts before receiving goods and services. In addition, by setting a standard amount of time for suppliers to submit responses to tenders, and consistently documenting its tender communications with potential suppliers, the Division can better demonstrate that it treats suppliers fairly and equitably.

We found the Division did not consistently adhere to its purchasing policy or purchase card guidelines. For example, almost 90% of the tenders we tested, the Division did not document its evaluation of the suppliers using the selection criteria it established for the tenders. Without documenting supplier evaluations when tendering, the Division cannot support its supplier decisions and demonstrate achievement of best value for purchasing decisions. When staff do not adhere to policy, there is increased risk of inappropriate transactions.

The Division does not separate incompatible purchasing duties (e.g., tendering, receipt of goods and services, approval of invoices for payment). Separating incompatible duties, and closely monitoring transactions where not feasible, would help the Division mitigate the risk of fraudulent transactions going undetected.

Finally, by keeping the supplier listing in its financial system up-to-date, the Division can mitigate the risk of duplicate or fraudulent payments and help monitor the existence of fictitious suppliers.

Strong processes to purchase goods and services supports transparency, fairness, and achievement of best value in purchasing activities.



## 2.0 INTRODUCTION

*The Education Act, 1995* assigns boards of education of school divisions with the responsibility for administration and management of schools within their division, with oversight from the Ministry of Education. In addition, school boards must approve administrative procedures pertaining to the internal organization, management, and supervision of schools.<sup>1</sup>

Northern Lights is a rural school division located in northern Saskatchewan serving predominantly a First Nations and Métis school population. The Division has 20 schools located in 17 communities.<sup>2</sup> It has almost 4,200 students, and a staff of about 630 full-time equivalent positions. Of these positions, 532 are teachers, principals and other educational staff (e.g., educational assistants, educational psychologists, speech language pathologists).<sup>3</sup>

Northern Lights buys various goods and services such as building maintenance, office supplies, learning resources (e.g., textbooks, library books, equipment), student transportation, and other supplies and materials necessary for course instruction, and to provide educational services. **Figure 1** shows the Division's purchases of goods and services from 2016 to 2018, and planned spending for 2018-19.

**Figure 1 – Northern Lights Purchases from 2016 to 2018**

	Budget <sup>A</sup>		Actual <sup>A</sup>	
	2018-19	2017-18	2016-17	2015-16
	(in millions)			
Instruction	\$ 4.18	\$ 4.57	\$ 4.79	\$ 4.98
Plant (e.g., operations and maintenance)	5.34	4.19	4.75	5.12
Tuition and Related Fees	4.50	4.21	4.37	3.52
Transportation	2.62	2.77	2.89	2.85
Complimentary Services	1.46	1.41	1.36	1.35
School Generated Funds	1.05	1.04	1.14	1.01
External Services	0.81	0.91	0.92	1.16
Administration	0.60	0.58	0.66	0.64
Governance	0.24	0.20	0.50	0.34
Other	_____0.03	_____1.87	_____0.18	_____0.58
<b>Total Expenses</b>	<b>_____20.83</b>	<b>_____21.75</b>	<b>_____21.56</b>	<b>_____21.55</b>
Purchases of tangible capital assets <sup>B</sup>	_____0.97	_____4.18	_____3.96	_____5.14
<b>Total Expenditures</b>	<b>\$ _____21.80</b>	<b>\$ _____25.93</b>	<b>\$ _____25.52</b>	<b>\$ _____26.69</b>

<sup>A</sup> Source: Northern Lights' financial records for the fiscal year ended August 31.

<sup>B</sup> Tangible Capital Assets include items such as buildings, vehicles, furniture and equipment, and computer hardware.

<sup>1</sup> Section 85 of *The Education Act, 1995*. By law, the Ministry must approve the purchase, construction, or alteration of buildings, as well as the requirement to tender capital items or transportation services exceeding thresholds set out in *The Education Regulations, 2015*.

<sup>2</sup> *Northern Lights School Division #113 Annual Report 2017-18*, p. 6.

<sup>3</sup> *Ibid.*, pp. 25, 26.

Effective purchasing processes are transparent, fair, and achieve best value. These characteristics are especially important in northern Saskatchewan, where fewer suppliers are available to provide goods and services, and where authority to buy goods and services is decentralized (e.g., staff at schools, head office).

Not having effective purchasing processes increases the risk of not using public resources wisely and placing the Division's reputation at risk.

### 3.0 AUDIT CONCLUSION

**We concluded that for the 12-month period ending November 30, 2018, Northern Lights School Division No. 113 did not have effective processes to purchase goods and services.**

**Northern Lights needs to:**

- **Better align its purchasing requirements with good purchasing practices. This would include setting requirements over the use of purchasing methods (i.e., single or sole source, request for quotes, request for tenders); requiring staff involved with purchases to declare real or perceived conflicts of interest; recognizing the requirements of applicable external trade agreements; and improving its guidelines for purchase cards.**
- **Have its Board of Education approve the Division's key purchasing policies.**
- **Where possible, separate incompatible purchasing duties, and closely monitor transactions where it is not feasible.**
- **When tendering, document its evaluation of suppliers, set a standard minimum amount of time to allow suppliers to respond to tenders, and consistently document its tender communications with suppliers.**
- **Periodically assess the robustness of its service contract and purchase order templates, and finalize contracts before receiving goods and services.**
- **Keep the supplier listing in its financial system up to date.**

**Figure 2—Audit Objective, Criteria, and Approach**

**Audit Objective:** The objective of this audit is to assess the effectiveness of Northern Lights School Division No. 113's processes, for the 12-month ending November 30, 2018, to purchase goods and services

**Audit Criteria:**

Processes to:

- 1. Set policies for purchasing goods and services**
  - 1.1. Maintain approved and clear policies for purchasing goods and services and for monitoring and reporting on compliance
  - 1.2. Align policies with externally-imposed requirements (e.g., *New West Partnership Trade Agreement*,<sup>A</sup> *Canadian Free Trade Agreement*,<sup>B</sup> legislation)
  - 1.3. Keep staff and suppliers informed of purchasing policies



- 2. Define the need and specifications for required goods and services**
  - 2.1. Define the need in sufficient detail for suppliers' and agency's 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 align with relevant authorities (e.g., legislation, policies, agreements)
- 3. Treat potential suppliers equitably and fairly**
  - 3.1. Identify feasible sources of supply
  - 3.2. Document basis of sourcing decision (e.g., sole source, invited bid)
  - 3.3. Obtain appropriate authorization to initiate purchase (e.g., approval to tender)
  - 3.4. Obtain quotations fairly
- 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 competitive purchasing decisions
  - 4.5. Obtain written contractual agreements
- 5. Manage suppliers**
  - 5.1. Validate suppliers
  - 5.2. Pay suppliers in accordance with written contracts
  - 5.3. Track performance of key suppliers
  - 5.4. Report performance problems to suppliers
  - 5.5. Address suppliers' performance problems promptly

**Audit Approach:**

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (CSAE 3001). To evaluate Northern Lights' processes, we used the above criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. Northern Lights' management agreed with the above criteria.

We examined Northern Lights' policies and procedures that relate to purchasing goods and services for the 12-month period ended November 30, 2018. We interviewed staff responsible for the purchase of goods and services, including senior management. We assessed Northern Lights' purchasing processes by examining purchasing documentation (i.e., policies, tender documents, purchase orders, contracts, invoices). We tested samples of purchases (tenders, single and sole source, purchase cards, invoices) and evaluated users' access to edit the suppliers within the financial system to assess the operating effectiveness of the Division's processes.

<sup>A</sup> The *New West Partnership Trade Agreement* 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](http://www.newwestpartnershiptrade.ca/the_agreement.asp) (27 February 2019).

<sup>B</sup> The *Canadian Free Trade Agreement* is an intergovernmental trade agreement signed by Canadian Ministers that came into force on July 1, 2017. Its purpose is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investments within Canada to establish an open, efficient, and stable domestic market. [www.cfta-alec.ca](http://www.cfta-alec.ca) (27 February 2019).

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 4.1 Update of Purchasing Policies Needed

The Division's purchasing policy does not align with externally-imposed legal requirements, require staff involved with purchases to declare real or perceived conflicts of interest, set out requirements for the use of different purchasing methods (i.e., quotes, tenders), or incorporate expectations for use of contracts.

Northern Lights' purchasing policy appropriately requires staff to treat suppliers fairly and equitably when tendering. The policy requires tendering in accordance with applicable legislation, and sound financial management principles. It sets out clear guidance for receiving and opening tender bids, as well as criteria for evaluating suppliers, and

approving tenders. It requires the Secretary Treasurer to approve tenders for amounts up to \$25,000, and the Board for amounts greater than \$25,000.

In addition, as **Figure 3** describes, the purchasing policy allows staff to give preference to local or Northern suppliers when price variances (compared to other suppliers) are within predetermined ranges.

**Figure 3—Northern Lights’ Provisions for Local or Northern Supplier Preference**

Where legal and appropriate, a Local and/or Northern Contractor may be awarded the contract provided that:		
a) the services or products to be provided are of equivalent or greater quality than that of the bidder who would, except for this provision, be the successful bidder;		
b) the bid of the Local or Northern Contractor is compliant with the call for tenders;		
c) the difference between the dollar value of the Local or Northern bidder and the bidder who would otherwise be the successful bidder is not greater than:		
\$ Value of Contract (Annual)	Northern Contractors <sup>A</sup>	Local Contractors <sup>B</sup>
Between \$10,000 and \$100,000	10% of low bid	15% of low bid
Greater than \$100,000	5% of low bid	10% of low bid
d) The above table does not apply to capital projects funded by the Ministry of Education.		

Source: *Northern Lights School Division No. 113 Administrative Procedure 515 - Purchasing*.

<sup>A</sup> The Division defines a Northern Contractor as either a business located within the boundaries of the Division, or a person who has resided within the boundaries for not less than fifteen years.

<sup>B</sup> The Division defines a Local Contractor as either a business located in the community in which the good or service is to be provided, or a person who has resided in the applicable community for not less than 15 years.

We determined the Division’s policy to favour local or Northern suppliers is not consistent with the terms of applicable external trade agreements. The *New West Partnership Trade Agreement* requires agencies to use the SaskTenders website to publicly tender purchases of goods and services over \$75,000 (over \$200,000 for construction).<sup>4</sup> It allows agencies to utilize regional economic development measures, but only under exceptional circumstances.<sup>5</sup> The *Canadian Free Trade Agreement*, another applicable external trade agreement, also requires agencies to use the SaskTenders website to publicly tender purchases of goods and services over \$101,101 (over \$252,700 for construction). It does not contain provisions for regional economic development measures.

Having criteria favouring the selection of local or Northern suppliers increases the risk of the Division violating terms of external trade agreements, which may result in unfair or inequitable treatment of suppliers. It may also expose the Division to financial penalties under these agreements.

In addition, we found the Division’s purchasing policy (or related procedures) did not:

- Explicitly remind staff about requirements of the applicable external trade agreements when making purchasing decisions. These agreements include specific requirements for agencies to consider when making purchasing decisions (e.g., thresholds for public tenders using the SaskTenders website, timelines for posting contract award notices, exceptions to requirements).

<sup>4</sup> The Ministry of Central Services administers the SaskTenders website ([www.sasktenders.ca](http://www.sasktenders.ca)). SaskTenders is the primary gateway for public sector tender notices for Saskatchewan.

<sup>5</sup> Article V (Section F) of the *New West Partnership Trade Agreement* sets out its measures addressing regional economic development. [www.newwestpartnershiptrade.ca/the\\_agreement.asp](http://www.newwestpartnershiptrade.ca/the_agreement.asp) (19 March 2019).



For 2 of 17 tenders we tested, the Division used its local supplier preference provision in awarding tenders for student transportation. The value of each of these tenders exceeded the minimum thresholds set out in the external trade agreements (i.e., exceeded \$75,000).

For 4 of 17 tenders we tested, the Division did not publicly tender the purchases of heating fuel and propane on the SaskTenders website, as required by the external trade agreements—management indicated that staff may not have been aware of the requirement. These purchases ranged in value from about \$92,000 to \$276,000.

Not including explicit information about applicable external trade agreements within policy increases the risk that staff may not appropriately consider or comply with their relevant terms.

- Require staff involved in purchasing decisions to declare, in writing, as to whether any real or perceived conflicts of interest exist (e.g., staff ownership interest in a supplier).

Its policies do not outline potential mitigations, or provide guidance about what constitutes supplier conflict of interest. If such circumstances arise, good purchasing practices typically prohibit an agency from purchasing goods or services from suppliers in which staff have an ownership interest, or require approval in exceptional circumstances (e.g., if goods or services are not readily available from another supplier). Staff with real or perceived conflicts of interest may be biased in their decision making, increasing the risk of the Division not treating potential suppliers fairly and equitably.

- Establish when it requires tenders, as opposed to other forms of purchasing.

Its purchasing policy does not set out tendering thresholds for non-capital purchases or establish requirements for obtaining quotes. Its construction policy explicitly requires staff to tender capital purchases when the value of materials exceeds \$20,000 or when materials and labour costs exceed \$50,000.

For five purchases we tested where the Division did not tender the purchases and where obtaining quotes may be reasonable (e.g., purchase associated with repairs and maintenance of buildings or equipment), we found that the Division obtained quotes for only one of those purchases.

Good purchasing practices typically follow a tiered approach when establishing the use of different types of purchasing methods—beginning with less formal requirements (e.g., purchase cards, informal quotes) for small dollar value purchases and increasing the requirements (e.g., formal quotes, formal public tender, formal public tender with board approval) as the value of the purchases increase.

Establishing guidance about the use of different purchasing methods will provide clarity to staff and help the Division purchase goods and services in a consistent manner.

- Set out expectations when staff must obtain a written contract when buying certain types of goods or services.

Good purchasing practices establish the circumstances when staff should obtain a written contract, such as when a purchase exceeds an established dollar value or length of time. Not having clear expectations increases the risk of staff not using an appropriate form of contract, possibly exposing the Division to unwanted legal or financial risks.

1. **We recommend that Northern Lights School Division No. 113 update its purchasing requirements to:**
  - **Align with applicable external trade agreements;**
  - **Establish requirements for staff involved with purchases to declare real or perceived conflicts of interest;**
  - **Set out requirements for the use of different purchasing methods; and**
  - **Incorporate expectations for use of contracts.**

We note that some other Saskatchewan school divisions have comprehensive purchasing policies that Northern Lights could leverage when updating its requirements.

## 4.2 Policy Addressing Single or Sole Sourcing Purchases Needed

The Division does not have a policy about single or sole sourcing goods or services. Single source is purposely choosing a single supplier even though others are available (typically for small purchases or emergency purchases). Sole source is when only one supplier for the required item is available.<sup>6</sup> These are non-competitive procurement methods.

We found that the Division periodically single or sole sourced purchases of goods or services (e.g., IT hardware, services for students with intensive needs).

However, contrary to good practice (see **Figure 4**), the Division has not set requirements as to when it is appropriate to single or sole source goods and services. In addition, it has not set requirements on what staff must consider and document when doing so, and what approvals are necessary.

**Figure 4—Good Purchasing Practices**

Good purchasing practices typically require staff to document, in writing:

- The circumstances for single/sole sourcing goods and services (e.g., why the good or service is unique, or needed immediately [emergency purchase])
- Any alternatives considered
- Reasons for selecting the supplier (how staff know there is only one source for the good/service)
- How the price was fair and reasonable

Source: Information compiled by the Office of the Provincial Auditor from various sources.

In addition, organizations track the use of the single and sole sources purchases to enable additional monitoring.

<sup>6</sup> The Chartered Institute of Procurement and Supply defines single source as purposely choosing a single supplier even though others are available (typically for small purchases, emergency purchases). Sole source is when only one supplier for the required item is available. [www.cips.org/en-sg/knowledge/procurement-topics-and-skills/strategy-policy/models-sc-sourcing--procurement-costs/single-sourcing-vs-sole-sourcing/](http://www.cips.org/en-sg/knowledge/procurement-topics-and-skills/strategy-policy/models-sc-sourcing--procurement-costs/single-sourcing-vs-sole-sourcing/) (19 March 2019).



For each of the seven single or sole sourced purchases we tested, the Division did not document why it needed the goods or services purchased, or why the use of these methods was appropriate.

In addition, for three of those seven purchases we tested, the items (e.g., computers, security services, janitorial supplies) purchased would have been available from various suppliers. The value of these purchases ranged from \$138,000 to \$218,000. Management could not explain why it needed these items immediately or why it did not consider alternative suppliers.

Without a policy establishing appropriate requirements when using the single or sole source purchasing methods, the Division is at risk of not facilitating fair and equitable treatment of suppliers, and may not obtain best value when making purchasing decisions.

2. We recommend that Northern Lights School Division No. 113 set out, in writing, its requirements for using single or sole source purchasing.

### 4.3 More Robust Credit Card Guidelines and Active Monitoring of Staff Compliance Needed

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The Division's purchase card guidelines do not sufficiently align with good purchasing practices—such as setting out all required approvals, processes for changing transaction limits, and restrictions on use. In addition, the Division was not actively monitoring cardholders' adherence with its purchase card guidelines.

Northern Lights' staff typically use credit cards for buying small dollar value items (e.g., supplies, meals, hotels) and recurring transactions (e.g., subscriptions). It refers to these as purchase cards. At November 2018, the Division assigned 41 purchase cards throughout the Division, spending about \$34,000 each month.

The Division's purchase card guidelines give staff direction over the use of their purchase cards. The guidelines appropriately set out the responsibilities of cardholders (e.g., accountability for purchases, proper security of cards), and the monthly process for reconciling transaction statements to supporting receipts (including the coding of transactions in the Division's financial system).

In addition, the Division places individual and monthly transaction limits on each of its purchase cards. The Secretary Treasurer is responsible for changing cardholder limits, including the limits for his own purchase card.

Our review of the Division's purchase card guidelines, and testing of 30 purchase card statements, found that the Division did not:

- Update its guidelines to align with its verbal expectations for cardholders to obtain their supervisor's approval of monthly purchase card transactions before the Division paid the amount due on the statement. Its guidelines expected school principals to approve monthly purchase card transactions. The Division recognized this did not make sense because principals are assigned cards, as are their schools, and use them in their day-to-day activities.

In 2 of 30 statements we tested, a principal inappropriately approved a monthly transaction statement instead of a superintendent.

In 1 of 30 statements we tested, no one approved the monthly statement. The amount due on the card was paid.

If the purchase card guidelines do not reflect the Division's expectations for approval of transactions, there is increased risk of staff inappropriately approving transactions.

- Consistently require staff to submit their monthly purchase card reconciliations, properly supported by receipts.

In 6 of 30 statements we tested, staff did not submit their reconciliations for approval; and in 3 of 30 statements, reconciliations were missing one or more supporting receipts.

When staff do not submit their monthly purchase card reconciliations, the Division is unable to assess the appropriateness of transactions incurred by cardholders.

- Have a clear process for monitoring and approving changes made to cardholder transaction limits.

For 3 of 30 statements we tested, the Division increased each cardholder's transaction limit for a large one-time purchase but did not subsequently reduce the limit following the transaction.

For 4 of 5 changes to cardholder limits we tested, the Division did not maintain evidence of approval of the changes in limits.

Without procedures for making changes to cardholder transaction limits, the Division may not revise limits when necessary—leaving the Division susceptible to fraudulent transactions.

- Set out detailed guidance about restrictions on use of the purchase cards. While the Division's guidelines appropriately prohibit staff from using purchase cards for personal use, the guidelines do not provide staff with enough detail about unacceptable purchases. Good purchasing practices include examples of unacceptable purchases (e.g., purchases intended to bypass the Division's competitive bidding process, splitting of transactions to bypass purchase card transaction limits).

While we did not identify staff misuse of purchase cards, detailed guidance regarding the appropriate use of purchase cards would help staff understand what types of purchases are acceptable. This would reduce the risk that staff inappropriately use their purchase cards.

- Maintain completed application forms or require cardholders to acknowledge their understanding of the use of purchase cards.

None of the cardholders related to the 30 statements we tested had completed application forms or acknowledgement of understanding of card use.



When staff complete such forms, it reduces the risk of them not understanding their responsibilities when using purchase cards.

Of the Division's 41 purchase cards, we found it issued 16 cards in the name of a school instead of in the name of a staff member. It makes these cards available for use by multiple staff members at these schools.

Good purchasing practices indicate that an organization should issue purchase cards in the name of the staff members it authorizes to use the cards. Assigning cards to schools instead of to individual staff members increases the risk of misuse of the cards and inconsistent compliance with the Division's purchase card guidelines—not all school staff may be aware of the guidelines. Assigning cards to schools reduces the Division's ability to hold specific staff accountable for their purchasing decisions.

The Division expects supervisors of cardholders to monitor compliance, and follow-up with cardholders about identified non-compliance with its purchase card guidelines. It also expects them to request cards be disabled when deemed necessary (e.g., repeated non-compliance). However, the Division was unaware of the deficiencies we found in our testing.

3. **We recommend that Northern Lights School Division No. 113 revise its purchase card guidelines to align with good purchasing practices (e.g., required approvals, processes for changing transaction limits, restrictions on use).**
4. **We recommend that Northern Lights School Division No. 113 actively monitor adherence of cardholders with its purchase card guidelines.**

#### **4.4 Improved Controls Needed over Fuel Purchases Made with Credit Cards**

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The Division does not agree monthly invoices to supporting individual fuel receipts for purchases made through credit cards (fleet cards) prior to paying the monthly invoice.

Staff use fleet cards for purchasing fuel when using the Division's passenger vans for school-related extracurricular activities. At November 2018, the Division had 31 fleet cards available for staff and staff spent about \$9,000 each month.

The Division's school transportation fleet policy gives staff direction on expected use of its passenger vans. For example, it expects staff to complete a monthly travel log for each van that includes the details of its use during the month (e.g., date, destination, purpose of trip), supported by fuel receipts.

We found that the Division does not monitor receipt of the monthly travel logs for each of its passenger vans. In addition, staff do not agree or append individual fuel vehicle receipts to the monthly fleet card invoices.

For two months, we reviewed all fleet card statements and found staff did not retain receipts for over 60% of the transactions (144 receipts). The Division was not aware that staff had not submitted all of the receipts, as it requires.

Not systematically agreeing fleet card receipts to purchases on the monthly fleet card statements increases the risk of the Division paying for inappropriate purchases, and not detecting misuse of the fleet cards promptly. In addition, the Division cannot know or assess staff use of the fleet cards when staff do not retain all receipts.

5. **We recommend that Northern Lights School Division No. 113 agree purchases on monthly fleet card invoices to supporting receipts prior to making payment.**

## 4.5 Key Purchasing Policies Not Board Approved

The Board of the Division did not review or approve the Division's purchasing policy, construction policy, or delegation of authority to approve the initiation or payment of purchases.

The Board delegated authority for the creation of policies concerning the operation of the Division to the Director of Education. The Division has a policy setting out the Director's responsibility to develop and maintain current policies for the Division, including an annual review of its policies.

We found that the Division did not maintain evidence of the last time it reviewed and updated its purchasing policies (i.e., the policies are not dated) or its delegation of authority to initiate and approve purchases. In addition, the Division did not formally approve its policies.

The Division's Board Policy Handbook indicates that the Board shall establish and maintain written policies that provide effective direction and guidelines for the action of the Board and staff. The Board's policies are to set out how it expects the Division to operate.

In our view, the Division's purchasing policy, construction policy, and delegation of authority are all policies that set out key expectations for the Division's operations.

A delegation of authority transfers the responsibility for control and spending to specific positions (or individuals). Review and approval of the delegation independent of preparation helps ensure authority to approve is delegated to staff with the skill and knowledge necessary for the effective exercise of the authority, and is in keeping with the organization's overall financial management control framework.

Board approval of key operational policies is essential, as these policies should set out the Board's expectations for the operations of the organization. Inappropriately designed and approved purchasing policies and delegations of authority can present significant financial, legal, and reputational risks to the organization.

6. **We recommend that the Board of Education of Northern Lights School Division No. 113 approve the Division's key policies related to the purchase of goods and services.**



Though the Division did not recently revise its purchasing policies, we found that it advised staff of changes to education-related policies via emails. Also, except for the delegation of authority, the Division made all its policies publicly available on its website.<sup>7</sup>

## 4.6 Processes to Maintain Delegation of Authority Needed

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The Division does not have a formal process for maintaining and communicating its delegation of authority to approve the initiation or payment of purchases.

The Division's delegation of authority document sets out authority for initiating and approving payments by staff position (e.g., Secretary Treasurer, superintendents, principals) and type of purchase (e.g., facilities, education portfolio, school-related, travel claims). It does not distinguish between the authority to initiate a purchase, and approve a payment. Most staff positions listed had unlimited authority for purchases associated with their budget responsibilities.<sup>8</sup>

We found the delegated authority for staff positions (at November 2018) aligned with their budget responsibilities—for example, the Superintendent of Facilities has authority over facilities-related purchases.

However, unlike its other policies, the Division does not maintain its delegation of authority on its website. Instead, it only advises individuals in the positions listed along with financial staff of the delegation. Good purchasing practices indicate that an organization should communicate its delegation of authority to all staff—such as including the delegation directly within its purchasing policy. Broader communication helps make the delegation known (transparency), and helps ensure the delegated responsibilities are carried out effectively.

If the Division does not appropriately maintain and communicate its delegation of authority, the authorization to initiate and approve purchases may not be clear to staff—increasing the risk of staff inappropriately authorizing transactions.

See **Recommendation 6** about having the Board approve key purchasing policies. The Division includes Board-approved policies on its website.

## 4.7 Documentation of Supplier Evaluations for Tenders Inconsistent

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The Division does not consistently maintain adequate documentation of its evaluation of suppliers when tendering for the purchase of goods and services.

Purchasing is largely decentralized across the Division—it does not have a purchasing department. The Secretary Treasurer is either directly involved, or assists staff located throughout the Division when purchasing goods or services.

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<sup>7</sup> [www.nlsd113.ca/apps/pages/index.jsp?uREC\\_ID=1067788&type=d&pREC\\_ID=1358250](http://www.nlsd113.ca/apps/pages/index.jsp?uREC_ID=1067788&type=d&pREC_ID=1358250) (20 March 2019).

<sup>8</sup> At November 30, 2018, only two staff positions had established authority limits—the Facilities Supervisor and Maintenance Co-ordinator only had authority to initiate facilities-related purchases and approve payments up to \$5,000.

Staff throughout the Division identify their purchasing needs as part of the annual budgeting process and within their operational plans (e.g., Information Technology, Student Services). We found that the Board appropriately approved the Division's budget.

To identify sources of supply for required goods and service, the Division informally considers its past purchasing experience along with suppliers that respond to its tenders. It consults with other school divisions as necessary.

For the 17 tenders we tested, the Division appropriately:

- Documented the identified need for the good/service within the tender documents
- Authorized the initiation of the purchase consistent with its delegation of authority policy
- Clearly defined specifications (e.g., details of the goods or services required, methods for responding, timeline, evaluation process) to enable suppliers to understand the Division's expectation, and prepare a bid; specifications included other requirements and relevant authorities (e.g., suppliers' compliance with *The Environmental Spill Control Regulations*, National Building Code) where necessary<sup>9,10</sup>
- Used suitable staff to evaluate supplier responses; the Secretary Treasurer, along with other relevant staff or external consultants (e.g., facilities, architect) evaluated suppliers' responses to tenders<sup>11</sup>
- Approved the selection of suppliers within a reasonable timeframe

However, in 15 of 17 tenders tested, the Division did not document its evaluation of the suppliers using the selection criteria it established for the tenders.

When the Division does not document its evaluation of bids, it is not complying with its purchasing policy. Also, it cannot sufficiently support its supplier selection decision and demonstrate achievement of best value for purchasing decisions.

**7. We recommend that Northern Lights School Division No. 113 consistently document its evaluation of suppliers when tendering for the purchase of goods and services.**

## 4.8 Tender Communications with Suppliers Maintained Inconsistently

The Division did not consistently maintain appropriate documentation of communications with suppliers during the tender process—its purchasing policy does not address its expectations associated with supplier communications. In addition, it did not request feedback from unsuccessful suppliers to assist with improving its tendering process.

<sup>9</sup>The Division determines other purchasing requirements (e.g., warranty, delivery, packaging) on a case-by-case basis, with involvement from operational staff (e.g., facilities, information technology) as necessary.

<sup>10</sup>The Division frequently tenders student transportation services and has a template for preparing these tender documents. Our review of this template found it includes sufficient information for suppliers to prepare bids (e.g., description of routes, timeline, method for responding, evaluation process, and key requirements of suppliers). For tenders that are not related to student transportation, the Division develops the tender documents on a case-by-case basis.

<sup>11</sup>The Division accepts bids for tenders via mail, email, fax, or directly at the Division office.



For the 17 tenders we tested:

- 7 of 17 tender documents tested did not describe the Division's policy about the use of local or Northern supplier preference when selecting suppliers—this increases the risk of the Division treating suppliers unfairly or inequitably. The remaining tender documents set out mandatory requirements of suppliers, and criteria it will use to evaluate the supplier when awarding the tender.
- For 1 of 17 tenders tested, the Division communicated the tender award with the successful supplier two months after the Board approved the selection of the supplier (not timely).
- For 6 of 17 tenders tested, the Division communicated with the successful and/or unsuccessful suppliers through phone calls. When it communicated in this manner, we were unable to assess whether the Division approved the supplier selection before it communicated with the successful supplier or whether the communication occurred timely.
- For 4 of 17 tenders tested (each over \$75,000), the Division did not comply with the external trade agreements regarding posting a contract award notice on the SaskTenders website. When agencies use SaskTenders for procurements, they must also post contract award notices on the website.

If the Division does not maintain appropriate documentation of its communications with suppliers, it can be difficult for the Division to demonstrate that its purchasing process is fair and transparent and it may be in violation of external trade agreements.

**8. We recommend that Northern Lights School Division No. 113 maintain appropriate documentation of its tender communications with suppliers.**

The Division routinely tenders purchases but does not formally request feedback from unsuccessful suppliers. Given its location, the Division regularly interacts with a relatively small number of suppliers. In addition, only a few of its staff are responsible for making decisions about larger purchases.

The Division could consider holding debriefing sessions with unsuccessful suppliers on larger purchases to have an opportunity to exchange constructive feedback on the Division's purchasing processes.

## 4.9 Standard Tendering Time Not Established

The Division has not established a standard minimum amount of time to ensure suppliers have sufficient time to submit responses to tenders.

Good practice suggests 25 to 35 days is sufficient time to allow suppliers to respond to tenders.<sup>12</sup>

<sup>12</sup> Adapted from information provided by the Saskatchewan Ministry of Trade and Export Development. To assist government agencies, the Ministry prepared a document that summarized agencies' procurement obligations under domestic and international trade agreements.

For 16 of the 17 tenders we tested, the Division did not allow a tendering time consistent with good practice (i.e., two weeks for 15 items; three weeks for one item). The Division received two or fewer supplier bids for nine of these 16 tenders. The Division may not have provided suppliers with sufficient time to respond to the tenders.

Not providing suppliers with sufficient time to prepare tender responses increases the likelihood of suppliers choosing not to respond, resulting in the Division having fewer options to acquire the goods or services it needs. Fewer options may increase the risk of not achieving best value. Also, establishing standard minimum amounts of time helps ensure it treats suppliers fairly and equitably.

**9. We recommend that Northern Lights School Division No. 113 establish a standard minimum amount of time to allow suppliers to respond to tenders.**

## 4.10 Some Contract Templates Incomplete

The Division does not periodically review its contract templates for completeness and robustness. Its service contract and purchase order templates do not include clauses or provisions that are typically necessary when purchasing goods and services.

The Division maintains contract templates for the following types of purchases:

- Service contract—used when contracting external parties to provide education courses or programs (e.g., art camps)
- Student transportation contract—used when contracting external parties to provide student transportation services (i.e., transportation to and from school)
- Heating fuel contract—used when purchasing large volumes of heating fuel
- Propane contract—used when purchasing large volumes of propane
- Standard purchase order for other types of purchases

Our review of the templates found the contract templates used for student transportation, heating fuel, and propane include clauses typically necessary in a contract.

However:

- Its service contract did not include clauses addressing items such as performance, indemnification, insurance requirements, severability, survival, etc.
- Its standard purchase order did not contain terms and conditions pertaining to delivery, liability, or authorization of changes to terms and conditions

Maintaining robust standard wording of contracts (contract templates) helps organizations save time on purchasing activities, and can reduce legal costs. They can also help both staff and suppliers to consider key aspects common to purchasing certain types of goods and services. Not having robust contract templates increases legal or financial risks where signed contracts do not sufficiently address relevant contract terms.



**10. We recommend that Northern Lights School Division No. 113 periodically assess the robustness of the service contract and purchase order templates used for purchasing goods and services.**

## **4.11 Contract Documentation Not Always Timely or Consistently Maintained**

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The Division did not consistently maintain timely or complete documentation of contracts with suppliers.

For 10 of the 24 purchases we tested (made through tenders and single or sole sourced procurement methods), the Division appropriately used and authorized the contracts or purchase orders for these purchases.

However, for 14 of the 24 purchases tested, we found:

- Six purchases where the Division signed the contract after it received the goods or services instead of beforehand as best practice expects
- Two purchases where the Division did not maintain appropriately approved or complete contract documentation—for one purchase, the Division did not sign the contract in accordance with its construction policy (i.e., Superintendent of Facilities signed the contract instead of the Director of Education or Secretary Treasurer), and for the other, the supplier did not sign the contract
- Six purchases where the Division could not locate the contracts

If suppliers provide goods or services to the Division before finalizing a contract, suppliers may not fully understand their responsibilities to the Division—potentially resulting in suppliers not meeting the Division’s needs.

Not maintaining complete documentation of signed contracts makes it difficult to hold suppliers accountable for providing goods and services when performance issues arise. In addition, if appropriate Division staff do not sign contracts as expected, there is increased risk of the Division entering into contracts that do not fully meet its needs.

**11. We recommend that Northern Lights School Division No. 113 maintain complete documentation of properly authorized contracts with suppliers before the Division receives the related goods or services.**

## **4.12 Additional Monitoring of Incompatible Purchasing Duties Needed**

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The Division does not take additional steps to actively identify or monitor transactions when the same individual carries out more than one of the purchasing duties in an individual purchase.

A basic financial control is that more than one person should be required to complete certain tasks such as approval of the initiation of a purchase, receipt of goods and services, and approval for payment. Separating these purchasing duties helps catch errors. In addition, involvement of more than one individual in making a purchase helps prevent fraud or theft.

As noted in **Section 4.6**, the Division does not require different individuals to initiate purchases, receive goods or services, and approve invoices for payment. For example, the Division authorizes the Secretary Treasurer to sign tenders, receive bids on tenders, open tenders, and evaluate tenders. These roles are in addition to the Secretary Treasurer's responsibility for approving changes for user access to the financial system, approving payments made by the Division, and administering the Division's finances.

In the purchases we tested, we noted numerous instances where the same individual had approved the initiation of the purchase and received the goods or services, or received the goods and services and approved the request for payment, or approved the initiation of the purchase and request for payment. For example, the Secretary Treasurer approved the initiation of purchases and request for payment for about one third of the 30 payments we tested.

At times, it is not feasible for organizations to separate all incompatible purchasing duties. Where it is not possible to do so, good practice is to actively identify instances where separation of the duties is not possible, and monitor the appropriateness of those purchases.

We found the Division does not provide finance staff with written guidance about not processing requests for payment where the same individual had approved initiation of the purchase, received goods and services, and requested payment.

Providing one individual with the ability to control several aspects of the purchasing process (e.g., tendering, receipt of goods and service, approve invoices for payment) does not appropriately separate incompatible duties and increases the risk of fraudulent transactions going undetected.

**12. We recommend that Northern Lights School Division No. 113 separate incompatible purchasing duties (e.g., initiating purchases, tendering, receiving goods or services, approving invoices for payment, adding suppliers to the financial system), and closely monitor transactions where it is not feasible to do so.**

### **4.13 Documentation of Validity of Supplier Information and Separation of Incompatible Duties Needed**

The Division does not document due diligence procedures taken to confirm the validity of suppliers before paying them, or properly maintain its listing of suppliers included in its financial system. In addition, two individuals with the ability to enter new suppliers into its financial system can approve invoices for payment and other financial transactions.

Unfortunately, in today's world, organizations must proactively take steps to avoid the risk of fictitious suppliers. Statistics Canada reports that frauds committed by individuals other



than employees were more likely to strike business establishments than employee-perpetrated frauds.<sup>13</sup>

Good practice is to carry out due diligence procedures to confirm the validity of new suppliers prior to initiating purchase activity with them. **Figure 5** sets out examples of such procedures.

#### Figure 5—Due Diligence Procedures for Validating New Suppliers

Examples of due diligence procedures include:

- Comparing the supplier mailing address against the mailing addresses of employees
- Checking suppliers using a post office box as a mailing address to verify their legitimacy
- Verifying each supplier has an assigned GST number and telephone number—and then verifying correctness of this data
- Confirming ownership of the supplier company, and actively looking for any potential employee, board member or other key party conflicts (consider declarations of conflicts)

Source: Information compiled by the Office of the Provincial Auditor from various sources.

In addition, good practice is to assign responsibility for reviewing new suppliers to someone that is not responsible for initiating purchases, receiving goods/services, or approving payments. Also, periodically reviewing details about suppliers listed within the financial system (e.g., reviewing the listing for duplicate records, populating missing fields, or deactivating unused suppliers) helps reduce the risk of fraud and sending payments to the wrong supplier.

At November 2018, the Division's financial system maintains details on about 7,700 different suppliers (e.g., names, addresses, contact information, last payment date). The Division uses this information when issuing purchase orders, setting up accounts payable, and paying supplier invoices.

The Division informally assesses the validity of suppliers upon receipt of invoices for payment (i.e., after suppliers provide goods or services). The Division's purchasing policies do not require staff to research the validity of a new supplier prior to making a purchase.

For each of 17 new suppliers in the Division's financial system we tested, the Division could not show us that it had confirmed validity of the supplier. We assessed the validity, through internet searches and review of invoices, of each of these suppliers, and found each of them were valid.

In addition, we analyzed supplier information in the Division's financial system. Our comparison of supplier addresses to employee addresses did not identify any fictitious suppliers.

However, we found that the Division did not make sure its financial system only listed relevant suppliers. The Division had not made any payments within the last two years to almost 68% of the 7,700 suppliers listed in its financial system.

Not carrying out sufficient due diligence procedures to confirm the validity of suppliers before entering them into the financial system increases the risk of making payments to fictitious suppliers.

<sup>13</sup> [www150.statcan.gc.ca/n1/pub/85-571-x/2009001/part-partie1-eng.htm](http://www150.statcan.gc.ca/n1/pub/85-571-x/2009001/part-partie1-eng.htm) (20 March 2019).

Also, periodic maintenance of suppliers included in the financial system can reduce the risk of duplicate or fraudulent payments and help monitor the existence of fictitious suppliers.

**13. We recommend that Northern Lights School Division No. 113 document its due diligence procedures used to validate suppliers before entering them into its financial system, and keep the supplier listing in its financial system up-to-date.**

In addition, we found the Division, through its assignment of IT user access, gave two individuals incompatible responsibilities; these individuals can approve invoices for payments and add suppliers to the Division's financial system.

Allowing users with the ability to approve or enter payments into the financial system, in addition to the ability of adding suppliers, does not appropriately separate incompatible duties. Not appropriately separating incompatible duties between different individuals increases the risk of fraud, and not detecting errors. See **Recommendation 12** about separating incompatible purchasing duties.

#### **4.14 Better Support for Heating Fuel Purchases Needed**

The Division did not consistently document the receipt and appropriate approval for the payment of heating fuel purchases.

For 30 payments we tested, the Division paid the approved invoices within a reasonable timeframe, and at the correct amount.

However, for two heating fuel purchases we tested, the staff approving the invoice did not have authority to do so. In addition, we found one heating fuel purchase where we were unable to determine if the Division appropriately separated purchasing duties, as no one documented receipt of the purchase. The size of these purchases were small, ranging from about \$25 to \$500 though the Division spends about \$800,000 on heating fuel in a year.

If the Division does not require staff to approve invoices in accordance with its delegation of authority, and document its receipt of the purchases, there is an increased risk of the Division paying for goods and services that it did not receive.

**14. We recommend that Northern Lights School Division No. 113 require staff to document the receipt of heating fuel purchases and to adhere to its delegation of authority when approving invoices for payment.**

Northern Lights' purchasing policy also sets out clear guidance for the approval of requests for purchases (requisitions). One of the Director of Education, Secretary Treasurer, Superintendent of Education, Superintendent of Facilities, or a designate must approve requisitions.

For 3 of the 30 payments we tested, the Division's purchasing policy requires staff to complete and obtain approval of a requisition; and then use this requisition to prepare a



purchase order.<sup>14</sup> These forms document the need for the item being purchased. Two of these three payments did not have a completed requisition or an approved purchase order, as the policy requires.

Not having properly approved requisitions and purchase orders increases the risk that the Division may buy goods or services that it does not need. See **Recommendation 1** about the Division updating its purchasing requirements.

## 4.15 Supplier Performance Issues Addressed

Because the Division uses a relatively small number of suppliers regularly, it takes an informal approach when addressing supplier performance issues—taking into account the scope and sensitivity associated with items that arise.

The Division can more easily identify significant supplier performance issues because only a few individuals are responsible for making a large portion of its purchasing decisions.

Through our testing and discussion with management, we identified two supplier performance issues. We found the Division handled these supplier performance issues appropriately. In both instances, the Division communicated the performance issues to the suppliers. In one instance where the supplier performance had safety implications, management discussed the issue with its Board, and obtained its approval to terminate the contract with this supplier.

Proactively identifying and addressing supplier performance issues helps ensure the Division receives the expected quality of goods and services it pays for.

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<sup>14</sup> The other 27 payments tested did not require a requisition given the nature of these purchases (e.g., utilities, employee travel expenses, monthly payments).