

Chapter 9

Northlands College—Purchasing Goods and Services

1.0 MAIN POINTS

Northlands College purchases various goods and services to deliver educational and training programs and services across northern Saskatchewan. In 2017-18, the College bought over \$9 million of goods and services.

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

At November 2018, Northlands College had generally effective processes to purchase goods and services. Its procurement policy requires staff to ensure consistency and fairness when making purchases and sets out guidance for evaluating potential suppliers.

While we found that staff followed the College's policies when making purchases using various procurement methods (e.g., quotes, tenders, purchase cards), the College needs to better align its purchasing requirements with good purchasing practices. This includes setting requirements over the use of single or sole source purchasing, requiring staff involved with purchases to declare real or perceived conflicts of interest, and recognizing the requirements of applicable external trade agreements. 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 College can better demonstrate that it treats suppliers fairly and equitably.

To mitigate possible financial, legal, and reputational risks to the organization, the Board needs to approve the College's key purchasing policies. The College can also reduce these risks by assessing the robustness of its contract templates, and finalizing contracts before receiving goods and services.

Finally, by keeping the supplier listing in its financial system up-to-date, the College 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 Regional Colleges Act gives boards of directors of regional colleges the responsibility for developing policies about administration, operations, and financial administration.¹

Northlands College is one of seven regional colleges operating in Saskatchewan. It provides education and training programs and services, enhances the social and

¹ Section 12 of *The Regional Colleges Act*. By law, the Ministry must approve the purchase, construction, or renovation of buildings or other facilities required for the purposes of a college.



economic condition, prepares northerners to participate in the labour market, and helps industry meet its labour force needs. It operates in northern Saskatchewan, with campuses located in Buffalo Narrows, La Ronge, and Creighton. Its head office is in Air Ronge.² It has a staff of almost 100 full-time equivalent positions, and serves about 1,100 students each year.³

The College primarily uses grants from the Ministry of Advanced Education to finance its operations. For example, in 2017-18, the College received \$20.47 million from the Ministry of Advanced Education (about 74% of its total revenues). About 25% of its revenues are from student tuition and fees, and contracts for training.⁴

As shown in **Figure 1**, typically, the College buys about \$9 million of goods and services each year to deliver its education and training programs. Its purchases of tangible capital assets (e.g., equipment) vary from year to year.

Figure 1 – Northlands College’s Purchases from 2016 to 2018

	Budget ^A	Actual ^A		
	2018-19	2017-18	2016-17	2015-16
	(in millions)			
Agency Contracts ^B	\$ 0.09	\$ 3.74	\$ 3.11	\$ 3.76
Operating	1.02	2.50	2.84	3.33
Facilities	0.93	1.99	1.87	1.86
Equipment	0.22	0.54	0.87	0.53
Information Technology	0.22	0.32	0.27	0.50
Total Expenses	2.48	9.09	8.96	9.98
Tangible Capital Assets ^C	0.09	0.31	0.85	2.49
Total Expenditures	\$ 2.57	\$ 9.40	\$ 9.81	\$ 12.47

^A Source: Northlands College financial records for the fiscal year ended June 30.

^B Includes costs related to program delivery and instruction.

^C Includes items such as buildings, furniture and equipment, vehicles, and computer hardware.

The Ministry of Advanced Education oversees regional colleges, and may provide direction to regional colleges regarding their operations or programs.⁵ In its 2018-19 budget letters to colleges, the Ministry of Advanced Education communicated its expectations for each of them to increase efficiencies and reduce costs while maintaining high-quality programs and services for students.

Northlands College must achieve this while using purchasing processes that are transparent, fair, and achieve best value. Not having effective purchasing processes increases the risk of not using public resources wisely and placing the College’s reputation at risk.

² trainnorth.ca/About (27 February 2019).

³ *Northlands College 2017-2018 Annual Report*, pp.20, 29.

⁴ *Ibid.*, p. 42.

⁵ Section 13 of *The Regional Colleges Act*.

3.0 AUDIT CONCLUSION

We concluded that for the 12-month period ending November 30, 2018, Northlands College, other than the following areas, had effective processes to purchase goods and services. Northlands College needs to:

- **Better align its purchasing requirements with good purchasing practices. This would include setting requirements over the use of single or sole source purchasing, requiring staff involved with purchases to declare real or perceived conflicts of interest, and recognizing the requirements of applicable external trade agreements**
- **Have its Board approve the College's key purchasing policies**
- **Set a standard amount of time to give suppliers enough time to submit responses to tenders, and consistently document its tender communications with potential suppliers**
- **Assess the robustness of its contract 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

<p>Audit Objective: The objective of this audit is to assess the effectiveness of Northlands College's processes, for the 12-month ending November 30, 2018, to purchase goods and services.</p> <p>Audit Criteria:</p> <p>Processes to:</p> <ol style="list-style-type: none"> 1. Set policies for purchasing goods and services <ol style="list-style-type: none"> 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., <i>New West Partnership Trade Agreement</i>,^A <i>Canadian Free Trade Agreement</i>,^B legislation) 1.3 Keep staff and suppliers informed of purchasing policies 2. Define the need and specifications for required goods and services <ol style="list-style-type: none"> 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 <ol style="list-style-type: none"> 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 <ol style="list-style-type: none"> 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
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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 Northlands College's processes, we used the above criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. Northlands College's management agreed with the above criteria.

We examined Northlands College's 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 Northlands College's purchasing processes by examining purchasing documentation (i.e., policies, tender documents, purchase orders, contracts, invoices). We tested samples of purchases (tenders, quotes, single and sole source, purchase cards, invoices) to assess the operating effectiveness of the College's processes.

^A 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 (27 February 2019).

^B 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 (27 February 2019).

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 More Comprehensive Procurement Policy Needed

The College's procurement policy does not align with externally-imposed legal requirements, require staff involved with purchases to declare real or perceived conflicts of interest, or incorporate expectations for use of contracts.

Northlands' procurement policy appropriately requires staff to ensure consistency and fairness when purchasing goods and services. It also sets out clear guidance for evaluating potential suppliers for when staff use competitive procurement methods (e.g., quotes, public tender). It expects staff to:

- Obtain a minimum of three quotes from suppliers when buying goods and services over \$10,000
- Publicly tender (post on the SaskTenders website) when buying goods and services over \$75,000, and construction over \$200,000⁶

In addition, as set out in **Figure 3**, the procurement policy expects staff to give preference to local suppliers when price variances (compared to other suppliers) are within predetermined ranges.

⁶ The Ministry of Central Services administers the SaskTenders website (www.sasktenders.ca). SaskTenders is the primary gateway for public sector tender notices for Saskatchewan. The external trade agreements establish thresholds requiring organizations to post tenders on the SaskTenders website—these are for procurements exceeding \$75,000 for goods or services and \$200,000 for construction.

Figure 3—Northlands College's Provisions for Local Supplier Preference

When comparing quotes from suppliers within the region for Northlands College with quotes from vendors outside the region, favour would be given to the local vendor for goods and services when the price variances are within the following ranges:

- Purchases less than \$30,000 – 10% price variance
- Purchases between \$30,000 and \$100,000 – 5% price variance
- Purchases greater than \$100,000 – 3% price variance

Source: *Northlands College Policy No. 208—Procurement*.

We determined that the College's policy to favour local 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). It allows agencies to utilize regional economic development measures, but only under exceptional circumstances.⁷ The *Canadian Free Trade Agreement*, another applicable external trade agreement, 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 similar provisions for regional economic development measures.

Having criteria that favours the selection of local suppliers increases the risk of the College violating terms of external trade agreements, which may result in unfair or unequal treatment of suppliers. In addition, it may expose the College to financial penalties under these agreements.

In addition, we found neither the procurement policy nor other purchasing policies:

- Explicitly remind staff about the applicability of the *Canadian Free Trade Agreement* when making purchasing decisions.⁸ The policy appropriately refers to the *New West Partnership Agreement*. Not including explicit reminders about all 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), or outline potential mitigation. If such circumstance 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 College not treating potential suppliers fairly and equitably.
- 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

⁷ 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 (13 March 2019).

⁸ The *Canadian Free Trade Agreement* (CFTA) includes some requirements that are not as specific in other external trade agreements that agencies should be aware of when purchasing goods and services. For example, agencies must publish contract award notices within 72 days of awarding a contract for procurements subject to the CFTA. Also, an understanding of the CFTA can enable agencies to gain an understanding of procurements that are not subject to the agreement (e.g., provision of social services, acquisition or rental of land).



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 College to unwanted legal or financial risks.

1. **We recommend that Northlands College update its purchasing requirements so that they align with applicable external trade agreements, establish requirements for staff involved with purchases to declare real or perceived conflicts of interest, and incorporate expectations for use of contracts.**

The College had five public tenders during the 12-month period ending November 30, 2018.

For each of the five tenders we tested, the College appropriately used evaluation criteria set out in the tender documents when the College selected the supplier, and not its provisions for local supplier preference.

4.2 Policy for Single and Sole Sourcing Purchases Needed

The College 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.⁹ These are non-competitive procurement methods.

We found that the College routinely single or sole sources purchases of certain goods or services (e.g., books), and periodically for purchases of other goods and services (e.g., IT hardware and software).

However, contrary to good practice, the College 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.

Good purchasing practices typically require staff to document:

- The circumstances for single/sole sourcing goods and services (e.g., why 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

⁹ 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/ (27 February 2019).

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

For all of the 19 single/sole sourced purchases we tested, the College did not document why it needed the goods or services purchased, or why the use of these methods was appropriate. For 10 of the 19 single/sole sourced purchases we tested, the total purchase value of each exceeded the College's policy threshold for tendering (goods or services exceeding \$75,000).

In addition, for 4 of the 19 single/sole sourced purchases we tested, the items (e.g., laptops, vehicles) purchased would have been available from various suppliers. The value of these purchases ranged from about \$22,000 to \$287,000. Management could not explain why it needed these items immediately.

Without a policy establishing appropriate requirements when using the single or sole source purchasing methods, the College 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 Northlands College set out, in writing, its requirements for using single or sole source purchasing.

4.3 Additional Controls Needed Over Purchases Made Through Credit and Fleet Cards

The College does not agree individual purchases made through fleet cards to supporting receipts prior to paying its monthly statements. In addition, it has not set spending limits for individual purchases to electronically limit the size of purchases made through its credit cards.

Northlands expects staff to use college-issued credit cards for buying small dollar value items and transactions with other post-secondary institutions (e.g., transcript requests, tuition). It also expects staff to use fleet credit cards for buying fuel and other vehicle-related items when using vehicles in the College's fleet.

At November 2018, the College assigned credit cards to 10 staff, and had 10 fleet credit cards available for staff using College vehicles. Our review of transactions on statements for two months found that the total amount that staff spent on the College's credit cards and fleet cards totalled about \$50,000 and \$3,000 each month, respectively.

Northlands used two policies to give staff direction over the use of college-issued credit cards—its credit card policy (last updated in June 2018) and its fleet card policy (last updated in January 2018).

Northlands' credit card policy appropriately set out:

- Responsibilities of cardholders (e.g., accountability for purchases, proper security of cards, requirement to submit monthly transaction logs). It required cardholders to acknowledge their acceptance and understanding of responsibilities in writing.



- Types of purchases that are acceptable (e.g., on-line purchases for books or program supplies, lodging, air fare, registrations fees for workshops) and unacceptable (e.g., cash withdrawals, meals, gasoline, capital items).
- Approval process for distributing cards to staff, setting and changing monthly credit card limits (e.g., the Board approved the monthly transaction limits of each card holder). Monthly transaction limits ranged between \$1,000 and \$99,000.
- Approval process for changing its agreement with the supplier of the credit cards. For example, it required the Board to approve the agreement and changes.
- Monthly process for reconciling transaction statements to supporting receipts, and the related approval process.

For staff without delegated authority, the credit card policy requires them to obtain a properly approved purchase requisition before using their credit card to purchase goods or services.¹⁰

The College's fleet vehicle policy appropriately set out the responsibilities of staff who use the College's vehicles, and cards.¹¹ It restricts purchases on the fleet cards to fuel and automotive-related purchases (e.g., windshield wipers, vehicle fluid, car washes, minor tire repairs). In addition, it requires staff to retain receipts for purchases, and to submit them to the fleet vehicle coordinator.

However, unlike its credit card policy, the fleet vehicle policy does not require staff to reconcile vehicle receipts to the monthly fleet card statements. Staff do not do so.

For two months of all fleet card statements, we found staff did not retain receipts for almost 44% of the transactions (40 receipts). The College was not aware that staff had not submitted all of the receipts as it requires. Our review of the fleet card statements for the 12-month period ending November 2018 (our audit period) did not identify any unusual transactions.

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

3. We recommend that Northlands College agree purchases on monthly fleet card statements to supporting receipts prior to making payment.

In addition, we noted that the College's policies over use of credit cards do not contemplate, and the College did not ask its suppliers of the credit cards to place electronic limits on the maximum amounts of individual purchases (e.g. not permit individual purchases over \$500). Organizations often set electronic spending limits for individual credit-card transactions that align with authority granted to that cardholder under their delegation of authority policy.

¹⁰ A purchase requisition is a document that notifies a purchaser of the need to purchase a particular good or service.

¹¹ The College makes a number of vehicles available to its staff for the purpose of travel resulting from the duties of employment at the College. A fleet card is a type of credit card used only for fuel and automotive-related purchases.

Use of automated transaction spending limits efficiently restricts staff from making purchases larger than the thresholds the College establishes.

4. We recommend that Northlands College establish transaction limits for individual purchases made on college-issued credit cards.

Staff are consistently following the credit card policy.

For each of the cardholders at November 2018 with college-issued credit cards, we found each cardholder properly completed a card application and signed an acknowledgement form; the Board approved the cardholders' monthly transaction limits.

For two months for each of the college-issued cards, we found each cardholder supported the monthly credit card statements with original receipts, and management appropriately approved the cardholder reconciliations. However, for the two cardholders that must obtain properly approved purchase requisitions before using their credit cards to purchase goods and services, we found six transactions where they did not obtain prior approval to use their cards. We found the College's explanation for these six purchases reasonable. See **Recommendation 4**—establishing appropriate transaction limits may reduce the need for College staff to obtain properly approved purchase requisitions before using their credit cards to purchase goods and services.

Staff adherence to the credit card policy helps the College to appropriately monitor and control the spending on its credit cards.

4.4 Clear Process to Keep Policies Up to Date

The College requires a periodic review of its policies and tracks when it last updated its policies.

The Board has delegated responsibility for policies and procedures relating to the day-to-day administration of the College to the CEO.

We found that the College reviewed, and the CEO approved, the procurement policy, credit card policy, and fleet vehicle policy within the last two years. It advises staff of changes to policies through staff meetings or via emails. The College makes these policies publicly available on its website.¹²

Having clear responsibility for keeping policies up to date helps the College to maintain policies that appropriately reflect its expectations of staff.

4.5 Processes to Update and Approve Delegation of Authority Needed

The College does not have a formal process for maintaining and communicating its delegation of authority. The delegation of authority in place at November 2018 was not up-to-date. It did not reflect a September 2018 reorganization of positions.

¹² trainnorth.ca/docs/policies/ (11 March 2019).



The College has a delegation of authority document (last updated in June 2018) that:

- Sets out authorization thresholds by staff position (e.g., campus managers, directors, senior management), and type of purchase (e.g., advertising, program expenses, repairs and maintenance, information technology software/hardware) for both initiating purchases and approving payments. However, it does not distinguish between the authority to initiate a purchase and to approve a payment.

At November 2018, most staff positions listed had authority up to \$5,000. Two positions, the Chief Executive Officer and Vice President of Finance and Operations, had overarching authority for all types of purchases with no upper dollar limit.¹³

- Incorporates legislative requirements related to purchasing.¹⁴

Unlike its policies, the College does not maintain its delegation of authority on its website. Rather it gave copies only to personnel with responsibilities as set out in the delegation of authority. Management indicated that the College plans to incorporate its delegation of authority within its procurement policy during the next policy update.

If the College 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 5** about having the Board approve key purchasing policies.

4.6 Key Purchasing Policies Not Board Approved

The Board of the College did not review or approve the College's procurement policy and delegation of authority.

The College's Board Governance Manual indicates that the Board of Directors shall formulate general policies for the College concerning organization, administration, personnel, operations and courses of instruction of the college.

In our view, both the College's procurement policy and delegation of authority are both general policies that concern its organization, administration, and operations.

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

5. We recommend that Board of Directors of Northlands College approve the College's key policies related to the purchase of goods and services.

¹³ Before June 2018, the College delegated authority to directors and managers for purchases within their own budget area (e.g., information technology, academic programming, facilities), with no established limits.

¹⁴ Section 14 of *The Regional Colleges Act* requires the College to obtain approval from the Minister of Advanced Education for the purchase of real property and for the construction or renovation of buildings or other facilities required for the purposes of the College. The Ministry provides the College with approval for capital projects within its annual funding letters, prior to the College beginning construction.

4.7 Suppliers in Competitive Procurements Identified and Selected Consistent with Policy

Where its policy requires the use of competitive procurement methods, the College appropriately initiated quotes and tenders based on identified needs, and evaluated responses to them consistent with its policy.

In July 2017, the College centralized purchasing under the Vice President of Finance and Operations. The College hired a purchaser in February 2018 to help the Vice President in managing the purchasing function. Previously, the College did not centrally oversee the initiation of purchases; rather staff at each of Northlands' campuses could initiate a purchase of goods and services independently.

For four quotes and five tenders we tested, the College:

- Used guidelines in its procurement policy to determine which procurement methods to use (e.g., request for at least three quotes for purchases over \$10,000, public tender for purchases of goods and services over \$75,000)
- Documented the identified need for the good/service within related request for quotes or proposals to potential suppliers, or within tender documents^{15,16}
- 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 College's expectation, and prepare a bid; specifications included other requirements and relevant authorities (e.g., suppliers' compliance with *The Employment Standards Act*, National Building Code) where necessary
- When necessary, posted the tenders on the SaskTenders website (for tenders)
- Collected responses to tenders via email or directly by someone who is independent from the tender evaluation process
- Used its responses to the request for quotes/proposals or tenders to identify suppliers
- Included, in its tender documents, mandatory requirements of suppliers, and criteria it will use to evaluate the supplier when awarding the tender
- Used appropriate staff to evaluate supplier responses; the Vice President of Finance and Operations, along with other relevant staff (e.g., purchasing, facilities, information technology) evaluated suppliers' responses to quotes and tenders
- Appropriately approved the selection of suppliers based on the lowest bid (for quotes) or the selection criteria (for tenders) within a reasonable timeframe; successful

¹⁵ When applicable, staff also determine other purchasing requirements (e.g., warranty, delivery, packaging), with involvement from the VP Finance and Operations or the Facilities Manager as necessary.

¹⁶ The College also identifies its capital needs when making funding requests to the Ministry of Advanced Education that includes analysis of the need for related capital and preventative maintenance purchases.



suppliers were those with the lowest bid (for quotes) or with the highest score based upon the College's evaluation criteria (for tenders)

In the five tenders we tested, the tender documents did not describe the College's policy about the use of local supplier preference when selecting suppliers. See **Section 4.1**—the College's alignment of its purchasing requirements with applicable external trade agreements will help reduce the risk of the College treating suppliers unfairly or inequitably.

Following its competitive procurement method policies for buying goods and services helps ensure staff treat suppliers equitably and fairly, and helps the College buy goods and services at a fair price.

4.8 Tender Communications with Suppliers Inconsistently Maintained

While the College appropriately selected the suppliers for tenders, it did not consistently maintain appropriate documentation of communications with suppliers during the tender process.

For the five tenders we tested, the College did not:

- Maintain documentation supporting communication of a tender to suppliers for one purchase—it communicated this tender through phone calls and faxes with potential suppliers.¹⁷
- Maintain documentation surrounding the tender award communication for two purchases—College staff communicated with the successful suppliers through phone calls. For these instances, we were unable to assess whether the College approved the supplier selection before it communicated with the successful supplier or whether the communication occurred timely.
- Comply with the external trade agreements regarding posting a contract award notice on the SaskTenders website for two purchases—when agencies use SaskTenders for procurements, they must also post contract award notices on the website.

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

6. We recommend that Northlands College maintain appropriate documentation of its tender communications with suppliers.

¹⁷ In this instance, the College internally managed the tender rather than posting it to the SaskTenders website, as it did not exceed the thresholds set out in its procurement policy or in the external trade agreements.

4.9 Standard Tendering Time Not Established

The College has not established a standard minimum amount of time to ensure suppliers have sufficient time to submit responses to tenders. In addition, it did not always keep documentation of the tendering time it provided.

Good practice suggests 25 to 35 days is sufficient time to allow suppliers to respond to tenders.¹⁸

For one of the five tenders we tested, the College allowed a tendering time of only 17 days and received a bid from only one supplier. The College may not have provided suppliers with sufficient time to respond to the tender. For another one of the five tenders we tested, the College did not keep documentation about the length of tendering time it provided.

Not providing suppliers with sufficient time to prepare tender responses increases the likelihood of suppliers choosing not to respond, resulting in the College 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.

7. We recommend that Northlands College establish a standard minimum amount of time to allow suppliers to respond to tenders.

4.10 Contract Templates Not Sufficiently Robust

The standard contracts that the College maintains do not include clauses or provisions common to purchasing those types of goods or services.

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

- Standard service contract—used for a variety of services, such as consulting, educational services, facilities maintenance, and janitorial services
- Training services agreements—used when contracting external parties to deliver courses to students
- Standard purchase order for other types of purchases

Our review of the College's contract templates found that they do not consider or include all clauses that may be necessary in a contract. We found:

- Its standard service contract for facilities maintenance (e.g., construction, renovations) did not include clauses related to performance or insurance requirements
- Its standard training services agreement did not contemplate privacy or confidentiality provisions, even though suppliers that train the College's students may have access to student data or records

¹⁸ 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.



- 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.

- 8. We recommend that Northlands College assess the robustness of the contract templates it uses for purchasing goods and services.**

4.11 Contract Documentation Not Always Timely or Consistently Maintained

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

For 19 of the 28 purchases we tested (made through quotes, tenders, and single or sole sourced procurement methods), the College appropriately used and authorized the contracts or purchase orders for these purchases. However, for 9 of the 28 purchases tested, we found:

- Four purchases where the College signed the contract after the work or program started instead of beforehand as best practice expects
- Two purchases where the College did not maintain complete contract documentation—for one purchase, the supplier did not sign the contract, and for the other, the contract was not dated
- Three purchases where the College could not locate the contracts

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

- 9. We recommend that Northlands College maintain complete documentation of contracts with suppliers, and finalize them before receiving the related goods or services.**

4.12 Documentation of Validity of Supplier Information and Separation of Incompatible Duties Needed

The College 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, one individual 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.¹⁹

Good practice is to carry out due diligence procedures to confirm the validity of new suppliers prior to initiating purchase activity with them. **Figure 4** sets out examples of such procedures.

Figure 4—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 College's financial system maintains details on about 4,700 different suppliers (e.g., names, addresses, contact information, tax information, last payment date). The College uses this information when issuing purchase orders, setting up accounts payable, and paying supplier invoices.

The College informally confirms the validity of suppliers when selecting suppliers, and approving invoices for payment before it enters them in its financial system. Management noted that, occasionally, the College may research the validity of a new supplier prior to making a purchase. The College does not document steps taken or the results. The College's purchasing policies or guidance does not require it to do so.

For each of 24 new suppliers in the College's financial system we tested, the College 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 College's financial system. Our comparison of supplier addresses to employee addresses did not identify any fictitious suppliers.

¹⁹ www150.statcan.gc.ca/n1/pub/85-571-x/2009001/part-partie1-eng.htm (11 March 2019).



However, we found that the College did not make sure its financial system only listed relevant suppliers. The College had not made any payments within the last two years to almost 70% of the 4,700 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 making of payments to fictitious suppliers.

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.

10. We recommend that Northlands College document its due diligence procedures carried out 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 College, through its assignment of IT user access, has given one individual incompatible responsibilities; this individual can approve invoices for payments, enter payments into the financial system, and add suppliers to the College'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 11** about separating incompatible purchasing duties.

4.13 Receipt of Goods and Services Not Always Separated from Approval

The College does not always separate incompatible purchasing duties—the receipt of goods and services from the approval of the related invoice for payment.

Separating the duty to initiate a purchase of a good or service and approving it for payment from its receipt is a standard control method. These purchasing duties (initiation of purchase and approval for payment, receipt of good/service) are incompatible. Separating them between different individuals prevents fraud, and limits the risk of errors going undetected.

Unless the staff member receiving a good or service is the most senior individual in the organization, another person is generally available to provide independent review and approval of the invoice. Small organizations that cannot always separate incompatible purchasing duties use additional review processes to monitor those transactions.

For 32 payments we tested, the College appropriately documented when and who received the goods or services, and paid the approved invoices within a reasonable timeframe, and at the correct amount.

However, for six of 32 payments we tested, the College did not appropriately separate purchasing duties (i.e., same person received the good or service, and approved the invoice for payment; same person initiated the purchase and approved the payment but no one documented receipt of the good or service). The size of these purchases ranged from about \$300 to \$7,500. The College does not require different individuals to initiate purchases, receive goods or services, and approve invoices for payment (see **Section 4.5**—delegation of authority does not distinguish between the authority to initiate a purchase and approving a payment). The College does not take additional steps to identify or monitor transactions when the same individual carries out more than one of these duties in an individual purchase.

Allowing the same individual to initiate a purchase, receive the goods or services, and approve the invoice for payment increases the risk of fraudulent transactions, and errors going undetected.

11. We recommend that Northlands College separate incompatible purchasing duties (e.g., initiating purchases, 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.

4.14 Minimal Supplier Performance Issues

Because the College uses a relatively small number of suppliers regularly, it takes an informal approach to the management of supplier performance issues.

As observed during our testing and discussions with management, the College did not have any significant supplier performance issues for the 12-month period ending November 2018 that required the College to take corrective actions with a supplier.

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