

## Chapter 31 Saskatchewan Water Corporation—Purchasing Goods and Services

### 1.0 MAIN POINTS

In 2018-19, Saskatchewan Water Corporation purchased \$45.7 million of goods and services.

By December 2019, SaskWater had, since our original audit in 2018, improved its processes to purchase goods or services. Key improvements include requiring staff to confirm compliance with the conflict-of-interest policy annually, updating its contract templates, clarifying its procurement policy about use of the sole source method of procurement, and giving its Board periodic information about its use of the sole sourcing method.

However, more work remains. SaskWater still needs to have its staff consistently follow its procurement policies. This includes having staff consistently document reasons for selecting non-competitive procurement methods, and obtain approval of purchase orders before committing to buy or receiving goods. Consistent adherence to procurement policies helps ensure SaskWater obtains best value when purchasing.

Also, SaskWater needs to develop a process to track purchases made through sole source procurements. Without this process, there is a risk that reports on sole sourcing procurements provided to the Board may not be complete.

SaskWater needs to track supplier performance. This would assist SaskWater in selecting suppliers for future procurements.

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

### 2.0 INTRODUCTION

#### 2.1 Background

Under *The Saskatchewan Water Corporation Act*, the Board of Directors is responsible for managing the business and affairs of SaskWater.<sup>1</sup> This includes overseeing the purchase of necessary goods and services.

Each year, SaskWater purchases a variety of goods and services including professional services, materials and supplies, and repairs and maintenance. **Figure 1** shows SaskWater's purchases of goods and services from 2017 to 2019. The yearly amount it purchases fluctuates depending on the extent to which it is expanding or maintaining the

<sup>1</sup> *The Saskatchewan Water Corporation Act*, s. 4 and 13.



infrastructure used to deliver its water and wastewater services (e.g., wastewater facilities, pipelines).

**Figure 1—SaskWater Purchases from 2016 to 2019**

	2016-17	2017-18	2018-19
	(in millions)		
Capital items and projects	\$24.1	\$24.1	\$24.4
Operations, maintenance and administration	\$11.0	\$10.3	\$10.4
Bulk Water purchases <sup>A</sup>	\$9.0	\$10.4	\$10.9
<b>Total</b>	<b>\$44.1</b>	<b>\$44.8</b>	<b>\$45.7</b>

Source: Adapted from SaskWater *Annual Report 2017-18* and *Annual Report 2018-19*

<sup>A</sup> SaskWater purchases bulk water from municipalities, such as the City of Saskatoon, and provides this water primarily to other municipalities that do not have their own supply of drinking water.

SaskWater has disseminated the authority to make purchases across the Corporation with over 100 of its staff involved in purchasing goods and services. Its Business Development and Corporate Services Division is responsible for making purchases related to administration (e.g., office supplies, insurance, audit services and IT services). The two units of its Operations and Engineering Division are responsible for making purchases related to infrastructure and maintenance. The Engineering unit is responsible for making purchases related to capital projects (e.g., infrastructure projects); this includes purchases with values over \$100,000. The Operations unit is responsible for making purchases related to maintenance activities (e.g., repairing water infrastructure).

SaskWater must use purchasing processes that are transparent, fair, and achieve best value. Not having adequate purchasing processes increases the risk of not receiving best value in procurements.

## 2.2 Focus of Follow-Up Audit

This chapter describes our first follow-up audit of management's actions on the recommendations we made in 2018.

In 2018, we assessed Saskatchewan Water Corporation's processes to purchase goods or services for the 12-month period ended December 31, 2017. Our *2018 Report – Volume 1*, Chapter 10, concluded SaskWater had, except for the seven recommendations made, effective processes to purchase goods or services over \$25,000.<sup>2</sup>

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate SaskWater's progress toward meeting our recommendations, we used the relevant criteria from the original audit. SaskWater's management agreed with the criteria in the original audit.

<sup>2</sup> We reported the original audit work in *2018 Report – Volume 1*, Chapter 10, pg. 146-155. [auditor.sk.ca/publications/public-reports](http://auditor.sk.ca/publications/public-reports).

We interviewed SaskWater staff involved in the procurement process, and reviewed board reports, contract templates, and purchase support.

## 3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation, including the date on which the Standing Committee on Crown and Central Agencies agreed to the recommendation, the status of the recommendation at December 31, 2019, and SaskWater's actions up to that date.

### 3.1 Staff Complied with Conflict-of-Interest Policy

***We recommended Saskatchewan Water Corporation require staff involved in purchasing goods and services to confirm, each year in writing, compliance with its conflict-of-interest policy.*** (2018 Report – Volume 1, p. 150, Recommendation 4; Standing Committee on Crown and Central Agencies agreement September 17, 2019)

**Status**—Implemented

Effective November 2018, SaskWater requires all of its staff to confirm compliance with the conflict-of-interest policy annually.

For the 12 employees we tested, each had recently (i.e., within the last twelve months) signed an annual conflict-of-interest declaration, and SaskWater had adequately mitigated any identified conflicts.

Periodic confirmation reduces the risk of staff forgetting to identify or disclose conflicts, and allows staff to make purchase decisions that treat all potential suppliers equitably and fairly.

### 3.2 Clear Direction on Use of Sole Sourcing Procurements Given

***We recommended Saskatchewan Water Corporation clarify its procurement policy to set out when it is appropriate to use the sole sourcing method of procurement.*** (2018 Report – Volume 1, p. 149, Recommendation 1; Standing Committee on Crown and Central Agencies agreement September 17, 2019)

**Status**—Implemented

SaskWater clarified its procurement policy to set out when it is appropriate to sole source transactions, which decreases the risk that staff make inappropriate procurements.

The revised procurement policy includes a new section on exemptions from the procurement policy.

We found the revised policy sufficiently addresses when it is appropriate for staff to use the sole sourcing method of procurement (e.g., where it can be demonstrated that only one



supplier is able to meet the requirements of the procurement, emergency situations). It includes an appropriate definition of what can be classified as an emergency situation.<sup>3</sup>

In September 2019, SaskWater communicated this change, via email, to all staff involved with the procurement of goods and services.

Having a clear policy about the use of sole sourcing method of procurement decreases the risk of staff making inappropriate procurements, and not obtaining best value.

### 3.3 Procurement Policies Not Always Followed

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***We recommended Saskatchewan Water Corporation follow established procurement policies when approving the purchase of goods and services.***

*(2018 Report – Volume 1, p. 152, Recommendation 6; Standing Committee on Crown and Central Agencies agreement September 17, 2019)*

**Status**—Partially Implemented

SaskWater was not always following its procurement policies. Its policies require its staff to obtain approval of purchases in accordance with its delegation of authority schedule.

For three of the 15 purchases we tested, staff did not obtain approval of the purchase order before SaskWater committed to the purchase (i.e., approved purchase order after ordering the item or receiving the invoice or the goods). For one instance, staff approved the purchase order 27 days after SaskWater had ordered the item.

Approving the purchase order after making the commitment to buy the goods or receiving the goods increases the risk of making inappropriate purchases or using inappropriate procurement methods. This also impedes the ability of individuals to approve and monitor the purchasing process.

***We recommended Saskatchewan Water Corporation require staff to include documented rationale for selecting non-competitive procurement methods for purchases of \$25,000 on purchase orders submitted for approval.***

*(2018 Report – Volume 1, p. 149, Recommendation 2; Standing Committee on Crown and Central Agencies agreement September 17, 2019)*

**Status**—Partially Implemented

SaskWater requires staff to include documented rationale for selecting non-competitive procurement methods, but staff were not always following this guidance.

SaskWater policy for sole sourced procurements states that the rationale for why the sole sourcing is appropriate must be included with the approval memo for the procurement.

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<sup>3</sup> The Chartered Institute of Procurement and Supply defines single source as purposely choosing a single supplier even though others are available (e.g., small purchases, emergency purchases). Sole source is when only one supplier for the required item is available. SaskWater uses the term sole source to include both situations. [www.cips.org/en/knowledge/procurement-topics-and-skills/strategy-policy/models-sc-sourcing-procurement-costs/single-sourcing-vs-sole-sourcing/](http://www.cips.org/en/knowledge/procurement-topics-and-skills/strategy-policy/models-sc-sourcing-procurement-costs/single-sourcing-vs-sole-sourcing/) (25 March 2020).

In June of 2019, management sent all staff involved with procurement an email about key procurement processes (e.g., to obtain the Vice President's prior approval of non-competitive procurement methods, and to document rationale as to why staff want to use a sole source purchase).

For four of the six sole sourcing procurement items we tested, staff did not document the rationale for sole sourcing with the approval of the purchase. For two of the four items, management provided us reasonable rationale supporting the sole sourcing after the purchase. Also, for two of the four items identified without documentation at the time of purchase, staff made these purchases after SaskWater sent the June 2019 email.

Without documentation and approval of sole sourcing before a purchase is made, the risk of inappropriate sole sourcing procurement increases which may result in SaskWater paying more than necessary for purchases. Appropriate documentation and approval of sole source procurements supports transparency and fairness in the procurement process.

### 3.4 Quarterly Reports on Sole Source Purchases not Always Complete

***We recommended Saskatchewan Water Corporation require its staff to report regularly on purchases using sole sourcing to senior management and the Board.*** (2018 Report – Volume 1, p. 150, Recommendation 3; Standing Committee on Crown and Central Agencies agreement September 17, 2019)

**Status**—Partially Implemented

Effective April 2019, SaskWater set out a process to provide its Board with quarterly reports on sole sourced procurements, including rationale for sole sourcing the procurement. However, it did not report all sole source procurements to the Board.

For two of the three quarterly reports we tested, the reports did not include two sole sourced items that SaskWater procured during those quarters. Management included those two missed items in a subsequent report to the Board after we brought it to their attention in January of 2020.

Providing complete and regular reporting of sole sourced procurements informs the Board of the level of use of sole sourcing, and provides information about SaskWater's compliance with its procurement policy.

### 3.5 Legal Review of Contract Templates Completed

***We recommended Saskatchewan Water Corporation have periodic legal reviews of its contract templates for purchases.*** (2018 Report – Volume 1, p. 151, Recommendation 5; Standing Committee on Crown and Central Agencies agreement September 17, 2019)

**Status**—Implemented



In September 2019, SaskWater updated its contract templates (e.g. professional services, invitation to tender, consulting) after a legal firm reviewed them. Management notes that they plan to have a legal firm review the contract templates every five years.

The three contracts we tested after September 2019 used the new templates.

By using input from a legal firm, SaskWater helps ensure the template contracts are legally sound and mitigate business risks from contracts (e.g., changes in contract law, trades requirements).

### 3.6 Tracking of Supplier Performance Required

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***We recommended Saskatchewan Water Corporation track performance problems with suppliers in a way that this information is available to staff making purchasing decisions.*** (2018 Report – Volume 1, p. 155, Recommendation 7; Standing Committee on Crown and Central Agencies agreement September 17, 2019)

**Status**—Not Implemented

SaskWater does not track the performance of suppliers in past contracts.

SaskWater told us it uses past experience when evaluating vendors for contracts. However, this comes from personal knowledge of the individual evaluating the suppliers for a contract and depends on the individual's knowledge of the supplier.

SaskWater does not have a tracking system available for all staff to use when making purchasing decisions. It plans to implement new software by 2022 with this capability. Without this tracking, there is increased risk that SaskWater will use a supplier with known performance problems and is contrary to the best values approach.