

Chapter 15

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 2020–21, the Division bought more than \$19 million of goods and services.¹

Of the 14 recommendations we first made in 2019, the Division partially implemented eight recommendations, and made limited progress on six recommendations by March 2022. The Division improved some of its processes to purchase goods and services, but has more work to do, including:

- Approve and implement its revised purchasing administrative procedure
- Update its credit card guidelines to align with good purchasing practices, and actively monitor cardholders' adherence with its purchase card guidelines
- Agree purchases on monthly fleet card invoices to supporting receipts prior to making payment
- Establish a standard minimum amount of time to allow suppliers to respond to tenders
- Take steps to ensure it separates incompatible purchasing duties
- Validate suppliers and keep the supplier listing up to date

Further, we found that staff continued to not always follow existing purchasing requirements. They did not follow requirements for single and sole source purchases, consistently document evaluation of suppliers, maintain appropriate documentation of tender communications with suppliers, properly authorize contracts, or consistently document receipt of heating fuel purchases.

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

2.0 INTRODUCTION

2.1 Background

Northern Lights School Division No. 113 is a rural school division located in northern Saskatchewan serving a predominantly First Nations and Métis school population. The Division has 22 schools located in 17 communities.² It has over 3,800 students, and a staff of about 682 full-time equivalent positions.³

¹ Northern Lights School Division 113 Annual Report 2020–21, p. 65.

² Ibid., p. 8.

³ Ibid., pp. 28–29.



The Division buys various goods and services such as 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 education services.

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 2019.

In 2019, we assessed the Division's processes to purchase goods and services. Our *2019 Report – Volume 1*, Chapter 8, concluded Northern Lights School Division No. 113 did not have effective processes to purchase goods and services. We made 14 recommendations.⁴

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

To perform our follow-up audit, we discussed actions taken with Division management. We assessed the Division's purchasing process by examining purchasing documentation (e.g., policies, administrative procedures, tender documents, purchase orders, contracts, invoices). We tested samples of purchases including tenders, single and sole source purchases, heating fuel purchases, and purchase card transactions to assess the operating effectiveness of the Division's processes.

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at March 8, 2022, and the Division's actions up to that date.

3.1 Updated Purchasing Policies Not Approved Nor Fully Implemented

We recommended 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.**

(*2019 Report – Volume 1*, p. 127, Recommendation 1; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

⁴ *2019 Report – Volume 1*, Chapter 8, pp. 121–140.

We recommended the Board of Education of Northern Lights School Division No. 113 approve the Division's key policies related to the purchases of goods and services. (2019 Report – Volume 1, p. 131, Recommendation 6; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

Northern Lights School Division No. 113 made some improvements to its purchasing requirements; however, the Division needs to ensure it implements its purchasing requirements.

The Division sets out its purchasing requirements through Board policies and Division administrative procedures.

In October 2020, the Board approved *Board Policy 16—Purchasing* that sets out the Division's key procurement principles as follows:

- Procurement shall be conducted in such a way that is transparent and fair, and achieves best overall value for the Division
- Reporting of significant procurement compliance concerns to the Board's Audit and Risk Committee
- Compliance of all procurement activity with the *New West Partnership Trade Agreement* and the *Canadian Free Trade Agreement*

We found the Division did not always comply with the provisions of the external trade agreements. We tested six tenders and found in four tenders, the Division's tender documents did not acknowledge trade agreements where applicable. See also **Section 3.6** (tender communication not always maintained).

In six tenders tested, we found the Division discontinued use of its local supplier preference provision when tendering for goods and services. Previous use of this provision was inconsistent with the terms of applicable external trade agreements (e.g., *New West Partnership Trade Agreement* and the *Canadian Free Trade Agreement*).

The updated policy also expects Division staff involved in purchasing decisions to declare any real or perceived conflicts of interest (e.g., staff ownership interest in a supplier). We tested six tenders and found Division staff involved in purchasing decisions did not declare any conflicts of interest.

The Board's policy also requires Division staff to complete acquisitions of goods and services, as well as competitive bids, in accordance with the Division's purchasing administrative procedure.

In October 2020, the Division drafted a revised administrative procedure that includes the following guidance:

- Requirements and thresholds for the use of different purchasing methods such as quotes and tenders



- Expectations for use of purchase orders and contracts

At March 2022, the Division had not implemented its revised administrative procedure, and its Board had not approved it.

For the 11 purchases we tested, we found one purchase where, based on the nature of the purchase (e.g., one-time transaction), the Division should have obtained a purchase order. In this instance, the Division did not complete a purchase order or a contract. We also found further instances of non-compliance with its existing and revised administrative procedure—see **Sections 3.6, 3.7, 3.10, and 3.11** (e.g., maintaining tender communications with suppliers, separating incompatible purchasing duties, validating new suppliers).

Establishing guidance about the use of different purchasing methods will provide clarity to staff and help the Division to purchase goods and services in a consistent manner. Not having clear expectations on the use of written contracts increases the risk of staff not using an appropriate form of contract, possibly exposing the Division to unwanted legal or financial risks.

3.2 Single and Sole Source Purchasing Policy Not Always Followed

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

(2019 Report – Volume 1, p. 128, Recommendation 2; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

Northern Lights School Division No. 113 set out, in writing, its requirements for using single and sole source purchasing, however, staff did not always follow it.

In October 2020, the Board approved a policy requiring the Division to document, for the Chief Financial Officer's approval, appropriate rationale for using single and sole source purchasing.

The Division's draft purchasing administrative procedure contains further guidance on the conditions when staff can use single and sole source purchasing, such as when an emergency condition exists or when goods or services are only available from a sole source. At March 2022, the Division had not implemented its revised administrative procedure.

We tested five single and sole source purchases and found the Division did not:

- Document consideration of alternate procurement methods.
- Document justification for the purchase. The Division subsequently provided us with reasonable rationale for its decision for one purchase; however, for the other four purchases, it could have obtained the goods or services from other suppliers.
- Approve the procurement method.

Without established requirements for using 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.

Good purchasing practices also require organizations to track the use of single and sole source purchases for additional monitoring; the Division has not implemented a process to do so.

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

We recommended Northern Lights School Division No. 113 revise its purchase card guidelines to align with good purchasing practices (e.g., required approvals, processes for changing transactions limits, restrictions on use). (2019 Report – Volume 1, p. 130, Recommendation 3; Public Accounts Committee agreement January 12, 2022)

Status—Not Implemented

We recommended Northern Lights School Division No. 113 actively monitor adherence of cardholders with its purchase card guidelines. (2019 Report – Volume 1, p. 130, Recommendation 4; Public Accounts Committee agreement January 12, 2022)

Status—Not Implemented

Northern Lights School Division No. 113 has not revised its purchase card guidelines to align with good purchasing practices, such as setting out all required approvals and restrictions for card use. In addition, the Division does not actively monitor cardholders' adherence with its purchase card guidelines.

In September 2019, the Division drafted revised purchase card guidelines setting out the process for new cardholders to obtain a purchase card, as well as for changing cardholder transaction limits, including required approvals. Further, the guidelines expect approvers to regularly monitor purchase card transactions for unacceptable purchases.

However, the Division has not set out in its guidelines:

- Required approvals for purchase card transactions. If the purchase card guidelines do not reflect the Division's expectations for transaction approval, an increased risk of staff inappropriately approving transactions exists.
- Detailed restrictions on the use of purchase cards. Good purchasing practices include examples of unacceptable purchases (e.g., purchases intended to bypass the Division's competitive bidding process, splitting transactions to bypass purchase card transaction limits). Detailed guidance regarding appropriate use of purchase cards would reduce the risk that staff inappropriately use their purchase cards.

At March 2022, the Division had not implemented its revised purchase card guidelines.



We tested 10 purchase card statements and found that cardholders submitted monthly reconciliations supported by receipts, and superintendents or the Chief Financial Officer appropriately approved the reconciliations.

However, our testing identified one transaction where the cardholder split the purchase as the total transaction was over the cardholder's individual purchase limit. The Division expects supervisors of cardholders to monitor compliance, and follow up with cardholders about identified non-compliance with its purchase card guidelines. The Division was unaware of the deficiency we found in our testing. Further, we found the Division did not capitalize the purchased item as expected by the Division's capital asset policy.

We also tested eight cardholder limit changes and found that for three changes the Division did not maintain support or evidence of approval for the change. Without following procedures for making changes to cardholder limits, the Division may not revise limits when necessary, which leaves it susceptible to fraudulent transactions.

The Division continues to have purchase cards issued in the name of schools instead of in the name of cardholders, which does not align with good practice. At October 2021, the Division assigned 15 of its 46 purchase cards to schools. Between November 2020 and October 2021, the Division spent about \$169,000 on purchases on these cards, which is approximately 25% of its total spending on purchase cards during that period. Assigning cards to schools reduces the Division's ability to hold specific staff accountable for their purchasing decisions, and increases the risk of misuse.

3.4 Fleet Card Purchases Not Reconciled Prior to Making Payment

We recommended Northern Lights School Division No. 113 agree purchases on monthly fleet card invoices to supporting receipts prior to making payment. (2019 Report – Volume 1, p. 131, Recommendation 5; Public Accounts Committee agreement January 12, 2022)

Status—Not Implemented

Northern Lights School Division No. 113 does not agree purchases on monthly fleet card invoices to supporting receipts prior to making payment.

The Division has not established a process to agree purchases on monthly fleet card statements to supporting receipts. The Division's school transportation fleet policy gives staff direction on expected use of its passenger vans requiring staff to complete a monthly travel log for each van including 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.

Not agreeing fleet card receipts to purchases on monthly fleet card statements prior to payment increases the risk of the Division paying for inappropriate purchases, and not promptly detecting fleet card misuse.

3.5 Supplier Evaluations for Tenders Not Consistently Completed

We recommended Northern Lights School Division No. 113 consistently document its evaluation of suppliers when tendering for the purchase of goods and services. (2019 Report – Volume 1, p. 133, Recommendation 7; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

Northern Lights School Division No. 113 did not consistently document its evaluation of suppliers when tendering for the purchase of goods and services.

The Division's current purchasing administrative procedure requires it to evaluate suppliers using the criteria outlined in tender documents. We found for three of the six tenders we tested, the Division did not document its evaluation of suppliers. In these three instances, the Division only received one bid on each tender. Consistent with good purchasing practices, the Division should still evaluate the bids it receives to ensure the supplier can meet its needs, and it receives fair value.

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

3.6 Tender Communications With Suppliers Not Maintained

We recommended Northern Lights School Division No. 113 maintain appropriate documentation of its tender communications with suppliers.

(2019 Report – Volume 1, p. 134, Recommendation 8; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

Northern Lights School Division No. 113 set out expectations to maintain documentation of its tender communications with suppliers, but it does not always do so.

The Division's Board policy on purchasing requires it to ensure all procurement follows the standards set out in external trade agreements. These agreements require the Division to post contract award information on the SaskTenders website.^{5,6} Further, the Division's draft purchasing administrative procedure requires it to release the successful bidder's name and award results to all bidders after an award is made. As at March 2022, the Division had not implemented this revised administrative procedure.

For six tenders we tested, we found:

- Four tenders with no documentation of the Division's communications with suppliers. The Division told us it communicated with the suppliers through phone calls or text messages. When it communicated in this manner, we were unable to assess whether

⁵ SaskTenders is the primary gateway for public sector tender notices in Saskatchewan. The Ministry of SaskBuilds and Procurement administers the SaskTenders website (www.sasktenders.ca).

⁶ Requirements include the successful supplier's name and address, contract award value, and award date.



the Division approved the supplier selection before it communicated with the successful supplier or whether timely communication occurred.

- Five tenders where the Division did not comply with the external trade agreements regarding posting a contract award notice on the SaskTenders 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.

3.7 Reasonable Time Needed to Respond to Tenders

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

(2019 Report – Volume 1, p. 135, Recommendation 9; Public Accounts Committee agreement January 12, 2022)

Status—Not Implemented

Northern Lights School Division No. 113 does not provide suppliers with a standard minimum amount of time to respond to tenders.

Management told us that the Division tries to give suppliers 21 days to respond to tenders.

The Division's draft purchasing administrative procedure sets out a minimum of 21 days to allow suppliers to respond to tenders, as well as provides guidance on using a shorter timeframe. The Division considered guidance outlined in the external trade agreements in determining its standard minimum tendering time. At March 2022, the Division had not implemented this revised administrative procedure.

For the six tenders we tested, the Division allowed a tendering time of at least 21 days for two tenders. For the four other tenders, the Division allowed a tendering time of between 11 and 18 days, and received two or fewer supplier bids for these tenders. The Division may not have provided suppliers with sufficient time to respond to the tenders, and it did not have sufficient rationale to support the use of a shortened response time.

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. Providing a standard minimum time also helps ensure the Division treats suppliers fairly and equitably.

3.8 Purchase Order Template Not Sufficiently Robust

We recommended Northern Lights School Division No. 113 periodically assess the robustness of the service contract and purchase order templates used for purchasing goods and services. *(2019 Report – Volume 1, p. 136, Recommendation 10; Public Accounts Committee agreement January 12, 2022)*

Status—Partially Implemented

Northern Lights School Division No. 113 updated its service contract template, but its purchase order template continues to not include all clauses that are necessary in a sound contract.

We found the Division improved its service contract template to include clauses addressing performance, indemnification, insurance requirements, severability, and survival. However, we also found that its standard purchase order template did not contain terms and conditions pertaining to delivery, liability, or authorization of changes to terms and conditions.

Not having robust templates increases legal or financial risks where purchase arrangements do not sufficiently address relevant purchase terms.

3.9 Contracts Not Always Properly Authorized

We recommended Northern Lights School Division No. 113 maintain complete documentation of properly authorized contracts with suppliers before the Division receives the related goods or services. (2019 Report – Volume 1, p. 136, Recommendation 11; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

Northern Lights School Division No. 113 established a process to maintain complete documentation of contracts, but did not always obtain authorization in accordance with its delegation of authority.

The Division's Chief Financial Officer or Superintendent of Facilities centrally maintains copies of contracts. For the 11 purchases with contracts we tested (made through tenders and single or sole source purchases), we found the Division signed contracts on time (e.g., before the goods or services were received) and maintained complete contract documentation (e.g., contract signed by both the Division and the supplier).

However, we found two contracts that the Division did not authorize in accordance with its delegation of authority. For example, one contract worth \$109,000 was signed by the Superintendent of Facilities instead of the Chief Financial Officer, as required by the delegation of authority. Not following controls over contract authorization increases the risk of unknown financial liabilities or commitments, or misuse of Division funds.

3.10 Incompatible Purchasing Duties Not Separated

We recommended 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. (2019 Report – Volume 1, p. 137, Recommendation 12; Public Accounts Committee agreement January 12, 2022)

Status—Not Implemented



Northern Lights School Division No. 113 has neither taken steps to ensure it separates incompatible purchasing duties, nor to monitor transactions where it does not separate incompatible purchasing duties.

In October 2020, the Division updated its draft purchasing administrative procedure to separate responsibilities of those managing the purchasing process (e.g., purchase initiation, receipt of goods) from those responsible for approving the purchase. At March 2022, the Division had not implemented this revised administrative procedure.

We tested 31 purchases and found the Division did not always leave evidence to support that it appropriately segregated purchasing duties. We found:

- Four purchases where the Division did not prepare a requisition or a purchase order when it would have been reasonable to do so, therefore we could not determine who initiated the purchase
- Eight purchases where the Division did not document that goods or services were received
- Three purchases where the Division did not approve the payment in accordance with its delegation of signing authority
- Eight purchases where the Division did not appropriately segregate receipt of goods or services from payment approval

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.

The Division has also not appropriately restricted who can add new suppliers to its financial system. We found the Division, through its assignment of IT user access, gave two individuals incompatible responsibilities; these individuals can approve invoices for payment and add suppliers to the Division's financial system.

Not segregating incompatible purchasing duties between different individuals increases the risk of fraud, and not detecting errors.

3.11 Validity Check of Supplier Information Needed

We recommended 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. (2019 Report – Volume 1, p. 139, Recommendation 13; Public Accounts Committee agreement January 12, 2022)

Status—Not Implemented

Northern Lights School Division No. 113 does not document due diligence procedures to validate suppliers prior to entering them into the financial system, nor properly maintain its listing of suppliers included in its financial system.

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 draft purchasing administrative procedure includes a requirement for staff to validate vendors prior to purchasing goods or services from that vendor. At March 2022, the Division had not implemented this revised administrative procedure.

We tested 18 new suppliers in the Division's financial system by assessing the validity of each supplier through internet searches and review of invoices. We found each supplier valid.

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

The Division also does not monitor the supplier listing in its financial system to remove suppliers that are no longer relevant, or to remove duplicate suppliers. Through our testing of supplier validity, we identified one newly added supplier that already existed in the financial system. At November 2021, the Division's supplier list included over 8,500 vendors.

Periodic maintenance of suppliers included in the financial system reduces the risk of duplicate or fraudulent payments and helps monitor the existence of fictitious suppliers.

3.12 Receipt of Heating Fuel Purchases Not Always Documented

We recommended 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. (2019 Report – Volume 1, p. 139, Recommendation 14; Public Accounts Committee agreement January 12, 2022)

Status—Partially Implemented

Northern Lights School Division No. 113 does not consistently document the receipt of goods for heating fuel purchases.

As discussed in **Section 3.10**, the Division has not implemented its revised purchasing administrative procedure to address separation of incompatible purchasing duties (e.g., separation of receipt of goods and services from payment approval). The Division informally communicates its expectation to staff not only to confirm the delivery of heating fuel when delivery occurs, but also that appropriate individuals approve those invoices.

We tested 30 heating fuel payments and found the Division appropriately approved invoices. However, for two purchases, we found the Division did not leave evidence of goods received. The size of these purchases ranged between \$500 and \$2,500. Between October 2020 and November 2021, the Division spent about \$1.1 million on heating fuel.

When the Division does not document receipt of purchases, there is an increased risk of the Division paying for goods and services that it did not receive.

