

## Chapter 22

# 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 2022–23, the Division bought more than \$23 million of goods and services.<sup>1</sup>

By July 2024, of the 14 recommendations we first made in 2019, the Division implemented four recommendations, partially implemented seven recommendations, and made limited progress on three recommendations.

In September 2022, the Division approved and implemented a revised purchasing policy that sets out requirements for different purchasing methods, use of contracts, and segregation of incompatible duties. However, we found the Division did not always follow the updated requirements. Staff did not:

- Ensure tenders comply with external trade agreements
- Document rationale and approval for single or sole source purchases
- Initiate purchases in accordance with policy
- Consistently document evaluation of suppliers
- Provide suppliers with the minimum amount of time to respond to tenders
- Restrict who can add new suppliers to the financial system
- Validate suppliers and keep the supplier listing up to date

The Division also needs to implement updated credit card guidelines to align with good purchasing practices, actively monitor cardholders' adherence with its purchase card guidelines, and agree purchases on monthly fleet card invoices to supporting receipts prior to making payment.

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

<sup>1</sup> Northern Lights School Division No. 113, *Annual Report 2022–23*, p. 74.



## 2.0 INTRODUCTION

### 2.1 Background

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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 with more than 3,900 students, and a staff of about 697 full-time equivalent positions.<sup>2</sup>

The Division buys various goods and services such as office supplies, learning resources (e.g., textbooks, library books, equipment), student transportation, maintenance, and other supplies and materials necessary for course instruction, and to provide education services.

### 2.2 Focus of Follow-Up Audit

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This chapter describes our second follow-up audit of management's actions on the recommendations we made in 2019.

We concluded that, for the 12-month period ended November 30, 2018, Northern Lights School Division No. 113 did not have effective processes to purchase goods and services. We made 14 recommendations.<sup>3</sup> By 2022, the Division partially implemented eight recommendations, and had not made progress toward implementing six other recommendations.<sup>4</sup>

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. Division management agreed with the criteria in the original audit.

To carry out 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 various 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 July 15, 2024, and the Northern Lights School Division's actions up to that date.

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<sup>2</sup> Northern Lights School Division No. 113, *Annual Report 2022–23*, pp. 8, 33-35.

<sup>3</sup> *2019 Report – Volume 1, Chapter 8*, pp. 121–140.

<sup>4</sup> *2022 Report – Volume 1, Chapter 15*, pp. 177–187.

### 3.1 Purchasing Policies Updated and Approved, But Not 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

**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

**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**—Implemented

Northern Lights School Division updated and approved its purchasing requirements; however, the Division needs to ensure it follows these purchasing requirements.

In September 2022, the Division implemented its revised purchasing policy, *Administrative Procedure 515—Purchasing*, that included 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
- 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, and the required approvals for such a purchase

The updated policy also includes expectations that purchases comply with applicable trade agreements (e.g., *New West Partnerships Trade Agreement*, *Canada Free Trade Agreement*), and that Division staff involved in purchasing decisions declare any real or perceived conflicts of interest (e.g., staff ownership interest in a supplier). The Division also



set out these expectations in *Board Policy 16—Purchasing* in October 2020. The Board approved the updated administrative procedure (policy) in September 2022.

However, we found the Division did not comply with its updated purchasing policy as follows:

- We tested five tenders and found for four tenders, the Division's tender documents did not outline which trade agreement(s) applied to the tender. Further, for three tenders, we found the Division did not publicly post contract award notices in accordance with the trade agreements.<sup>5,6</sup>

The Division may be in violation of external trade agreements when it does not consider or follow the requirements within all trade agreements, which increases the risk of unfair or unequal treatment of suppliers.

- We tested 36 purchases and found the Division did not initiate two purchases in accordance with its policy (e.g., did not obtain a purchase order when it would have been reasonable to do so).

Following established guidance about the use of different purchasing methods will help the Division purchase goods and services in a consistent, appropriate manner. Purchase orders allow for the approval of purchases before commitments are made for the goods or services.

- We tested two single and sole source purchases and found the Division did not:
  - Document consideration of alternate procurement methods.
  - Document justification for the purchases. The Division subsequently provided us with reasonable rationale for its decision for the purchases. The Division could have obtained the services from other suppliers.
  - Approve the procurement method.

By not following established requirements when using single or sole source purchasing methods, the Division is at risk of not demonstrating 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.

We also found further instances of non-compliance with the Division's updated purchasing administrative procedure—see **Sections 3.6, 3.9, and 3.10** (e.g., following standard tendering time, validating new suppliers).

<sup>5</sup> SaskTenders is the primary gateway for public sector tender notices in Saskatchewan; it is administered by the Ministry of SaskBuilds and Procurement ([www.sasktenders.ca](http://www.sasktenders.ca)).

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

## 3.2 Updated Credit Card Guidelines Not Implemented 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 transaction limits, restrictions on use).*** (2019 Report – Volume 1, p. 130, Recommendation 3; Public Accounts Committee agreement January 12, 2022)

**Status**—Partially 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 made improvements to its purchase card guidelines; however, the Division needs to ensure it implements the revised guidance, and actively monitor cardholders' adherence to the guidelines.

In July 2024, the Division drafted revised purchase card guidelines setting out the process for new cardholders to obtain a purchase card, required approvals for transactions, processes for changing transactions limits, and restrictions for card use. The Division expects to implement its revised purchase card guidelines in September 2024.

For the 10 purchase card statements we tested, we found:

- One cardholder did not submit their monthly reconciliation to the Division office.
- For three purchase card 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 (e.g., Amazon purchase).

- One purchase card statement was not approved by an authorized signer.

Not following controls over purchase card approvals increase the risk of inappropriate transactions, or misuse of Division funds.

Our testing also 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 deficiencies we found in our testing.



We also tested seven cardholder limit changes and found the Division maintained support of approval for the changes.

The Division continues to have purchase cards issued in the name of schools instead of the name of cardholders, which does not align with good practice. At July 2024, the Division assigned 15 of its 49 purchase cards to schools. Between June 2023 and July 2024, the Division spent about \$249,000 on purchases on these cards amounting to 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.

### **3.3 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 does not agree purchases on monthly fleet card invoices against supporting receipts before making payment.

The Division's school transportation fleet policy requires staff to complete a monthly travel log for each van, detailing its use (e.g., date, destination, purpose of trip) and supported by fuel receipts. The Division has not implemented a process to agree purchases on monthly fleet card statements to supporting receipts.

We found the Division does not monitor the receipt of the monthly travel logs for each passenger van. In addition, staff do not agree or attach individual fuel receipts to the monthly fleet card statements.

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.

### **3.4 Supplier Evaluations for Tenders Not Completed Consistently**

***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 did not consistently document its evaluation of suppliers when tendering for the purchase of goods and services.

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

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

### 3.5 Tender Communications with Suppliers 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**—Implemented

Northern Lights School Division complied with expectations to maintain documentation of its tender communications with suppliers.

The Division's updated purchasing policy requires it to send letters of regret and intent to award to all bidders. For the five tenders tested, we found the Division maintained timely communication on tender awards with suppliers.

When the Division maintains appropriate documentation of its communications with suppliers, it can help to demonstrate the Division's purchasing process is fair and transparent.

### 3.6 Standard Tendering Time Established But Not Followed

***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**—Partially Implemented

Northern Lights School Division set a minimum amount of time to allow suppliers to respond to tenders, but it did not follow its policy.

The Division's updated purchasing administrative procedure sets out a minimum of 21 calendar 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.



For the five tenders we tested, the Division did not allow a tendering time of at least 21 days for one tender (allowed 16 calendar days). We further analyzed tenders issued by the Division between May 2023 and July 2024. We found the Division issued 11 other tenders in this timeframe and used a shorter tendering time on two tenders (allowed 12 and 16 calendar days). The Division had sufficient rationale to support the use of a shortened response time for one tender, but not for the other 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 goods or services. Fewer options may increase the risk of not achieving best value. Using a standard minimum time also helps ensure the Division treats suppliers fairly and equitably.

### 3.7 Purchase Order Template Not Sufficiently Robust

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***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

The Northern Lights School Division purchase order template does not include all clauses necessary in a sound contract.

While we found, in our first follow-up, the Division updated its service contract template, it has not yet updated its purchase order template to include provisions typically necessary when purchasing goods and services. The purchase order does not include terms and conditions pertaining to delivery (e.g., timeliness, goods must meet specifications), liability (e.g., limited liability upon purchaser if goods not accepted), or authorization of changes to terms and conditions.

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

### 3.8 Contracts and Purchase Orders Properly Authorized

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***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**—Implemented

Northern Lights School Division maintained complete documentation of contracts and approved contracts in accordance with its purchasing policy.



The Division's Chief Financial Officer or Superintendent of Facilities centrally maintain copies of contracts and purchase orders. We tested five purchases (made through tenders and single or sole source purchases) and found the Division signed contracts timely (e.g., before the goods or services were received), approved contracts in accordance with the purchasing policy, and maintained complete contract documentation (e.g., contract signed by both the Division and the supplier).

Following controls over contract authorization decrease the risk of unknown financial liabilities or commitments, or misuse of Division funds.

### 3.9 Incompatible Purchasing Duties Not Fully 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 supplier 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**—Partially Implemented

Northern Lights School Division's updated purchasing policy requires staff to segregate incompatible purchasing duties, but the Division has not appropriately restricted who can add suppliers to its financial system.

In September 2022, the Division implemented its updated purchasing policy to separate responsibilities of those managing the purchasing processes (e.g., purchase initiation, receipt of goods) from those responsible for approving the purchase.

We tested 36 purchases and found the Division appropriately segregated purchasing duties (e.g., segregated receipt of goods from approval). However, the Division has 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.

### 3.10 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 neither documented due diligence procedures to validate suppliers prior to entering them into the financial system nor properly maintained its listing of suppliers included in its financial system.

In September 2022, the Division implemented its updated purchasing policy that requires staff to validate vendors prior to purchasing goods or services from that vendor through completion of a Supplier Certification Application Form. We found the Division does not use this form; staff informally assess the validity of suppliers upon receipt of invoices for payment (i.e., after suppliers provide goods or services). Further, the form does not include steps Division staff should take to verify the legitimacy of new vendors (e.g., phone call, internet search).

We tested 16 new suppliers in the Division's financial system and assessed 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 and remove suppliers that are no longer relevant, or remove duplicate suppliers. Through our testing of supplier validity, we identified two newly added suppliers that already existed in the financial system. At July 2024, the Division's supplier list included over 9,400 vendors, with the oldest last-paid date of November 2005 for one vendor.

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

### 3.11 Receipt of Heating Fuel Purchases 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**—Implemented

Northern Lights School Division consistently documented the receipt of goods for heating fuel purchases.

As discussed in **Section 3.9**, the Division implemented its updated purchasing policy to separate responsibilities of those managing the purchase processes (e.g., purchase initiation, receipt of goods) from those responsible for approving the purchase. We tested 60 heating fuel payments and found the Division appropriately approved invoices and documented evidence of goods received.

When the Division documents receipt of purchases, there is a decreased risk of the Division paying for goods and services it did not receive.