

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
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Request for Decision

Audit Report - Competitive Procurement

Recommendation

THAT the City of Greater Sudbury received the report dated June 11, 2014 for information only;

AND THAT the action plans identified in this report be recommended for approval.

SUMMARY

Objectives

The objectives of this audit were to evaluate if:

- a) Competitive Procurement activities are being administered in accordance with Finance Services strategy, plans and objectives.
- b) Current internal controls and independent monitoring provided by Supplies and Services are effectively designed and operating to provide assurance that Procurement Objectives outlined in the Purchasing By-Law (2006-270) are achieved by Operating Departments; and
- c) Risks to the City arising from contracts, agreements and commitments are being managed and maintained at acceptable levels.

Background

The City's procurement objectives stated in the Purchasing By-Law (2006-270) are:

- a) *To encourage competition among suppliers;*
- b) *To maximize savings for taxpayers;*
- c) *To ensure service and product delivery, quality, efficiency and effectiveness;*
- d) *To ensure fairness among bidders; and*
- e) *To ensure openness, accountability and transparency while protecting the financial best interests of the City of Greater Sudbury.*

In 2001 the City acquired and rolled out the PeopleSoft finance system. However, thirteen years later, the Auditors found that only 12% of the procurement transactions over \$1500, (25% of the dollar value), are being processed using PeopleSoft. Such underutilization of automated features of a system designed to facilitate compliance with By-Laws, management and monitoring of purchases increases the risk of inadequate monitoring and failure to initiate timely corrective action.

Signed By

Auditor General

Brian Bigger

Auditor General

Digitally Signed Jun 12, 14

Finance Services strategies, objectives and goals continue to refer to the need for the CGS-wide development and use of PeopleSoft finance system functionality and foundational elements.

Finance Services has identified areas where improvements to internal controls and business processes are required, which are aligned with the Auditor General's opportunities noted in this audit. Action Plans to address these improvements have been reflected in the Finance Strategic Plan and other reports to City Council. For example, Council recently approved a new Purchasing By-Law in February 2014, and in September 2013, a Procurement Contract Administration Policy was approved. These two key policy documents, coupled with management's plans to expand the use of the PeopleSoft system, will improve the framework of internal controls, once implemented over the next few years.

Finance Services have been working on the foundational pieces to improve the City's procure to pay cycle. These foundational pieces include: Purchasing By-Law, business process review / policy development and expansion of PeopleSoft functionality. Once the foundational pieces are complete, and resources are identified in operating departments, Finance had stated that they do plan to amend City policies to make the use of electronic purchase orders mandatory. This strategy has been verbally communicated to the AG, documented in various reports to City Council, and in the Finance Strategic Plan.

Scope

The scope of the audit included:

- PeopleSoft transaction records for the period January 2011 to August 2013 and covered Procurement systems and practices, Policies and Procedures, Purchase Orders issued, Contract Management processes, Vendor Management practices, Blanket Orders, and payments. Records relating to public communication of RFQ, RFI, RFT, RFP, Pre-qualifications, and their results were also included in the review.
- Competitive procurement processes encompassing activities leading to, and pertaining to the acquisition of Materials, Operating Expenses, Equipment Expenses, Purchased/Contract Services. Our focus was on the management and monitoring of competitive procurement activities relating to contracts and agreements provided by Supplies and Services (Purchasing) Division of the Finance Services Department.
- Reviewing records and interviewing select personnel from Accounts Payable, Information Technology and other operating departments.
- Evaluation and assessment of internal control structure (policies and procedures, staff skills, internal reporting and performance measures) with procurement objectives identified by management with the Purchasing By-Law 2006-270.
- Comparison of CGS procurement practices against principles established within the COSO Internal Control – Integrated Framework^[1].
- Our professional standards also required us to consider the possibility of fraud or abuse. Accordingly, we assessed existence and control weaknesses for fraud or abuse.
- We conducted our review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Report Highlights

In conducting the audit, the Auditor General's office has referenced widely accepted frameworks such as the IIA'S "Three Lines Of Defense" for evaluations of governance, risk management and control, and COSO's "Integrated Framework Of Internal Control".

The line of defense most likely to benefit from CGS-wide development and use of PeopleSoft finance system functionality would be centralized finance oversight and monitoring of procurement activities.

According to COSO, "Internal control is broadly defined as a process, effected by an entity's board of directors^[2], management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following three categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations." COSO considers these categories to be overlapping, yet distinct. The effectiveness of an internal control system is measured by its capacity to provide reasonable assurance to the City Council and management that these three objectives have been met.

COSO identified five interrelated components of internal control.

- 1) The control environment, which includes the integrity, ethical values, and competence of an organization's people.
- 2) Risk assessment.
- 3) Control activities.
- 4) Information and communication, which encompasses the methods for identifying, capturing, and communicating pertinent information in a time frame that enables people to carry out their responsibilities, and
- 5) Monitoring, and oversight.

These components combine to form an integrated system of controls.

To conclude that internal control is effective in any category of objectives; Operations, Financial Reporting, or Compliance, all five components must be present and functioning effectively.

The Auditor General noted:

- A risk of continued slippage in the completion of the planned roll out of foundational pieces to improve the City's procure to pay cycle.
- The need to clean up and improve the administration of Blanket Purchase Order Agreements.
- The need to improve methods used to estimate and report on the value of awarded contracts on the City's website .
- The need to improve use of functionality, features and automated controls in PeopleSoft by replacing manual controls currently being used Citywide.
- The need to improve oversight and monitoring of all purchases through independent spend analysis.
- The need to improve accountability through performance measures in relation to procurement.
- The need to improve the current staffing approach to provide for succession planning and staffing key positions in purchasing.

The full audit report is attached to this agenda. For further information regarding this report, please contact Brian Bigger at extension 4402 or via email at brian.bigger@greatersudbury.ca

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