

# AUDITOR GENERAL

Halifax Regional Municipality



## Procurement

May 2018

**May 16, 2018**

Office of the Auditor General  
Halifax Regional Municipality

The following audit of **Procurement**, completed under section 50(2) of the Halifax Regional Municipality Charter, is hereby submitted to the Audit and Finance Standing Committee of Regional Council.

Respectfully,

*Original signed by*

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Auditor General  
Halifax Regional Municipality

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## Summary

### Conclusion

Management of HRM procurement activities needs significant improvement. A well-managed procurement system should have strong controls to prevent and detect errors or fraud, as well as processes to ensure files are complete and show the Municipality followed its policy.

### Key Take-aways

- Access to financial system and confidential files
  - Certain users can record many parts of a transaction which should be separated to reduce fraud risk.
  - Access changes are often not made when employees move or leave HRM.
  - Employees can access files with confidential business information which they do not need for their jobs. Access to files should be limited and managed.
- The Accounting division's monitoring processes need improvement.
  - Staff checking changes to vendor payment information can also make these changes. This is a fraud risk.
  - There are gaps in monitoring reports which means management review may not detect inappropriate changes.
- The new *Procurement Policy* provides a good framework but is not consistently followed.
- Files lack support to show procurements were fair and evaluations were comprehensive.
  - Conflict of interest forms missing – 18 of 32 request for proposal files
  - Procurement staff do not complete conflict of interest forms.
  - Evaluator's scores missing or comments did not support scores – 10 of 32 files
- No quality assurance checks on procurement files to ensure files are complete, a fair process was followed and final bid evaluation scores are accurate.
- Approximately 20% of the 94 procurement files tested were missing approvals at some stage of the process.
- Monitoring of purchasing activities intended to help ensure purchases are approved and policy is followed is not effective.
  - Contracts were extended without approval. Staff and management should monitor so they know when contracts will expire.
  - Monitoring for attempts to avoid approval or public advertising thresholds is limited and needs improvement.
  - Monthly reports of purchases which did not follow policy do not have enough detail to be useful.
  - Limited monitoring to pick up contract increases which should have CAO or Regional Council approval

## Recommendations and Management Responses

### **Recommendation 1:**

Procurement and Accounting should review current SAP access and address inappropriate access.

### **Management Response**

*Agree. A review of SAP access has involved understanding SAP transactions being assigned to roles, the multiple tasks each transaction allows a user to perform, the risks when combining multiple transactions into new roles, requirements for each user to effectively perform their duties, and the consideration of compensating controls that should be in place to reduce risks associated with the transactions assigned to each role. Staff who do not require SAP access are in the process of being identified and updated in SAP to remove access. All Procurement positions have had their SAP security access determined based on the role they perform. The new roles have been tested and will be implemented when IBM provides a “Go Live” date, expected within the next three months.*

### **Recommendation 2:**

Procurement and Accounting should implement a process to remove access as employees leave HRM or change access as they move within the organization.

### **Management Response**

*Agree. The process to determine role and position-based security will be completed in October 2018. Security will be attached to positions as opposed to the name of the employee performing the position, SAP access will be automatically removed for individuals who leave HRM, and SAP security will be based on position requirements. Staff not requiring SAP access will be removed prior to the change to position-based security. A list of staff outside of Procurement who have access to procurement functions in SAP has been compiled and will be reviewed in May to decide how to address each case. There are positions within HRM but external to Procurement that perform procurement-related functions, which will be examined to determine if they need this function and, if so, should the position report to procurement for this function.*

### **Recommendation 3**

Procurement and Accounting should limit access to the vendor master file to only those who require it.

### **Management Response**

*Agree. With the implementation of the security based access described in the response to Recommendation 2, access will be limited to the Master Data*

*Administrator and their designated back up. In response to the Auditor General's concern, all changes to the vendor master file for June 1, 2017 to April 30, 2018 were reviewed.*

#### **Recommendation 4**

Procurement and Accounting should review duplicated vendors and block payments to vendors that are not needed.

#### **Management Response**

*Agree. Vendor profiles in SAP accept one address, but alternate addresses may be needed. In these cases, a vendor is created more than once and, each time vendor information changes, they need to be re-entered but previous versions retained so data is not lost. As part of the process noted in the response to Recommendation 2, work is underway to enable multiple addresses in the vendor profile, which should be completed within six months. Moreover, since July 2013, to control risks of unauthorized changes to the vendor master file and to ensure accuracy of data entry, a random sample of 119 invoices posted to SAP is generated every two weeks and a daily review of all invoices greater than \$50,000 is reviewed to confirm that the appropriate vendor is being paid, and that the address on file and invoice amounts posted are accurate. Any discrepancies are corrected.*

#### **Recommendation 5**

Monitoring changes to vendor information should be performed by someone who does not have access to update vendor information.

#### **Management Response**

*Agree. Procurement has identified the appropriate report to obtain this data and will develop a process to review the changes. In response to banking fraud issues last year, procedures were reviewed, a clear checklist of the process when changing banking information and verifying changes was developed, responsibilities of individuals were defined, a new process of contacting the vendor to confirm changes was put into place, additional training on the process was conducted, and further review and authorization was added. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process. As part of SAP role revision, the ability to change vendor information will be removed from the manager performing the initial review of the banking changes.*

#### **Recommendation 6:**

SAP monitoring reports used to identify vendor changes should be regularly reviewed and cover all dates in the period to ensure all changes are verified.

**Management Response**

Agree. Procurement has identified the appropriate report to obtain this data and will develop a process to review the changes. In response to the concerns addressed in the report: to confirm that all changes were reviewed and approved, every banking change made for the period June 1, 2017 to April 30, 2018 was examined. During this period, all changes to the vendor banking information were made by authorized Accounting staff and all changes were reviewed and approved following the new procedures. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process.

**Recommendation 7:**

Vendor banking change forms should be reviewed regularly.

**Management Response**

Agree. During the period where the banking change process was being developed, implemented, tested and improved, delays in the final review and signoff by the senior manager occurred. The process is now fully developed and tested. Since June 1, 2017, all banking changes are being reviewed and any concerns addressed. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process.

**Recommendation 8:**

Vendor banking information should not be changed until it has been confirmed with the vendor to reduce the risk of fraud and error.

**Management Response**

Agree. During management's review of HRM's new banking change process last year, this weakness was identified and has been corrected. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process.

**Recommendation 9:**

Procurement should require staff to compare invoices to contract amounts and confirm the invoice does not exceed the contract price before payment is made.

**Management Response**

Agree. Procurement will ensure staff are aware of the process to follow when comparing invoice to contract price, and what action to take if they do not match. The process will include what information is kept in SAP to support when price changes are made (by whom, when and why).

**Recommendation 10:**

Procurement should ensure all evaluators sign conflict of interest forms before participating in bid evaluation committees.

**Management Response**

*Agree. To provide a refresh to staff of various practice issues identified by the audit, a quick reference tool will be developed in the next three months.*

**Recommendation 11:**

Procurement should implement quality control checks on its files. These should be done by a second person not involved in the procurement to ensure all necessary documents are on file. A checklist of required documentation at the front of each file would help ensure files are complete.

**Management Response**

*Agree. A checklist is already in use for Procurement Support Representatives, who maintain electronic files in SAP for purchases under \$10,000. In addition, there is a checklist for hard copy files maintained by procurement officers. Checklists will be developed for tender and Request for Proposal (RFP) files within the next three months.*

**Recommendation 12:**

Procurement staff should sign conflict of interest forms for each evaluation they are involved in.

**Management Response**

*Agree. This is a new practice which will be implemented within the next three months.*

**Recommendation 13:**

Procurement should establish and enforce a threshold over which conflict of interest forms should be signed by those involved in evaluating all procurement submissions.

**Management Response**

*Agree. This is a new practice which will be implemented within the next three months for public solicitations valued at \$25,000 and above.*

**Recommendation 14:**

Procurement should update the *Procurement Policy* guide (for Administrative Order 2016-005-ADM) to comply with the conflict of interest requirements in the Nova Scotia



Public Procurement Act. The guide should also provide examples of conflict of interest which evaluators can refer to.

**Management Response**

*Agree. The guide to the policy will be updated within the next three months.*

**Recommendation 15:**

Procurement should require evaluators to include support for their scores and document changes in the file.

**Management Response**

*Agree. To provide a refresh to staff of various practice issues identified by the audit, a quick reference tool will be developed in the next three months.*

**Recommendation 16:**

An independent person should check evaluation score calculations for accuracy before the contract is awarded.

**Management Response**

*Agree. Process improvement and process development will be a focus over the next six months, including a process for verification of accuracy of evaluation scores which will be implemented within three months.*

**Recommendation 17:**

Procurement should maintain files for alternative procurements and have guidelines so staff understand what documentation to keep to support the use of the alternative procurement.

**Management Response**

*Agree. Alternate procurements (sole source, emergency, exception) now have their own purchase order code in SAP and are tracked and reported on. A checklist of what information is required to be maintained in the electronic file in SAP will be developed within the next three months.*

**Recommendation 18:**

Procurement should establish a second person review of the quarterly bid report to Regional Council to confirm completeness.

**Management Response**

*Agree. The process to prepare the report has already been revised to reflect what reports have been approved by Council, according to the minutes, as well as what*

reports have been communicated weekly to Councillors. The process also contains Chief Administrative Officer (CAO) and alternate procurement awards over \$100,000 as per policy requirement. The report is verified by a second person prior to submission to Council.

**Recommendation 19:**

Procurement should ensure all staff processing requests to initiate purchases are aware of the approval requirements in the *Procurement Policy*.

**Management Response**

Agree. An education session designed to address award and delegated authority levels (what they are, how to check them) will be developed and delivered to procurement staff over the next three months.

**Recommendation 20:**

Procurement should update the delegated authority list regularly. There should also be a process to update it as people move within HRM or leave the organization.

**Management Response**

Agree. Procurement staff will develop a process within the next three months that enables obtaining relevant information from Business Units on a regular basis (versus the current practice of waiting for Business Units to send their information to Procurement).

**Recommendation 21:**

Procurement should establish a process to ensure contract extensions are monitored.

**Management Response**

Agree. Over the next three months, a process will be developed to record contract extensions, noting by whom, when and why. Part of the process will be education of staff on when a contract can be extended.

**Recommendation 22:**

Procurement should clarify the *Procurement Policy* to limit director's ability to purchase from a standing offer to the approved director-spending thresholds for other procurement types.

**Management Response**

*Agree. An education session designed to address policy limits related to Directors' limits to purchase will be developed and delivered to Procurement staff over the next three months.*

**Recommendation 23:**

Procurement should improve contract monitoring for increased spending and possible split purchases to confirm required approvals were obtained.

**Management Response**

*Agree. Over the next three months, a process will be developed to monitor spending and approvals related to contracts.*

**Recommendation 24:**

Procurement should enforce the Procurement *Policy* and monitor to ensure all requirements are met.

**Management Response**

*Agree. Since implementation of the policy, 15 education sessions have been attended by over 400 HRM staff. Work done by Procurement and Accounts Payable has seen a significant reduction in monthly manual payments, as more goods and services have been purchased according to the policy. Procurement will continue to educate Business Units on when the procurement process should be used, as well as creating a reporting process that provides Directors with the information needed to address instances of staff not following the procurement process when it is required.*

**Recommendation 25:**

Procurement should revise its reporting of noncompliant purchases to include details which would allow directors to follow up with their staff.

**Management Response**

*Agree. Directors are currently notified of non-compliant purchase orders monthly, but the report will be revised within the next three months to include relevant data for the Director to utilize with their staff.*

**Recommendation 26:**

Access to physical and electronic files should be changed as employees move within the organization or leave HRM.

**Management Response**

Agree. With the implementation of the security-based access described in the response to Recommendation 27, access will be limited to those currently working in Procurement.

**Recommendation 27:**

Procurement should improve security of confidential files so they are not accessible to anyone in the Procurement office area.

**Management Response**

Agree. A request has been placed with the HRM Facilities division to add a new door that will further confine the Procurement space to just the people that work on 6th floor of Alderney Gate. In addition, a card swipe will be added to the file room to limit access and file room access on the 1st floor of Alderney Gate will be further limited. Locking storage units will be obtained for Procurement staff to use for active files and “clean desk” guidelines will be explored. Much of this work should be completed within three months.

**Recommendation 28:**

Procurement management should use available performance data and set targets to measure against.

**Management Response**

Agree. Procurement will be reporting on three Key Performance Indicators as part of HRM’s participation in MBN Canada’s benchmarking initiative this year. In addition, the development of Service Level Agreements and other applicable measures related to procurement activities will be pursued over the next year.

## Audit Results

### Too many users have SAP access they do not need

Many users have access to the financial system that they should not have for their job duties. Well-managed financial systems are set up so that individual user access is limited to only those areas they need for their jobs. Different individuals should be responsible for key parts of a transaction so that one person does not have the ability to carry out fraud and conceal it.

The table below shows examples of access issues we identified. Individual users are included more than once when there are multiple issues with their access.

Description	Risk / Issue	SAP User Accounts	
		Can complete too many parts of transaction	No longer an employee or on leave
Access to vendor master file – allows changes to address, banking information	Multiple individuals with access increases risk for errors or possible fraud. Vendor access should be limited, with additional access granted and removed as required to have sufficient coverage.	12	4
	Individuals able to both create a vendor and process a payment to that vendor	5	2
Individual monitoring changes to vendor master file meant to detect fraud also has access to change the file	Changes to the vendor master file could go unchecked, increased risk of error or fraud	1	-
Individuals with access they should not have	Employees outside of Procurement / Accounts Payable functions have access beyond their job requirements	51	-
	Users outside of accounts payable with access to post invoices	18	2

Description	Risk / Issue	SAP User Accounts	
		Can complete too many parts of transaction	No longer an employee or on leave
	Users outside of Procurement with access to create / modify purchase orders	87	21
Access to key parts of transaction which should be separated	Employees with access to multiple SAP functions not providing adequate separation of duties:		
	- Issue goods receipt and post invoice	10	-
	- Issue goods receipts, post invoice, and enter a purchase order	9	-
	- Issue goods receipt, post invoice, and create vendor	3	1
	- Post invoice and create vendor	-	1
	Users able to perform cheque run / electronic payments with additional access that is incompatible	4	-
System Access	Accounts for former employees or those on leave remain on the system, could be used for unauthorized access	-	69

Individuals with access beyond the requirements of their position create a fraud risk as unauthorized purchases, payments, or changes to vendor information could go undetected.

Modern financial systems use role-based access – assigning system access based on the user’s position or job group. This way, when an employee moves to another area in an organization, it is easy to remove access based on the individual’s old job and add access based on the new position. However, we found users often had access unique to them rather than access based on their current job. This has led to multiple users having access to too many parts of a transaction or access which they do not need for their job. This increases the risk of fraud or error going undetected.

We identified similar issues and recommendations for improvement in our 2012-13 review of SAP authorizations.

**Recommendation 1:**

Procurement and Accounting should review current SAP access and address inappropriate access.

**Management Response**

*Agree. A review of SAP access has involved understanding SAP transactions being assigned to roles, the multiple tasks each transaction allows a user to perform, the risks when combining multiple transactions into new roles, requirements for each user to effectively perform their duties, and the consideration of compensating controls that should be in place to reduce risks associated with the transactions assigned to each role. Staff who do not require SAP access are in the process of being identified and updated in SAP to remove access. All Procurement positions have had their SAP security access determined based on the role they perform. The new roles have been tested and will be implemented when IBM provides a “Go Live” date, expected within the next three months.*

**Recommendation 2:**

Procurement and Accounting should implement a process to remove access as employees leave HRM or change access as they move within the organization.

**Management Response**

*Agree. The process to determine role and position-based security will be completed in October 2018. Security will be attached to positions as opposed to the name of the employee performing the position, SAP access will be automatically removed for individuals who leave HRM, and SAP security will be based on position requirements. Staff not requiring SAP access will be removed prior to the change to position-based security. A list of staff outside of Procurement who have access to procurement functions in SAP has been compiled and will be reviewed in May to decide how to address each case. There are positions within HRM but external to Procurement that perform procurement-related functions, which will be examined to determine if they need this function and, if so, should the position report to procurement for this function.*

**Monitoring of changes to vendor information is weak**

We reviewed changes made to vendor information and found some were made by staff who are not responsible for updating vendor information and should not have access to do so. We did not identify any suspicious changes; a couple of minor errors were noted.

Only staff in two groups, Procurement and Accounting, should be able to set up new vendors in the purchasing system and make changes to vendor information (i.e., address; banking information).

Except for changes to banking information, there is no monitoring or review of changes made to vendor information. There is a risk that a fraudulent change, such as creating a false vendor, or an error, such as entering the wrong address, could go undetected.

We noted 31 duplicated vendors in the vendor master file. These could be situations in which payments are made to more than one vendor division or the same vendor may have been entered more than once in error.

**Recommendation 3:**

Procurement and Accounting should limit access to the vendor master file to only those who require it.

**Management Response**

*Agree. With the implementation of the security based access described in the response to Recommendation 2, access will be limited to the Master Data Administrator and their designated back up. In response to the Auditor General's concern, all changes to the vendor master file for June 1, 2017 to April 30, 2018 were reviewed.*

**Recommendation 4:**

Procurement and Accounting should review duplicated vendors and block payments to vendors that are not needed.

**Management Response**

*Agree. Vendor profiles in SAP accept one address, but alternate addresses may be needed. In these cases, a vendor is created more than once and, each time vendor information changes, they need to be re-entered but previous versions retained so data is not lost. As part of the process noted in the response to Recommendation 2, work is underway to enable multiple addresses in the vendor profile, which should be completed within six months. Moreover, since July 2013, to control risks of unauthorized changes to the vendor master file and to ensure accuracy of data entry, a random sample of 119 invoices posted to SAP is generated every two weeks and a daily review of all invoices greater than \$50,000 is reviewed to confirm that the appropriate vendor is being paid, and that the address on file and invoice amounts posted are accurate. Any discrepancies are corrected.*

The Accounting division is responsible for monitoring changes to vendor banking information. In Spring 2017, HRM experienced a third-party fraud in which a fraudulent e-payment was made. Following this, management changed processes to include confirming updated information, such as banking details, directly with the vendor. We tested the new processes and found there are weaknesses that should be addressed to ensure unauthorized changes are detected.



A manager is responsible to review changes to vendor banking information and call the vendor to verify that they requested the change. Details of the change and verification are noted on a change form. The same employee also reviews a SAP monitoring report which shows the changes made to ensure none are missed. While these are good processes to prevent improper changes, we found they are not consistently performed.

We looked at 17 changes to vendor banking information after the new processes started.

- Four changes were not verified with the vendor.
- For 11 (65%) changes, vendor banking information was updated before it was confirmed with the vendor.
- SAP monitoring reports did not cover all days every month, leaving gaps in monitoring to ensure changes are not missed.

In addition, the manager responsible for reviewing and monitoring changes to vendor data can also change the information. This means the control of checking vendor changes is not useful to guard against fraud because this person could make an unauthorized change without it being detected.

A senior manager is also supposed to review the banking information change forms and SAP monitoring reports. However, this is often done several months after the changes have been made and the SAP monitoring reports do not note the dates covered, making it difficult to identify missing dates. Again, these issues make this control ineffective.

#### **Recommendation 5:**

Monitoring changes to vendor information should be performed by someone who does not have access to update vendor information.

#### **Management Response**

*Agree. Procurement has identified the appropriate report to obtain this data and will develop a process to review the changes. In response to banking fraud issues last year, procedures were reviewed, a clear checklist of the process when changing banking information and verifying changes was developed, responsibilities of individuals were defined, a new process of contacting the vendor to confirm changes was put into place, additional training on the process was conducted, and further review and authorization was added. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process. As part of SAP role revision, the ability to change vendor information will be removed from the manager performing the initial review of the banking changes.*

**Recommendation 6:**

SAP monitoring reports used to identify vendor changes should be regularly reviewed and cover all dates in the period to ensure all changes are verified.

**Management Response**

*Agree. Procurement has identified the appropriate report to obtain this data and will develop a process to review the changes. In response to the concerns addressed in the report: to confirm that all changes were reviewed and approved, every banking change made for the period June 1, 2017 to April 30, 2018 was examined. During this period, all changes to the vendor banking information were made by authorized Accounting staff and all changes were reviewed and approved following the new procedures. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process.*

**Recommendation 7:**

Vendor banking change forms should be reviewed regularly.

**Management Response**

*Agree. During the period where the banking change process was being developed, implemented, tested and improved, delays in the final review and signoff by the senior manager occurred. The process is now fully developed and tested. Since June 1, 2017, all banking changes are being reviewed and any concerns addressed. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process.*

**Recommendation 8:**

Vendor banking information should not be changed until it has been confirmed with the vendor to reduce the risk of fraud and error.

**Management Response**

*Agree. During management's review of HRM's new banking change process last year, this weakness was identified and has been corrected. Staff will review the Auditor General's detailed findings with respect to this recommendation and make appropriate improvements to this process*

**Standing offer contract prices overridden by Procurement staff**

We identified seven instances in which Procurement staff overrode the agreed-upon contract price to match the invoice. (One issue was identified during file testing; further analysis noted an additional six cases.) The invoiced price was higher than the contract price which resulted in HRM paying more for these goods or services.

**Recommendation 9:**

Procurement should require staff to compare invoices to contract amounts and confirm the invoice does not exceed the contract price before payment is made.

**Management Response**

*Agree. Procurement will ensure staff are aware of the process to follow when comparing invoice to contract price, and what action to take if they do not match. The process will include what information is kept in SAP to support when price changes are made (by whom, when and why).*

## Conflict of interest forms and evaluator scores missing

### **Conflict of interest forms not signed by evaluators in many cases**

Evaluators are supposed to sign a conflict of interest form before evaluating bids. This is a good practice to help ensure the evaluators are independent and able to fairly evaluate the bids.

However, 18 of the 32 request for proposal files we examined did not have signed conflict of interest forms for all evaluators.

Our Office's 2012 review of the Request for Proposal process recommended a checklist be used to help ensure complete files. This recommendation has not been acted upon.

**Recommendation 10:**

Procurement should ensure all evaluators sign conflict of interest forms before participating in bid evaluation committees.

**Management Response**

*Agree. To provide a refresh to staff of various practice issues identified by the audit, a quick reference tool will be developed in the next three months.*

**Recommendation 11:**

Procurement should implement quality control checks on its files. These should be done by a second person not involved in the procurement to ensure all necessary documents are on file. A checklist of required documentation at the front of each file would help ensure files are complete.

### **Management Response**

*Agree. A checklist is already in use for Procurement Support Representatives, who maintain electronic files in SAP for purchases under \$10,000. In addition, there is a checklist for hard copy files maintained by procurement officers. Checklists will be developed for tender and Request for Proposal (RFP) files within the next three months.*

### **Changes needed to comply with Nova Scotia Public Procurement Act**

Procurement's practice is to require those evaluating proposals to sign conflict of interest forms but the forms are not required for other types of procurement: quotations, tenders, and sole source purchases. However, vendor bids may be dismissed if they do not meet the minimum requirements and since sole source procurements are not competitive, there is greater risk that purchases may not be fair.

Additionally, the Nova Scotia Public Procurement Act requires Procurement employees request removal of an individual from a procurement process when a personal conflict of interest is perceived. If there is any conflict between HRM's *Procurement Policy* and the Act, the Act must be followed. Documented conflict of interest forms help demonstrate compliance with the Act and fairness in the procurement process.

We also noted Procurement staff who oversee the evaluation process, and are present when bids are discussed, do not sign conflict of interest forms because they do not score the bids. However, Procurement staff perform duties, such as compiling final scores, which should be completed by someone who is not biased – both in fact and in appearance.

In one of the files we examined, an individual had a potential conflict. In this case, the evaluator did not declare he or she previously worked with one of the companies that submitted a response. We do not know whether this conflict altered the results. However, a conflict, whether actual or perceived, risks the integrity of the procurement process.

### **Recommendation 12:**

Procurement staff should sign conflict of interest forms for each evaluation they are involved in.

### **Management Response**

*Agree. This is a new practice which will be implemented within the next three months.*

### **Recommendation 13:**

Procurement should establish and enforce a threshold over which conflict of interest forms should be signed by those involved in evaluating all procurement submissions.

**Management Response**

Agree. This is a new practice which will be implemented within the next three months for public solicitations valued at \$25,000 and above.

**Recommendation 14:**

Procurement should update the *Procurement Policy* guide (for Administrative Order 2016-005-ADM) to comply with the conflict of interest requirements in the Nova Scotia Public Procurement Act. The guide should also provide examples of conflict of interest which evaluators can refer to.

**Management Response**

Agree. The guide to the policy will be updated within the next three months.

We also noted in one instance, the Procurement Manager evaluated and scored a request for qualification. Procurement's role in the evaluation process, as described in the *Procurement Policy*, is to facilitate fair evaluations. Procurement's direct involvement in bid scoring is not consistent with this oversight role.

**No evidence highest-scoring bid was awarded the contract**

In ten of the 32 files we examined, Procurement could not demonstrate the award went to the highest-scoring bid. Typically, evaluators independently score each bid and a Procurement staff member calculates the average score. However, the individual scores, final scores, or all scores were missing for these files. In two instances with missing individual scores, Procurement staff told us the evaluators provided the scores verbally. There is no evidence to support this and recording verbal scores is a poor practice. It does not demonstrate fairness and transparency in the procurement process and does not provide for comments from evaluators.

For those files with individual scores, we found one in which the comments were not consistent with the scores or evaluators did not include comments. An evaluator scored a bid at zero without an explanation so it was not clear if the bid was overlooked or if the evaluator intended to score it at zero. Another evaluator revised the scores, including changing one from 10/15 to 0/15. The comments were not updated and the evaluator's relatively positive comments did not support the score of zero. Different scores would not have changed the winning vendor. However, similar to the examples noted above, the file did not demonstrate fairness and transparency in the procurement process.

Lack of support for scores has been an issue for a number of years. Our 2012 review of the request for proposal process also included a recommendation to document all support for scoring decisions in the file.

We found errors in the average score for six of 22 request for proposals we examined with evaluator scores on file. These errors would not change the successful bidder but they highlight the risk of awarding something to the wrong vendor due to manual errors.

**Recommendation 15:**

Procurement should require evaluators to include support for their scores and document changes in the file.

**Management Response**

*Agree. To provide a refresh to staff of various practice issues identified by the audit, a quick reference tool will be developed in the next three months.*

**Recommendation 16:**

An independent person should check evaluation score calculations for accuracy before the contract is awarded.

**Management Response**

*Agree. Process improvement and process development will be a focus over the next six months, including a process for verification of accuracy of evaluation scores which will be implemented within three months.*

**Support for alternative procurements not consistently maintained**

There is no standard process or guidelines on what documentation should be maintained to support using an alternative method of procurement (e.g. sole source purchase), rather than following a competitive process. We found files are created for some alternative purchases while others have no file and no supporting documentation. Without adequate supporting information, it would be difficult for a second person to review and ensure the requirements were met for an alternative procurement.

Management told us Procurement staff will now be required to create files for alternative procurements.

**Recommendation 17:**

Procurement should maintain files for alternative procurements and have guidelines so staff understand what documentation to keep to support the use of the alternative procurement.

### **Management Response**

*Agree. Alternate procurements (sole source, emergency, exception) now have their own purchase order code in SAP and are tracked and reported on. A checklist of what information is required to be maintained in the electronic file in SAP will be developed within the next three months.*

Procurement prepares quarterly award reports to Regional Council. We found the reports were mostly accurate; however, two awards were missing. The reports are prepared manually; therefore, there is a risk of error.

### **Recommendation 18:**

Procurement should establish a second person review of the quarterly bid report to Regional Council to confirm completeness.

### **Management Response**

*Agree. The process to prepare the report has already been revised to reflect what reports have been approved by Council, according to the minutes, as well as what reports have been communicated weekly to Councillors. The process also contains Chief Administrative Officer (CAO) and alternate procurement awards over \$100,000 as per policy requirement. The report is verified by a second person prior to submission to Council.*

## **Appropriate approvals missing**

HRM implemented a new *Procurement Policy* in February 2017. The policy provides a good framework, but we found it is not followed consistently.

### **Twenty procurements missing proper approvals**

Required approvals were not consistently obtained. Approximately 20% of the 94 procurements we tested were not properly approved at some stage of the process.

- Six procurements were missing approval to start the procurement process.
- Seven competitive procurements were missing approvals to award the procurement to the selected vendor.
  - In one sample, Procurement did not get approval for an award because a director approved the request to start the process. However, the cost is not available at this stage. It is important to obtain approval once the cost to HRM is known.
  - We also found Procurement got approvals from the wrong business units. Staff told us this was because there was confusion over who had spending authority for projects involving multiple business units.

- The delegated signing authority lists were also outdated in some instances.
- Seven noncompetitive procurements were not properly approved. There were valid reasons why these procurements did not use a competitive process, but they were not properly approved.

Many procurement approvals are done manually, rather than electronically through the purchasing system. Therefore, staff must ensure the right people have authorized the purchase before processing it.

Through analysis, we also identified five additional procurements that did not have the right approvals. The purchases were split over multiple purchase orders, but should have been done as one procurement. In each instance, the total value of the purchases was over the spending limits of the staff approving.

**Recommendation 19:**

Procurement should ensure all staff processing requests to initiate purchases are aware of the approval requirements in the *Procurement Policy*.

**Management Response**

*Agree. An education session designed to address award and delegated authority levels (what they are, how to check them) will be developed and delivered to procurement staff over the next three months.*

**Recommendation 20:**

Procurement should update the delegated authority list regularly. There should also be a process to update it as people move within HRM or leave the organization.

**Management Response**

*Agree. Procurement staff will develop a process within the next three months that enables obtaining relevant information from Business Units on a regular basis (versus the current practice of waiting for Business Units to send their information to Procurement).*

**Monitoring contract expiry and approvals needs improvement**

Contract periods were extended without proper approvals. In some cases, the extension may not have been in the best interest of the Municipality.

We examined 20 contracts for which the end date was extended and identified concerns with approvals for 12 of these.

- Eight samples had no approvals to extend the contracts.



- Four samples did not receive the right approvals to extend the contract. A guide meant to explain the *Procurement Policy* to staff does not clearly state the requirements for contract extensions. However, the policy clearly states the approval levels required.

Additionally, we examined 10 contracts for which the maximum value of the contract was exceeded. One of these did not have the appropriate approval to increase the maximum value.

Procurement staff and management receive a monthly report that shows contract expiry dates, spending compared to maximum values, and changes to contract terms. However, our testing shows that contract extensions and maximum value are not consistently monitored.

The *Procurement Policy* allows contract extensions if they are in the best interest of the Municipality. When a contract's maximum value is exceeded or contracts are ending, HRM should consider its business needs and determine whether to explore the market for alternatives.

We also found three of the 30 contracts may not have been in the best interest of the Municipality.

- One contract was extended seven months, with increased pricing, because the business unit did not have specifications ready for a new competition.
- For one contract, spending was ten times over the maximum value. Procurement told us staff responsible for monitoring were behind. This contract was flagged in a monthly report for over two years.
- We noted another instance in which the maximum value increased because the agreement was used for purchases that were not part of the contract.

An additional eight of 30 contracts ended and were later extended. While there was no spending on these contracts in the interim, continuing to use expired contracts poses risks to the Municipality as a better price may be available.

**Recommendation 21:**

Procurement should establish a process to ensure contract extensions are monitored.

***Management Response***

*Agree. Over the next three months, a process will be developed to record contract extensions, noting by whom, when and why. Part of the process will be education of staff on when a contract can be extended.*

### **Contract amendments not appropriately authorized**

There is limited monitoring of increased spending that should go to Regional Council or the CAO for approval.

We identified contract amendments which Procurement management knew about. The policy was not enforced and Procurement allowed the purchases to continue without appropriate approvals.

Procurement staff create purchase orders which note the approved amount and vendor. They must ensure proper approvals are obtained for increased spending before increasing a purchase order. There are many staff members in the Procurement section who have access to increase a purchase order and no system controls to prevent increases without proper approval.

Procurement management told us they perform spot checks on purchase orders. However, there is limited monitoring to identify increases that need CAO or Regional Council approval to ensure these approvals were obtained before additional spending took place.

We identified three contract amendments which were processed without the required Regional Council approval.

In one case, a business unit did not get the right approval and did not notify Procurement before a purchase was made under the amended contract. Rather than obtaining approvals after the fact, invoices for the additional work were treated as sole source purchases, using separate purchase orders. This is not appropriate and does not comply with the *Procurement Policy*.

In another case, the business unit submitted two amendments to a contract to Procurement without the appropriate approvals. Contract increases of more than 20% or \$20,000, whichever is greater, require Regional Council approval. Procurement did not enforce the requirement in this instance.

The third amendment, related to a purchase order for \$2.5 million, was approved by a business unit director. Procurement staff told us they believed Council approval was not needed because the purchase was from a standing offer. However, Council approved this standing offer with maximum spending of less than \$1 million. Additionally, the current *Procurement Policy* sets a director approval limit of \$100,000. The CAO can approve purchases to a maximum of \$1.25 million. Larger amounts must go to Council for approval.

Procurement staff believe a director can approve a purchase of any amount if it is made from a standing offer. These agreements often cover services such as consulting which could easily cost more than \$100,000. This is not in keeping with the spirit of the *Procurement Policy* which requires higher levels of approval as spending increases.

**Recommendation 22:**

Procurement should clarify the *Procurement Policy* to limit director's ability to purchase from a standing offer to the approved director-spending thresholds for other procurement types.

**Management Response**

*Agree. An education session designed to address policy limits related to Directors' limits to purchase will be developed and delivered to Procurement staff over the next three months.*

Procurement has a process intended to identify instances of splitting purchases over multiple purchase orders so that they fall under procurement thresholds for higher approval or additional competitive processes. However, the analysis is manual and at risk for human error. Additionally, it only considers one month of purchases, making it ineffective at picking up purchases spread over a longer period.

**Recommendation 23:**

Procurement should improve contract monitoring for increased spending and possible split purchases to confirm required approvals were obtained.

**Management Response**

*Agree. Over the next three months, a process will be developed to monitor spending and approvals related to contracts.*

## Competitive procurement process not followed

Through our audit testing and analysis, we found 10 purchases which should have gone through a competitive process but did not. Eight should have been publicly tendered and two should have had multiple quotes based on *Procurement Policy* thresholds.

- For two purchases, Procurement knew the business unit did not get quotes as required by policy. Procurement allowed the purchases to continue and did not enforce the policy.
- Three purchases were made by business units that did not follow the policy and Procurement was not notified in time to enforce the policy.
- Two purchases were invoiced and paid without a purchase order, meaning Procurement was not aware of these. Procurement prepares a monthly report detailing purchases made without a purchase order. Accounts Payable and Procurement staff have met to identify situations in which goods and services should have been tendered.

- Three purchases were made from a roster without publicly advertising after Procurement told the business unit this was required.

While Procurement staff may not always be aware of issues before purchases are made when the policy is not followed, we also found many situations which suggest Procurement staff do not have a good understanding of the *Procurement Policy* and related approval limits.

**Recommendation 24:**

Procurement should enforce the *Procurement Policy* and monitor to ensure all requirements are met.

**Management Response**

*Agree. Since implementation of the policy, 15 education sessions have been attended by over 400 HRM staff. Work done by Procurement and Accounts Payable has seen a significant reduction in monthly manual payments, as more goods and services have been purchased according to the policy. Procurement will continue to educate Business Units on when the procurement process should be used, as well as creating a reporting process that provides Directors with the information needed to address instances of staff not following the procurement process when it is required.*

Procurement sends reports of purchases which did not comply with the *Procurement Policy* to business unit directors and the CAO. However, we identified instances in which the reports were inaccurate or not complete. We also found the reports do not provide details of the noncompliant purchases, only noting the number which did not follow policy. Directors do not have enough detail to allow them to address issues with staff. This is a missed opportunity to educate business units and prevent future noncompliance.

**Recommendation 25:**

Procurement should revise its reporting of noncompliant purchases to include details which would allow directors to follow up with their staff.

**Management Response**

*Agree. Directors are currently notified of non-compliant purchase orders monthly, but the report will be revised within the next three months to include relevant data for the Director to utilize with their staff.*

## Other results

### **Access to sensitive procurement files not effectively managed**

Access to sensitive physical and electronic procurement files is not well-managed. We obtained access lists from HRM's Information Communication and Technology, and Corporate Security. We found staff members have access to files that contain confidential business information who do not require this access for their jobs. We did not audit how the access lists were prepared but used the information to look at who could access physical and electronic procurement files.

- 83 staff members outside of Procurement can modify electronic folders where proposals are stored. While read-only access is necessary for business units to review proposals, the ability to delete or alter information should be limited to a small number of Procurement staff who require it.
- 397 employees who do not work in Procurement have access to its office space. Procurement has paper files which contain confidential business information submitted with vendor proposals. These are not in a locked room or cabinet. Access to the procurement office space should be limited to those who require it. If there is an operational need (i.e., access to boardroom, lunchroom) for staff outside Procurement to access the space, Procurement should take additional steps to secure its files, such as locking them in a cabinet or separate room when unattended and at end of day.
- Fourteen employees have access they do not require for their jobs to the room where sealed bids are kept until the competitive process closes. Bids should only be accessible to those who require it.

#### **Recommendation 26:**

Access to physical and electronic files should be changed as employees move within the organization or leave HRM.

#### **Management Response**

*Agree. With the implementation of the security-based access described in the response to Recommendation 27, access will be limited to those currently working in Procurement.*

#### **Recommendation 27:**

Procurement should improve security of confidential files so they are not accessible to anyone in the Procurement office area.

### **Management Response**

*Agree. A request has been placed with the HRM Facilities division to add a new door that will further confine the Procurement space to just the people that work on 6<sup>th</sup> floor of Alderney Gate. In addition, a card swipe will be added to the file room to limit access and file room access on the 1<sup>st</sup> floor of Alderney Gate will be further limited. Locking storage units will be obtained for Procurement staff to use for active files and “clean desk” guidelines will be explored. Much of this work should be completed within three months.*

### **Performance targets not set**

Procurement staff are capturing some performance measures, such as the average time it takes to award a contract after the posting closes. However, targets have not been set to measure against. Setting and measuring performance targets, such as turnaround times for procurements, will help management identify challenges. It will also enable Procurement to set expectations with business units of how far in advance the procurement process must begin.

### **Recommendation 28:**

Procurement management should use available performance data and set targets to measure against.

### **Management Response**

*Agree. Procurement will be reporting on three Key Performance Indicators as part of HRM’s participation in MBN Canada’s benchmarking initiative this year. In addition, the development of Service Level Agreements and other applicable measures related to procurement activities will be pursued over the next year.*

### **Vendor complaints addressed**

We looked at two vendor complaints concerning competitive purchases and found Procurement appropriately addressed both complaints. Procurement management told us there were no other complaints. They also said vendors will sometimes request a meeting to discuss why their proposal or bid was not successful.

### **Required insurance documents obtained**

Generally speaking, Procurement obtained required documentation, such as proof of insurance from vendors.

## Background

In fiscal 2017-18, Halifax Regional Municipality processed around 50,000 purchase orders with a value of just over \$265 million. Approximately 2,000 purchase orders made up 85% of the spending.

**Halifax Regional Municipality – Purchase Orders  
(fiscal year ended March 31, 2018)**

	<b>Total Purchase Orders</b>	<b>\$ Value (\$ millions)</b>	<b>Purchase Orders over \$10,000</b>	<b>\$ Value (\$ millions)</b>
<b>Construction</b>	1,293	\$107	335	\$105
<b>Facilities</b>	20	0	0	0
<b>Goods</b>	30,087	55	692	36
<b>Services</b>	18,347	103	986	83
<b>Total</b>	<b>49,747</b>	<b>\$265</b>	<b>2,013</b>	<b>\$224</b>

The Municipality's procurement of goods, services, construction and facilities falls under its *Procurement Policy* (AO 2016-005-ADM – revised policy February 2017). It is intended to provide a fair, open, consistent, and transparent procurement, resulting in best value, while respecting applicable trade agreements and legislation.

Procurement, a section of the Finance and Asset Management Business Unit, is responsible for facilitating the procurement process to comply with the policy and ensure bids are fairly evaluated. Each business unit is responsible for complying with the *Procurement Policy*. Procurement is responsible to monitor for noncompliance and notify business unit directors when issues arise.

The policy sets out which purchases must be procured competitively and when a noncompetitive process can be used. Competitive purchases over \$25,000 are required to be publicly advertised. See Appendix A for a description of the different types of procurement.

Authority to begin the procurement process, award work to a vendor, and extend or amend existing contracts are described in the *Procurement Policy*.

## Audit Objectives and Scope

We completed a performance audit of procurement activities within HRM. HRM purchasing card and inventory purchases were not included in the scope of this audit.

The purpose of the audit was to determine whether HRM effectively manages procurement practices to achieve value-for-money.

The objectives of the audit were to determine whether HRM:

- has policies, systems and controls to ensure procurement risks are effectively managed and procurement activities provide value-for-money; and
- procurement services are managed to ensure they are efficient and performed in a timely manner.

We developed criteria for this audit. These were discussed with, and accepted as appropriate by, management.

The audit period included purchasing activities from April 1, 2017 to October 31, 2017. Information from outside the audit period was considered as necessary.

Our audit approach included: reviewing Administrative Order 2016-005-ADM (the *Procurement Policy*) and other applicable Provincial and Federal legislation; reviewing internal policies, procedures, and programs; interviews with management; and examining purchasing records, contract files and other relevant documentation on a sample basis.

This audit was conducted in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001 – Direct Engagements published by Chartered Professional Accountants of Canada.

We apply the Canadian Standard on Quality Control 1, and our staff follow the Chartered Professional Accountants of Nova Scotia Code of Conduct.



## Appendix A – Types of Procurement

### Competitive procurements:

- **Request for Quotation** – informal request to a specific vendor or group of vendors for goods and services when the cost of the work does not warrant the time and level of effort of a formal tender process
- **Request for Tender** – a competitive bidding process used when detailed specifications are available with clearly-stated criteria
- **Request for Proposal** – a formal invitation to vendors to describe how their services, methods, equipment or products can address or meet the specific needs of the Municipality, usually with a separate cost proposal opened only after the bidder’s technical proposal is evaluated
- **Standing Offer** – tendered contract meant to provide a continuous supply on a day-to-day basis

The award approvals for competitive procurements are outlined as follows:

Competitive Procurement Award Approval Authority Limits*	
<b>Manager</b>	Per delegation of authority from Director (not to exceed \$100,000)
<b>Director</b>	\$100,000
<b>CAO</b>	\$1,250,000
<b>Council</b>	Any amount

\*As per Administrative Order 2016-005-ADM

### Alternative (noncompetitive) procurements:

The Administrative Order allows the competitive process to be skipped in the event there is a valid reason that the purchase cannot be procured competitively. The purchase must meet specific requirements and obtain special approvals that are outlined in the Administrative Order. Below is a brief description of each type of alternative procurement.

- **Sole Source** – only one supplier can meet the needs of the Municipality (i.e. only one vendor produces the item to be purchased).
- **Exceptional Circumstance** – can be used when there is an absence of bids or the matter is privileged in nature and could compromise confidentiality.
- **Emergency Circumstance** – used where a situation creates an immediate and serious procurement need, which may not be reasonably met by any other procurement method. This would not include situations where not enough time was allowed for a proper procurement method.

## Contact Information

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