



Office of the City Auditor

Procurement Audit

Audit Unit: Procurement Services

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Distributed To: City of Burlington Audit Committee

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Date Issued: August 20, 2024

EXECUTIVE SUMMARY

BACKGROUND

In accordance with the 2024 Audit Plan, the City Auditor performed a review of the procurement processes for evaluating and awarding procurements/contracts with values under \$50,000. The purpose of this audit was to ensure procurement transactions for goods/services under \$50,000 are compliant to the City's Procurement By-Law and applicable corporate policies and procedures. Testing of compliance to the Procurement Bylaw was conducted on a corporate-wide sample.

City Council approved a revised Procurement Bylaw (#04-2022) in January 2022, which serves as the primary corporate control mechanism. The Procurement Bylaw is complemented by layers of other controls including: a framework of policies and procedures, dedicated procurement training, and a team of procurement professionals that provide advice/guidance to all corporate departments/divisions for procurement matters under \$50,000.

The Procurement Bylaw recognizes the need for staff to efficiently purchase low-dollar goods and services without a formal "*Request for Tender*", "*Request for Proposal*" or "*Negotiated RFP*" process. The \$50,000 threshold was selected for this audit because this is the upper limit of procurement authority that departments/divisions are permitted to procure goods and services without proceeding to a formal procurement process (as per the Procurement Bylaw). Given the lower standard of control for purchases under \$50,000 which may lead to a higher risk of non-compliance, this was the focus of the audit.

SCOPE

The scope of the audit was focused on compliance over procurement transactions valued at \$50,000 or less. This included reviewing a sample of 120 purchases of goods and/or services from across the corporation to determine if appropriate steps were taken such as:

- Obtaining (at least) three quotations from suppliers
- Awarding procurements to the lowest compliant bidder
- Obtaining a Purchase Order for purchases over \$25,000
- Approval by the appropriate personnel (i.e. Director)
- Utilizing the appropriate forms including: Request for Quotation Form, Sole/Source Request Form, Purchase Order
- Obtaining Certificate of Insurance and WSIB

In addition, the audit including a review of:

- Related policies and procedures, including benchmarking the Procurement Bylaw against comparable municipalities
- Procurement related training
- Performing analytical procedures to determining if "transaction splitting" occurred

The scope of the audit did not include the following:

- Goods/services purchased through a P-Card were excluded from the scope as they were reviewed in a dedicated internal audit.

INTERNAL AUDIT FINDINGS

Overall, the City has an effective management control system for procuring goods and services below the threshold of \$50,000. No high-risk issues were identified during the audit. The following areas were deemed to be operating effectively:

1. Competitive procurements were conducted (where appropriate; within sample tested).
2. Record-keeping to demonstrate evidence of compliance to the Bylaw was mostly effective.
3. The Procurement Fundamentals training module on the City's Learning Management System is well designed and easy to understand/complete (from a trainees' perspective).
4. City staff from Procurement Services demonstrated a strong knowledge of the Procurement Bylaw and best practices. Other front-line staff demonstrated competent knowledge of the bylaw and its associated controls during interviews.

The following is a summary of findings for areas of improvement:

1. Procurement Bylaw & Policy Framework: **Low Risk**
2. Procurement Training: **Low Risk**
3. Procurement Data Analytics: **Low Risk**

The City Auditor appreciates the assistance and co-operation from the Manager of Procurement Services as well as front-line staff and supervisors teams from various City services during the course of this audit.

DETAILED OBSERVATIONS AND RECOMMENDATIONS

The Procurement Bylaw is the primary policy document that governs the procurement of goods and services by City staff for the delivery of City services. The [Procurement Bylaw](#) was most recently updated and approved by City Council in January 2022.

The Bylaw permits low dollar purchases (defined as \$10,000 or less) to be purchased directly from a vendor with appropriate approval by the departmental Director (and within their Council approved capital or operating budget) in order to expedite corporate decision making. This is consistent with most procurement bylaws including ten comparable municipalities that were benchmarked as a part of this audit. Between \$10,000-50,000 City staff are required to competitively procure goods or services by attempting to solicit three (or more) quotations from suppliers. This process requires staff to conduct a “Request for Quotation” and select the vendor with the lowest compliant bid. This ensures that the City is obtaining value for money without an onerous or administratively burdensome process. Procurements above \$50,000 require more formality, additional controls/approvals and are typically supervised/coordinated by the Procurement Services team in Finance.

Whereas procurements of goods/services below \$50,000 are executed directly from front-line staff across all departments/divisions. Procurements above \$50,000 are typically supervised/coordinated by the Procurement Services team in Finance. This team administered \$16.2M of competitive procurements in 2023, maintained 189 supplier contracts and coordinated the City’s participation within the ‘*Halton Co-Operative Purchasing Group (HCPG)*’. The team consists of three certified procurement specialists and one administrative assistant, responsible for:

- Coordinating Requests for Proposal (RFPs) and quotes and tenders over \$50,000.
- Developing & managing contracts with suppliers.
- Maintaining procurement related policies, guidelines and training.
- Identifying strategic procurement opportunities to maximize value for the City.

The principal risk associated with this internal audit is City staff’s non-compliance with Procurement bylaw which may result in lack of financial value to the City as well as reputational impairment with City stakeholders including elected officials, tax-payers, and the supplier community. This was rated a ‘high’ risk from an inherent perspective at the beginning of the audit. Through the completion of audit fieldwork and having evaluated the control framework associated with procurement; the residual risk rating is ‘medium’. Given that the procurement processes operate continuously and are highly dependent upon City staff and management working diligently to comply with the Procurement Bylaw, the residual risk rating may change at any time particularly if there is a higher rate of employee turnover or if the procurement policy framework transforms over time.

The following are the observations from the audit along with recommendations and Management’s Action Plans to address these issues. See Appendix I for further information regarding Internal Audit Standards and Audit Severity Scale.

Observation #1 – Procurement Bylaw & Policy Framework

Risk Ranking

LOW

The procurement policy framework is based around the Council approved Procurement Bylaw (#04-2022). The Procurement Bylaw is well written and comparable to other municipalities. Beyond this there are several related procurement policies and procedures including: 'Green Procurement Policy', 'Commodity-Price-Hedging Policy', 'Payment Card Policy & Procedure', 'Fire Department Purchasing Policy', 'Fire Dept Purchase Card Usage Policy', 'RCC SOP Administration Purchasing', 'Records Retention Schedule', and 'Strategic Real Estate Acquisition Policy'. A review of these policies found multiple administrative issues including:

- Periodic policy reviews have not occurred (or were not documented)
- Policies in the Fire and Recreation/Community/Culture departments are duplicative with the Procurement Bylaw, providing limited value for being stand-alone local policies
- Definitions between the Procurement Bylaw and supporting policies are inconsistent in some places
- Multiple instances of outdated references to job titles, departments/division and/or referrals to the former Procurement bylaw.
- One policy lacked basic elements including: policy objective, references, review date, policy owner or approval date
- One standard operating procedure had multiple sections that were not aligned with (contradicted) the Procurement bylaw. Note: through discussion with Management in this department, this SOP has already been rescinded based on the recommendation of the City Auditor.

Implication

Although the Procurement Bylaw is well written, opportunities exist to improve the supporting policies and procedures. Incomplete or inconsistent policies may increase the risk of staff making purchasing decisions outside of the direction of Council or Management.

Recommendation

Procurement Services should undertake a review of all procurement-related policies and standard operating procedures. The review should focus on corporate strategic alignment with the Procurement Bylaw and incorporate leading practices related to policy writing.

Management Action Plan

Person Responsible	Completion Date
Melissa Mordue, Manager of Procurement Services	Dec 31, 2024

Procurement Services will ensure policies owned by the Manager, Procurement Services are reviewed as scheduled in each individual policy. Although this has taken place for some, they were not accurately documented. Manager, Procurement Services will work with the Clerk to ensure the documentation is up to date. Additionally, the Manager of Procurement services will contact policy owners, as mentioned, to ensure consistency and relevancy in documentation.

Observation #2 – Procurement Training

Risk Ranking

LOW

Per the Procurement Bylaw: “*Any City employee who procures Goods and/or Services or assists with the Procurement of Goods and/or Services, on behalf of the City shall complete Procurement training*”. The current version of the training was launched in July 2023 on the City’s Learning Management System (Workday). The training program is well designed, user-friendly and focusses on practical knowledge for how to procure goods and services in a manner compliant with the Bylaw. However, the following issues were noted:

1. Due to the City transitioning to Workday, while simultaneously completing a Job Evaluation process which led to new titles, it was decided that only ‘people leaders’ would be immediately assigned the training, whereas the Bylaw requires “any staff who procures goods/services” to complete the training.
2. The completion rate for the Procurement Fundamentals training amongst people leaders was 64% (as of July 2024). Only 68 non-people leaders had completed the training.

Implication

Incomplete training by City staff is a contravention of the Procurement Bylaw which requires “any staff who procures goods and/or services” to take the training. In particular, new hires who may be unfamiliar with established practices at the City may be at a higher risk of making errors or misjudgments while executing procurements on behalf of the City.

Recommendation

1. Human Resources (HR) in conjunction with the Manager, Procurement Services should undertake a review of all City jobs/positions and develop a customized training campaign that captures any staff positions that may conceivably procure goods and/or services on behalf of the City (as a part of their job duties). Once this training campaign is designed, all staff in those positions should be automatically enrolled in the Procurement Fundamentals training.
2. Procurement Services should develop and execute corporate-wide communications to reinforce the requirement to take the Procurement Fundamentals course by a deadline (i.e. end of 2024) and seek support from members of the Executive Leadership Team (XLT) to further drive performance.

Management Action Plan

Person(s) Responsible	1. Andrea Naismith, Consultant, Organizational Development 2. Melissa Mordue, Manager of Procurement Services	Completion Date(s)	1. Dec 31, 2024 2. March 31, 2025 & on-going
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1. HR and Procurement Services will utilize the prebuilt Workday roles that allow procurement activities to occur as the definition of which employees require Procurement Fundamentals training. We will further gain support from Commissioners by ensuring they are aware and agreeable to the positions that have been assigned these Workday roles. The Procurement Services team will continue to receive completion reports from the system to monitor for compliance.
2. Procurement Services actively meets with departments both annually and on demand. The team will ensure active and ongoing messaging around training requirements, with a holistic approach to communication, including both verbal and written reminders. Procurement Services will provide the following guidelines to complete Procurement Fundamentals training to front-line staff and XLT members: within three months for new hires and by March 31, 2025 for existing staff who haven't yet completed the training.

Observation #3 – Procurement Data Analytics

Risk Ranking

LOW

The City's former Enterprise Resource Planning tool (SAP) lacked the functionality to capture rich procurement data (i.e. requisitions, categorization such as sole/single source, emergency, 'Schedule C' exempt procurements etc.). In addition, performing data analytics was cumbersome in SAP given the lack of procurement data (only analysis on payment data was available for transactions under \$50,000). As a result, there was limited data analytics that was performed by the Procurement Services team, with the exception of an annual analysis of all corporate expenditures by supplier in order to identify procurement trends and opportunities to negotiate contract agreements with frequently utilized suppliers.

Since the adoption of a new Enterprise Resource Planning tool (Workday) in February 2024, the Procurement Services team now has the opportunity to increase the maturity of its data analytics capability.

Implication

As the City's overall technological capability has matured with the implementation of Workday and with the general growth in the City's operating and capital budgets over time (thus resulting in a growth of procurement transactions), data analytics over procurement transactions should continue to mature concurrently. Not utilizing data analytics within Workday may result in a lack of strategic intelligence over procurement opportunities or exceptions.

Recommendation

Procurement Services should develop new and enhanced reports in Workday to identify procurement trends, strategic opportunities and/or exceptions. Once those reports are designed, all members of the Procurement Services team should receive training on how to execute those reports. Procurement Services should utilize new and enhanced Workday reports to share strategic analysis and opportunities with the Executive Leadership Team (XLT) and their departments/divisions on an annual basis and to complement its annual reporting to Council.

Management Action Plan

Person Responsible	Completion Date
Melissa Mordue, Manager of Procurement Services	March 31, 2025

Through Workday standard and customized reporting Procurement Services is now able to accurately track various purchase types, including Single Source, Non-compliant, Contracted and non-contracted spends. While the default reporting functionality in Workday meets some needs, Finance will be on-boarding a contract position who will be responsible for the design of custom reports with more robust analytical capability. Procurement Services will work to communicate annually to XLT leaders and their departments on departmental spending trends, and opportunities. The first communication will occur after one year of data collection in Workday.

APPENDIX I – INTERNAL AUDIT STANDARDS & FINDING SEVERITY SCALE

Rating	Definition
HIGH	<ul style="list-style-type: none"> Residual risk is very high or high Key control does not exist, is poorly designed or is not operating as intended Serious non-compliance to policy or regulation May result in immediate or material loss/misuse of assets, legal/regulatory action, material financial statement misstatements, etc. Indicates a serious control weakness/deficiency requiring immediate action by Senior Management
MEDIUM	<ul style="list-style-type: none"> Residual risk is medium Key controls are partially in place and/or are operating only somewhat effectively Some non-compliance to policy or regulation May negatively affect the efficiency and effectiveness of operations and/or financial reporting accuracy Indicates a control concern requiring near-term action be taken by Management
LOW	<ul style="list-style-type: none"> Residual risk is low to very low Key controls are in place, but procedures / operations could be enhanced Minor non-compliance to policy or procedures May result in minor impact to operations or operational inconvenience to staff and management Indicates a control improvement opportunity for which longer-term action may be acceptable

AUDIT METHODOLOGY

The City Auditor relied upon interviews with the Manager of Procurement Services to develop a detailed understanding of the procurement process, examination of audit evidence from a sample of 120 procurement transactions from across the corporation, testing to validate the completion rate of procurement testing, reviewing the entirety of all procurement related policies/procedures and benchmarking the City's Procurement bylaw against 10 other comparable municipalities including: Milton, Kitchener, Brantford, Markham, St. Catharines, Richmond Hill, Niagara Falls, Mississauga, Oshawa and Halton Region. A strategic and stratified sample of procurement transactions was selected for compliance testing from across the corporation (weighted against those departments with greater operating/capital expenditures).

AUDIT CONCLUSIONS

The conclusions reached in this report are based upon information available at the time. The overall audit conclusion is only applicable to the function/scope within this audit. It reflects the professional judgment of the Office of the City Auditor based upon the examination of documents against audit criteria as identified in the scope of the audit.

REASONABLE ASSURANCE

This conclusion is intended to provide reasonable assurance regarding internal controls. There are inherent limitations in any controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective controls may provide only reasonable assurance with respect to City operations.