Update to Finance – Procurement & Accounts Payable Audit Report

March 2007

TABLE OF CONTENTS

Section **Page No.**

1.0 Management Summary

We have completed an audit of the Regional Municipality of York's (the Region's) compliance with the requirements as contained in the Purchasing By-law A-0353-2004-089. The focus of our review was to determine if processed disbursements and supporting documentation were accurate and appropriately authorized.

The scope of the audit included detailed testing of a selected sample of Accounts Payable disbursements issued for the fiscal period January to September 2005, and a review of related supporting documentation kept in Supplies & Services. Interviews were also performed with appropriate personnel as necessary. Testing was conducted at a sufficient level of detail to allow us to evaluate the Region's compliance with the current by-law.

Based on the work we performed, we conclude that the Region is generally in compliance with the Purchasing By-law. Opportunities for internal control improvements were noted and discussed with appropriate management. These improvements relate to automation and periodic reiteration of individual responsibilities to those who are active within both the purchasing and payment cycles. We have provided our recommendations in the body of the report.

A draft copy of this report has been discussed with Accounts Payable and Supplies & Services management, who have provided us with their comments and who have agreed to take the necessary action to implement the recommendations.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services appreciates the cooperation and assistance provided by Accounts Payable and Supplies & Services management and staff.

2.0 Introduction

As part of our Audit Plan, the Audit Services Branch performed an audit of disbursements processed by the Revenue and Expenditures Department. The Audit Plan, approved by the Audit Committee, is developed annually by the Audit Services Department using a Risk Assessment Methodology that helps to define the different risks associated with the various processes here at the Region. It is one tool used by Audit Services to assess where best to locate audit resources.

Audit Services randomly selected 202 disbursement transactions from a population of approximately 55,000 transactions between January 1, 2005 and September 30, 2005. The selection was performed using audit industry recognized sampling software (*ACL – Audit Command Language*). From the sample of 202 invoices, 25 purchase orders were identified for further detailed testing through Supplies & Services.

Both Accounts Payable and Supplies & Services have experienced continuing growth in activity levels. For example, there were 65,683 payment vouchers processed in 2000. For 2005, the number processed increased over 60% to 107,247. For 2006, 123,000 processed transactions are expected; a further increase of 15% over 2005. An increase in Accounts Payable volume also points to a related increase in activity within the Supplies & Services procurement function. Constantly increasing transactional volumes could result in the possibility of relaxing or even breakdown of process controls, requiring management to maintain constant vigilance over this risk.

There is an opportunity to enhance controls over the distribution and use of Field Purchase Orders (FPOs) through limiting access to them, and reiterating the process for proper use.

The procurement and the payment processes are two separate and distinct activities. Each has its own prescribed management controls to address issues relating to segregation of duties. Invoice testing revealed that this distinction has become somewhat blurred, and procurement documents (the FPO), are being treated as approval to pay authorization. The Purchasing By-law identifies the activity of payment of accounts as separate from the sourcing of goods and services:

> ***21. PAYMENT OF ACCOUNTS***
>
> *21.1 Except as otherwise provided, the Treasurer shall be authorized to pay:*
> *a) all accounts for the purchase of goods, services or construction, where the purchase of such goods, services or construction has been made in accordance with this by-law, or otherwise approved by Council;*

A recommendation from a previous audit to move away from the assignment of approval limits to individuals, and assign approval limits based on job function, has not been adopted. The administration of the Notification of Signing Authority Form (NofSA) continues. Management had agreed to the recommendation. The recommendation simplified the administration of approval limits, and highlighted only the exceptions of approval limits normally granted.

Other opportunities include:

- examining the feasibility to implement electronic requisitioning, to help ensure all applicable purchases are reported to Regional Council, and;
- mandatory training for employees involved in the procurement and payment processes, to reduce the occurrence of some of the issues found during detailed testing.

3.0 Objectives and Scope

The objectives of this engagement included:

- ensuring that supporting documentation is in compliance with the Purchasing Policy.
- ensuring processed disbursements are accurate and appropriately authorized.

The audit objectives were accomplished through:

- detailed testing of a sample of processed disbursements to-date for the 2005 fiscal year.
- interviews with appropriate personnel.
- review of disbursement files and other related documents.

4.0 Detailed Observations and Recommendations

4.1 Results of Detailed Invoice Testing

Observation

Detailed testing of 202 invoices highlighted the following opportunities to strengthen internal controls over the procurement and payments processes:

Condition	# of invoices	% of total reviewed
1. Supporting documentation, i.e. a receiving document was not submitted with the invoice, or was not signed as received by the receiver (when receiving documents were submitted with the invoice).	26	19.1%
2. Administration issues relating to NofSA forms – no NofSA form was on file, the NofSA form indicated the dollar amount for approval was N/A, the NofSA form was not completed properly.	20	14.7%
3. The purchase was a split purchase order – the purchases represented a good opportunity to issue a purchase order to the vendor.	17	12.5%
4. Missing invoices.	8	5.9%
5. FPO and invoice were signed by the same individual.	5	3.7%

1. Receiving documents support the management control of helping to ensure that the correct quantities and the correct item(s) were received. By omitting receiving documents as part of the procurement and payment documentation, the Region will not be able to rely on this control should problems with quantities or identity of product become an issue with the vendor.
2. There are at least four versions of the NofSA form in existence. Each form requests varying degrees of information. Not obtaining the correct information, or out of date information, decreases the strength of the internal controls put in place to help ensure compliance with authorization limits.
3. Annual purchases for these vendors were noted to amount to over $10,000. Purchases were ongoing in nature. As per the Purchasing By-law Section 5.2, no procurement of goods, services, or construction shall be divided into two or more parts to avoid the application of the by-law. There is a defined purchase process to obtain adequate level of management approval. Purchases purposely construed to fall under the $10,000 limit are in non-compliance with the by-law.

4. Paid invoices are supporting documentation for PeopleSoft payment transactions. This documentation is one way management helps to ensure all transactions contain assertions made in the Region's financial statements. These assertions are weakened if supporting documentation becomes misfiled.
5. A lack of proper segregation of duties exists when the same individual authorizes the purchase and subsequent payment. This significantly weakens preventative controls aimed at ensuring all transactions are valid and in the organization's best interest.

Recommendation

1. Supplies & Services and Accounts Payable management reiterate to purchasers the importance of ensuring that all necessary documentation is included to substantiate a payment requests.
2. Accounts Payable management adopt one NofSA form to help ensure that authorization granting individuals have a current NofSA on file.
3. Supplies & Services management schedule periodic reminders for all staff involved in the procurement process on the acceptable methods to purchase goods and services.
4. Accounts Payable attempt to locate the invoices highlighted as missing. An invoice copy should be requested from the vendor if it cannot be found.
5. Accounts Payable management ensure that invoices approved for payment by the same individual that authorized the purchase be sent back to the individual to obtain approval from their superior.

Management Response

Finance - Financial Services

1. Agreed – A communication is to be created by November 30, 2006 to reiterate the fact that receiving documents and other back-up must be included with invoices submitted for payment. Also, management will review payment criteria with accounts payable staff to ensure a consistent uniform methodology is used in accordance with this recommendation.

   Update: A communication has been sent to individuals that are paying invoices advising them that they should include all receiving documents with their invoices when submitting them for payment, or if that is not possible, they should sign the invoice indicating that all products have been received. Accounts Payable staff will perform reviews to ensure compliance.
2. Financial Services currently has one NofSA form which resides on the employee intranet site and is distributed through accounts payable. However, certain operating areas have altered the form over time in order to suit their business processes.

   Update: A full review of the signing authorities form is underway and departments with special needs are being involved in order to ensure the form encompasses their requirements with the goal of keeping a standard format in place wherever possible. Estimated completion date is May 31, 2007.
4. Agreed - Accounts payable will act on the noted recommendation by Q4 2006 by locating the missing invoices or by contacting vendors to get copies.

Update: Complete. Files have been updated with 100% of the documents that were missing and forwarded to internal audit.

5. Agreed - Accounts Payable management will ensure that invoices approved for payment by the same individual that authorized the field purchase order will be sent back to the individual to obtain approval from their superior

Update: This process has been re-evaluated and it was found that returning invoicing to those requesting payment would cause the accounts payable process to slow down significantly resulting in vendor dissatisfaction. The issue will be further investigated by Q4 2007 with a solution presented that will ensure compliance to the receipt and payment internal control issue. One alternative being explored is to utilize the Procurement Card system, already used in the region, which segregates receipt, payment review and the approval process, in order to phase out the use of field purchase orders. This process would integrate the internal control mechanisms required into one uniform approval system

Finance – Supplies & Services

1. Agreed. This information will be included in the updated 'Guide'A and 'Pilot' in-house Purchasing course.

Update: The Supplies & Services Branch speaks to this issue in the Employee's Guide, "How to Obtain and Pay for Goods, Services and Consultants" available from the Supplies & Services Branch and is distributed as well as the Regional Purchasing By-law and Purchasing Procedures to all new employees at the New Employee Orientation sessions.

In addition, the Supplies & Services Branch has presented a one (1) day Pilot In-House Purchasing Course through the Corporate Learning Curriculum.

3. Agreed. See response to 1.

Update: See response to Item 1.

4.2 Results of Procurement Documents Testing

Observation

1. Supplies & Services does not use an automated system to help ensure that all purchases requiring reporting to Regional Council are captured. The manual tracking process currently used can take the form of a note as a reminder to include the purchase on the next report to Regional Council, a post-it note on the purchase order as instruction to administration to photocopy the purchase order, or verbal instructions.

2. Detailed testing of 25 purchase orders, having a value of $22.8 million, highlighted opportunities to strengthen internal controls over the procurement process, specifically the control relating to the reporting of applicable purchases to Regional Council. Other more minor enhancements were also identified and discussed with Supplies & Services management, and have not been reiterated here.

Purchase order number & observation	**Possible effect**
Q-04-15 - Option to renew contract was not formally exercised; however the Region is still using vendor services.	• Contract conditions (i.e. pricing) in effect in previous years may or may not be enforceable.
Q-04-18 - Contract value to date is $170,000 and has not been submitted to the CAO for approval or reported to Regional Council.	• Non compliance with Purchasing By-law re: obtaining approvals at an appropriate level of management and required reporting of purchase to Regional Council.
B7539 - Contract has gone through a series of ten increases from the initial $37,383 to the final $335,935 value. There was no approval on initial purchase request. Nor were some of the subsequent approvals obtained at an adequate management level. Contract value has not been reported to Regional Council.	• Non conformity to Purchasing By-law re: obtaining approvals at an appropriate level of management and required reporting of purchase to Regional Council.
B8176 - Original contract award was in May 1999 for two years with an option of annual renewals. The option has been interpreted as 'evergreen', and contract has been renewed every year.	• Non compliance with Purchasing By-law re: limitation of the life of a contract and periodic renewal to help ensure pricing remains competitive.
B7037 - Contract expired December 2003. Region spends on average $20,000 per year.	• Non compliance with Purchasing By-law requirement to use a purchase order for purchases over $10,000.
47205 - One time purchase for $517,400 was not reported to Regional Council.	• Non conformity to Purchasing By-law re required reporting to Regional Council.
CT-03-02 - Contract has experienced a number of increases from its original $299,600 value. Subsequent increases in value to $731,220 have not been reported to Regional Council.	• Non fulfilment of Purchasing By-law re required reporting to Regional Council.

Recommendation

1. Supplies and Services management should explore the feasibility of electronic requisitioning through PeopleSoft to help ensure the capture and completeness of reporting applicable purchases to Regional Council is complete. This would help in achieving and maintaining compliance with the Purchasing By-law.

2. For the identified specific observations, the following courses of action should be pursued:

   a.) Q-04-15 – Formally renew the contract. The Region will be under no obligation to spend the allocated dollars.

b.) Q-04-18 – Submit the purchase for CAO approval and report purchase to Regional Council.

c.) B7539 – Supplies & Services management should assist line management in understanding the Purchasing By-law requirements to obtain an appropriate level of approval before the purchase proceeds. This purchase should also be reported to Regional Council.

d.) B8176 – Supplies & Services management should assist line management in understanding the Purchasing By-law requirements to obtain an appropriate level of approval before the purchase proceeds.

e.) B7037 - Supplies & Services management should assist line management in understanding the Purchasing By-law requirements to obtain an appropriate level of approval before the purchase proceeds.

f.) 47205 - The purchase should be reported to Regional Council.

g.) CT-03-02 - The purchase should be reported to Regional Council.

Management Response

Finance - Supplies & Services

Finance - Supplies & Services

1. Electronic requisitioning and document control is high priority in the Strategic Plan for PeopleSoft and eDOCs systems functionality. Pilot project – Phase 1 to be implemented for electronic requisitioning in IT Q4 2006.

   Update: Electronic requisitioning Pilot Project – Phase 1, with the IT Branch has been completed and the current results are being assessed to expand the program to other client groups. Electronic requisitioning will enhance the control and flow of purchasing documents between the client group, purchasing and accounts payables. The Strategic Plan for PeopleSoft and eDOCs in this area is a very high priority and with the success of the Pilot, will enhance the capture of data for reporting purposes. The roll out of the on-line requisitioning module is planned for Q3 2007.

2. The following steps have been, or will be taken:

   a.) Q-04-15 – Contract renewed for a one year option.

   Update: No further action.

   b.) Q-04-18 – Original value was $93,000 plus GST. Final value was $193,000 plus GST. Will seek CAO approval and report to Regional Council.

   Update: CAO approval has been received and the contract will be included in the January to March quarterly report to Council.

c.) B7539 – Will seek CAO approval and report to Regional Council.

Update: This was a personal services contract for Information Technology Services which covered several years. This contract position was converted to a staff position in 2005. In order to allow for the recruitment process, a Fast Track Approval Form was completed and authorized by the CAO and Chair in May of 2005.

The contract will be included in the January to March 2007 quarterly report to Council.

d.) B8176 – Documents are being prepared for Tender call by end of 2006.

Update: The bid call for new contract has been conducted, evaluated and a staff recommendation for award by Council was reviewed by Senior Management in February 2007. It is anticipated that Council will be considering this contract for award at the March 2007 meeting.

e.) B7037 – Will discuss with client to re-tender in 2007.

Update: Contract has been extended by authority of the Director, Financial Services, till July 1, 2008. As per the Purchasing By-law for contracts under $50,000, the Commissioner or designate may authorize the purchase. However, the Purchasing By-law also requires a report to Council for authorization for contracts where the renewal of a contract would result in an aggregate term of greater than three years. This item will be included in the January to March 2007 quarterly report to Council.

Not withstanding, Audit Services also highlighted additional payments being made to this vendor by other areas within the Region. Supplies & Services will work with Financial Services to identify the sources of these additional payments with the objective of amalgamating corporate needs into one contract by Q2 2007.

f.) 47205 – Agree. Will report at next quarterly report.

Update: This item will be included in the January to March quarterly report to Council.

g.) CT-03-02 - Agree. Will report at next quarterly report.

Update: This item will be included in the January to March quarterly report to Council.

4.3 Re Evaluating Field Purchase Order Usage

Observation

FPOs are not being properly used. A review of the FPOs, used for purchases less than $10,000, highlighted the following practises:

1. In the majority of payments accompanied by an FPO, the FPO was not being used as a means to procure goods and services, but rather as a means to ‘approve’ payment of the invoice.

   The issuer of the FPO has authority to commit the Region to a purchase; however, authorization for the payment of the related invoice should require appropriate management approval to help ensure that the expenditure was a valid and prudent business expense.

2. The majority of FPOs submitted were written after the invoice was received. FPOs serve the purpose of supplying a vendor with a valid Region purchase order number from which purchases can be secured. By its nature, an FPO should be completed and issued prior to the receipt of an invoice, and before any work is performed by the vendor. Issuing an FPO after the invoice has been received defeats the management control it is intended to support and increases the number of documents needing storage and retention.

3. FPOs are being used in situations which would have been better served by Blanket Purchase Orders. Using FPOs for ongoing purchases from one vendor results in thousands of dollars being spent without the appropriate level of management review.

   Conversely, we noted invoices submitted using FPOs that had valid purchase orders issued for the good or services procured. Using an FPO when a purchase order is already in effect with a vendor allows payment to be processed, however the dollar amount associated with the Purchase Order is not depleted. To deplete the committed dollars requires the use of a *Blanket Purchase Order Release Form*. Without the use of this form management reports on the status of open purchase orders and commitments are incomplete and inaccurate.

4. In a number of instances, FPOs were being issued by individuals whose NofSA for FPOs was 'n/a'. Risk concerns for out of date FPOs have been addressed within this report under another Observation.

Recommendation

1. Supplies & Services management consider restricting the use of FPOs to field personnel that truly require the need to issue a purchase order to vendors. For all other purchases under $10,000, the information requested on the FPO can be easily written on the invoice. This would help in reducing or eliminating unnecessary paperwork processing and can help save on records retention.

   Supplies & Services work with individual Branches to identify those who require the ability to authenticate to vendors that they are Regional employees. Once those individuals are identified, ownership of FPO booklets should be assigned to them.

2. Supplies & Services management should reiterate to purchase order requestors the importance of ensuring that payment requests are made through Blanket Purchase Order Release Forms to help keep management reports useful.

3. Supplies & Services and Accounts Payable management consider replacing the Release Form with a pre-printed stamp that can be applied to the invoice. The stamp should contain fields for the user to enter pertinent information such as a purchase order number and an approval to pay signature. When stamped, the approved invoice can be processed by Accounts Payable, and the purchase order could be accessed by Accounts Payable and depleted accordingly. There would be no need to send a copy of the Release Form back to Supplies & Services for purchase order depletion.

4. FPOs not signed by the issuer be returned to the department to obtain the necessary authorizations. The approval to purchase and approval to pay processes are two separate and equally important steps in the procurement and payment cycle.
5. Vendors with whom the Region has ongoing business be issued a Blanket Purchase Order to ensure that an appropriate level of management approval is obtained, and to help ensure price stability for at least a budgetary period.
6. All invoices relating to FPOs be approved by management before being submitted for payment.

Management Response

Finance – Supplies & Services

1. Accountability and control of FPO's are in the authority of the client department. Supplies & Services will provide training for client in the understanding of the process and virtue of delegated responsibility.

Update: The use of FPO's has been included in In-House Purchasing Course.

2. Agreed. See #1 above.

Update: This has also been included in In-House Purchasing Course. .

3. Agreed. See #1 above.

Update: The training on this issue is incorporated in the training program

4. Agreed. Supplies & Services will provide this state in the updated 'Guide' and the 'Pilot' in-house Purchasing course.

Update: The ultimate solution implemented by Financial Services will be incorporated in the training process.

5. Agreed. The implementation of electronic requisitioning requires a commodity code for products and services required. The commodity code provides Supplies & Services with the tool to monitor expenditures and vendors, therefore ensuring that expenditures are monitored.

Update: Electronic requisitioning Pilot Project – Phase 1, with the IT Branch has been completed and the current results are being assessed to expand the program to other client groups. Electronic requisitioning will enhance the control and flow of purchasing documents between the client group, purchasing and accounts payables.

Finance - Financial Services

Agreed – Invoice approvals should be made directly on invoices. Also, stamps being used on invoices to indicate that a release has been made (a purchase order number has been created) would be the preferred method of communication that a purchase order is now to be depleted. This functionality could be incorporated into current accounts payable functionality in

PeopleSoft. An action plan to review this change will be put together in the next month with implementation in the next quarter.

Update: The process of stamping and signing invoices is currently implemented in most parts of the Transportation and Works department and will be rolled out to other departments in 2007. In the mean time, a communication has been sent to notify departments that they should be including the information included in the stamping process (PO number, authorized signature, general ledger account) on all invoicing submitted for payment.

As for the depletion of purchase orders, a process is now in place in Accounts Payable that ensures that purchasing is notified of fully depleted purchase orders and the fact that they need to be closed. The contract status report will be reviewed by the purchasing staff so that they can audit fully expended contracts and ensure that they are closed.

The process of implementing Workflow in PeopleSoft to maintain internal control with regard to the depletion and closing of purchase orders is to be started in 2007. The rollout of workflow is estimated to be completed in Q4 2008.

4.4 Signing Authority Policy

Observation

The Region has not adopted a new signing authority policy.

An audit of procurement and accounts payable, performed in 2002 / 03, resulted in the following recommendation relating to the notification of signing authority form:

> To reduce the administrative efforts required to keep delegated spending limits in compliance with the spirit of the Purchasing Policy, we recommend eliminating the necessity of tracking approval limits. Management should consider the feasibility of assigning approval limits to positions rather than specifically to the person. For example, a blanket limit could be applied to all managers. Any exceptions to the blanket limit can be highlighted separately. Any changes to dollar limits brought about by a change to the Purchasing Policy could be quickly reflected through the update of the dollar limit to the position, rather than all individuals residing in a manager's position. The notification of signing authority would then be kept as a signature specimen source only.

Management's response at that time is provided below:

> A new signing authority policy will be developed in 2003 relating approval limits to individuals based on management position. Financial Services will set up a database to maintain the information on signing authorities. This will allow periodic reporting to departmental senior management to facilitate updating pursuant to the Purchasing By-law. Anticipated completion date is end of Q3 2003.

Recommendation

Management refresh attempts to introduce a more effective and efficient method of tracking signing authority limits.

Management Response

Finance – Financial Services

Agreed – Management has completed a new signing authority policy that designates levels by position and not individual. The signing authority policy and the procedures surrounding it are currently under review. The adoption of the policy is anticipated by June 30, 2007.

4.5 Testing of Notification of Signing Authority Forms

Observation

Audit Services selected and examined 46 of the 451 Notification of Signing Authority Forms (NofSA) used by Accounts Payable as reference to verify approver signature and delegated dollar limit. The following opportunities to strengthen internal controls were noted as a result:

Opportunity	Quantities	Result
NofSA forms not properly authorized by Department Head	5 forms, or 11%	Department Heads cannot control the delegation of dollar limit authorizations
NofSA forms older than 3 years	13 forms, or 28%	Outdated forms lacking pertinent approval limit information could result in unauthorized payments
NofSA forms for individuals no longer at the Region	5 forms, or 11%	Expenditures being approved by individuals who no longer have authorization
Individuals with more than one NofSA form, each form with different dollar limits in different Departments	1 employee in the original testing, a further 3 employees after detailed review all NofSA forms	Multiple forms could result in payments being made or not being made based on incorrect information
NofSA forms with no dollar limits	1 form, or 2%	Without dollars limits, approvals could be given to a payment that might otherwise be outside the approver's limit
There are four different NofSA forms, each requiring slightly	-	Outdated forms lacking pertinent approval limit information could result in

Opportunity	Quantities	Result
different information		unauthorized payments

Discussion with Financial Services management also revealed that the Region does not have a formal process in place to help ensure NofSA forms are:

1. completed for applicable employees
2. periodically renewed to help ensure the most up-to-date NofSA form is available; or
3. periodically updated to remove employees who no longer have Region signing authority.

Recommendation

1. All NofSA forms be renewed to help ensure information is complete and accurate. The form be updated as information requirements change to help ensure expenditure approval controls are not compromised.
2. All NofSA forms be approved by Department Heads. Any changes to Department Heads should result in a requirement to update all NofSA form for that Department.
3. NofSA forms should be periodically updated at least every two years.
4. NofSA forms be reviewed on a periodic basis to help ensure only active employees have active approval limits.
5. As a matter of general housekeeping practises, and helping to ensure that only relevant information is available to determine the adequacy of the authorization given to a requested payment, only one active form per employee should be kept for reference.
6. All NofSA forms be properly completed.
7. Financial Services management ensure that a formal process be created and updated as required that governs the control procedures surrounding the NofSA form.
8. Financial Services consider approaching Departments to create a secure, centralized MS Access database to help monitor, control, and administrate signing authority approvals and changes. Departments be responsible for keeping their section of the database current. Financial Services use the information on the database as reference.

Management Response

Finance - Financial Services

Agreed. The following actions have already been taken by Financial Services to ensure compliance to the above recommendations:

- All departments have been asked in a formal written fashion to update their current signing authorities for employees that have not had updates within the last two years. In addition, all signing authority documents require department head (Commissioner or above) sign-off.

Update: Complete. An ongoing review of signing authorities and their ageing is underway with updates from departments being requested on an ongoing cyclical basis.

- A system will be put in place to ensure that employees that have left the region are pulled from the signing authority files. Payroll Services provides a list of terminated employees on a weekly basis which will be compared to signing authority records. Signing authorities will then be removed for these employees. This will be implemented by the end of October 2006.

Update: Complete. A report is being generated to communicate terminated employees and to update signing authority documents on an ongoing basis.

- In addition, only one active form will be kept on file per employee. E-Docs is currently being used to control document versions for signing authorities and will continue to be leveraged to do so.

Update: Complete. E-Docs is being used on an ongoing basis.

- A formal written process for the control of NofSA forms will be produced and distributed by the end of 2006.

Update: The document has been completed and is under review and the anticipated completion date is June 30, 2007.

- Financial Services will be addressing the administrative facets of the signing authority process through the implementation of Workflow in PeopleSoft within the next 6 months. This will not only ensure that signing authorities are adhered to, but will also ensure that signing authority limits are integrated into the entire ERP process (Accounts Payable, Purchasing, and Asset management).

Update: The signing authority process is to be integrated into the implementation of workflow in PeopleSoft ensuring that the internal controls involved are integrated into the purchasing and payment system. The rollout of workflow is estimated to be completed in Q4, 2008.

4.6 Updating of Department Guide for Obtaining Goods, Services and Consultants

Observation

The *Department Guide for Obtaining Goods, Services and Consultants* handbook, published by Supplies & Services, has not been updated to reflect any changes in the Region’s procurement process brought about by the adoption of the 2005 Procurement By-law.

The handbook is a very good source to guide procurement, and could also include the payment process.

Recommendation

Supplies & Services update the handbook and distribute it accordingly.

To increase its value as a guide further, Supplies & Services should consider teaming with Financial Services Accounts Payable and include a section on the payment process.

Management Response

Finance – Supplies & Services

Agreed.

1. The ‘Guide’ will be updated in the next quarter and included within will be a section for Financial Services.

   Update: The Guide has been updated and is available to all employees on-line and through hard copy. The Supplies & Services Branch speaks to this issue in the Employee’s Guide, “How to Obtain and Pay for Goods, Services and Consultants” available from the Supplies & Services Branch. It and the Regional Purchasing By-law and Purchasing Procedures are distributed to all new employees at the New Employee Orientation sessions.

2. The Supplies & Services Branch is piloting an in-house purchasing course through Corporate Learning. The first course (one day duration) is scheduled for October 2006 and is fully booked. The second session is scheduled for November 2006.

   Update: The Supplies & Services Branch has presented a one (1) day Pilot In-House Purchasing Course through the Corporate Learning Curriculum. To date, this course has been presented on three (3) separate sessions and attended by approximately sixty (60) Regional staff.

   The feedback from the participants at these training sessions has prompted a review of the workshops and the reworking of the course into a two part series dealing with issues at the Introductory Level to Purchasing and an Advanced Level of Purchasing dealing with competitive bids and bid evaluations recommended for project managers. Supplies & Services staff are developing the 2-part course, and it is anticipated that the new versions will be available on the Corporate Learning Curriculum by the 3rd Quarter of 2007

4.7 Invoice Approval

Observation

The Region does not require management approval of invoices to be shown on the invoice itself. Approval signatures are found on FPOs and Blanket Purchase Order Release Forms. However, if these documents become separated from the invoice through regular handling, there is no way of knowing if approval for payment was granted.

In our detailed testing of 202 invoices, we noted 28 (20%) of invoices that did not have management approval on the invoice.

Recommendation

To further strengthen controls over invoice approvals, management approval of invoices be shown directly on the invoice.

Management Response

Finance – Financial Services

Agreed – In order to increase internal control, signatures will be required on all field purchase orders and/or invoicing being paid through the accounts payable process. A detailed communication will go out to all departments within the next month outlining the new criteria for approval. Approvals will then be monitored and periodically randomly tested to ensure compliance.

Update: As noted in 4.1.5 the use of FPO's is under review. Meanwhile a communication will be issued by April 30, 2007 informing departmental staff that all invoices must bear the signature of an authorized individual.

4.8 Requirement for Mandatory Procurement & Accounts Payable Training

Observation

At the present time the Region does not require employees who will be involved in the procurement and authorization of invoices to have mandatory training in these processes. However, mandatory training would help to reduce some of the issues noted during our review of invoices and procurement documents, i.e. split purchase orders and missing receiving documents.

Recommendation

Supplies and Services management work with Human Resources to implement mandatory training for employees involved in the procurement and authorization of invoices.

Management Response

Finance – Supplies & Services

We agree with the recommendation and will work with Human Resources to develop a mandatory training course for employees. Anticipated due date Q1, 2007.

Update: As noted in the responses to many of the recommendations a Purchasing Course has been developed and is now being provided through the Corporate Learning Curriculum. To date, this course has been presented on three (3) separate sessions and attended by approximately sixty (60) Regional staff. Supplies and Services agree with making this course part of the mandatory curriculum for employees involved in the procurement function. Discussions with Corporate Learning have commenced to start the approval process to show the course as being a mandatory requirement for specified staff. Anticipated due date for approval Q2 2007.

Original Signed	*Original Signed*
Lloyd Russell	**Ken Hill**
Commissioner Finance	**Director Financial Services**
Original Signed	*Original Signed*
Tom Appleby	**Paul Duggan**
Director Supplies & Services	**Director Audit Services**