Finance – Procurement & Accounts Payable Audit Report

October 2007

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1.0 Management Summary

In Report No. 2 of the Audit Committee, Regional Council Meeting of April 19, 2007 the Audit Committee recommended that:

> The Director, Audit Services be requested to undertake an Audit of procurement and accounts payable practices to determine if the findings are improving after Management implements the Recommendations set out in the March 2007 Update to Finance - Procurement & Accounts Payable Audit Report.

We have completed the requested 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 note the progress of improvements made in the procurement of goods and/or services, and processing of disbursements.

The scope of the audit included detailed testing of a selected sample of Accounts Payable disbursements issued for the period March 2007 to June 2007, 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 and is also showing improvements in some of the issues in the processing of disbursements as noted in our November 2006 audit report. Detailed testing results indicated process improvements have occurred, primarily regarding invoice approvals and better use of field purchase orders (FPOs). However, the occurrence of split purchase orders and lack of submission of supporting documentation continues almost unchanged. Opportunities for internal control improvements were noted and discussed with appropriate management. We have provided our recommendations in the body of this report.

It should be noted that the audit was performed for the March to June 2007 period. Some of the recommended internal control measures were not implemented until after the April 2007 Audit Committee meeting. Some of the documents reviewed during the audit period would have been prepared under the procedures previously in place and could skew the audit results.

The Supplies and Services Branch has recognized through routine compliance initiatives and as a result of internal audits that there exists a deficiency in general purchasing knowledge within the Region. Regional policy and procurement legislation is essential for the Region's decentralized purchasing staff and an asset for the Administrative staff who participate in the procurement process. Supplies and Services has responded to this need by developing the "Public Purchasing and York Region" procurement courses, offering both Administrative and Management Level venues. The course was made mandatory for individuals involved in the procurement function. As of October 2007, over 120 Regional staff have taken advantage of this Corporate Learning offer, which represents approximately 22% of the 545 employees (not including Police) currently with a Notification of Signing Authority Form. In addition, both course levels are currently scheduled monthly for the balance of 2007 and commencing February 2008 to December 2008.

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

The Audit Services Branch performed an audit of purchase orders processed by Finance - Supplies & Services and disbursements processed by the Finance - Revenue and Expenditures Branch as requested by the Audit Committee. In total, there were 113 invoices reviewed for the period March to June 2007. The disbursements reviewed did not include expenditures coded PD (return to Police), PE (personal expenses), PO (provincial expenses), PY (payroll expenses), and UT (utility payments). These payments are either specifically excluded from the Purchasing By-law, or relate to York Regional Police. Audit Services Branch does not have a mandate to audit York Regional Police.

Two separate tests were performed on the disbursements selected for this time period:

1. The first test included a manual review of all processed payments (minus those disbursements specifically excluded) to note any patterns indicative of split purchase orders. Invoices from 38 vendors were isolated for follow-up. Each vendor reviewed was counted as one invoice.
2. The second test involved a random selection of 75 invoices from a population of over 25,000 payments. The random selection was performed using audit industry recognized sampling software (ACL – Audit Command Language).

Finally, from the sample of 75 payments, ten purchase orders were identified for further detailed testing through Supplies & Services.

Below is a comparison of the invoice review results from this audit and the results from the previous invoice review performed and reported to Audit Committee in November 2006. There were 113 invoices reviewed in 2007, and 202 for the 2006 audit report.

Condition	**2007** % of total reviewed	**2006** % 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.	20.4%	19.1%
2. The purchase was a split purchase order, or,	13.3%	12.5%

Condition	**2007** % of total reviewed	**2006** % of total reviewed
the purchase represented a good opportunity to issue a purchase order to the vendor.		
3. Missing invoices.	0.0%	5.9%
4. Invoice not properly approved, not signed.	12.4%	20.6%
5. FPO used incorrectly.	15.0%	26.5%

Other issues included obtaining proper approvals for purchase orders, transferring responsibility for a lease to Corporate Services – Property Services from Economic Planning & Development, sole sourcing a purchase order for a draw down account to help ensure appropriate level of management authorization for ongoing purchases from the same vendor, obtaining Regional Council approval for one ongoing purchase order, and addressing a segregation of duties issue for purchase orders managed through Finance – Supplies & Servicves.

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 2007 fiscal year.
- Interviews with appropriate personnel.
- Review of disbursement files and other related documents.

4.0 Detailed Observations and Recommendations

4.1 Testing for Split Purchase Orders

Observation

The results of detailed testing for 38 vendors, for whom invoices were judgementally selected for the period March 2007 to May 2007, are presented below. These vendor invoices were chosen from a manual review of disbursements, where more than one payment under $10,000 was made to the vendor within the same month. Thus this sample is biased towards the selection of potential split purchase order payments.

Condition	# of invoices	% of total reviewed
1. Purchases were a split purchase, or, purchase should have been made with a purchase order issued by Supplies & Services.	13	34.2%
2. Incorrect use of FPO.	15	39.4%
3. Invoice did not contain appropriate approval, or, invoice was not signed.	8	21.1%
4. Inadequate supporting documentation submitted with invoice.	16	42.1%

1. Purchases to date for these vendors amounted to over $10,000. Purchases were ongoing in nature or paid via more than one invoice to avoid the administrative effort involved to have a purchase order issued. 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 not in compliance with the by-law.
2. The FPO was not being used as a means to procure goods and services, but rather as a means to ‘approve’ payment of invoices, and was usually written after receipt of the invoice. FPOs are also being used in situations which would have been better served by purchase orders. Using FPOs for ongoing purchases from one vendor results in thousands of dollars being spent without the appropriate level of management review.
3. A signature on an invoice is the visible evidence that an appropriate level of management approval was obtained for invoice payment.
4. The supporting documentation that accompanies invoices is one way management helps to ensure disbursement transactions support the assertions made in the Region’s financial statements. These assertions are weakened if supporting documentation is not submitted.

Recommendation

1. Vendors with whom the Region has ongoing business be issued a 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. Audit Services has highlighted a number of these purchase order candidates to Finance – Supplies & Services during the course of detailed testing.
2. Supplies & Services management continue 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. Audit Services has supplied one example of a stamp that could be applied to invoices in Observation 4.6.

   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.
3. All invoices relating to FPOs be approved by management before being submitted for payment.
4. All supporting documentation be submitted with the invoice as evidence that the goods and/or services have been duly received and in good working order.

Management Response

Supplies & Services:

1. Due to the Region's delegated de-centralized purchasing authority staff are recognizing patterns and identifying similar purchases from the same or like suppliers. As part of the ongoing purchasing training staff that routinely operate under the delegated de-centralized purchasing authority are recognizing these patterns and taking steps to ensure compliance to the Purchasing By-law.
2. As part of the ongoing purchasing training, staff that routinely operate under the delegated de-centralized purchasing authority and routinely use the Field P.O. as a purchasing tool are being encouraged to utilize the corporate purchasing card in lieu of the FPO.

Financial Services:

3. Stamps for invoicing being processed for payment are currently on order and will be distributed corporately to ensure that items such as general ledger coding, approval signatures and proper purchase order numbers are identified on all invoicing. Anticipated due date is Q4 2007.
4. Communications have been sent out to operating department management to outline the documentation that must accompany invoicing for payment. This was done in June 2007 after the initial audit had been completed. Further communications will occur in Q3 2007. Non-adherence to this standard will significantly slow down processing time for invoicing, but in order to meet compliance standards, invoices will be held up for payment until proper documentation has been received.

4.2 Other Results Noted from Split Purchase Order Testing

Observation

Detailed review of the 38 vendor invoices also noted the following issues that should be addressed by management:

Vendor name	Condition
AD 2000 & Beyond Advertising Inc.	This is a lease arrangement entered into and being administered by Economic Planning & Development for $50,000 annually. A purchase order has not been issued. The lease contract does not address items such as insurance requirements and liabilities.
Astley Gilbert Limited	A provider of printing services administered through Finance – Supplies & Services. Purchase order was originally created in March 2005 for $50,000. Last update to the purchase order was in July 2007 with a new total of $258,000. Adequate approval levels have not been obtained, nor has reporting to Regional Council occurred.
Teranet Land Information Services	A subscription service used by Corporate Services – Realty and Legal Services. Prepayment is required and resulting credit balance is drawn down as service is used. There is no purchase order issued.

Recommendation

AD 2000 & Beyond

Lease administration is a core function of Corporate Services - Property Services as designated by Regional Council. Thus, administration of the lease be transferred to Corporate Services - Property Services from Economic Planning & Development.

A purchase order be issued for this vendor.

Property Services attempt to renegotiate or clarify the lease agreement to include information such as insurance requirements, lease term, and any other conditions normally included in lease agreements with York Region.

Astley Gilbert Limited

Finance – Supplies & Services obtain the necessary level of approval and report purchase to Regional Council as soon as possible.

Teranet Land Information Services

Corporate Services – Legal Services create a sole sourced purchase order, estimate the yearly value of the purchase order, and extend the term of the service in dollars and time as necessary. This will help to ensure required approvals are obtained as the purchase order is extended.

Management Response

Property Services:

Property Services agrees with the recommendation. We have been informed that the lease will not be renewed upon its expiry at the end of October 2007.

Supplies & Services:

Astley Gilbert Limited – This service was identified by the Supplies and Services Branch through routine analysis indicating a potential for a competitive bid process. Approvals are presently being obtained for the current contract value and Supplies & Services will report to Council in the Tender Awards Report for the next quarter (October 1 to December 31, 2007).

Legal Services:

Legal Services will explore the feasibility of issuing a sole sourced purchase order for this vendor, and contact Supplies & Services for guidance. Anticipated due date is Q1 2008.

4.3 Testing of Invoices

Observation

The results of detailed testing for the 75 randomly selected invoices from March to June 2007 are presented below:

Condition	# of invoices	% of total reviewed
1. Purchases were a split purchase, or, purchase should have been made with a purchase order issued by Supplies & Services.	2	2.3%
2. Incorrect use of FPO.	2	2.3%
3. Invoice did not contain appropriate approval, or, invoice was not signed.	6	8.0%
4. Inadequate supporting documentation submitted with invoice.	7	9.3%

1. Purchases to date for these vendors were noted to amount to over $10,000. Purchases were ongoing in nature or paid via more than one invoice to avoid the administrative effort involved to have a purchase order issued. 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.

2. The FPO was not being used as a means to procure goods and services, but rather as a means to 'approve' payment of invoices, and usually written after receipt of the invoice. FPOs are also being used in situations which would have been better served by purchase orders. Using FPOs for ongoing purchases from one vendor results in thousands of dollars being spent without the appropriate level of management review.
3. A signature on an invoice is the visible evidence that an appropriate level of management approval was obtained for invoice payment.
4. The supporting documentation that accompanies invoices is one way management helps to ensure disbursement transactions support the assertions made in the Region's financial statements. These assertions are weakened if supporting documentation is not submitted.

Recommendation

1. Vendors with whom the Region has ongoing business be issued a 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. Audit Services has highlighted a number of these purchase order candidates to Finance – Supplies & Services during the course of detailed testing.
2. Supplies & Services management continue 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. Audit Services has supplied one example of a stamp that could be applied to invoices in Observation 4.6.

   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.
3. All invoices relating to FPOs be approved by management before being submitted for payment.
4. All supporting documentation be submitted with the invoice as evidence that the goods and/or services have been duly received and in good working order.

Management Response

Supplies & Services:

1. Supplies & Services staff will work with PeopleSoft team to develop a query to identify vendors that fall with the small dollar/high volume purchase category and will identify competitive bid opportunities as a result. Actual delivery date cannot be determined as the PeopleSoft team will have to prioritize the development of the needed query then let us know what their schedule is. In the meantime Supplies and Services has set up a meeting with the PeopleSoft team for October 11, 2007 to identify the parameters for the query report.

2. As part of the ongoing purchasing training staff that routinely operate under the delegated de-centralized purchasing authority and routinely use the Field P.O. are reminded that the FPO is a purchasing and not a payment tool and are being encouraged to utilize the corporate purchasing card in lieu of the FPO.

Financial Services:

3. Stamps for invoicing being processed for payment are currently on order and will be distributed corporately to ensure that items such as general ledger coding, approval signatures and proper purchase order numbers are identified on all invoicing. Anticipated due date is Q4 2007.

4. Communications have been sent out to operating department management to outline the documentation that must accompany invoicing for payment. This was done in June 2007 after the initial audit had been completed. Further communications will occur in Q3 2007. Non-adherence to this standard will significantly slow down processing time for invoicing, but in order to meet compliance standards, invoices will be held up for payment until proper documentation has been received.

4.4 Other Results Noted From Invoice Testing

Observation

Detailed review of the 75 invoices also noted the following issue that should be addressed by management:

Vendor name	Condition
Newmarket Delivery Service	In the last eight years York Region has spent over $100,000 annually on this delivery service and there is no purchase order. Discussion with management indicates that a tender to formalize the relationship is in process. Delays in issuing the tender focus mainly on the number of routes involved as this service is used by a number of Branches within the region.
407 ETR Concessions Company Limited	The Region is incurring late payment interest charges on 407 ETR invoices. These invoices relate to York Region Transit (YRT) bus vehicles using the Highway 407 and being billed by 407 ETR Concessions Company Limited. The Region is billing back contractors with an additional $25 service charge. Late payment interest charges however are not recoverable. For example, in the payment reviewed for testing the Region incurred over $112 in late payment interest charges for a $1,036 invoice.

Recommendation

Newmarket Delivery Service

Corporate Services, the Department responsible for the creation of the tender to formalize the delivery service, should ensure that the tender is completed and issued as soon as possible. In the meantime, an estimate of the dollar value of the service to be rendered until such time as the tender can be awarded should be used to issue a purchase order to this vendor, obtaining the necessary level of approvals.

407 ETR Concessions Company Limited

Discussion with YRT indicated that this invoicing issue is being reviewed together with Finance – Financial Services. We recommend that this issue be addressed as soon as possible and a process developed to avoid late interest charges to the Region. Accounts Payable should ensure that all charge-backs to the YRT vendors be processed to help minimize the extent of revenue loss to the Region.

Management Response

Supplies & Services:

Newmarket Delivery Service – this service was identified by the Supplies and Services Branch through routine analysis indicating a potential for either a competitive bid process or supplying this service in-house. Staff are developing a business analysis to determine the viability of providing this service using Regional employees and equipment. In the mean time, staff of Supplies and Services as well as our corporate clients are currently developing specifications and a scope of work in order to proceed with a competitive bid for the service, if it is determined that this is in the best interest of the Region. Newmarket Delivery Service RFP will be issued in Q4 of 2007.

Financial Services:

407 ETR Concessions Company Limited - Financial Services and YRT have addressed this issue. YRT prepare invoice requisitions for billing to YRT vendors for 407ETR charges and forward them to Financial Services for processing. This process had not been put in place during the sample time period but will be implemented in Q4 2007.

4.5 Results from Detailed Testing of 10 Purchase Orders

Observation

Detailed testing of ten purchase orders noted the following issues that should be addressed by management:

Vendor name	Condition
Accountemps	Accountemps performs and bills services for York Region through

Vendor name	Condition
	three companies: Accoutemps, OfficeTeam, and Robert Half. From July 2004 to July 2007, York Region has made a total of $480,000 in payments to these three organizations, none of which were on purchase orders, in addition to payments from purchase orders.
Accountemps – PO B09555 & PO B10071	Two purchase orders were issued to cover payments for one temporary accounting staff. Both purchase orders are for $50,000 each, and the purchase order request was approved by the same individual.
Ray & Sons Automotive and Tire Store – PO B09942 & B09295	PO B09295, issued with a value of $39,350, was closed with approximately $6,000 remaining to be spent. PO B09942 was opened for a maximum limit of $50,000. Both POs relate to the same service from the same vendor. This practice avoids having to obtain the necessary levels of management approval required if the purchase order was increased in value and date extended.

Recommendation

Finance - Supplies & Services should investigate the feasibility of centralizing one Accoutemps purchase order into one Branch, i.e. Human Resources. All Accountemps activity would be charged to this purchase order.

Finance - Supplies & Services cancel the second purchase order - B10071. If necessary, the original purchase order, B09555, should be extended or increased in value, obtaining the required levels of approval. If possible, all invoices associated with the B10071 purchase order should be transferred to the B09555 purchase order for accuracy and completeness.

Finance –Supplies & Services cancel the second purchase order – B09942. If necessary, the original purchase order, B09295, should be extended or increased in value, obtaining the required levels of approval. If possible, all invoices associated with the B09942 purchase order should be transferred to the B09295 purchase order for accuracy and completeness.

Management Response

Supplies & Services:

Accountemps - Supplies & Services will examine the feasibility of one purchase order working in conjunction with Human Resources. The feasibility of this recommendation will occur by Q1, 2008.

Accountemps – PO B09555 & PO B10071 – Agree with recommendation. Q4 2007.

Ray & Sons Automotive and Tire Store – PO B09942 & B09295 – Agree with the recommendation. Q4 2007.

4.6 Issuing a Stamp for Use on Invoices

Observation

Testing revealed that FPOs continue to be used incorrectly. The majority of FPOs noted are completed after the invoice date and are being used to approve the invoice for payment. It is our belief that, given the other methods to procure goods and/or services, the FPO document may have outlived its usefulness. If the FPO becomes detached from the invoice, there remains no formal evidence of management approval for payment of the invoice.

Recommendation

As a means to secure management approval for invoice payment, the following stamped image (or a reasonable facsimile) should be applied to all invoices. If an FPO is used, it then becomes part of the supporting documentation together with any receiving documents to substantiate the invoice.

Audit Services Branch - CAO Office

PO#					
acct.	fund	dept	program	$ net	$ gross

Supporting documentation attached? If not attached, please explain why: ______________

____

Purchase is in compliance with the current York Region
Purchasing By-law, and invoice is approved for payment as per my delegated signing authority

____

authorization for payment (print and sign name) date

Management Response

Financial Services:

Stamps for invoicing being processed for payment are currently on order and will be distributed corporately to ensure that items such as general ledger coding, approval signatures and proper purchase order numbers are identified on all invoicing. The stamp below has been reviewed with Audit Services and is currently being put into production. Anticipated due date is Q4 2007.

Universal Accounts Payable Coding Stamp

Department /Branch name

Account	Fund	Dept	Program	Net	GST	PST	Gross

PSoft-PO#	SCH.Line#
Contract #	Authorized Signature:
Vendor #	
Date:	Print Name/ext.:

Goods/Services have been purchased in compliance with the current York Region Purchasing By-law, and invoice is approved for payment as per my delegated signing authority

2.75"

4.25"

Supplies & Services:

As part of the ongoing purchasing training, staff that routinely operate under the delegated de-centralized purchasing authority and routinely use the Field P.O. are reminded that the FPO is a purchasing and not a payment tool and are being encouraged to utilize the corporate purchasing card in lieu of the FPO.

4.7 Processing of Purchase Orders Managed by Finance – Supplies & Services

Observation

The core function of Finance – Supplies & Services is to monitor the process for issuing requested purchase orders and administering any changes to them. When Finance – Supplies & Services requests, issues and administers a purchase order and/or change to that purchase order, they cease to become the process monitor.

Recommendation

To help ensure proper segregation of duties and the process monitoring duty remains in tact, processing of any purchase order managed by Finance – Supplies & Services should be approved by the Commissioner of Finance.

Management Response

Supplies & Services:

Agrees with recommendation. Q4 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**