



March 6, 2024

**PROCUREMENT - EDUCATION COMPLIANCE
INTERNAL AUDIT REVIEW**

REPORT

Executive Report

Procurement Education Awareness Overview

Procurement training and awareness is a preventative control measure designed to inform and educate City personnel who have the authority to make purchases on behalf of the City what the expected practices and methods are.

Such training is currently a requirement in the Bylaw for all personnel with purchasing authority.

Insights

- Formal training is provided through the City of Windsor management certificate program and is available to other enrollees.
- The Procurement team offers and delivers informal training to meet specific needs.
- On-the-job training also occurs as someone transitions into a role.

Project Purpose

Education of individuals who have purchasing authority and are required to comply with the By-law is a significant awareness and preventative control mechanism. Equipping these individuals regarding the proper use and interpretation of the Purchasing By-law helps reduce the risk of non-compliance.

This audit considered the process and controls management had in place to achieve the following objectives:

1. Required By-Law elements are included in expected training materials/content.
2. There is a method to equip individuals with purchasing authority regarding the proper use and interpretation of the Purchasing By-law that helps reduce the risk of non-compliance.
3. There is a method to sustain awareness, inform personnel previously trained regarding new updates, and reinforce existing purchasing practices.
4. There is a mechanism by which management knows that individuals exercising purchasing authority in the period have met the minimum training requirements.

What We Did

Below is a sample selection of some of our activities:

- We reviewed training material to determine if it aligned with the procurement bylaw and internal processes.
-

Auditor General Report

What We Did (continued)

- We considered the means, methods and facilitators of delivering the training.
- We reviewed the design of the various controls, which are pushed out to department heads to ensure that individuals needing the training are (1) identified and (2) that such training occurs.
- We selected a random sample of personnel deemed to have the authority to purchase and determined if they were listed as having attended training or not per the HR records.
- We acquired a listing of personnel who have Purchase Cards and evaluated (1) whether all individuals with individual transaction limits greater than \$15,000 were listed on the HR training completion list or not and (2) a random sample of individuals with authority to purchase under \$15,000 were listed on the HR training completion list or not

What We Found

We noted several key controls were in place and operating effectively however we also noted instances of non-compliance and missing evidence. Such exceptions are likely due to the breadth and depth of Procurement bylaw applicability. The bylaw requires all individuals who have the authority to make a purchase to attend Procurement Bylaw training. This breadth and specificity may result in broader requirements than intended or required.

Some Improvement Opportunities

Management Comments

In summary, the audit identified areas for enhancement, particularly in updating and refining the purchasing bylaw and training materials; overall, management shall take proactive steps by developing action plans to update the purchasing bylaw, enhance training materials, and implement periodic training refreshers. Management will continue to demonstrate a commitment to improving internal controls and ensuring compliance with purchasing practices. Additionally, management's dedication to continuous improvement will consider improving the relationship between the purchasing bylaw and the purchase card policy. Management will mitigate single points of training dependency through the execution of management action plans. These efforts collectively position the City to improve operational effectiveness and minimize the risk of non-compliance in procurement activities.

Name: Dana Paladino

Title: Commissioner of Corporate Services (A)

Date: March 11, 2023

Table of Contents

Procurement Education Awareness Overview..... 2

Summary of Results..... 2

 Report Classification..... 2

 Internal Controls Assessment..... 3

 Summary of findings..... 4

Detailed Findings..... 5

Considerations for Improvement:..... 10

Appendices

Appendix A - Background, Scope and Objectives..... 11

 Background Information..... 11

 Audit Scope..... 11

 Project Objectives..... 11

 Audit Approach..... 12

 Planning..... 12

 Assess Control Design..... 12

 Testing..... 12

 Reporting..... 12

Appendix B - Basis of findings rating and report classification..... 13

 Audit Report Classification..... 13

 Findings Ratings..... 13

 Likelihood..... 14

 Impact..... 14

Summary of Results

Report Classification

Procurement training and awareness is a preventative control measure designed to inform and educate City personnel with the authority to make purchases on behalf of the City what the expected practices and methods are. Training is critical in embedding risk management and control practices as part of a first line of defence and creating a balanced control environment of preventive, detective and corrective controls.

Initial and refresher training are good ways to ensure people understand and comply with the rules. Every time something changes in the process, this is a potential opportunity for training. There may be objections to this, but the objections are often worth the tradeoff for getting people to comply with the rules whenever they make a purchase request or actual purchase.

It can be helpful to remind people that their expertise is needed to make the right procurement decision. Occasionally, it can also be beneficial to remind people that everything they're doing in the procurement process could be public record and could potentially be a court document one day.¹

Several effective controls are in place within the control environment:

- The Purchasing Manager develops and delivers the Procurement training and training materials. Key elements from the by-law are incorporated into the training deck.
- Purchasing has identified Department Heads for the City. Buyers know their departments/portfolios based on direct experience with the Department Head. Departmental purchasing authority is based on the Buyer's experience with the Department and the Department Head.
- The procurement by-law (sec 30) requires that employees comply with the by-law and attend Purchasing bylaw training.
- Human Resources offers scheduled training twice per year (Spring and Fall). The course is scheduled for one day (9:00 am to 4:30 pm) and delivered in person.
- Procedure manuals, FAQs, support tools, and the website provide standing on-demand access for personnel requiring guidance.
- The purchasing team is available to support purchasing activities and personnel seeking guidance or clarification.
- Disciplinary actions are available through the by-law and employment action.

We also noted areas where improvements should be made:

- Compliance with, or revision of, specific Procurement bylaw components
- Breadth and depth of Procurement bylaw applicability
- Evidence of training in compliance with the Procurement bylaw
- Updates to the associated training material
- Formal process for managing training updates/refresh over an employee's lifecycle

¹ Procurement Best Practices 2023 - OpenGov Blog.
<https://opengov.com/article/procurement-process-in-need-of-a-refresh-these-best-practices-could-help/>

The first three of the above items for improvement stem more from the design of the current bylaw's reach and depth in wording - the current wording may create a significant challenge and cost in application. For many lower-dollar transaction purchases, management's actual risk and control measures relate more to payment approval and payment processing controls.

Internal Controls Assessment

#	Objective	Report Classification				
		Optimally Controlled	Managed	Some Improvement Opportunity	Major Improvement Opportunity	Unacceptable Risk Exposure
1	Required By-Law elements are included in expected training materials/content.			✓		
2	There is a method to equip individuals with purchasing authority regarding the proper use and interpretation of the Purchasing By-law that helps reduce the risk of non-compliance.			✓		
3	There is a method to sustain awareness and inform personnel previously trained regarding new updates and reinforce existing purchasing practices.			✓		
4	There is a mechanism by which management knows that individuals exercising purchasing authority in the period have met the minimum training requirements.			✓		

We identified areas where internal control weakness exists; however, none were noted as a significant control deficiency. If implemented, our recommendations would provide greater preventative controls within operational effectiveness. Management has provided comprehensive action plans, which we believe will address the deficiencies noted. Below, we provide a summary of the findings and management action plans indicated as part of our work:

Summary of findings

#	Topic	Rating	Management Action Plan
1	Update and Enhance the Procurement Bylaw	Moderate	Management will revise and enhance the Purchasing By-Law as required, evaluate and amend the training requirements to align with operational needs and review/modify training and expectations as required.
2	Update and Enhance the Procurement Training Material	Low	Management will review and update the Purchasing By-Law training materials at the commencement of each term of Council.
3	Define and Implement a Periodic Training Refresh/Validation	Moderate	Management will implement a requirement that all individuals with Purchasing Authority undergo periodic refresher/update training programs at the commencement of each term of Council.

Detailed Findings

1. Update and Enhance the Procurement Bylaw			Overall Rating: Moderate
Impact:	Highly Likely	Likelihood:	Low
<p>Observation: During the review, management indicated that:</p> <ul style="list-style-type: none"> a. one element of the bylaw was no longer in effect, and b. the breadth of the by-law and its training requirements might be more stringent than can effectively be implemented. <p>Further, we were not able to trace individuals with Purchasing authority to the HR listing of personnel who had attended the Procurement Bylaw training. (c)</p> <ul style="list-style-type: none"> a. <u>By Law Element No Longer in Effect</u> At the commencement of the review, Management had indicated that a control listed in the bylaw, "The Purchasing Manager (Deleted and Replaced B/L 145-2014 August 25, 2014) shall maintain a list of Employees to whom CLT Members or Department Heads have delegated Purchasing authority in accordance with sections 36 and 37 and shall provide this list to the CAO at the beginning of each calendar year." had not been in place for several years. Alternative control practices, which management believes are effective, are in place instead. Even though alternative controls are leveraged by management, we are reporting this given the current practice is not compliant with the in-force bylaw wording. b. <u>The Breadth of Training Requirements</u> Under the by-law (section 28), "CLT Members and Department Heads shall require those Employees under their supervision having Purchasing authority to complete Purchasing Bylaw training.". Further, section 17 indicates, "All City Employees granted Purchasing authority under this Bylaw shall attend training on the proper use and interpretation of the Bylaw." In a review of the bylaw, Departments have the authority to use petty cash for Purchases up to \$200 and there are process and threshold above that that scale to the size and risk of the nature of the procurement; however, an individual making a purchase with Petty Cash has Purchasing authority to make this. While there are controls over Petty Cash and low dollar value payments, the Bylaw wording indicates that each individual who makes a purchase on the City's behalf should have completed Purchasing Bylaw training in accordance with section 28. c. <u>Assurance of Training Completion</u> Section 28 of the Bylaw states that "CLT Members and Department Heads shall require those Employees under their supervision having Purchasing authority to complete Purchasing Bylaw training." Inquiry with the individuals who comprise "CLT Members and Department Heads" for purchasing purposes indicated that: 			

- the actual control design and implementation is unique to either individuals or functional areas and occurs at varying levels of formality (evidenced through no documented evidence). Answers as to whom authority is delegated may be obtained through conversation, specific research and, in some instances, review of formal area evidence.
- two (2) responses, or at least one (1) respondent, indicated they were unaware that training was available or required. Two (2) of the twenty-three (23) “CLT Members and Department Heads” for purchasing purposes were not listed in the HR training system as having completed Procurement Bylaw training.
- seven (7) City personnel with Purchase Cards have authority limits above \$15,000, of which four (4) were not listed in the HR training system as having completed Procurement Bylaw training.
- In a random sample of 26 out of 251 Purchase Card holders with limits below \$15,000, 50% were listed in the HR training system as having completed Procurement Bylaw training.

There is a possibility that such individuals attend training delivered by the Purchasing Manager; however, attendance at such training is not noted in the formal HR training system/log.

Implication:

The lower individual purchasing authority limits were, testing indicated a lower likelihood that the procurement bylaw training was attended.

Compliance with a bylaw which defines internal/management processes/practices is a requirement of management which City Council should expect. When personnel become aware of it, recurring non-compliance creates a tone at the top or a culture where non-compliance could be seen as acceptable, resulting in other areas of non-compliance over time.

The breadth of the current bylaw wording related to training those with the authority to make purchases will either be very costly to implement and comply with while generating minimal cost-benefit or result in a significant volume of personnel who would not comply with the bylaw.

Validating that individuals who should have attended the required training may be cost-ineffective and based on discussions instead of evidence.

Recommendation:

The City Procurement Bylaw should be updated to consider the effectiveness of, and the intended design of, procurement training controls the City requires in a cost-effective manner.

Such updates should consider the depth within the organization where Procurement Bylaw training is required versus reliance on alternative controls and training such as account payable processing, purchase cards, petty cash, etc.

Consideration as to (1) the various purchasing methods and (2) a summary of the preventative and detective/corrective controls management will use to control the various streams effectively should be included in the procurement bylaw without constraining the ability of management to adapt the specific control activities as needed readily.

Management Action Plan:

Management will identify obsolete control practices within the Purchasing By-Law, amend them to reflect current mechanisms, and ensure alignment with alternative control practices currently in place.

Responsible Party

Purchasing Manager or designate, City Solicitor or designate, Executive Director of Human Resources or designate.

The breadth of training requirements outlined in the Purchasing By-Law will be carefully evaluated to determine their effectiveness and practicality. This evaluation will involve identifying individuals who will require purchasing bylaw training, analyzing the cost-effectiveness of existing training mandates, assessing the feasibility of compliance, and exploring potential adjustments to the existing training mandates to streamline requirements while ensuring continued adherence to compliance standards.

Planned Completion Date

Date: Q3 2026

Management will develop improved oversight and documentation procedures for assurance of training completion. This will include establishing procedures for verifying training completion, ensuring accurate recording of individuals with purchasing authority and training in the HR training system, and providing clear communication to CLT Members and Department Heads regarding training expectations and requirements.

2. Update and Enhance the Procurement Training Material			Overall Rating: Low
Impact:	Likely	Likelihood:	Low
<p>Observation: In a review of the Procurement By Law training materials, the training deck indicated a requirement that purchasing must be kept aware of authority approvals; however, no formal/consistent control ensuring this occurs was detected beyond reliance on personnel. In further discussion with management and consideration of the other controls, this requirement was noted as a legacy activity not required in the current overall control framework.</p> <p>Management should ensure that the training deck is reviewed for outdated elements that are no longer needed. Such elements should be removed, and the current training deck should be updated to reflect the procurement/purchasing control requirements.</p>			
<p>Implication: Some training material does not reflect the intended practices and may result in unnecessary costs/efforts, communicate that compliance with training content is not needed, or contribute to an outlook that training covers irrelevant topics.</p>			
<p>Recommendation: Procurement-related training materials should be reviewed and enhanced/updated to reflect the following:</p> <ol style="list-style-type: none"> 1. Elements no longer required or of relevance and 2. Modifications to the Procurement Bylaw or process resulting from management response for finding number 1 (above). 			
Management Action Plan:			
Management will initiate a comprehensive review and update of Purchasing By-Law training materials. Management will remove outdated elements while updating the materials to reflect the current Purchasing By-Law and procurement requirements. This process shall be repeated at the commencement of each term of Council.	Responsible Party	Purchasing Manager or designate	
	Planned Completion Date	Date: Q3 of 2024	

3. Define and Implement a Periodic Training Refresh/Validation			Overall Rating: Moderate
Impact:	Highly Likely	Likelihood:	Low
<p>Observation: Currently, there is no required frequency at which the Procurement Bylaw training needs to be retaken/updated. In a review of the associated training log, 65.2% of people had training over five (5) years old, and 27.3% of the attendees' training was ten (10) to more than eighteen (18+) years old.</p>			
<p>Implication: While procurement activities happen regularly across the City and personnel are involved, there is a risk of non-compliance over extended periods without a formal method for ensuring updates occur to all impacted parties. While this risk may be mitigated by accounts payable processes and controls, those occur after the fact.</p>			
<p>Recommendation: A formal process whereby management can demonstrate (1) how all parties that need to be kept aware of process changes are informed and (2) what evidence of such an occurrence shall be maintained and where/how it should be defined and implemented. While the practical execution of the control may be pushed out to various departments, the minimum expectations and evidentiary requirements should be defined and retained centrally.</p> <p>Further, management should evaluate if there is a benefit to offering refresher/update training programs in a digital, in-person, or alternative format at some defined frequency. A program should be defined and implemented if there is a benefit. If there is no benefit, then a summary rationale should be provided for City Council consideration.</p>			
Management Action Plan:			
Management will implement a requirement that all individuals with Purchasing Authority undergo periodic refresher/update training programs at the commencement of each term of Council. These programs may be administered in digital, in-person, or any other alternative formats at the discretion of management, including but not limited to: recorded training videos, information sheets or PowerPoint presentations. The records of participation in these refresher/update training programs will be maintained within the HR department for reference and compliance tracking.	Responsible Party	Purchasing Manager or designate & Executive Director of Human Resources or designate.	
	Planned Completion Date	Date: Q1 of 2027	

Considerations for Improvement:

1. Training Alternatives

Observation:
While the Purchase Card and Petty Cash requirements/practices are referenced in the Procurement Bylaw, it is not clear if they are in addition to or in place of. As a result, the bylaw reads that purchase card holders and petty cash users are authorized to make purchases and, therefore, should attend Procurement Bylaw training.

Consideration:
Management should ensure that the Purchasing Bylaw is clear about whether or not Purchase Card use should adhere to the Purchasing Bylaw. The user must comply with the Purchasing Card Policies and Procedures, but the Bylaw is not as straightforward as to how the Bylaw and the Purchase Card Policies relate. Having the Purchase Card Policy govern all Purchase Card practices may be more effective. As such, management may define it so that any required Procurement Training is sufficiently delivered through Purchase Card training instead of Procurement Bylaw training.

2. Single Point of Training Dependency

Observation:
Currently, procurement training is delivered by one individual, creating a single point of dependency risk

Consideration:
Having designated alternate trainers or digital recordings should be considered.

Appendix A - Background, Scope and Objectives

Background Information

Under Purchasing By-law 93-2012 section 17, “All City Employees granted Purchasing authority under this Bylaw shall attend training on the proper use and interpretation of the Bylaw.”

In September 2014, Internal Audit completed a review and issued the report “Procurement, Purchasing & Payables” and all associated findings noted in the report have been closed by management and the validation thereof in prior Management Action Plan Validation reports.

In May 2020, Internal Audit completed a review and issued the report “Value for Money: Purchased services - Winter Road Clearing” and all associated findings noted in the report have been closed by management and the validation thereof in prior Management Action Plan Validation reports.

Significant Prior Findings? Yes No

Number of significant prior audit findings: 0

Audit Scope

The scope considered the controls management had in effect:

- From January 1, 2022 through December 31, 2023
- Related to City departments

Project Objectives

Education of individuals who have purchasing authority and are required to comply with the By-law is a significant awareness and preventative control mechanism. Equipping these individuals regarding the proper use and interpretation of the Purchasing By-law helps reduce the risk of non-compliance.

This internal audit considered the process and controls management had in place to achieve the following objectives:

1. Required By-Law elements are included in expected training materials/content.
2. There is a method to equip individuals with purchasing authority regarding the proper use and interpretation of the Purchasing By-law that helps reduce the risk of non-compliance.
3. There is a method to sustain awareness, inform personnel previously trained regarding new updates, and reinforce existing purchasing practices.
4. There is a mechanism by which management knows that individuals exercising purchasing authority in the period have met the minimum training requirements.

Reason for review: Scheduled Audit
Special Request
Other (NA)

Concerns of Audit Auditee: None noted

Recent incidence: None noted

Audit Approach

For the Procurement - Education Compliance Internal Audit, the activities we undertook were as follows, but not limited to:

Planning

1. Reviewed the Purchasing By-Law and selected supporting materials to identify required training elements for persons in a position of procurement authority.
2. Met with stakeholders to understand initial high-level control requirements in place to achieve the management objectives. (Entrance Meeting)

Assess Control Design

3. Acquired supporting evidence and assessed the control design elements.
4. Followed up with management to confirm or clarify control design elements. (Kick-off meeting)
5. Developed, circulated and analyzed a survey to assess initial specific departmental controls related to procurement education.

Testing

5. A sample of training requirements for testing was selected.
6. Identified personnel in a position of procurement authority and selected a sample for validating training compliance.
7. Validated potential findings (Validation meeting)

Reporting

8. Drafted internal audit report and issued draft report.
9. Conducted an exit meeting to discuss our findings, confirm factual accuracy, and agree on corrective action with designated management participants where appropriate. (Closing meeting)
10. Acquired management action plans/responses.
11. Issued a draft report to the Chief Administrative Officer for final comments before issuing the final report.
12. Issued final report.

Appendix B - Basis of findings rating and report classification

Audit Report Classification

Report Classification	Our work identified one or more of the following:
Optimally Controlled	<ul style="list-style-type: none"> Well-structured design effectively achieves fit-for-purpose control objectives. Controls are consistently applied and operate at an optimum level of effectiveness.
Managed	<ul style="list-style-type: none"> The sound design achieves control objectives. No control design improvements were identified during the review. Controls are consistently applied. Only minor instances of controls identified as not operating, which have mitigating back-up controls or the risk of loss, is immaterial. All previous significant audit action items have been closed.
Some Improvement Opportunity	<ul style="list-style-type: none"> Control design improvements were identified; however, the risk of loss is immaterial. Isolated or “one-off” significant controls were identified as not operating for which sufficient mitigating backup controls could not be identified. Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. Some previous significant audit action items have not been resolved promptly.
Major Improvement Opportunity	<ul style="list-style-type: none"> The design is not optimal and may put control objectives at risk. Control design improvements were identified to ensure that the risk of material loss is minimized and functional objectives are met. A number of significant controls were identified as not operating, for which sufficient mitigating backup controls could not be identified, which may put control objectives at risk. Losses have occurred as a result of control environment deficiencies. Little action was taken on previous significant audit findings to resolve the item promptly.
Unacceptable Risk Exposure	<ul style="list-style-type: none"> Control design leaves the opportunity for loss, error or abuse. Significant control design improvements were identified to ensure that the risk of material loss is minimized and functional objectives are met. An unacceptable number of controls (including a selection of both significant and minor) were identified as not operating for which sufficient mitigating backup controls could not be identified, creating the opportunity for loss, error or abuse. Material losses have occurred as a result of control environment deficiencies. Instances of fraud or significant contravention of corporate policy detected. No action was taken on previous significant audit findings to resolve the item on time.

Findings Ratings

	Low Impact	Medium Impact	High Impact
Highly Likely	Moderate	Significant	Significant
Likely	Low	Moderate	Significant
Unlikely	Low	Low	Moderate

Likelihood

Rating	Description
Highly Likely	History of regular occurrence of the event. The event is expected to occur in most circumstances.
Likely	History of occasional occurrences of the event. The event could happen at some time.
Unlikely	History of none or seldom occurrence of the event. The event may occur only in exceptional circumstances.

Impact

Rating	Description (applied when one criterion is met)
High	<p>Financial impact is likely to exceed \$250,000 in direct loss or opportunity cost. Internal Control: Significant control weaknesses, which would lead to financial or fraud loss. An issue that requires a significant amount of senior management/Board effort to manage, such as</p> <ul style="list-style-type: none"> ● Failure to meet key strategic objectives/significant impact on strategy and objectives. ● Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> ○ Loss of key competitive advantage/opportunity. ○ Loss of supply of key process inputs. ● A significant reputational sensitivity, e.g., market share, earnings per share, credibility with stakeholders and brand name/reputation building. <p>Legal/regulatory: Large-scale action, major breach of legislation with very significant financial or reputational consequences</p>
Medium	<p>Financial impact is likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost. Internal Control: Significant control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures. An issue that requires a significant amount of senior management/Board effort to manage, such as</p> <ul style="list-style-type: none"> ● No material or moderate impact on strategy and objectives. ● Disruption to regular operation with a limited effect on achieving corporate strategy and objectives. ● Moderate reputational sensitivity. <p>Legal/regulatory: Regulatory breach with material financial consequences, including fines.</p>
Low	<p>Financial impact is likely to be less than \$75,000 in direct loss or opportunity cost. Internal Control: Significant control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies. An issue that requires a significant amount of senior management/Board effort to manage, such as</p> <ul style="list-style-type: none"> ● Minimal impact on strategy. ● Disruption in regular operations does not affect the achievement of corporate strategy and objectives. ● Minimal reputational sensitivity. <p>Legal/regulatory: Regulatory breach with minimal consequences.</p>