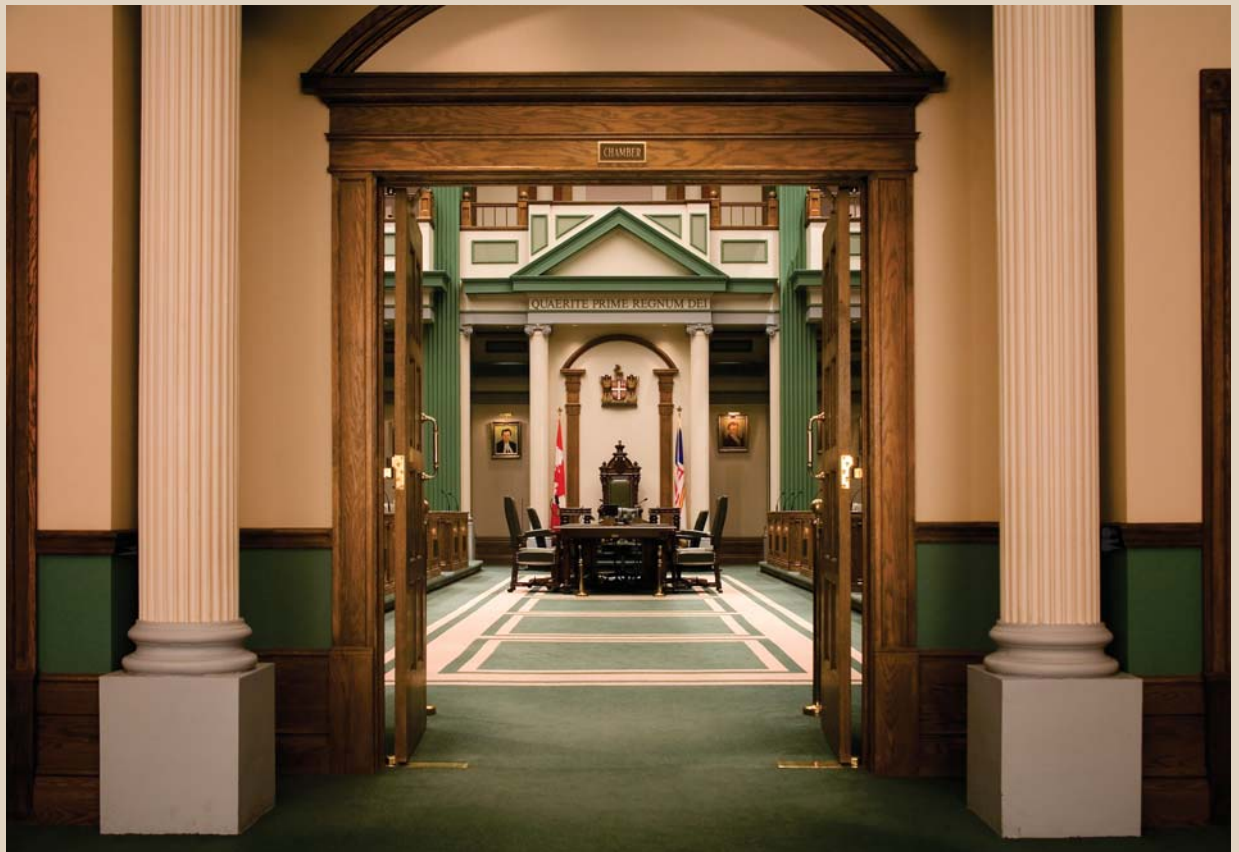




OFFICE OF THE AUDITOR GENERAL



MANAGEMENT OF THE PROCUREMENT OF GOODS AND SERVICES

**Newfoundland and Labrador
English School District**

September 2018

Office of the Auditor General Newfoundland and Labrador



The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown. The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion as to the fair presentation of their financial statements.

VISION

The Office of the Auditor General is an integral component of Government accountability.

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Conclusions

Overall, we found pervasive non-compliance by Facilities staff with the Newfoundland and Labrador English School District (NLESD) procurement policies and the *Public Tender Act*. This resulted in the lack of an open and transparent procurement process including in the selection of vendors and establishment of fair and reasonable prices, or best value, for public goods and services.

Concerns were identified with the legitimacy and integrity of the quotation process for goods and services. Furthermore, expenditures for goods and services were often not properly authorized and reviewed and there was often a lack of sufficient documentation to support invoice payment. These types of observations are known indicators of unethical behaviours and/or potential fraudulent activity. We also identified numerous other indicators of unethical behaviours and/or possible fraudulent transactions that have been referred to the Royal Newfoundland Constabulary and the Royal Canadian Mounted Police.

We also found that the Board of Trustees and senior management had not exercised the required oversight over NLESD's internal control environment. They had not established standards for, or promoted a culture of, ethical organizational behaviour. Nor did they exercise the required oversight of the development and performance of internal controls. There were no processes in place to proactively identify and mitigate organizational risks, including fraud risks. There were also no processes to regularly monitor and evaluate whether internal controls were working as intended.

Further, the Board of Trustees and senior management failed to address repeated recommendations from the external auditor to improve internal controls for safeguarding assets, citing other priorities. Senior management also failed to address, and report to the Board of Trustees, repeated concerns identified by both the District's Internal Audit and the Finance Division regarding non-compliance by Facilities staff with policies, internal control procedures and the *Public Tender Act*. We noted significant deficiencies with NLESD's internal controls designed to manage the risks of safeguarding assets, including the expenditure of funds in the procurement of goods and services. These deficiencies included significant control weaknesses with the accounting system and a lack of adequate asset management processes.

This lack of oversight of NLESD's control environment and lack of action over the years to address known internal control deficiencies and disregard of policies, significantly increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud.

Terms of Engagement and Scope

Terms of Engagement

On April 11, 2016, under the authority of Section 16 of the *Auditor General Act*, the Lieutenant-Governor in Council, through OC2016-048, requested the Auditor General to inquire into reported allegations of fraud within NLESD, including a review of the financial activities of NLESD, transactions for specific vendors and internal controls.

Scope

Our audit covered the period July 1, 2011 to June 30, 2016. Our audit focused on the procurement transactions of the Facilities Branch in the Eastern region of NLESD and a limited number of procurement transactions in other areas of NLESD when authorized by certain Facilities employees of the Eastern region.

Our audit included an assessment of policies and procedures and internal controls and the testing of procurement transactions, including an examination of related supporting documentation. We analyzed data from the administrative support and accounting systems to assist with our audit procedures and held discussions with District officials. We also reviewed initial findings from the investigations on NLESD operations that were underway by NLESD and the Professional Services and Internal Audit Division of the Office of the Comptroller General, Department of Finance. We did not review specific allegations, which included the use of NLESD assets and employees for personal purposes that had been referred to the Royal Canadian Mounted Police and were under investigation during our audit. Our sample selections were non-statistical and based on risks identified from our audit procedures.

During our audit we used the services of the Public Service Commission to provide advice on certain aspects of the engagement.

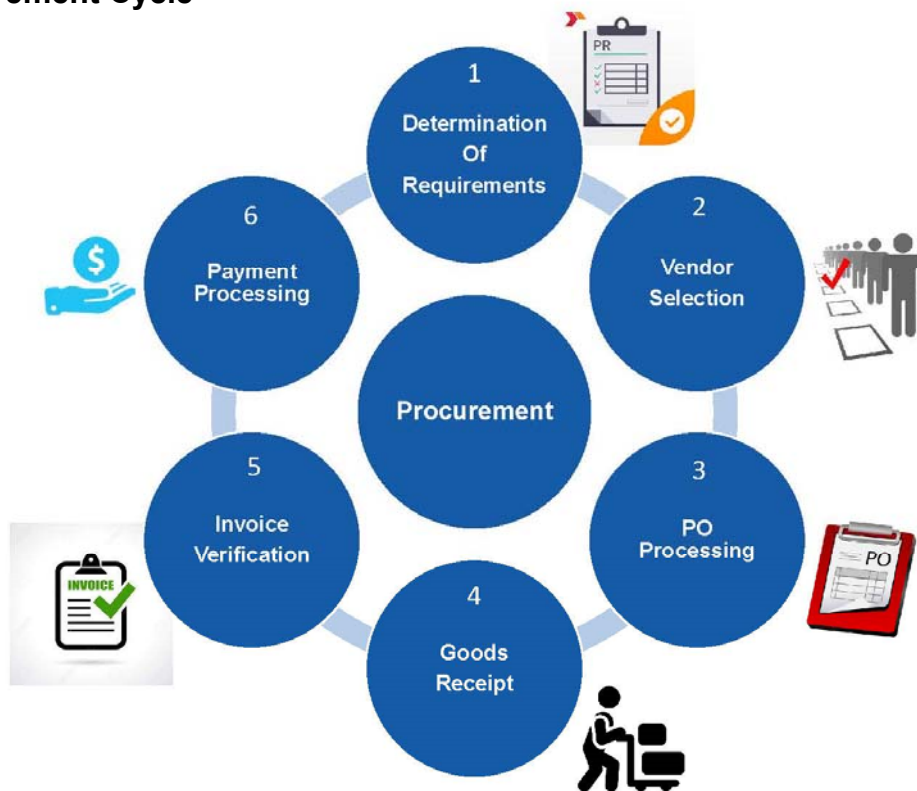
Findings

Review of Procurement Transactions

Figure 1 outlines the procurement cycle, which commences with the determination of a need for a good or service and ends with the processing of a payment for the good or service.

Figure 1

Procurement Cycle



Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador

As a government-funded body, it is paramount that NLESD is procuring goods, services and public works in an open, fair and transparent manner with consideration of the cost to taxpayers. In this regard, NLESD is required to comply with the *Public Tender Act*¹, which requires that:

- Public tenders are issued for the acquisition of goods and services when the estimated pre-tax cost is more than \$10,000 or, in the case of a public work, more than \$20,000².
- In instances where the estimated amount is less than these defined thresholds, direct quotations are obtained from at least three legitimate vendors, or a fair and reasonable price is established for the circumstance through direct quotation substantiated by reference to trade catalogues, price lists or in a manner that the government-funded body considers advisable.

¹ The *Public Procurement Act* came into effect March 24, 2018 (Section 12 and 13 not yet in force), replacing the *Public Tender Act*.

² Section 3 of the *Public Tender Act* provides certain exemptions from this requirement to invite tenders.

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It is also paramount that, in accordance with NLESD policies, goods, services and public works acquired are appropriately authorized and incurred for NLESD purposes.

For the five-year period ending June 30, 2016, based on risk assessment procedures, we reviewed procurement transactions totaling \$20.3 million. Table 1 provides information on the number of invoices and amounts paid by expenditure and audit category.

Table 1

Newfoundland and Labrador English School District Payments Selected for Audit Five-year period ending June 30, 2016

Expenditure Category	Number of Invoices Paid	Amount Paid
School Renovation, Repair and Maintenance	5,690	\$10,704,160
Parts, Materials and Supplies	9,096	4,548,641
Snow Clearing, Ice Control and Garbage Collection	1,957	4,050,290
Other	916	564,921
Return of Bid Bond Deposits	40	392,537
Delivery and Pickup Services	47	28,988
Total	17,746	\$20,289,537
Audit Category		
Procurement Category 1: Buyers of Interest with Vendors of Interest	2,887	9,907,534
Procurement Category 2: Buyers of Interest with remaining vendors	14,859	10,382,003
Total	17,746	\$20,289,537

Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from NLESD (unaudited).

We requested that NLESD provide us with the 17,746 invoices, related purchase orders and other documents supporting the \$20.3 million in payments. NLESD was unable to provide 2,556 of the 17,746 invoices for audit (40 of the 2,887 in Category 1 and 2,516 or 17 per cent of the 14,859 in Category 2 noted in Table 1). Due to ineffective records management processes, we were also required to spend an extraordinary amount of time and resources matching the invoices with related purchase orders and supporting documentation in order to perform audit procedures.

Findings

Overall, we found pervasive non-compliance with NLESD procurement policies and the *Public Tender Act*. This resulted in the lack of an open and transparent procurement process including in the selection of vendors and establishment of fair and reasonable prices, or best value, for public goods and services. In addition, concerns were identified with the legitimacy and integrity of the quotation process. Non-compliance with NLESD procurement policies also resulted in expenditures for goods and services not being properly authorized and reviewed and there was often a lack of sufficient documentation to support invoice payment. We also identified numerous other indicators of unethical behaviour and/or possible fraudulent transactions that have been referred to the Royal Newfoundland Constabulary and the Royal Canadian Mounted Police.

With respect to purchase authorization we found:

- Purchase orders were split, which kept the purchases within buyers' purchasing authority levels and avoided further approval by a supervisor and/or excluded qualified bidders by avoiding the requirement to obtain quotations or issue a public tender. This increased the opportunity to award work to select vendors.
- There was no process in place to formally document assigned purchase authority limits for Facilities buyers and ensure required changes to such documents were completed as buyers moved positions or were temporarily assigned to other positions within NLESD. This increased the risk for unauthorized transactions. We also found that during amalgamation, for an unknown period of time, the purchase authority limits of the Director of Facilities and Custodial Management and the Manager of Procurement were increased from \$10,000 to \$20,000 without the required Board of Trustees approval.
- Buyers often authorized procurement of goods and services in excess of their purchasing authorization limit.
- The accounting system did not support the intended controls for segregation of duties. This lack of segregation of duties could occur without detection and without an effective audit trail. This weakness with the accounting system significantly increased the opportunity and risk of errors, unauthorized actions, unethical behaviour and/or fraud.
- For a number of buyers, there was a pervasive pattern of the same buyer initiating the purchase, approving the purchase order and validating the receipt of the goods and services. An inadequate segregation of these duties increases the opportunity and risk of errors, unauthorized actions, unethical behaviour and/or fraud.

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With respect to vendor selection we found:

- Public tenders were not always issued as required for goods and services in excess of \$10,000 or for a public work in excess of \$20,000 nor was a tender exemption form completed and provided to Government to publicly report the exemption. Where a public tender was awarded, invoices sometimes included goods, services or work not specified in the tender and there was no evidence that the additional related costs were appropriately authorized.
- For the large majority of goods and services purchased for \$10,000 or less or public work \$20,000 or less, NLESD could not provide evidence that it obtained quotations or established a fair and reasonable price for these purchases as required by the *Public Tender Act*. In most cases where quotations existed, there was only one quotation or, where there were three quotations, there were numerous concerns identified with the legitimacy and integrity of the quotation process. This resulted in a lack of transparency for the selection of vendors and validity of the quotation process which increased the opportunity to award work to select vendors.
- For almost all of emergency purchases issued through a Quick Purchase Order, there was no documented evidence of an emergency and thus the standard electronic purchase order process should have been used and a fair and reasonable price for these goods and services should have been established. For a number of these instances, policy did not allow buyers to issue Quick Purchase Orders as the goods and services were in excess of the \$1,000 threshold permitted for this type of purchase order.
- Many of the purchases procured without a purchase order did not meet the exemption criteria for the non-issuance of purchase orders. Thus, purchase orders should have been issued and a fair and reasonable price for these goods and services should have been established.

Contrary to NLESD procurement policies, expenditures were often not properly authorized and reviewed and there was a pervasive lack of sufficient documentation to support invoice payment. The pervasive lack of documentation, the lack of proper authorization and possible document tampering are concerning as they are known indicators of unethical behaviour and/or potential fraudulent activity. With respect to invoice processing and payment, we found:

- In the majority of cases, the purchase order and invoice details were insufficient to determine the nature, extent and/or timing of goods and services provided and there was often insufficient documentation to support the receipt of the goods and services. This increases the risk of errors, unauthorized actions, unethical behavior and/or fraud. Further, many of the expenditures were charged to the incorrect account distribution or there was insufficient information to allow us to determine

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whether account distribution was correct. This impacts management's ability to accurately monitor expenditures against approved budgets or to identify trends or unusual patterns within Facilities operations.

- We also noted that NLESD did not perform regular reconciliations of supplier (vendor) statements to NLESD accounts payable records. Performing such reconciliations is a proactive control in the identification of possible discrepancies including inaccurate or inappropriate charges by a vendor. Further, while the Comptroller manually scanned cheque runs for possible duplicate payments, computer assisted software or other processes were not used to query for or to identify possible duplicate payments.
- There were a number of instances identified of payments of possible duplicate and/or fraudulent invoices.
- We also identified instances that occurred just prior to Government's March year-end where NLESD billed the costs of goods and services to the Department of Education and Early Childhood Development when these goods and services were not received or completed until after Government's year-end. This appears to have been done to avoid "losing" the available repairs and maintenance budget allocated to NLESD by the Department for that fiscal year.

There were also a significant number of instances which we identified as unusual in nature, many of which may be additional indicators of unethical behaviour and/or possible fraudulent transactions including:

- NLESD was unable to confirm the existence of many assets that were purchased for use in Facilities operations and were of the nature that we expected to be able to locate and confirm their identity.
- There were numerous instances where NLESD procured goods and services where it would be expected that NLESD already owned sufficient goods or had staff that provided services of the same nature. In these cases, there was no documentation to support the necessity of the purchase and NLESD officials were unable to provide any further clarification for these instances. Buyers also did not obtain quotations or demonstrate that a fair and reasonable price had been established. In addition, for a number of invoices, rental fees appeared to be excessive, unnecessary or charges for similar services were inconsistent.
- Several instances were noted where there was inadequate documentation to support the receipt of goods and services. In one case, another vendor signed for goods receipt and the item could not be located.

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- High-end clothing and accessories were purchased where NLESD could not provide documentation to support or advise of the rationale of these purchases and NLESD could not confirm that the nature of these items would be a normal or reasonable purchase for NLESD. Other purchases such as [REDACTED] were also unusual purchases for NLESD and the vehicle referenced on the invoice for the [REDACTED] did not match any of the make or models of NLESD vehicles; rather it referenced the vehicle make and model of a Facilities buyer.
- Tires were purchased where invoice information regarding the tires did not match any of the make and models of NLESD vehicles. In a number of cases, the invoice identified a make and model that matched the personal vehicle of the buyer or, in more limited cases, another NLESD or Department of Education and Early Childhood Development employee.
- There was evidence that a buyer directed Facilities employees to travel to, and perform work on, their personal dwelling during working hours. There was also evidence that a buyer arranged for the supply and installation of flooring and wall cabinets at the personal residence of a Facilities employee free of charge.
- Other observations included:
 - Provision of free snow-clearing services to certain Facilities employees.
 - Discussion of, and in at least one case, participation in fishing trips by a Facilities buyer with NLESD consultants.
 - Instances where it appeared that a buyer received gifts for NLESD employees from NLESD vendors.
 - Although leave attendance was not included in the scope of our audit, other procedures identified several instances where Facilities employees recorded they were working when there was contradictory evidence that the employees were on leave.

Procurement Category 1: Buyers of Interest with Vendors of Interest

We reviewed the 2,887 transactions totaling \$9.9 million outlined in Table 1 to determine whether:

- Goods, services and public works were acquired through an open, fair and transparent process in accordance with the *Public Tender Act* and NLESD procurement policies with consideration of the cost to taxpayers.
- Goods, services and public works were acquired in accordance with NLESD procurement policies to ensure expenditures were properly authorized and incurred for NLESD purposes.
- There were any indicators of possible unethical behaviour and/or fraudulent transactions.

In the procurement of goods, services and public works, NLESD policy required compliance with the *Public Tender Act*. Consistent with the *Act*, NLESD required public tenders when the pre-tax cost for goods and services was greater than \$10,000 or public works greater than \$20,000. Further, Facilities staff were required to obtain direct quotations from at least three legitimate vendors when the pre-tax cost of goods and services was \$1,000 up to \$10,000 or up to \$20,000 for a public works. However, we found that for purchases less than \$1,000, NLESD procedures did not require written quotations or, contrary to the *Public Tender Act*, a process to document the establishment of a fair and reasonable price. The exception was that before completing any purchase, buyers were required to refer to the NLESD commodity listing to determine whether pre-arranged vendor pricing was available for the goods or services.

Upon vendor selection, NLESD policies authorize Facilities buyers to process the acquisition of goods, services and public works as follows:

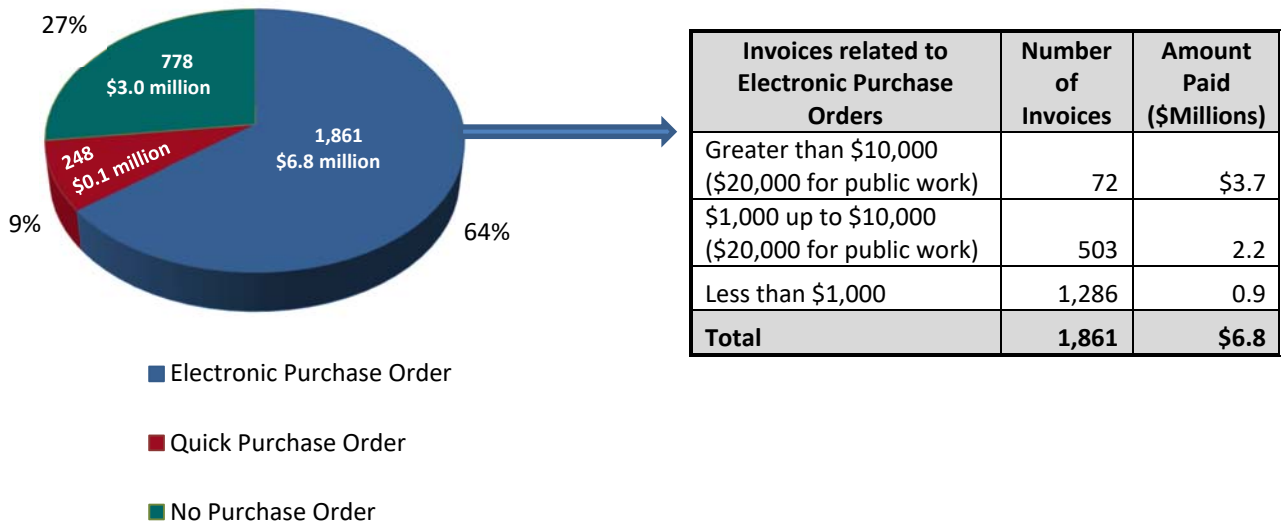
1. Electronic Purchase Order – considered the standard process, buyers generate an electronic purchase order by accessing the purchasing function within the accounting system and approving a purchase requisition.
2. Quick Purchase Order – buyers may issue a manual or quick purchase order when the purchase meets specific emergency criteria and the pre-tax cost is less than \$1,000.
3. No Purchase Order – buyers may purchase specific items such as small items less than \$20, fuel, permits and vehicle registration fees without issuing a purchase order.

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Figure 2 provides a breakdown of how the 2,887 purchase transactions totaling \$9.9 million were initiated and authorized. It also provides information on the dollar thresholds of the invoices initiated by an electronic purchase order for purposes of auditing compliance with the *Public Tender Act* and NLESD policy.

Figure 2

Newfoundland and Labrador English School District Audit Procurement Category 1: Buyers of Interest with Vendors of Interest Summary of Source of Purchase Five-year period ending June 30, 2016



Source: Prepared by the Office of the Auditor General of Newfoundland and Labrador based upon data obtained from NLESD (audited).

Purchase Authorization

Authorization is the principal means by which management ensures expenditures incurred are approved by officials who have the responsibility, authority and accountability for such expenditures. We found the following deficiencies with respect to the authorization of purchases:

1. Split Purchases

Split purchases occur when an employee breaks a larger purchase into several smaller purchases to avoid exceeding their purchasing authority limit and/or to exclude qualified bidders by avoiding the requirement to obtain quotations or issue a public tender. NLESD policies prohibit buyers from splitting purchases.

Our audit identified that of the 1,861 invoices paid where electronic purchase orders had been issued, 872 or 47 per cent totaling \$1.4 million related to split purchase orders and favoured a number of vendors. Of the 872 invoices:

- 656, totaling \$0.6 million, were for goods and services between \$1,000 and \$10,000 and public works between \$1,000 and \$20,000 for which, contrary to NLESD procedures, quotations were required but rarely obtained, and in some cases buyers exceeded their purchase authority limit.
- 216, totaling \$0.8 million, were for goods and services in excess of \$10,000 and public works in excess of \$20,000 but for which a public tender had not been issued as required by the *Public Tender Act*, and in most cases, buyers exceeded their purchase authority limit. In a large majority of these cases, not even 3 quotations were obtained.

Some examples included the following:

- A buyer split and approved seven purchase orders, all dated the same day, for pre-tax amounts of less than \$1,000 each to a vendor to complete exhaust fan work at various schools totaling \$7,334.
- In an email exchange between a buyer and a vendor, the buyer requested that a vendor provide separate quotations for the purchase of a compressor and blowguns so that the quotations would not exceed \$1,000. The vendor then asked the buyer whether they should split their quotation for a compressor and accessories because the total still exceeded \$1,000. The buyer replied “Yes Please;)...Implied from now on;)”.
- Email evidence between a buyer and vendor showed that the buyer requested that the vendor date quotations a couple of weeks apart which made the splitting of quotations harder to detect.
- A vendor sent an email to a buyer specifying product quantity and unit cost information for ladders, scaffolding and safety supplies totaling \$5,764. The buyer then issued six purchase orders over a period of 10 days, for amounts less than \$1,000 each, to purchase the products totaling \$5,764.
- A buyer approved five purchase orders for \$3,277 each to rent a heated Bobcat for a five-month period for a total of \$16,385.

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By splitting the above purchase orders, the buyer was able to keep the purchase within their authority level of \$5,000 without requiring further approval by a supervisor. Furthermore, as the majority of the split purchase orders were, individually, less than \$1,000, NLESD procedures did not require written quotations to be obtained or a process to document the establishment of a fair and reasonable price. This increased the opportunity to award work to select vendors.

2. Exceeding Purchasing Authority Limit

There was no process in place to formally document assigned purchase authority limits for Facilities buyers and ensure required changes to such documents were completed as buyers moved positions or were temporarily assigned to other positions within NLESD. This increased the risk for unauthorized transactions. While NLESD officials provided an email from 2009 that outlined the various limits for Facilities buyers by position, these limits varied during the five-year audit period and it was sometimes difficult to determine approved authority limits against which to audit.

During our audit, we noted that one employee who had moved positions had their authority limit reduced but the system authorization limit had not been updated to reflect this reduced level of purchase authority. We also noted that during amalgamation, for an unknown period of time, the purchase authority limits of the Director of Facilities and Custodial Management and the Manager of Procurement were increased from \$10,000 to \$20,000 without the required Board of Trustee approval.

During our testing of transactions, it was also not clear whether authorized purchase limits for buyers were intended to include the applicable taxes for the goods and services purchased. We found that it was an accepted practice in processing payments to allow up to the authorized purchase limit plus taxes. To address this concern, NLESD recently increased the purchase authority limits in the accounting system to include the applicable taxes for goods and services.

A review of the 2,887 invoices totaling \$9.9 million indicated that 637 or 22 per cent totaling \$3.7 million were not properly authorized as buyers with sufficient purchase authority did not approve the purchase as follows:

- 528 or 83 per cent of the 637 invoices, totaling \$2.1 million, related to monthly lump-sum tendered services including snow clearing, ice control and garbage collection at schools. We found that, in general, NLESD vendors did not provide invoices for these services. As a result, to provide documentation for payment processing, NLESD created a pre-authorized payment certificate which outlined the required monthly payments. We would expect these certificates to be reviewed and authorized by an NLESD official with appropriate authorization level. For most of these 528 invoices, an official with sufficient purchase authority failed to sign the related payment certificates authorizing the scheduled lump sum payments in connection with these services.

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- 109 or 17 per cent of the 637 invoices, totaling \$1.6 million, related to other goods and services where a buyer who approved the purchase exceeded their authorization limit. For example, we found instances where a buyer rented equipment from a vendor for weeks or months beyond the period specified on the purchase order. In these cases, accounts payable paid the vendor invoices for rental periods in excess of the purchase order without obtaining the signature of a buyer with sufficient purchase authority. This included an example where a buyer exceeded their authorized purchase limit of \$5,000 when they authorized the rental and subsequent purchases of fencing totaling \$12,770 under these circumstances. This non-compliance with NLESD policy was more prevalent for certain buyers.

These 637 invoices were in addition to invoices where the buyer exceeded their purchasing authority by splitting purchases across multiple purchase orders as noted in the above section on split purchases.

3. Lack of Segregation of Duties

A key internal control used by organizations to provide independent checks and balances is assigning incompatible duties to different individuals for authorizing, recording and reviewing of transactions, and maintaining custody of the asset. The underlying concept is that no employee or group of employees should be in a position to perform all key functions of a transaction or event.

NLESD uses an accounting system to support its purchasing, payable and payment functions. Employees access the system through an authorized username and password. While the purchasing policies did not define or use the term “segregation of duties”, the policies specify the following separation of duties for roles related to the initiation, approval and receipt functions:

- Facilities clerks create purchase requisitions for goods and services in the accounting system.
- Facilities employees with purchase authority (i.e. buyers) review and approve purchase requisitions in the accounting system.
- Facilities clerks enter goods and services receipt in the accounting system.
- Accounts payable clerks process supplier invoices for payment following goods receipt in the accounting system.

We found that the accounting system did not support the intended controls for segregation of duties, which significantly increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud. When electronic purchase orders were used, the accounting system inappropriately allowed the following:

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- Facilities buyers within their authority limit to approve purchases, could also create purchase requisitions and validate or confirm receipt of goods and services in the accounting system.
- An employee authorized to create a purchase requisition or validate receipt of goods and services in the accounting system was not required to input a name, or could input any name, into the related data field in the accounting system intended to capture employee identification. As a result, an employee with or without purchase authority could requisition and validate goods and services without detection and without an effective audit trail.
- The accounting system allowed procurement clerks in the Procurement Division to authorize purchase orders that are in the system queues of other buyers with no system detection that the authorization had been completed by the clerk rather than the buyer to which the purchase order had been assigned.

The risk associated with the above lack of segregation of duties was further increased as accounts payable staff processed invoice payment automatically, as directed in policy, upon validation of goods received in the accounting system as long as the invoice amount did not exceed the amount on the purchase order and the buyers purchasing authority limits. In addition, we found that there were no compensating controls in place such as periodically reviewing access rights within the accounting system or creating and reviewing reports from the system to determine whether there was compliance with required segregation of duties policies. There was also no requirement that an employee independent of goods requisition and goods receipt reviews and approves the invoice prior to forwarding to accounts payable for payment processing.

Of the 1,789 invoices where electronic purchase orders were issued for goods and services under \$10,000 or public works under \$20,000, we found that for 833 or 47 per cent totaling \$932,258, documentation indicated that the same buyer initiated the purchase, approved the purchase order and validated receipt of the goods and services. This was more prevalent for specific buyers.

Vendor Selection

Our review of the 2,887 invoices noted the following deficiencies:

1. **Non-Compliance with the *Public Tender Act* for Goods and Services Greater than \$10,000 or Public Works Greater than \$20,000**

In addition to the 216 instances identified where a public tender was avoided due to splitting purchase orders, a review of the 72 invoices where electronic purchase orders were issued for goods and services in excess of \$10,000, or for a public work in excess of \$20,000, identified further non-compliance with the *Public Tender Act* as follows:

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- For 3 of 72 invoices paid totaling \$85,215, NLESD did not invite a public tender for the purchase as required under the *Public Tender Act*. NLESD also did not complete and forward a tender exemption form (Form B) to Government to report publicly as required by the *Public Tender Act*. For 2 of these 3 invoices, 3 quotations were not obtained.
- For 15, or 25 per cent of the 60 invoices where a public tender was awarded, the invoices included goods, services or work not specified in the tender and there was no evidence that the additional related costs totaling \$195,080, were approved by the Director of Education or Board of NLESD as required by the *Public Tender Act*.

For 9 of the 72 invoices, totaling \$166,841, NLESD could not locate tender documents associated with tender numbers specified on the purchase orders issued. As a result, for these purchase orders, we were unable to confirm whether NLESD invited tenders, awarded contracts and paid vendor invoices in accordance with the *Public Tender Act*.

2. Lack of Open and Transparent Process in Establishing Fair and Reasonable Price for Goods and Services Less than \$10,000 or Public Works Less than \$20,000

For goods and services purchased for less than \$10,000 or public works less than \$20,000, we found there was a lack of an open and transparent process in establishing fair and reasonable prices, or best value, and we also identified concerns regarding the legitimacy and integrity of the quotation process as follows:

(1) Electronic Purchase Orders

For the 503 invoices paid where electronic purchase orders were for goods and services \$1,000 up to \$10,000, or public works \$1,000 up to \$20,000, we found:

- For 390 or 78 per cent of 503 invoices paid totaling \$1.3 million, buyers approved purchase orders when there was no evidence they obtained direct quotations from at least three legitimate vendors as required by NLESD procurement procedures. In almost all cases, there was either no evidence of any quotations or there was evidence of only one quotation to support the purchase from the vendor.
- For the remaining 113 or 22 per cent of 503 invoices paid totaling \$944,751, there were three quotations on file to support the purchase order. However, we found that in most cases, the documentation did not support an open, fair and transparent quotation process as there were numerous concerns identified with the legitimacy and integrity of the process, including the following examples:

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- We found that certain vendors provided a buyer and a facilities clerk with an editable document that included the vendors' letterhead which significantly increased the risk of fictitious quotations being used to support the quotation process.
- Quotations supporting 16 purchase orders were from the same group of three vendors. Quotations from one of the vendors were not always consistent in format or template to one another and there was an indication that this vendor had no record of submitting quotations for this work to NLESD.
- A quotation supporting the purchase order had been prepared by a vendor for an organization other than NLESD, was dated four months earlier than the winning quotation and it was unclear whether the quotation was related to the scope of work required. There was evidence that someone altered the quotation by crossing out the school name on the earlier-dated quotation and writing in the name of the school specified on the purchase order.
- Quotations supporting the purchase order were outdated from the validity timeframe provided by the vendor, were almost a year old or not dated at all.
- Quotations supporting the purchase order were from, in one instance, vendors that were not at arms-length from each other. For example, one of the higher-cost quotations was from a vendor who was an employee of another vendor who submitted the winning quotation. In another instance, a quotation was from a vendor that was not at arm's length from NLESD.
- A winning quotation was significantly lower than the two other quotations and we were unable to determine whether the quotations were for the same scope of work. In other cases, the quotation appeared to be for a different scope of work than the good or service being requested.
- Quotations from one vendor appeared to have been altered to show that another vendor had provided the quotation.
- There was either no evidence that NLESD recorded the quotations received in a summary document as required by NLESD policy for review and approval by an appropriate buyer or when we found quotation summary documents, in the majority of cases, there was no evidence that the buyer reviewed and approved the documents.

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During our audit, we also reviewed a quotation summary document for structural steel work to support the installation of an HVAC system at a school that contained the names of four vendors. The buyer who approved the purchase order also signed the summary document indicating that three of these four vendors did not provide a quotation. The vendor listed as having provided the quotation was awarded the work totaling \$21,470. However, we found correspondence dated one day prior to the award from one of the other vendors listed on the summary document inquiring about the status of their quotation. The buyer replied, “*Your price was lowest but way above estimated cost. We are going to re-evaluate and look at work again*”. The inquiring vendor was one of the three vendors NLESD’s consultants recommended NLESD obtain quotations from. We further noted that the vendor awarded this work was not one of the three vendors recommended by NLESD’s consultant for this project.

These observations, combined with the fact that, in general, there was no evidence such as a fax or email to demonstrate that NLESD sent requests for quotations to vendors or received quotations directly from vendors, resulted in a lack of transparency for the selection of vendors and validity of the quotation process in the procurement of goods and services. This also increased the opportunity to award work to select vendors.

In June 2016, to address identified risks with the quotation process for procuring goods and services, NLESD transferred responsibility for this process from Facilities staff in all regional offices to its centralized Procurement Division. While this transfer was intended to improve the segregation of duties, the process still allowed the buyer to make the final vendor choice and the Procurement Division had not been consistently monitoring the ultimate selection of vendors.

For the 1,286 electronic purchase orders that were less than \$1,000 we found:

- For 1,237 or 96 per cent of 1,286 invoices paid totaling \$840,000, there was no evidence buyers established a fair and reasonable price for the purchase as required by the *Public Tender Act* by, for example, obtaining a quotation from the vendor and referencing other vendor price listings. There was also no evidence that buyers referenced NLESD’s commodity listing as required by NLESD policy to determine whether there was pre-arranged pricing for the goods and services they were purchasing.

(2) Emergency Quick Purchase Orders

Authorized Facilities buyers may issue a Quick Purchase Order (QPO) to purchase goods and services for a pre-tax cost of less than \$1,000 when there is an emergency and there is insufficient time to generate a routine or standard purchase order. NLESD defines an emergency as a situation where:

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- There is an immediate life and safety risk or risk of significant property damage.
- There is a risk that a school could close.
- The goods and services required could only be determined on site and it is not practical to wait or leave the site to issue a routine/standard purchase order.
- There is a risk of project work stoppage.

Our audit of the 248 invoices and supporting documentation where buyers approved QPOs indicated that there was pervasive non-compliance with NLESD policies as follows:

- For 243 or 98 per cent of 248 invoices paid totaling \$95,836, buyers issued QPOs for purchases when there was no documented evidence of an emergency and thus, the standard electronic purchase order should have been issued and a fair and reasonable price for these goods and services should have been established. For example, purchases included asphalt repair, parking lot line painting and AM/FM job site radios.
- For 6 or 2 per cent of 248 invoices paid totaling \$5,088, the buyer issued a QPO for an amount of \$1,000 or more, when they had no authority to do so. In these cases, NLESD policy required that the standard electronic purchase order be issued and three direct quotations be obtained.

(3) No Purchase Order Issued

NLESD does not require an electronic or quick purchase order in the following circumstances:

- Fuel, power and hydro charges
- Permits and vehicle registration fees
- Municipal fees and taxes
- Usage charges for telephone, cell phone and similar devices
- Small items which can be purchased from petty cash or reimbursed to the individual if paid personally (e.g. items less than \$20)

Although not outlined in NLESD policy, accepted practice is that purchase orders are not issued and vendor invoices are not required in connection with services provided when awarded through a lump sum tender such as snow clearing, ice control and garbage collection. Rather, accounts payable create an invoice number in order to process the monthly reoccurring payments related to the lump sum tenders. An invoice number is also created to return bid deposits to bidders or to release holdbacks upon satisfactory completion of tender work. In these cases, there is no associated purchase order issued.

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During the five-year audit period, there were 778 invoices paid totaling \$3.0 million where no purchase order was issued. Our review of these 778 invoices and supporting documentation indicated that:

- 602 or 77 per cent of the 778 invoices totaling \$2.6 million related to services provided when awarded through a lump sum tender, including related holdbacks, or the return of bid deposits. Accepted NLESD practice did not require purchase orders to be issued and vendor invoices to be provided. However, generally accepted procurement practice in Government departments would recommend that for services, including those awarded through lump-sum tender, purchase orders be issued and vendors provide the government-funded body with invoices on a regular basis in connection to such tendered services.
- 172 or 22 per cent of the 778 invoices totaling \$384,554 did not meet the exemption criteria for the non-issuance of purchase orders. In these instances, purchase orders should have been issued through the standard electronic purchase order process and a fair and reasonable price for these goods and services should have been established. Examples of these purchases included tiles and flooring supplies, rental of scissor lifts, installation of tiles in classrooms, and labour for maintenance at schools. Of the 172 invoices:
 - 112 totaling \$338,471 were for purchases in excess of \$1,000 for which Facilities staff were required to obtain three direct quotations.
 - 59 totaling \$29,839 were for purchases less than \$1,000 for which a fair and reasonable price should have been established.
 - 1 totaling \$16,244 related to a repair of a watermain break in a school. As this public work was less than \$20,000, no public tender was required and given the nature of such an emergency, it was reasonable that three direct quotations were not obtained. However, the standard electronic purchase order process should still have been used and documentation to support the reasonableness of the cost should have been put on file.
- 4 invoices totaling \$2,739 could not be located by NLESD. Without an invoice or purchase order, we were unable to determine the nature of the purchase and thus whether a purchase order was required.

Invoice Processing and Payment

Accounts payable receive and process vendor invoices for payment. Upon receipt, invoices are to be date stamped, matched to the appropriate purchase order in the accounting system and initialed to certify for payment when the purchase is authorized and:

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- The invoice is mathematically correct and consistent with the nature and price of the goods and services specified on the purchase order.
- There is evidence of goods and services receipt.
- The account distribution is accurate.

A review of the 2,887 invoices totaling \$9.9 million and related purchase orders and supporting documentation identified pervasive non-compliance with these established procurement policies:

1. Insufficient Purchase Order and Invoice Details

Of the 2,109 invoices paid through issuance of an electronic purchase order (1,861 invoices) and QPOs (248 invoices), accounts payable processed invoices for payment when a significant number of purchase orders and more than half of the invoices contained insufficient detail regarding the nature, extent and/or timing of goods and services provided. This increases the risk of error, such as an incorrect payment and account distribution errors. It also increases the risk of unauthorized actions, unethical behaviour and/or fraud.

Some examples included the following:

- In October 2013, NLESD issued a purchase order for “Ground Removal” at a school totaling \$1,102. The purchase order and vendor invoice did not detail the rationale for and extent of ground removal required at the school. The vendor invoice also did not detail the date of service. The buyer that approved the purchase order also requisitioned the service and completed the goods receipt in the accounting system.
- In November 2014, NLESD issued a purchase order for “extra pick up at bus depot” totaling \$791. The purchase order and vendor invoice did not detail the rationale for or nature of the service.
- In June 2013, NLESD issued a purchase order for the line painting of square ball courts at various school locations totaling \$4,746. The purchase order did not specify the names of the schools where the line painting was required and the vendor invoice did not specify names of the schools and the dates the line painting was completed. The buyer that approved the purchase order also requisitioned the service and completed the goods receipt in the accounting system.

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For another vendor, 75 invoices totaling \$426,589 did not include an invoice number nor did it include the vendor GST/HST registration number as required by the Canada Revenue Agency. Rather than identifying these types of invoices as a concern for further investigation before payment, accounts payable clerks proceeded to create and input invoice numbers into the accounting system to facilitate payment processing. Of further concern was that we found that an editable quotation and invoice template had been provided to a buyer by the vendor in question.

For the 778 invoices where no purchase order was issued, accounts payable processed 101 invoices totaling \$248,362 for payment when there was insufficient detail on the invoice about the nature, extent and timing of goods and services provided. For 562 invoices related to tendered services, NLESD created a payment certificate to process payments where, in general, vendors do not submit invoices for these services. The NLESD payments were consistent with the tender prices. For 40 invoices, payments related to the return of bid deposits.

2. Insufficient Evidence of Receipt of Goods and Services

NLESD policies provide for payment of vendor invoices only when there is evidence that they received the goods and services purchased. We would expect sufficient and appropriate receipt evidence for:

- Goods such as tools and equipment would normally be a packing slip or bill of lading, signed by an NLESD employee indicating that the specifications and quantity of goods received agrees with those specified on the purchase order.
- Services such as maintenance repairs would normally be a work order, signed by an NLESD employee verifying that the vendor performed the repairs as specified on the purchase order.
- Goods and services under a contract or agreement would normally be a progress billing certifying that the vendor provided the goods and services as agreed.

(1) Electronic Purchase Orders

A review of the payment process for electronic purchase orders indicated that accounts payable process invoice payment once an authorized user enters a “Y” in the accounting system’s goods receipt data field as long as the invoice amount does not exceed the amount on the purchase order and the buyers purchasing authority limits. Our audit found, however, that this intended reliance on evidence of goods and services receipt was unreliable due to weaknesses within the goods receipt module of the system. Anyone with access to this module, regardless of purchasing authority limit, could assign a “Y” and leave the verifier name blank or assign any name without detection and without an effective audit trail.

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For the 1,861 invoices where an electronic purchase order was issued, our audit found that:

- For two of the 1,861 invoices paid, totaling \$1,184, there was no “Y” in the accounting system to validate receipt of goods or services.
- For 1,131 or 61 per cent of 1,861 invoices totaling \$3.0 million, validation of goods receipt was limited to a “Y”, sometimes accompanied by a person’s name, entered in the accounting system. This type of receipt evidence is inadequate when documentation such as packing slips, work orders and certified progress billings should be available.
- For 637 or 34 per cent of the 1,861 invoices totaling \$3.8 million, in addition to the validation of goods receipt in the accounting system, someone (usually the buyer) signed or initialed the physical copy of the purchase order. Again, this type of receipt evidence is inadequate when documentation such as packing slips, work orders and certified progress billings should be available. Furthermore, in most cases, the person that initialed the purchase order for goods receipt also approved the purchase order.

Some examples of inadequate documentation to support the receipt of goods and services include:

- NLESD paid 35 invoices totaling \$39,334 for asphalt (pothole) repair. We found that in addition to the purchase orders and invoices not specifying the nature and extent of pothole repair required and carried out, there was no evidence, such as a work order, site inspection report or any other documentation from Facilities staff confirming completion of pothole repair work. In most cases, the same buyer approved the purchase order and confirmed in the accounting system that the work was completed. We noted in one case, an NLESD Facilities buyer presented five such purchase orders, and photographs, to Internal Audit questioning whether the pothole repair work specified at various schools between February and April 2015 had been completed. The Facilities buyer provided photographs which showed that potholes still existed at some of the schools even after the invoices totaling \$5,255 had been paid.
- NLESD paid six invoices totaling \$28,838 to a vendor for the services of a power engineer at an hourly rate of \$55 to manage the boiler heating system at a high school. There was no documentation to support the validation of the hours worked by the power engineer charged on the invoices.

Further, there was insufficient evidence for almost all invoices we reviewed to determine whether NLESD had issued a purchase order prior to receiving the goods or services. However, we found a number of emails from vendors asking that a buyer issue purchase orders for goods and services they already provided to NLESD.

(2) Emergency Quick Purchase Orders

Of the 248 invoices for which QPOs were issued:

- For 94 invoices totaling \$33,504, there was no evidence of goods receipt.
- For 14 invoices totaling \$11,762, validation of goods receipt was limited to the buyer initialing the QPO.
- For 144 invoices totaling \$53,703, buyers issued QPOs after they received the invoice from the vendor.

(3) No Purchase Order Issued

Of the 778 invoices paid where no purchase order was issued, for 734 totaling \$2.6 million, there was no evidence of goods receipt. For example, NLESD paid 119 invoices, the majority for which no purchase order was issued, totaling \$303,205 where the vendor removed stock piled snow from various schools during the four-year period July 1, 2011 to June 30, 2015. The hourly rate for this additional service per loader and tandem dump truck was specified in their winning tender bid for snow clearing. We found that there was not sufficient and appropriate evidence confirming receipt of services for the 119 invoices.

For example, fifty-one of the 119 invoices did not specify a date of snow removal and five invoices did not specify the number of hours of snow removal and there was no validation of work completed by an NLESD employee. As a result, there was no ability to determine whether the invoices represented services received. Further, for 90 of the 119 invoices, there was no evidence that the vendor obtained NLESD's written approval in advance of providing the service as required under the terms of the tender. This lack of supporting documentation and pre-approval of services increases the risk of error, unauthorized actions, unethical behaviour and/or fraud.

For one school during the winter of 2013-14, NLESD paid 12 invoices totaling \$65,258, for approximately 165 hours of snow removal at \$395 per hour. This equates to approximately 21 eight-hour days of snow removal using a loader and tandem dump truck. NLESD paid nine of the 12 invoices when the invoices did not specify the date of snow removal and a buyer with sufficient purchase authority did not authorize the payment.

3. Lack of Supplier Statement Reconciliations/Duplicate Payments

NLESD did not perform regular reconciliations of supplier (vendor) statements to NLESD accounts payable records. Rather, such supplier reconciliations were generally performed only at year-end and were performed only for selected vendors. Supplier statements contain details of invoices, credits, discounts and any payments received. Supplier statement reconciliations are a detective control used to identify possible discrepancies including inaccurate or inappropriate charges by a vendor. Further, while the Comptroller manually scanned cheque runs for possible duplicate payments, computer assisted software or other processes were not used to query for or identify possible duplicate payments.

During the audit, a number of instances were noted of payments of possible duplicate and/or fraudulent invoices or overbilling. For example, a buyer approved the purchase of road gravel for a high school at a cost of \$989. Two weeks later the buyer approved another purchase of road gravel from the same vendor for the same high school at the same cost of \$989. Accounts payable received two vendor invoices and processed payment of \$1,978. We found that one of the invoices processed for payment by accounts payable was a photocopy and in a format different from typical invoices received from this vendor. We also noted that this vendor submitted invoices directly to a buyer in editable format, which increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud. In another example, there were two payments to a vendor totaling \$24,191, both which appeared to be for the same work at the same school.

We found 27 instances of duplicate payments totaling \$6,215 in which a payment was made to both the vendor named on the invoice and another vendor. Most of these duplicate payments related to transactions where there was either a QPO or no purchase order and appeared to be keying errors.

4. Year-End Spending

Accounts payable place a “*hold for payment*” on certain vendor invoices when directed by the Comptroller, for example, to allow time for investigation of unusual or potential duplicate payments identified during NLESD’s regular cheque run. Accounts payable also place a “*hold for payment*” on vendor invoices when directed by Facilities buyers when vendor goods, services or work is incomplete or unsatisfactory.

During the audit, however, we also identified instances that occurred just prior to Government’s March 31 year-end when NLESD used the “*hold for payment*” feature to enable them to enter goods receipt in the accounting system, even though the goods, services or work specified on vendor invoices were not received or completed by March 31. This appears to have been done to avoid “losing” the available repair and maintenance budget from the Department of Education and Early Childhood Development. NLESD submitted claims to Government for reimbursement of repairs and

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maintenance costs that NLESD had not yet incurred. Accounts payable removed holds on payments to vendors when directed by Facilities buyers once the goods, services or work were received or completed after March 31.

During the audit period, we identified 22 invoices totaling \$361,460 that were received just prior to the Government's March 31 year-end, billed to the Government in that fiscal year but where payment of the invoices was held and goods and services receipt dates for payment processing were after March 31. Some examples included:

- A tender for two scissor lifts was issued just prior to March 31 and stipulated a March 31 delivery deadline. The low bid of \$26,639 was not awarded because the bidder stated they could not supply and deliver the scissor lifts by the March 31 deadline. The tender was awarded to the next lower bidder at \$29,378; however, evidence indicated that the scissor lifts were not received until after year-end.
- In the last week of March 2014, NLESD issued six purchase orders to four vendors in connection with the installation of an HVAC system at a high school costing \$138,083. For five of the six purchase orders, NLESD split the purchase and did not invite public tenders as required for the HVAC work at the high school or report the exemption to Government as required. NLESD received invoices from all four vendors within several days of the purchase order date. Accounts payable processed the invoices for payment but placed a "*hold for payment*" on the payment of all eight invoices. Goods receipt dates for payment processing ranged from one to nine months after March 31.

5. Inaccurate Account Distribution

Management's ability to monitor expenditures against approved budgets and identify trends or unusual patterns depends on whether NLESD allocates the cost of goods and services to the correct financial accounts in the correct fiscal period when processing invoices for payment. For the 2,887 invoices reviewed, we found:

- For 1,489 or 51 per cent of the 2,887 invoices totaling \$5.8 million, the account allocations appeared reasonable.
- NLESD allocated 684 or 24 per cent of the 2,887 invoices totaling \$3.1 million to the incorrect account and/or cost center. For example, we found that buyers sometimes purchased goods and services for one school and allocated the costs to the accounts of other schools.
- There was insufficient information on the invoice or purchase order for us to determine whether NLESD allocated 714 or 25 per cent of the 2,887 invoices totaling \$1.0 million, to the correct account and/or cost center.

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We also found that NLESD did not provide any Facilities expenditure reports to schools to review for reasonableness of charges which would mitigate risk of inaccurate or inappropriate account distribution.

Unusual Transactions

Throughout the audit period, there were a significant number of instances which we identified as unusual in nature, many of which may be additional indicators of unethical behaviour and/or possible fraudulent transactions. For example:

- Unaccounted for Assets - While most of the procurement transactions were for services, such as snow clearing and garbage collection, we identified and completed audit procedures to confirm the existence of 280 assets totaling \$245,187 that were purchased for use in Facilities operations and were of the nature that we expected to be able to locate and confirm their identity. NLESD was unable to locate 146 or 52 per cent of these assets totaling \$100,954 as shown in Appendix A. These included the following examples:
 - A buyer entered into 14 rent-to-buy arrangements with a vendor for the purchase of [REDACTED] totaling \$39,429. With the exception of the final invoice, the related purchase orders and invoices did not indicate the nature of the rent-to-buy arrangement. With the exception of the buyer, NLESD indicated that they were not aware of these arrangements or that NLESD had purchased the [REDACTED] at the end of the rental term. We also found:
 - In two cases, a buyer authorized the purchase of [REDACTED] totaling \$16,069 under separate rent-to-buy arrangements, in excess of their purchase authority of \$5,000. NLESD was unable to locate the [REDACTED].
 - In two cases, a buyer authorized the purchase of [REDACTED] totaling \$12,763 under rent-to-buy arrangements, in excess of their \$5,000 purchase authority. NLESD was unable to locate [REDACTED] totaling \$5,105.
 - In one case, a buyer authorized the purchase of [REDACTED] totaling \$2,585 under a rent-to-buy arrangement. NLESD was unable to locate the [REDACTED].
 - In nine cases, a buyer authorized the purchase of other items totaling \$8,012, under rent-to-buy arrangements. NLESD was unable to locate five of nine products totaling \$5,882.

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- In May 2013, a vendor notified a buyer that a sales order from April 2013 for a [REDACTED] totaling \$590 did not have an associated purchase order. The buyer proceeded to issue the purchase order and the invoice was subsequently paid. A review of the sales order receipt indicated that the individual who signed for receipt of goods was not an NLESD official, but rather, a vendor of NLESD. The [REDACTED] could not be located and is included in Appendix A.
- Rental fees appeared excessive, inconsistent and unnecessary - NLESD paid 43 invoices to one vendor totaling \$56,065 for rental of tools and equipment such as generators and excavators. In many cases, we found the rental fees appeared excessive, inconsistent and unnecessary. As NLESD did not maintain a work order management system or use another process to track Facilities staff time and goods and service requirements for specific projects, there was no documented rationale for such rental fees. NLESD officials were also unable to provide any further clarification for these instances. For example, a buyer approved the rental of:
 - A wheelbarrow for a two-week period cost of \$735. The rental cost appeared excessive.
 - A mini-excavator for various one-week periods, at weekly rental costs that inconsistently ranged from \$565 to \$904.
 - A laser-level for a two-week period cost of \$904, and then for three four-week periods at a cost of \$904 for each four-week period. The rental costs were inconsistent and appeared excessive.
 - Jackhammers at inconsistent costs ranging from \$254 to \$706 a week.
 - Generators at an average cost of \$527 per week when NLESD already owned generators and there was no rationale documented as to the necessity for the rental.

Other cases were noted, for example, where:

- In one case, a buyer authorized the rental of up to four 50-foot extension cords for a period of three months totaling \$740 when the four extension cords were available for purchase at \$298. NLESD subsequently purchased three of the four extension cords at the end of the rental period for an additional \$17.
- Almost all of the \$38,912 in delivery and pickup fees to a specific vendor related to the rental of tools and equipment totaling \$63,491. These fees represent approximately 61 per cent of the cost to rent the tools and equipment, which appeared excessive.

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- NLESD paid 178 invoices totaling \$119,607 to a vendor for the rental of tools and equipment such as storage containers, fencing, scissor lifts and jackhammers. In some cases, we found that NLESD already owned tools and equipment similar to those rented. For example, in November 2013, a buyer commenced renting a 20-foot storage container for an elementary school at \$1,018 per month when a storage container, already owned by NLESD and located at another school, was available for use. Instead of shipping the available container from the school that was not using it, to the elementary school, the buyer authorized a payment of \$1,582 to have the available container delivered to the property of another vendor in November 2013. The buyer continued to rent containers while the NLESD-owned container appeared to have been on the property of the other vendor for a period of approximately two and one-half years ending April 2016. NLESD advised that an employee of the vendor indicated they used the storage container to store their heavy equipment tires.
- NLESD paid 83 invoices totaling \$87,434 for truck and trailer rentals even though NLESD owned trucks and trailers and in most cases, the buyer did not document the reason for the vehicle rentals and there was no information on the purchase order, invoice or supporting documents regarding the make and model of vehicles rented.
- Validity of goods and services received – Additional examples were noted of inadequate documentation to support the receipt of goods and services including:
 - NLESD paid four invoices totaling \$3,955 for skids of cold asphalt patch in connection with four approved purchase orders between December 2014 and April 2015. The invoices specified a ship to address as NLESD's Facilities office or head office. A buyer at the Facilities office stated that NLESD purchases cold asphalt patch for the purpose of supplying to Facilities staff to complete pothole repair at schools. The Facilities buyer stated that the Facilities office did not receive any of the skids purchased from this vendor between December 2014 and April 2015.

In addition, in March 2015, a buyer approved a purchase order issued to another vendor to supply and install cold patch at various schools for an amount of \$1,074. Another Facilities buyer thus questioned the legitimacy of this purchase as Facilities staff normally complete this work.
 - In October 2017, we identified an unused gas cut-off saw at the Facilities office. A Facilities buyer stated that an NLESD van driver was directed by a buyer to retrieve the saw from a vendor and deliver it to the Facilities office in November 2015. NLESD could not provide evidence that NLESD purchased the saw from this vendor.

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- A buyer approved the purchase of road gravel and road-grading services at a Facilities office at a total cost of \$2,034. There was evidence that although the invoice was paid, this work was not completed.
- Lack of documentation to support the necessity of the purchase - There were numerous instances noted where NLESD procured goods and services where NLESD already owned goods of the same nature or had staff that provided services of the same nature. There was no work order management system or other process maintained by NLESD to document support for the necessity of the purchase and NLESD officials were unable to provide any further clarification for these instances. Buyers also did not obtain quotations or demonstrate that a fair and reasonable price had been established. Instances included:
 - NLESD paid nine invoices totaling \$18,553 for tools and equipment such as ladders when the vendor was not in the business of selling tools and equipment. The buyer, for example, approved four purchase orders totaling \$3,859 to purchase 13 ladders during a five-month period in 2013-14. NLESD already had ladders for use in Facilities operations.
 - NLESD paid six invoices for lawn mowing and care at two schools in connection with six approved purchase orders issued between October 16, 2013 and December 16, 2013 totaling \$5,763. There was no documented rationale for the lawn mowing purchases during this time of year, or such services in general, as NLESD already owned numerous mowers and tractors for lawn mowing at schools.
 - Seven invoices totaling \$24,069 were for the supply of labour workers for approximately four weeks to perform work at various schools, such as building sheds. There was no documented rationale for hiring labour workers when NLESD already employed staff to perform such work. All of the purchases were over \$1,000 and contrary to NLESD required procedures, there were no quotations obtained. There was no purchase order for five of the seven invoices where the buyer approved the invoice for payment. The vendor in question was a company of which an NLESD school staff employee was a director (i.e. non-arm's length). This employee also had a Facilities buyer obtain quotations for what appeared to be their personal business purposes.
- Snow-clearing services for employees – A buyer arranged for some Facilities employees to receive free snow-clearing services from an NLESD vendor.

Procurement Category 2: Buyers of Interest with Remaining Vendors

As shown in Table 1 on page 4, during the five-year period ended June 30, 2016, NLESD paid 14,859 invoices totaling \$10.4 million to remaining vendors where the purchase was approved by buyers of interest. NLESD was unable to provide 2,516 or 17 per cent of the 14,859 invoices totaling \$2.0 million. Thus, we examined the remaining 12,343 invoices totaling \$8.4 million and their related purchase orders. We also examined the purchase orders for 495 transactions associated with a particular buyer where there was no invoice available. We did not perform audit procedures on the purchase orders for the remaining transactions where there was no invoice due to insufficient details on these NLESD related purchase orders. The 12,343 invoices and other documents were examined to determine whether there were any unauthorized or unusual transactions, including any indicators of possible unethical behaviour and/or fraudulent transactions.

Our audit identified the following concerns:

Unusual Transactions

Throughout the audit period, there were a significant number of instances which we identified as unusual in nature, many of which are additional indicators of unethical behaviour and/or possible fraudulent transactions. For example:

- High-end clothing and accessories were purchased where NLESD could not provide documentation to support or advise of the rationale of these purchases and NLESD could not confirm that the nature of these items would be a normal or reasonable purchase for NLESD. This included such items as deluxe coveralls, lifejackets, polarized safety sunglasses and other high-end clothing.
- Throughout the audit period, several buyers approved the purchase of at least 67 tires at a cost of \$14,214 and 3 tire installations at a cost of \$220 in cases where the invoice information regarding the tires did not match any of the make and models of NLESD vehicles. In one case, we noted that an attempt was made to white out the vehicle make and model on the invoice. In a number of cases, the invoice identified a make and model that matched the personal vehicle of the buyer. In some cases, a Facilities employee or Department of Education and Early Childhood Development employee received tires.
- In 2011, a buyer approved the purchase of a gas generator costing \$337 and provided it as a gift to another buyer in 2014. This other buyer indicated they returned the generator to another NLESD location the next day. We located the generator at a Facilities office in December 2017. NLESD advised that the generator appeared to have had very little use since its purchase in 2011.

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- There were a number of other instances where transactions lacked transparency, including supporting documentation, and items could not be accounted for. We identified and completed audit procedures to confirm the existence of 298 assets totaling \$171,113 that these specific buyers purchased from other vendors during the audit period. NLESD was unable to locate 165 or 55 per cent of the 298 assets totaling \$68,614 as shown in Appendix B. These included the following examples:
 - A buyer approved the purchase of a [REDACTED] costing \$556. There was no documentation as to the rationale of this purchase and it would not be considered a reasonable purchase of NLESD. The invoice for the [REDACTED] referenced a vehicle make and model that did not match any NLESD vehicle but did match the personal vehicle of the buyer who approved the purchase order. NLESD could not locate the [REDACTED].
 - A buyer split and approved three purchase orders for an [REDACTED] costing \$2,246. NLESD was unable to provide the invoices or supporting documents to justify this purchase and was unable to locate the items.
 - A buyer approved the purchase of a [REDACTED] costing \$350 where there is evidence that it was intended for the personal use of a Facilities employee. NLESD was unable to locate the [REDACTED].
 - A buyer approved 10 purchase orders for tools and building materials, including plywood, lumber and a large window, costing \$6,477 to be shipped to the Western Avalon regional office. There was no documentation or rationale as to the purpose for the building materials. NLESD stated there was no work in the Avalon West region during this time-period that would have required the use of these building materials. Given that such building materials are typical NLESD inventory and the lack of specific identifiers on such materials, we did not attempt to locate these items. NLESD was unable to locate the three tools purchased at a cost of \$1,129.
 - A buyer approved a purchase order for [REDACTED] at \$4,711 to be used in the [REDACTED] for schools in the Central region. Facilities staff in the Central region stated that they only received [REDACTED]. NLESD could not locate the remaining [REDACTED].
 - A buyer approved a purchase order for a [REDACTED] costing \$749 for a specific school but an NLESD official stated the [REDACTED] were not at the school. NLESD could not locate where the [REDACTED] were used.

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- A buyer approved the purchase of [REDACTED] at a high school in 2014 costing \$4,419. We visited the high school in December 2017 and could not locate any [REDACTED]. In July 2018, it was confirmed that the [REDACTED] had not been received by NLESD even though the invoice was paid in 2015 and the buyer had validated goods receipt.
- A buyer approved the purchase of [REDACTED] for a high school costing \$4,972. In December 2017, we visited the high school and could not locate the [REDACTED]. NLESD contacted the vendor who indicated that the [REDACTED] were installed; however, the [REDACTED] were not installed as there was [REDACTED].
- There was evidence that a buyer directed Facilities employees to travel to, and perform work on, their personal dwelling during working hours.
- There was evidence that a buyer arranged for the supply and installation of flooring and wall cabinets at the personal residence of a Facilities employee during a time when NLESD was installing flooring and cabinets at various schools. The Facilities employee did not pay for the supply and installation of the flooring and wall cabinets.
- A Facilities buyer discussed, and in at least one case, participated in, fishing trips with consultants hired by NLESD to provide professional services in connection with Facilities projects at schools.
- There were instances where it appeared that a Facilities buyer received gifts from NLESD vendors for NLESD staff. Such gifts included power tools, gift cards and entertainment event tickets.
- Although leave attendance was not included in the scope of our audit, during a review of documents, we noted that a buyer signed their timesheet indicating they worked a particular day when there was contradictory evidence that they spent the day delivering non-NLESD services through a personal business. The timesheet was approved authorizing payment of \$285 to the buyer. An additional instance was noted when a Facilities employee, with the knowledge of the same above buyer, signed their timesheet indicating they were working three days when there was contradictory evidence that the employee was on leave those days. The timesheet was approved authorizing payment of \$521 to the employee.
- A Facilities employee created 20 invoices totaling approximately \$8,000 from an electronic invoice template provided by a vendor. The Facilities employee submitted the invoices to accounts payable for payment and sent copies of the invoices and corresponding purchase orders to the vendor in an email “for your files”. NLESD paid 19 of the 20 invoices totaling \$7,600.

Purchase Authorization

Split purchases continued to be a pattern with one of the buyers. The buyer split the purchase orders to either avoid quotations or remain within their purchasing authority for individual transactions of \$5,000 without further approval of a supervisor. In addition, most of these purchase orders were less than \$1,000 and thus NLESD procedures did not require quotations to be obtained. Examples included:

- During a three-week period, the buyer split and approved eight purchase orders for one vendor to paint and plaster rooms in various schools, totaling \$7,430. An NLESD employee documented on one of the invoices that the buyer was splitting purchase orders when quotations were required. There was no evidence that this issue was addressed with the buyer.
- The buyer split and approved five purchase orders for scaffolding totaling \$11,740.
- The buyer split and approved four purchase orders for building materials to complete a shed at a school costing \$2,900. We found no shed at the school. NLESD officials stated that the vendor delivered the building materials to a storage facility rather than the school. While NLESD officials advised that building materials of a similar nature are in storage, neither NLESD nor our Office were able to verify that these materials related to these specific purchase orders.
- The buyer directed a Facilities clerk to create two requisitions for the purchase of 52 ladders totaling \$13,206 to avoid inviting a public tender. The buyer approved a purchase order for one requisition totaling \$4,379 and a member of senior management approved a purchase order for the remaining amount of \$8,827. NLESD issued both purchase orders to the same vendor on the same day.

Furthermore, a review of documents identified numerous instances of buyers exceeding their purchasing authority limit including 162 invoices totaling \$286,879, spanning five buyers, where authority levels ranged from \$3,000 to \$10,000.

Vendor Selection

Of the purchase orders within the scope of the Procurement Category 2 transactions that we audited, Facilities buyers approved 89 per cent totaling \$4.4 million that, individually, were for an amount less than \$1,000, where NLESD procedures did not require quotations to be obtained or evidence that established a fair or reasonable price. NLESD issued 68 per cent of the purchase orders totaling \$2.8 million to 30 specific vendors, where a significant number of the vendors did not provide goods or services under NLESD's commodity listing. This increased the opportunity to award work to select vendors.

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For example, during the audit period, NLESD paid a vendor \$55,940 in connection with 111 purchase orders for the provision of garbage dumpster services at various schools, a bus depot and a regional office. We found that the buyer approved 95 or 86 per cent of the 111 purchase orders for an amount less than \$1,000 where no quotations were required nor was there any process used to establish a fair and reasonable price. NLESD staff questioned why quotations were not sought and were advised by the buyer that this vendor was considered a sole source. However, NLESD could not provide evidence that the vendor was determined to be the only source for garbage dumpster services in the area and could not provide evidence that a Form B had been filed.

Other Observations

Our audit identified several other issues with procurement transactions as follows:

- Insufficient documentation to support invoice payment - Throughout the audit period, one of the buyers regularly approved purchase orders where the description of goods purchased was documented as “*miscellaneous*” items or items “*as per quote*”. We also noted instances where the vendor invoice inadequately described the goods purchased. As a result, in these instances, we were unable to determine the nature, extent and/or timing of the goods purchased by this buyer. All related invoices were paid by NLESD.

Another example of insufficient documentation to support invoice payment included NLESD paying a moving company \$17,798 to move over 1,000 pieces of donated furniture from the donating company’s offices to an NLESD storage location in connection with an approved purchase order for an estimated amount totaling \$5,933. NLESD also paid a contracting company \$6,153 to “*supervise removal of office furniture...and take to various locations... @ \$55.00 hour*” in connection with another approved purchase order totaling \$4,972. We found:

- While there was an original inventory listing of the furniture provided by the donating company, there was no process to record the receipt and distribution of furniture by NLESD to various charities on behalf of the donating company and to various schools and NLESD offices. NLESD also sold 17 workstations for \$8,500 to a private company. As a result, there was no attempt to locate the donated furniture.
- NLESD was unable to provide documentation to support the nature and extent of the 99 hours charged by the “*supervisor*” for the movement of the donated furniture.

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- Charges excessive in nature - A buyer approved the purchase of seven parkas totaling \$1,090, of which \$339 or 31 per cent of the total cost related to “incoming freight”. The vendor emailed NLESD looking for a purchase order for the parkas “...that were flown in for the buyer and picked up this morning”. There was no rationale provided for the urgency of receiving these items.
- Year-end spending - In March 2014, NLESD invited a tender for 30 shed packages for schools in the Eastern and Central region to store recycling materials. We found that NLESD had no immediate requirement or plan for all 30 sheds. At the end of December 2017, one shed package remained in storage in the Eastern region and two shed packages remained in storage in the Central region. NLESD officials stated that the Eastern region could not account for four shed packages.

While not specific to year-end spending, another instance was noted where in 2013, a tripod winch lift was purchased costing \$3,883. NLESD located the equipment in a storage facility. However, NLESD has never used the equipment and parts were still in unopened boxes.

Managing Risks for Safeguarding of Assets

All organizations are subject to risks associated with safeguarding assets, which includes the expenditure of an organization’s funds in the procurement of goods and services. Such risks include errors, unauthorized actions, unethical behaviour and/or fraud. To mitigate these risks, internal controls must be effectively designed, implemented, monitored and communicated to staff. An effective internal control framework for risk management, including fraud, would include the following components:

- Risk Governance
- Risk Assessment and Monitoring
- Risk Prevention and Detection Controls

Risk Governance

Findings

The Board of Trustees and senior management had not established standards for, or promoted a culture of, ethical organizational behavior:

- NLESD did not have a written code of ethics and conduct and neither the Board of Trustees nor the senior management had communicated expectations for ethical organizational behaviour to staff.
- There was no internal reporting mechanism by which employees could report suspected unethical behaviour.

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- There was no evidence that allegations of unethical behaviour reported in 2013 and 2015 to senior management were investigated and resolved.
- There was a pervasive pattern of unethical organizational behaviours demonstrated by a number of employees in the Facilities Branch.

The Board of Trustees and senior management did not exercise required oversight of the development and performance of internal controls to safeguard NLESD assets:

- There was no evidence the Board of Trustees requested reports, or that senior management provided reports to the Board, on the development, implementation and effectiveness of internal controls.
- The Board of Trustees and senior management failed to address repeated recommendations from the external auditor to improve internal controls for safeguarding assets, citing other priorities.
- There was no evidence that the Internal Auditor met with the Board of Trustees as required by its by-laws. Further, Internal Audit reported to senior management, reducing the independence and effectiveness of the Internal Audit function.
- Senior management failed to address repeated concerns reported not only by the external auditor but also by both Internal Audit and the Finance Division regarding non-compliance by Facilities staff with policies, internal control procedures and the *Public Tender Act*. Further, there was no evidence that senior management reported these findings to the Board of Trustees.

This lack of oversight and lack of action over the years to address these known internal control weaknesses, disregard of internal controls and pervasive pattern of unethical organizational behaviour significantly increased the risk of unauthorized actions, unethical behaviour and/or fraud.

The control environment of an organization reflects the overall attitude, awareness, and actions of the Board of Trustees (the Board), management and employees, all of whom have a responsibility for managing risk. The foundation for an effective control environment to manage risks includes governance structures and processes that set expectations for ethical organizational behaviour and provides oversight of the development and performance of internal controls.

Ethical Organizational Behaviour

Expectations for ethical organizational behaviour starts by setting a tone at the top of the organization. Both the Board and senior management are responsible for demonstrating a commitment to promoting a culture of ethical behaviour within NLESD. This would include:

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- Establishing and communicating a written code of ethics and conduct emphasizing NLESD's expectation that employees act with integrity in all actions related to their employment duties.
- Training employees to promote an understanding of their responsibility for ethical behaviour and how the standards of conduct apply to internal controls throughout NLESD.
- Monitoring adherence to the standards of conduct, including establishing a reporting mechanism by which employees may report suspected violations of the standards.
- Investigating allegations of violations of the standards of conduct on a timely basis.

Our audit identified the following:

- NLESD did not have a written code of ethics and conduct and neither the Board nor senior management had communicated expectations for ethical organizational behaviour to staff.
- There was no internal reporting mechanism by which employees could report suspected unethical behaviour. Further, there was no evidence that the following allegations of unethical behaviour reported by a Facilities employee to a member of senior management in 2013 and 2015 were investigated:
 - A Facilities buyer fixed quotations to benefit vendors of choice. Our audit testing identified concerns with the legitimacy of the quotation process.
 - Facilities staff received free meals from a vendor which the Facilities employee found unacceptable. The response from the member of senior management was that this was acceptable practice and noted that NLESD Executive received free tickets, food and drinks for hockey games.
 - A Facilities buyer approved purchase orders for work that was not necessary or work that did not get done. Our audit work confirmed that invoices related to almost all of these purchase orders had been paid.

As outlined earlier in the report, there were numerous instances identified during the audit that demonstrated a pervasive pattern of unethical organizational behaviours and disregard of policies and internal controls by a number of employees in the Facilities Branch. Left unchecked, these behaviours significantly increased the opportunity and risk for unauthorized actions and/or fraud.

Oversight of the Development and Performance of Internal Controls

Another important role of the Board is to provide oversight on the development and performance of an organization's internal controls. A sound system of internal controls is fundamental for managing organizational risks, including fraud risks. The Board's oversight role can be supported through an Audit Committee or similar committee of the Board, preferably with some financial expertise. Effective audit committees require relevant, timely and accurate information from management, including reports on the effectiveness of internal controls.

An Internal Audit function, reporting directly to the Board or a committee of Board, and thus independent of management, would also support the Board's oversight role. Further, meetings between the Board and the external auditor of an organization's financial statements would also enhance the Board's understanding of any concerns identified by the auditor with respect to internal controls or other financial matters.

Senior management is responsible for developing and implementing appropriate internal controls. Senior management is also responsible for reporting to the Board on the effectiveness of internal controls.

Our audit found that the Board and senior management did not exercise required oversight of the development and performance of internal controls to safeguard NLESD assets. The lack of oversight provided opportunity and significantly increased risk for unauthorized actions, unethical behaviour and/or fraud within the Facilities Branch. We found:

- Board by-laws and policies did not define the Board's responsibility for oversight of the development and performance of internal controls.
- During the audit period, there was no evidence the Board requested reports, or that senior management provided reports to the Board, on the development, implementation and effectiveness of internal controls.
- The Board established a Finance and Operations Committee to "*meet at least annually with each of the internal auditor and external auditor...for the purpose of discussing audit-related matters and making recommendations to the Board as appropriate*" and to "*review risk management matters*". We found:
 - The external auditor met annually with the Board as required. However, for years, the Board and senior management failed to address repeated recommendations from the external auditor to improve internal controls for safeguarding assets, citing other priorities. Recommendations included:

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- Implement an asset tracking system to track the use and disposal of NLESD assets.
 - Develop a comprehensive internal control policy manual to improve internal controls.
 - Ensure that purchase orders have the required quotation documentation attached and are linked to related invoices.
- The Internal Auditor reported to senior management and there was no evidence that the Internal Auditor met with the Board or the Board's Finance and Operations Committee. This reduces the independence and effectiveness of the Internal Audit function. As part of the amalgamation of school boards in 2013, the Internal Audit function was reduced from three regional positions to one centralized position. Prior to the amalgamation, the position of the former Eastern School District was vacant from September 2012 to August 2013. Further, the new NLESD centralized position was vacant from September 2013 to August 2014. These vacancies further reduced the effectiveness of the Internal Audit function within the Eastern School District and the NLESD.
 - Senior management failed to address internal control deficiencies identified repeatedly by not only the external auditor but also by both Internal Audit and the Finance Division as outlined below. Furthermore, we found no evidence that senior management reported these deficiencies to the Board.

Internal Audit

- In 2009 an internal audit report on Facilities purchasing identified weaknesses with internal control design and effectiveness and instances of non-compliance with policies, procedures and the *Public Tender Act*. Weaknesses identified in the report included:
 - Lack of segregation of duties between purchase initiation, authorization and goods receipt.
 - No requirement for system password changes and there was a risk of password sharing.
 - Accounts payable processed invoices for payment when there was no purchase order or proper authorization.
 - Unauthorized employees issued manual purchase orders.

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The Internal Auditor provided the report to senior management and asked for a written response to 17 recommendations to improve key internal controls over Facilities purchasing. Senior management did not provide the Internal Auditor with a written response.

- In May 2015, the Internal Auditor reviewed invoices of a particular vendor of interest for a six-month period in 2014. The following findings were reported to senior management:
 - Payments to the vendor increased substantially in recent years.
 - The vendor double billed NLESD for goods and services.
 - None of the invoices reviewed provided sufficient detail to determine the date and extent of the services provided.
 - A significant number of invoices for similar services were less than \$1,000 suggesting purchase order splitting.

In response to these findings, senior management directed that “...*all recommendations in this report are to be adhered to effective forthwith*”. In June 2015, a “*guidance document*” was issued to Facilities buyers to address “*frequently raised issues*”. We found that the “*guidance document*” did not reference the Internal Auditor’s findings and did not address a key recommendation of Internal Audit that staff return invoices to vendors when they contained insufficient details of the goods and services provided.

Even after this guidance document was issued, we found that NLESD continued to pay invoices submitted by this and other vendors when there was insufficient detail to determine the date and extent of the services provided. These invoices were for similar services and less than \$1,000.

Finance Division

The Finance Division indicated it completes compliance procedures on a risk-based sample of NLESD payments on each bi-weekly cheque run (weekly cheque run prior to amalgamation). The purpose of these procedures is to test compliance with policies including whether:

- Purchase orders were issued
- Purchase orders were supported by quotations, tender, standing offer where required
- Payments were posted to the correct period and account
- Payments were made to the correct vendor

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- Payments were for the correct amount (agreed to invoice and purchase order)
- Payments were approved by an authorized employee
- Payments were unusual

We were unable to determine the number, nature and resolution of compliance deficiencies identified during the audit period as, in general, related documentation was not maintained. However, the Comptroller was able to locate 10 emails that they sent to senior management communicating deficiencies resulting from the compliance procedures. Table 2 shows the date and nature of these reported deficiencies and the response from senior management during the five-year period ended June 30, 2016.

Table 2

**Newfoundland and Labrador English School District
Facilities Branch – Eastern Region
Documented Internal Control/Compliance Deficiencies
Reported to Senior Management
Five-year period ending June 30, 2016**

Year	Nature of Deficiency Reported	Response from Senior Management
2012	District was paying a retired Facilities employee's cell phone bill when there did not appear to be any business requirement for this cellphone.	NLESD will stop paying the cellphone bill.
2012	Purchase orders split to avoid tender. Vendor invoices not received in a timely manner, some being a year late.	No response documented.
2013	Outdated quotations used to justify purchases from a particular vendor.	Comptroller and Director of Procurement will address the concerns.
2013	No tender invited for equipment rental totaling \$23,690. Vendor invoices not received in a timely manner, some being a year late.	Form B is required.
2013	An employee with no access to the accounting system issued a manual or QPO when there was not an emergency. No quotations obtained to justify the purchase as required.	Director of Procurement to ensure employee can access the accounting system for routine purchasing, and remind employee to obtain three written quotations.
2014	Employee did not use purchase order to acquire goods on standing offer from a vendor.	Director of Procurement will speak with employee's manager and vendor.
2014	Employees using QPOs for school snow clearing when there was a tender in place for the contractor to remove snow at a stipulated hourly rate.	Director of Procurement will follow-up with Operations and obtain an explanation. Also, remind Operations of circumstances under which QPOs are used.
2014	No tender invited for the purchase of school furniture totaling \$21,440.	No response documented.
2014	No purchase order issued to purchase \$13,572 in repairs to a school heating system.	Director of Procurement will have a quick chat with Facilities to remind staff of importance of using the purchase order process.
2015	Invoices received from a vendor for school parking lot line painting. The invoices were	No response documented.

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Year	Nature of Deficiency Reported	Response from Senior Management
	less than \$1,000. <i>Note: Our audit noted that this deficiency was reported subsequent to a memo released directing staff to not split purchases.</i>	

As Table 2 indicates, all deficiencies reported were significant and most of the deficiencies were reoccurring, such as the inappropriate use of QPOs, not issuing purchase orders, splitting purchase orders, not inviting tenders and receipt of vendor invoice after an extended period of time.

There was no evidence that senior management responded to three of the 10 deficiencies and responses to the remaining seven deficiencies would not convey the importance of strong internal controls or consequences of future non-compliance. Furthermore, there was no evidence that senior management followed up with the Comptroller to determine whether the identified deficiencies were addressed.

We also noted that in January 2012, the Comptroller of the former Eastern School District raised the concern that quotation documentation was not available at head office to monitor regional Facilities offices' compliance with purchasing policies and procedures as documentation was retained at the regional offices. The Comptroller's request to develop a process to regularly obtain this documentation from regional offices was met with resistance from a senior official of Facilities as a "*make work project*". The senior official further stated that Facilities buyers were unable to obtain quotation documentation and complete quotation summary logs as required by policy and procedure because "*...staff are working on the fly from vehicles across multiple sites...not sitting in offices with forms, thus way it is done*".

While the senior official did ultimately agree to the Comptroller's request, we noted during the audit period that regional offices did not consistently provide copies of all quotation documentation to head office. The external auditor identified the same quotation documentation issues in their management letters to the Board from 2012 to 2014, stating that it was time consuming to access the quotations documentation for use in the audit.

Our audit identified that the weaknesses repeatedly reported by both Internal Audit and the Finance Division had not been addressed and were a regular occurrence throughout the five-year audit period. These weaknesses, and lack of action over the years to address these known weaknesses, increased the risk of unauthorized actions, unethical behavior and/or fraud.

Risk Assessment and Monitoring

Findings

During the scope period of our audit, there was no process or policy in place to proactively identify and mitigate organizational risks, including fraud and other risks associated with the safeguarding of NLESD assets.

There was no policy requirement for periodic evaluations of NLESD's internal control environment or system of controls, nor had there been any such evaluations completed, during the audit period. Furthermore, there was no evidence that senior management monitored, identified and reported any risks to the Board of Trustees.

NLESD commenced development of a risk management program in the fall of 2016 to address both strategic and operational risks; however, it had not yet approved and communicated the priority risks to each division, finalized a risk register or developed and implemented a response to address the priority risks.

Although we acknowledge the importance and efforts of NLESD in moving forward with a broader risk management program, we found that the draft risk register included very limited consideration of fraud risks and no separate fraud risk assessments, including for the Facilities Branch, have been completed. Further, of the fraud risks included in the draft risk register, more than half were assessed as low risk, despite the nature of procurement operations, the significant deficiencies observed, over the years, in internal controls and a pervasive pattern of disregard of these controls and related NLESD policies.

Risk assessment is the ongoing process for identifying and assessing risks that prevent an organization from achieving its objectives, for which an appropriate response is required to be determined. It is also important that an organization monitors the effectiveness of internal controls designed to mitigate these risks to determine whether they are operating as intended or whether corrective action is required.

In the context of fraud risk management, this would include development of a fraud risk management program that includes a fraud risk assessment to identify specific fraud risks, assess their likelihood and significance, and implement and monitor appropriate controls to mitigate risks to an acceptable level. Management should document risk assessments in some form of a risk register, and regularly review the risks and related mitigation measures to determine if they remain valid over time.

We found that during the audit period, senior management had no process or policies in place to proactively identify and mitigate organizational risks, including fraud and other risks associated with the safeguarding of NLESD assets. In addition, we found that:

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- NLESD had not established a requirement to conduct periodic evaluations of NLESD’s internal control environment and system of controls.
- There were no evaluations of NLESD’s internal control environment or system of controls during the audit period.
- There was no evidence that senior management monitored, identified and reported any risks to the Board during the audit period.

The Board and senior management had not demonstrated a commitment to the role of the risk function in managing organizational risks until June 2016. At that time, the Board issued a risk policy statement that it would implement a risk management program that *“...identifies and addresses items at a governance and operational level which pose risks to the organization. The Board will approve the prioritization of risks to be addressed on an annual basis and monitor the actions agreed upon”*.

NLESD commenced development of a risk management program in the fall of 2016 and by early 2017, each branch of NLESD had identified and assessed over 100 risks in a draft risk register. The assessment focused on risks to NLESD’s strategic plan and included consideration of all areas of the organization such as governance, strategic, operational, financial performance and compliance. The objective of this assessment was to assign an inherent risk score to each identified risk to facilitate prioritization of risks and development of an appropriate response to mitigate these risks.

Although we acknowledge the importance and efforts of NLESD in moving forward with a broader risk management program, we note that the draft risk register included very limited consideration of fraud risks and no separate fraud risk assessments, including for the Facilities Branch, had been completed. Further, of the fraud risks included in the draft risk register, more than half were assessed as low risk despite the nature of procurement operations, the significant deficiencies observed over the years in internal controls and the pervasive pattern of disregard for these controls and related NLESD policies. For example:

- Fraudulent activity leading to financial loss and/or reputational damage – assessed likelihood as “unlikely”.
- System limitations and system audit trail in procurement module provides increased opportunity to avoid district purchasing process leading to employee fraud - assessed likelihood as “unlikely”.
- Due to high volume of purchases, increased risk of employee fraudulent activity through preferential vendor purchasing for individual purchases that total under \$1,000 - assessed likelihood as “nearly certain” but impact as “insignificant”.

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- Lack of strong procedures surrounding the tracking and protection of District assets such as vehicles, depots and fuel cards exposes increased risk of theft or misappropriation of such assets – assessed likelihood as “unlikely”.

In the fall of 2017, senior management reported draft priority risks for each division to the Board. These risks included the lack of a comprehensive asset management system and the misappropriation of District assets. As of the audit report date, while NLESD has continued development of a risk management program, it had not yet approved and communicated the priority risks to each division, finalized a risk register or developed and implemented a response to address the priority risks.

Risk Prevention and Detection Controls

Findings

There were significant deficiencies with internal controls, which greatly increase the risk of errors, unauthorized actions, unethical behaviour and/or fraud. A number of internal control weaknesses and concerns with internal processes were noted earlier in our report. These included splitting purchases orders, exceeding purchasing authority limits, inadequate segregation of duties, control weaknesses with the accounting system, inadequate documentation processes to support invoice payment and lack of supplier statement reconciliation or controls to detect duplicate invoices and payments, overbilling or fraudulent invoices. A review of other controls for procurement identified the following additional deficiencies:

- NLESD had not developed and implemented comprehensive purchasing policies and procedures that applied consistently to all regional Facilities staff throughout the Province and existing policies for Facilities staff of the Eastern region were not adequate.
- NLESD was unable to provide any documented policies specific to the accounts payable function. A lack of clear guidance for accounts payable staff increases the risk of inconsistent understanding of and compliance with required internal controls. Instances of poor controls over payment processing were identified, for example, where:
 - cheques were provided to a Facilities buyer for distribution to vendors versus directly to vendors;
 - invoices were received from Facilities buyers versus directly from a vendor; and
 - photocopies of invoices were accepted for payment versus original copies.

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- Contrary to best practice and NLESD policy, it was a known and accepted practice within the Facilities Branch for some Facilities buyers to share their system passwords with Facilities clerks to facilitate purchase transactions. Using the buyers password, Facilities clerks, who did not have the authority to approve purchases, were able to create a purchase requisition, approve the purchase order and validate receipt of goods and services, effectively authorizing payments to suppliers up to \$10,000. Further, there is no process that automatically requires these passwords to be changed on a periodic basis.
- NLESD does not regularly review the vendor master list to identify inactive and/or duplicate vendors and independently validate changes to the vendor master list.
- The manual Quick Purchase Order process, used for emergency purchases of less than \$1,000, was not adequately controlled or being used as intended.
- NLESD had no asset management system or inventory listing to record and manage its inventory, including the tools and equipment of the Facilities Branch. There was also no evidence that physical inventory counts were conducted during the audit period to assess the inventory and confirm its existence and location. Without such a system and regular inventory counts, Facilities staff cannot readily obtain or monitor key information about their current inventory, including the location of inventory. This increases the risk of loss or theft of assets and purchasing duplicate and unnecessary assets.
- Management had not developed and implemented internal control activities to manage risks associated with employee fuel purchases. While we did not perform detailed audit work on fuel cards, we noted a number of weaknesses with the current process that increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud.
- Deficiencies regarding human resources procedures were identified for key Facilities positions which creates risk for the organization. In addition to the absence of a code of ethics and conduct, as noted earlier in the Report, that integrates conflict of interest prevention and management, deficiencies included:
 - Job descriptions to clearly outline duties and responsibilities, in general, were outdated.
 - There was no process established to evaluate employee performance and no such evaluations were conducted during the audit period.

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- For competitions we reviewed for two Facilities employees, we found that NLESD placed individuals in these positions when the individuals did not meet the job competencies as required by NLESD's own standards. In addition, in cases where internal competitions were held, there was an insufficient number of candidates with the required competencies but NLESD did not pursue seeking qualified candidates through an external competition.

Preventive and detective control activities are specific policies and procedures intended either to prevent incorrect, unauthorized and fraudulent transactions from occurring in the first place or to detect these types of instances quickly in the event that they happen. Both types of controls are essential to an effective internal control system. Continuous review of these controls, and how well they are functioning to address existing and new risks, is an integral component of an organization's ongoing risk management program.

A number of internal control weaknesses and concerns with internal processes were noted earlier in our report. These included splitting purchases orders, exceeding purchasing authority limits, inadequate segregation of duties, control weaknesses with the accounting system, inadequate documentation processes to support invoice payment and lack of supplier statement reconciliation or controls to detect duplicate invoices and payments, overbilling or fraudulent invoices. A review of other controls for procurement identified the following additional deficiencies:

Policies for Procurement to Payment Functions

An important preventive control in managing risks for procurement to payment functions is the establishment and communication of comprehensive documented policies, which incorporate internal control procedures. Such policies would not only complement any staff training but would also provide a framework for accountability and facilitate a consistent understanding of and compliance with policies and internal controls.

Procurement and Purchasing Policies for Facilities Staff

It was not readily clear what policies existed or were in practice to guide Facilities staff in the procurement of goods and services during our audit period of July 2011 to June 2016. The only documented policies NLESD could provide were draft policies developed by the former Eastern School District in 2009, supplemented by a memo issued on the quotation process in December 2013. NLESD has not developed and implemented comprehensive purchasing policies and procedures that apply consistently to all regional Facilities staff throughout the Province.

In March and April of 2016, to address identified internal control weaknesses, NLESD issued a memo to all Facilities staff to clarify required purchasing processes in areas such as segregation of duties, passwords, validation of receipt of goods or services and authority for issuance of open purchase orders.

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Our review of the 2009 draft policies applicable to the Eastern regional Facilities Branch indicated that they were not comprehensive in nature and did not provide sufficient guidance in the procurement process. For example:

- The policies did not define or use the term “segregation of duties” nor did they clearly outline that staff with purchasing authority (buyer) are not permitted to both requisition and approve purchases or approve purchases and validate goods receipt. Rather, the policies included the role that positions were assigned in the purchasing process. For example “requisitions should be entered by the appropriate Clerk in the District or Regional Office” and “each requisition must be...approved...by authorized individual”. Thus, the policies did not clearly convey the requirement and importance for segregation of duties. The policy also did not include required action of accounts payable staff if segregation of duties was not achieved, like returning the invoice to the buyer’s supervisor for approval. This lack of clarity regarding segregation of duties was not addressed until issuance of the March 2016 memo.
- Facilities staff with purchasing authority had discretion in certain instances (e.g. purchase order used estimates) to request suppliers to send invoices directly to them for review versus directly to accounts payable. This increased the risk for fictitious invoices to be presented to accounts payable.
- Accounts payable were directed to pay invoices without delay even if the amount was different from the purchase order and the difference had not been approved by staff with purchasing authority, as long as difference was within \$50, including freight/shipping/exchange/HST. While it may be appropriate to have a policy to allow differences for specific items like freight/shipping/exchange/HST if warranted in the specific instance, a general policy allowing tolerable variations of \$50 increases the risk of overpayments and fraudulent transactions.
- The policies did not adequately address the quotation process and required controls in other areas such as employee use of fuel cards, standing purchase orders, supplier reconciliations and vendor master file maintenance.

Payment Policies for Accounts Payable Staff

NLESD was unable to provide any documented policies specific to the accounts payable function. A lack of clear guidance for accounts payable staff increases the risk of inconsistent understanding of and compliance with required internal controls. Although the 2009 policies and procedures for Facilities staff included limited guidance for accounts payable staff, accounts payable staff did not appear to be aware of these policies. Furthermore, these policies did not outline internal controls to address the following practices that we identified during our audit that increased the risks of errors, unauthorized actions, unethical behaviour and/or fraud.

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- The accounts payable supervisor gave cheques to a Facilities buyer for distribution to vendors. Preventive controls would require cheques to be provided directly to vendors.
- Accounts payable clerks changed the vendor in the accounting system to pay vendors other than the vendor specified on the purchase order. This occurred when another vendor who was related to the vendor specified on the purchase order, submitted the invoice for payment. As this increased the risk of duplicate and fictitious payments, accounts payable should have returned these invoices to the vendor.
- Accounts payable clerks processed invoices for payment when the invoices provided insufficient detail to determine the nature, extent and timing of the goods and services provided. Accounts payable should have returned these invoices to the vendor.
- Accounts payable clerks processed photocopies of vendor invoices for payment. Photocopied invoices increase the risk of multiple payments for the same invoice or for fraudulent invoices.
- Accounts payable clerks accepted vendor invoices for payment when Facilities buyers, not the vendor, provided the invoices. This increases the risk of payment of fraudulent invoices. Invoices should be obtained directly from a vendor.

Passwords

Passwords are another preventive control used for user authentication to prove identity and limit individual access to only authorized functions within computer applications. The procurement module of the accounting system requires a buyer's authorization password to be keyed in the approval of a purchase order. Our audit found that, contrary to best practice and NLESD policy, it was a known and accepted practice within the Facilities Branch for some Facilities buyers, with authority to approve purchases up to \$10,000, to share their buyer authorization passwords with Facilities clerks to facilitate purchase transactions. As a result, Facilities clerks, who did not have the authority to approve purchases, were able to create a purchase requisition, approve the purchase order and validate receipt of goods and services, effectively authorizing payments to suppliers up to \$10,000. This practice eliminated the intended controls of both passwords and segregation of duties for the purchasing function and thus, increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud. We also found that there was no automatic system or other process requirement to periodically change buyer authorization passwords. While management did change buyer authorization passwords in early 2016, NLESD could not confirm whether passwords had been changed since that time.

Vendor Master Listing

To reduce the risk of duplicate payments or other erroneous payments and fraud, it is important that any additions of or changes to vendors in the vendor master listing are validated and completed by authorized officials. To maintain appropriate segregation of duties, these authorized officials should not be permitted to process transactions such as posting invoices and disbursing funds. Periodic review of an organization's vendor master listing is also an effective way to reduce the risk of fraud within an organization.

We found that during the amalgamation period of the regional school boards, various staff, including accounts payable clerks, had access to the vendor module in the accounting system and were able to input/change vendor information without supervisor approval. Furthermore, NLESD does not regularly review the vendor master list to identify inactive and/or duplicate vendors and independently validate changes to the vendor master list.

Authorization of Emergency Quick Purchase Orders

As noted earlier in the report, authorized Facilities buyers may issue a QPO to purchase goods and services under \$1,000 (pre-tax) when there is an emergency and there is insufficient time to generate a routine/standard purchase order. QPOs were contained in books provided to specific Facilities buyers authorized to issue QPOs. Facilities buyers manually complete and issue QPOs as required and retain copies in the books. Buyers are required to return QPO books to the Finance Division when new books are required. As a detective control, QPOs processed for payment in the accounting system are required to be reconciled by the Finance Division with the QPO books returned by buyers.

We were unable to determine the number of QPO books issued to Facilities buyers during our five-year audit period because NLESD could not locate records of who had possession of the QPO books. NLESD could not locate most of the QPO books identified as being issued prior to amalgamation in 2013 and could not locate approximately 20 per cent of the QPO books issued to Facilities buyers since amalgamation.

Of the QPO books NLESD located and provided to us during the audit, we identified 5,559 QPOs prepared by Facilities buyers in the Eastern region during the five-year audit period. A review of the QPOs indicated that buyers did not follow policies and procedures when preparing QPOs. In almost all 5,559 cases, the purchase was not an emergency or we could not determine whether the purchase was an emergency because there were insufficient or no details of the purchase recorded on the QPO. For example, purchases included routine office supplies, clothing and accessories, phone cases and upgrades and food.

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In addition to the findings regarding QPOs outlined earlier in the report, there were also instances where:

- The vendor, dollar amount and account distribution of the purchase were not recorded on the QPO as required.
- Facilities buyers with no purchase authority signed the QPO, or the signature was missing or illegible.
- Facilities buyers prepared numerous QPOs for an amount of \$1,000 or more.

In one case, during a period of several weeks in 2011, a buyer issued five QPOs totaling \$32,424 in connection with school expansion project(s) managed by the Department of Education and Early Childhood Development. We found that:

- There was no documented evidence of an emergency.
- All five QPOs exceeded the \$1,000 limit and the Facilities buyer purchase authority limit of \$3,000.
- A public tender was not invited and no Form B was prepared which was a contravention of the *Public Tender Act*.
- The vendors were not existing vendors of NLESD.

Furthermore, NLESD did not reconcile the QPOs in returned QPO books with the QPOs processed for payment because the accounting system did not capture QPO information in a consistent, complete or accurate manner as invoices were paid. This eliminated the intended control of the reconciliation process and increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud.

Asset Management

An effective system to manage NLESD's assets should include an asset register that records pertinent information about the asset such as purchase date, make and model, serial number or other identifying information. The asset register would ideally link with software to determine asset quantity, asset custody and location, when maintenance or disposal is required, and whether insurance is required and maintained. An important detective control to safeguard assets is performance of regular audits of the asset register, including physical inventory counts, to ensure that the assets exist in the custody, location and condition recorded.

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NLESD had no asset management system or any inventory listing that recorded assets, including tools and equipment of the Facilities Branch. NLESD did maintain a listing of vehicles for insurance and vehicle registration purposes. The external auditor reported the lack of an asset tracking system as a concern to senior management and the Board for many years. In addition, there was no evidence that physical inventory counts were conducted during the audit period. Even without an asset management system or inventory records in place, such inventory counts can determine condition and location of assets, allow for comparison of physical count to purchase records on a sample basis and act as an overall deterrent to possible fraudulent activity. Without inventory records and regular inventory counts, Facilities staff cannot readily obtain or monitor key information about their current inventory, including the location of inventory. This increases the risk of loss or theft of assets and purchasing duplicate and unnecessary assets. As noted earlier in the report, we found instances where:

- Facilities buyers rented and purchased tools and equipment when sufficient inventory appeared to be available.
- Tools and equipment purchased could not be located.

We also found instances where:

- Employees used NLESD tools and equipment for personal use.
- Vehicle insurance and registration information was unknown.
- Employees took NLESD vehicles home and no personal tax benefit was calculated.

We further noted an instance in March 2016 where an employee made a complaint that non-NLESD assets were being stored at an NLESD bus depot in the Eastern region and provided a photograph of a Kubota tractor in the depot. This instance was investigated; however, as there was no asset management system, NLESD could not confirm whether the tractor was an NLESD asset. NLESD was, however, unable to locate a paid invoice or any insurance records for a Kubota tractor, the tractor is no longer at the depot and its current location is unknown.

Vehicle Fuel Purchasing and Payment

Fuel cards are issued to authorized employees in relation to NLESD owned vehicles. NLESD officials indicated that fuel cards were used to purchase an average of approximately \$194,000 in fuel each year during the five-year audit period ended June 30, 2016. While we did not perform detailed audit work on fuel cards, we did make the following observations:

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- NLESD did not have policies and procedures for vehicle fuel purchasing and payment. For example, there was no clear process regarding the authorization of the issuance of fuel cards to employees. Also, NLESD did not have a senior management official assigned with responsibility for fuel card management.

In 2012, an employee of the former Eastern School District developed a draft Fuel/Gas Card Management policy that included designating a fuel card administrator to manage the fuel cards for NLESD vehicles. However, this policy had not been finalized or implemented.

- Accounts payable managed all aspects of fuel card management including the acquisition, distribution, activation and deactivation of fuel cards and the payment of bills. The lack of segregation of duties increased the risk of errors, unauthorized actions, unethical behaviour and/or fraud.
- While accounts payable maintained listings of fuel cards issued to employees, there was no process to regularly verify the accuracy and completeness of the listing.
- Accounts payable clerks processed payments to fuel card vendors without reconciling employee fuel receipts with vendor statements. Clerks simply filed employee fuel receipts in envelopes upon receipt. Reconciliations are a key detective control to identify errors, unauthorized actions, unethical behaviour and/or fraud.

We were advised of an instance where a Facilities employee purchased, without detection, over \$800 in fuel and convenience items for personal use during 2015-16. NLESD terminated the employee for cause in June 2016. A lack of controls over fuel cards increases the risk of errors, unauthorized actions, unethical behaviour and/or fraud.

Human Resource Policies and Procedures

Human resource policies and procedures are also an important control in managing risks and supporting an effective control environment. As outlined earlier in the section on Risk Governance, such policies should include establishing and communicating a written code of ethics and conduct that integrates conflict of interest prevention and management, to all staff, including consequences of non-compliance with these standards. Additional human resource procedures should include:

- Establishing formal job descriptions that clearly outline roles and duties of a position.
- Hiring individuals with competencies that match the requirements defined by job descriptions.

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- Performing background checks when hiring individuals, particularly for those positions of trust and authority.
- Evaluating individual job performance on a regular basis to identify competency and performance gaps, develop plans to address these gaps and monitor employee progress against these plans.

We assessed procedures regarding job descriptions and performance evaluations for key management positions within the Facilities Branch. Based on risk assessment, we also reviewed job competitions and performance of background checks for two key employees in the Facilities Branch. We found the following:

- Job descriptions for key Facilities positions were, in general, outdated. This increases the risk that key Facilities employees lack a clear understanding of their job duties and responsibilities.
- There was no process established to evaluate the performance of Facilities employees and no such evaluations were conducted during the audit period.
- For the job competitions related to the two key employees we reviewed, we found that NLESD placed individuals in these key management positions in the Facilities Branch when the individuals did not meet the job competencies as required by NLESD's own standards. In addition, in cases where internal competitions were held and there were an insufficient number of candidates with the required competencies, NLESD did not pursue seeking qualified candidates through an external competition as would be considered good human resource practice. For example:

Employee 1:

- In 2010, the individual appointed to the position, through an external competition, did not meet the job competency requirements, as they did not possess a Certified Engineering Technology Diploma as required by NLESD's own standards.
- Although not qualified, the individual was appointed and approved as an "upscale hiring" at a higher salary level which is only permitted when an individual is the sole qualified candidate for the job.
- The individual provided the human resource contact as a reference from their last place of employment rather than a direct supervisor. The human resource contact would not comment on the individual's performance. While remaining references were checked, NLESD did not pursue other means to confirm more recent performance such as requesting more information on the individual's reason for leaving their last position or requesting the candidate to provide the contact information for their previous direct supervisor.

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- In 2012 and 2013, this individual was promoted to progressive management positions through internal competitions, again without possessing the required competencies or direct experience. For example, the 2013 competition required a degree in engineering or a related field as the qualifications were expected to have been normally acquired through an engineering degree and direct experience in design and construction management of large multi-discipline building projects.
- Given that this individual did not possess the required competencies as set by NLESD, consideration should have been given to proceeding to an external competition.
- In the 2013 competition, we also noted that an individual conducting the interviews was in a workplace conflict with a candidate who was unsuccessful in the competition. This introduces a likely conflict in the hiring process.

Employee 2:

- In 2012, the individual was appointed to the position without a job competition and the individual did not meet the job competency requirements, as they did not possess a degree in engineering as required by NLESD's own standards.
- In 2013, this individual was promoted to a progressive management position, again without possessing the required competencies, following an internal competition where this individual was the only applicant. Given that this individual did not possess the required competencies as set by NLESD, consideration should have been given to proceeding to an external competition.

Recommendations

1. The Board of Trustees and senior management should set clear expectations for ethical organizational behaviour. This should include:
 - Establishing and communicating a written code of ethics and conduct that integrates conflict of interest prevention and management to all staff, including consequences of non-compliance with these standards.
 - Providing training to employees to promote an understanding of their role and responsibility for ethical organizational behavior, including compliance with legislation and NLESD policies and procedures.
 - Monitoring adherence to the standards of conduct, including establishing a reporting mechanism by which employees may report suspected violations of the standards.
 - Investigating allegations of violations of the standards on a timely basis and taking appropriate actions when allegations are substantiated.

2. The Board of Trustees and senior management should provide effective oversight on the development and performance of NLESD's internal controls. This should include:
 - Developing a fraud risk management program that includes a fraud risk assessment to identify specific fraud risks, assess their likelihood and significance, and implement and monitor appropriate controls to mitigate risks to an acceptable level.
 - Establishing a policy requiring a separate periodic evaluation of the effectiveness of NLESD's internal control environment with associated evaluation results and recommendations to be provided to the Board.
 - Implementing measures on a timely basis to address the significant internal control deficiencies outlined in this report and any other deficiencies identified through the recommended fraud risk management program and periodic evaluation of internal controls.
 - Conducting Board meetings with both the Internal and External auditors at least annually to discuss, for example, internal audit planning and any concerns identified with respect to internal controls or other financial matters.

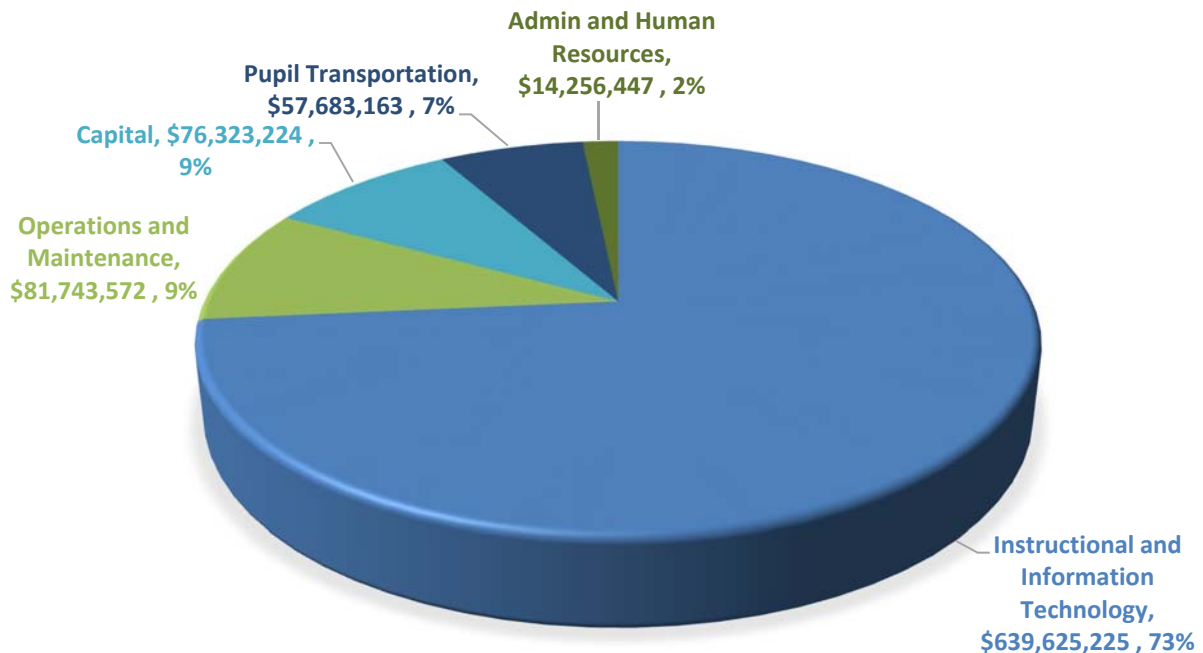
Background

In September 2013, the Provincial Government consolidated the four English-language School Districts into one District known as the Newfoundland and Labrador English School District. A Board of Trustees governs NLESD. The Board is elected or appointed in accordance with the *Schools Act, 1997* and provides policy direction, planning and oversight of NLESD operations.

NLESD delivers financial and administrative services from a head office in St. John's and education programming and student achievement services from head office for Eastern region and three regional offices located in Gander (Central), Corner Brook (Western) and Happy Valley-Goose Bay (Labrador). At the end of June 2016, NLESD had over 8,400 employees and served approximately 66,000 students in more than 250 schools in communities throughout the Province. Figure 3 provides a summary of NLESD expenditures for the year ended June 30, 2016.

Figure 3

NLESD Expenditures For the Year Ended 30 June 2016



Source: NLESD 2015-16 Financial Statements

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The Facilities Branch in the Eastern region is responsible for the property management, repairs, maintenance and capital priorities of approximately 120 schools in the region. Table 3 shows operating and maintenance expenditures incurred by the Eastern region of the Facilities Branch during the five-year period ended June 30, 2016.

Table 3

Newfoundland and Labrador English School District Facilities Branch, Eastern Region Annual Operating and Maintenance Expenditures Five-year period ended June 30, 2016

Expenditure Type	Annual Expenditure (000's)					
	2015-16 ⁽¹⁾	2014-15 ⁽¹⁾	2013-14 ⁽¹⁾	2012-13	2011-12	Average
Salaries and Benefits	\$ 20,312	\$ 19,497	\$ 18,330	\$ 18,080	\$ 17,998	\$ 18,843
Electricity, Fuel, Telephone	10,131	10,444	11,121	10,360	10,650	10,541
Municipal Service Fee	1,826	1,692	1,494	1,384	1,158	1,511
Sub-total	\$ 32,269	\$ 31,633	\$ 30,945	\$ 29,824	\$ 29,806	\$ 30,895
Repairs and Maintenance	2,973	3,569	2,118	2,780	2,234	2,735
Snow Clearing	2,257	2,130	2,094	1,917	1,840	2,047
Supplies and Equipment	1,029	909	824	816	796	875
Vehicle Operating and Travel	397	453	503	447	518	464
Sub-total	\$ 6,656	\$ 7,061	\$ 5,539	\$ 5,960	\$ 5,388	\$ 6,121
Total	\$ 38,925	\$ 38,694	\$ 36,484	\$ 35,784	\$ 35,194	\$ 37,016

Source: Newfoundland and Labrador English School District (unaudited)

Note 1: Annual expenditures for the three fiscal years ended June 30, 2016, have been approximated by NLESD as certain of its financial records are not readily available by region.

As Table 3 indicates, the Eastern region of the Facilities Branch had average operating and maintenance expenditures of \$37 million per year during the five-year period ended June 30, 2016.

The Facilities Branch was also responsible for managing Repairs and Maintenance projects approved, funded and monitored by the Department of Education and Early Childhood Development. Expenditures associated with these projects averaged \$9 million a year during the five-year period June 30, 2016 and are not reflected in Table 3 above. The Eastern region incurred most of these expenditures.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Newfoundland and Labrador on the management of procurement of goods and services by the Facilities Branch of the Eastern region of NLESD. Our responsibility was to independently audit the management for procurement of goods and services to provide objective information and recommendations. Management at NLESD acknowledged their responsibility for the management of procurement of goods and services.

Our audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – *Direct Engagements* set out by the Chartered Professional Accountants of Canada and under the authority of the *Auditor General Act*.

The Office applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of the Association of Chartered Professional Accountants of Newfoundland and Labrador.

In accordance with sections 16 and 31 of the *Auditor General Act*, this report was provided to the Lieutenant-Governor in Council through the Minister of Finance.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on September 10, 2018, in St. John's, Newfoundland and Labrador.

Objectives and Criteria

Objectives

The objectives of our audit were to determine whether:

1. Procurement of goods and services by the Facilities Branch of the Eastern region of NLESD were properly authorized and incurred for NLESD purposes with consideration of the cost to taxpayers.
2. NLESD has an effective system of internal controls to manage risks for safeguarding assets, which includes the expenditure of funds for the procurement of goods and services.

Criteria

Criteria were developed specifically for this audit based upon relevant legislation, policies and procedures, reviews of internal control standards, our related work, reviews of literature¹ including reports of other legislative auditors and consultations with management. The criteria were accepted as suitable by the Minister of Finance on behalf of the Government of Newfoundland and Labrador.

We assessed whether the procurement of goods and services by the Facilities Branch of the Eastern region of NLESD were properly authorized and incurred for NLESD purposes with consideration of the cost to taxpayers against the following criteria:

- A. NLESD complies with policies and procedures and the *Public Tender Act* when procuring goods and services.
- B. Where appropriate, NLESD enters into written contracts with vendors that specify the terms and conditions of the work to be performed before any work is undertaken.
- C. Expenditures were properly authorized, supported, reviewed, recorded and incurred for NLESD purposes with particular consideration of the cost to taxpayers.

We also assessed whether NLESD has an effective system of internal controls to manage the risks for safeguarding assets, including the expenditure of funds for the procurement of goods and services, against the following criteria:

- A. Management, with Board oversight, provides a control environment that supports the internal controls which safeguard NLESD assets.
- B. Management identifies and assesses the risks to the safeguarding of NLESD assets.
- C. Management establishes and implements control activities required to mitigate the risks to the safeguarding of NLESD assets.
- D. Management ensures the information relating to the control environment, risks, control activities and performance are communicated throughout NLESD.
- E. Management evaluates and reports on whether internal controls that safeguard NLESD assets are present and working.

¹ Included: *Managing the Business Risk of Fraud: A Practical Guide*, The Institute of Internal Auditors; *The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework*; *IPPF – Practice Guide: Auditing the Control Environment*, The Institute of Internal Auditors; and *INTOSAI GOV 9100: Guidelines for Internal Control Standards for the Public Sector*, International Organization of Supreme Audit Institutions.

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Appendix A - Assets Purchased From Vendors of Interest and Unaccounted For

Newfoundland and Labrador English School District
Facilities Branch – Eastern Region
Assets Purchased by Buyers of Interest from Vendors of Interest that were Not Located
Five-year period ended June 30, 2016

Type of Asset Purchased	Quantity	Amount Paid
	1	\$8,136
	1	7,933
	1	5,105
	2	4,238
	1	3,051
	1	2,585
	6	4,092
	2	1,955
	2	1,695
	3	1,580
	3	1,136
	2	2,175
	3	1,628
	1	921
	3	661
	1	622
	1	565
	5	6,554
	6	4,549
	6	4,769
	1	3,276
	3	1,370
	3	2,065
	3	2,017
	11	2,842
	3	1,412
	2	1,523
	4	1,819

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Type of Asset Purchased	Quantity	Amount Paid
	3	1,443
	1	1,413
	7	1,371
	5	2,115
	8	1,393
	1	1,016
	3	991
	1	961
	4	839
	2	1,117
	5	1,361
	1	756
	5	741
	1	706
	3	946
	1	327
	2	903
	1	565
	1	372
	1	338
	1	259
	5	393
	2	220
	1	134
	146	\$100,954

Note: We identified and completed audit procedures to confirm the existence of 280 assets totaling \$245,187 that were purchased for use in Facilities operations and were of the nature that we expected to be able to locate and confirm their identity. NLESD was unable to locate 146 or 52 per cent of these assets totaling \$100,954.

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Appendix B - Assets Purchased From Other Vendors and Unaccounted For

Newfoundland and Labrador English School District
Facilities Branch – Eastern Region
Assets Purchased by Buyers of Interest with Other Vendors that were Not Located
Five-year period ended June 30, 2016

Type of Asset Purchased	Quantity	Amount Paid
	7	\$9,796
	1	4,972
	1	4,419
	1	1,317
	2	2,486
	6	2,723
	41	2,213
	3	2,581
	2	1,051
	1	1,040
	1	1,037
	2	907
	8	2,584
	1	759
	4	847
	1	564
	1	564
	2	931
	1	473
	1	452
	1	450
	1	428
	3	407
	1	338
	1	316
	6	194
	1	170

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Type of Asset Purchased	Quantity	Amount Paid
	1	147
	1	90
	1	399
	1	157
	1	350
	3	1,285
	1	749
	7	1,831
	4	542
	2	509
	2	224
	2	811
	2	394
	1	214
	2	456
	2	1,354
	1	148
	1	446
	1	130
	1	678
	10	2,966
	1	2,327
	1	2,254
	1	848
	1	846
	1	824
	2	723
	1	633
	1	423
	1	342
	1	282
	1	267
	1	226

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Type of Asset Purchased	Quantity	Amount Paid
[REDACTED]	1	215
[REDACTED]	1	203
[REDACTED]	1	168
[REDACTED]	1	134
[REDACTED]	165	\$68,614

Note: We identified and completed audit procedures to confirm the existence of 298 assets totaling \$171,113 that were purchased for use in Facilities operations and were of the nature that we expected to be able to locate and confirm their identity. NLESD was unable to locate 165 or 55 per cent of these assets totaling \$68,614.

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