

December 16, 2020

ONE-TIME VENDOR PROCESS REVIEW

Executive Summary:

From time to time, the Board acquires goods/services from trade vendors who are not on approved vendor lists. The Accounts Payable Department in Finance have controls in place to manage the process, which accounted for 1.1% of total spend from September 2018 to February 2020. To assess the management of risks that arise from the use of one-time trade vendors, Internal Audit Management (IAM) reviewed the one-time vendor process to assess compliance with applicable policies and procedures as well as best practices. The focus of this engagement is on trade vendors within the one-time vendor category.

In particular, the objectives of this review were to:

- Assess controls over one-time trade vendor use, including validation processes.
- Assess controls over timely remittance, accuracy of payment, prevention of duplicate payments, payment to fictitious vendors, sufficiency of supporting documents and authorization.
- Assess monitoring procedures including review of edit / exception reports related to vendor records and vendor transactions.

Background, Scope and Methodology

The One-Time Vendor category consists of 15 sub-categories: four *trade* vendor, five *non-trade* vendor, and six sub-categories which are inactive.

One-time non-trade sub-categories relate to reimbursements, course refunds, payments, gratuities etc. primarily to employees, students, and governmental entities with a limited number of cost centres' initiating these transactions. One-time trade vendor transactions can be initiated by schools and other cost centres resulting in the scope of this engagement focusing on these sub-categories where goods and/or services are received. The four trade sub-categories reviewed consisted of 6.7K transactions with a total value of \$8.3M from September 2018 to February 2020. With respect to context, during the same period, TDSB made payments of \$753.1M to all vendors (approved & one-time).

In addition to a review of sample transactions, our engagement also included:

- Interviews with Accounts Payable and Purchasing Services staff.
- Research of best practices in vendor management and accounts payable.
- Review of one-time accounts for duplicate payments and proper maintenance.

Key Observations:

Based on interviews with Accounts Payable and Purchasing Services as well as review and analysis of underlying data, IAM noted the following key observation:

- Some cost centre owners do not follow guidelines and obtain goods and/or services from non-approved vendors and individuals before completing purchase requisitions. The risk of background checks and other due diligence not being performed is greatly reduced when approved vendors and educational partners are used.

Key Recommendations:

- Increase awareness at the local level to use approved vendors and educational partners to reduce the Boards' risk exposure caused by using non-approved vendors.
- Introduce enforceable corrective measures for those who routinely initiate transactions outside of the prescribed process from directed training to requiring supervisory pre-approval of all cost-centre expenditures.

One-time trade vendors are intended to be used infrequently, where current supplier relationships do not exist, and invoice amounts are small. Although the usage of one-time trade vendors accounts for only 1.1% of total vendor spend, the risk lies in the use of vendors who may not meet our standards or put students at risk. By using suppliers who are not vetted, cost centre owners increase the boards risk exposure as due diligence (i.e. background check, vetting of insurance etc.) is not conducted, potentially increasing the Boards liability should an adverse event occur. It was noted that approved vendors listed in SAP as well as our Educational Partners provided the same or similar goods/services in the majority of samples tested.

Background

SAP

Within the Accounts Payable module of SAP, payments can be made to trade and non-trade payees. In SAP, payees are referred to as 'vendors' and can be added to the approved vendor list or be entered as a one-time vendor. Although the vast majority of payees are approved vendors, specific circumstances give rise to the need for a one-time vendor account. The one-time vendor functionality is used when limited transactions are anticipated or creation of a master record (i.e. AP sub-ledger) is not required.

Within the period under review (September 2018 – February 2020), vendor spend totalled \$753.1M, including the one-time vendor category (\$43.5M or 5.8%). Within the one-time vendor category, there are 15 sub-categories including four *trade* vendor (\$8.3M or 1.1%), five *non-trade* vendor (\$35.2M or 4.7%), and six sub-categories which are inactive (\$NIL) (See Appendix 1).

One-time *non-trade* sub-categories relate to reimbursements, course refunds, payments, gratuities etc. primarily to employees, students, and governmental entities with a limited number of cost centres' initiating these transactions. One-time *trade* vendor transactions can be initiated by schools and other cost centres resulting in the scope of this engagement focusing on these sub-categories where goods and/or services are received.

IAM reviewed and analyzed the four trade vendor categories (see table below); non-trade vendors were not in scope for this review.

One-time Vendor Categories - FY2018-19 and YTD FY2019-20 (February 2020)

#	Vendor Category	Amount(\$)	No. of Transactions	Nature of Transactions
1	Canadian Onetime Vendor	6.7M	4,249	Mainly trade vendors for local goods and services rendered
2	One-time Fee for Service	1.3M	2,296	Professional fee for services such as educational programs, presentations, speakers, events at school etc.
3	U.S. Onetime Vendor	200K	77	Goods and Services from the US
4	Wire Draft and Money Order	73K	3	Local vendors paid through wire transfer and money orders

Process

The Purchasing Policy and Administrative Procedures (PPAP), has a purchasing hierarchy, with the Distribution Centre and System Contracts being the first two options. If the product or service required is not available from these two sources, and the purchase price is less than \$3.5k, a Local Purchase Order is to be used; this requires the supplier to be on the TDSB Master Vendor List. Certain vendors are blocked from doing business with the Board for a variety of reasons including past performance, contractual exclusivity etc. If the supplier is not on the Master Vendor List (i.e. approved

vendor), a purchase requisition form should be completed and sent to Purchasing Services (PS) who will issue a purchase order to a suitable supplier following procurement protocols. In some instances, goods/services are acquired without the issuance of a purchase order. To address this situation, the cheque requisition process (AC-217) is used for non-purchase order payments. The guidance related to the use of AC-217 and the cheque requisition process provides some examples of when it should be used, including fee for service vendors, but is still rather vague in nature (i.e. states “The cheque requisition will be used for the following types of services and purchases, but not limited to”). For non-purchase order invoices issued directly to the school, appropriate GL coding and authorization is to be added prior to it being forwarded to AP, (form AC-217 is not required). Additionally, there is specific guidance related to Fee-For-Service vendors within the TDSB intranet and users are directed to utilize approved vendors and educational partners. The guidance also reminds users of police reference checks and outlines potential tax related implications. For other small dollar purchases, PCards are to be used.

Upon receiving and reviewing non-purchase order invoices and supporting documents, Accounts Payable staff (AP) search for the vendor name, address and contact number to determine if there is an existing vendor record in SAP. If the vendor is not on our approved list, AP performs a search to determine if the invoice has already been paid, including a review of the cost centre budget. If no payments are detected, AP enters the vendor information into the one-time vendor input screen to initiate payment.

The one-time vendor input screen captures requisite data to generate a payment but does not retain any vendor history. All one-time vendor payments are reviewed by AP Management prior to payment finalization. With respect to system controls, AP staff have system rights to process one-time payments and create employee ‘vendors’ (non-trade vendor). AP staff cannot delete or block any vendors with the exception of employee vendors. Trade vendors are created by PS.

If a one-time vendor is used frequently, AP requests PS to determine if the supplier can qualify as a vendor of record (approved vendor). To assist PM with this determination, PM sends a “Supplier Profile Questionnaire Form” to the vendor to obtain pertinent information and perform their due diligence. If approved, PM can create an approved vendor in SAP.

Budget holders are ultimately responsible for reviewing their budgets and to notify AP if they see any erroneous or duplicate payments. Both AP and PM continuously discourage schools and budget holders from making purchases from non-approved and unknown vendors, however, once a good or service has been received by the Board (including schools), a legal obligation is created, resulting in payment being made.

Detailed Observations and Recommendations:

IAM conducted interviews with senior staff members in AP and PS in addition to performing an analytical review and sample testing of the one-time vendor process in SAP from September 2018 to February 2020; our observations and recommendations are detailed below.

1. Policies, Procedures & Process

Context:

TDSB has policies, procedures, guidelines and internal protocols governing the process to acquire goods and services used by cost centre owners, including a purchasing hierarchy with approved vendors and educational partners. The Board also allows for the use of vendors not on the approved list in certain circumstances as outlined in the 'process' section of the report.

Observation:

Although the Business Services Intranet site contains purchasing guidance, it is currently in multiple locations (pages) and not linked, which could lead to incorrect conclusions by users. As an example, the Cheque Requisition Process page states guidelines are not to be used to replace or circumvent purchasing policies but does not provide a link to the purchasing policy. To further illustrate, there is no cross-referencing of the 'Fee for Service' page, which contains instructions that SAP is to be used for procuring Fee For Service contractors, and the Cheque Requisition page which lists Fee for Service contractors as an example of Cheque Requisition use, implying that procurement can be outside of SAP. Additionally, on the Cheque Requisition page, under Direct Invoices, the instruction is to send all Non-PO (i.e. outside of SAP) invoices directly to Finance with Principal / Department Manager approval. There is no indication of a maximum dollar threshold allowed or in which circumstances it would be acceptable to use a non-approved vendor.

Per review of the purchasing information, escalating corrective measures for those who routinely violate protocols was not found and per discussion with AP staff, enforcement is difficult even when the issue is brought to the individuals' supervisor attention. IAM also noted that for goods/services acquired via cheque requisition or direct invoice, there is no requirement to document why an approved vendor or educational partner is not being used.

For purchases initiated within SAP, users are authenticated via network password, however for non-purchase order items; IAM did not observe any formal method to authenticate approvals (signature card / digital signature), although AP staff indicated they were familiar with most cost centre owner signatures.

It should be noted that cost centre owners are made aware of purchasing protocols when potential exceptions are noted by AP. There have also been instances where some submissions have been rejected, resulting in the cost centre owner using non-TDSB funds to cover the expenditure. Additionally, correspondence was sent to vendors advising them that in the future, only purchases initiated via purchase orders would be accepted and provided instruction on how to become a Board vendor.

Risks:

- There is a risk that information and guidance, as presented, may lead cost centre owners to incorrect conclusions with respect to purchasing protocols.
- There is a risk of potential violation of existing contractual obligations; overpaying or not receiving a warranty / guarantee for goods/services provided; and, person non-grata being allowed into schools as background checks are not conducted.

- If an adverse event took place, there could be an increased impact on the Boards reputation including financial consequences when no due diligence is conducted, and the non-approved vendor does not have liability insurance.
- Risk that those who have been removed from the approved vendor list (lack of insurance, no clearance etc.) or do not meet our standards will bypass controls by directly engaging cost centre owners.

Recommendations:

- It is recommended that Management consider creating a purchasing decision tree for cost centre owners to consolidate existing governance, as well as defining what type of suppliers can be utilized, and in which circumstances.
- It is also recommended that within Business Services awareness / training campaigns, risks of not conducting adequate due diligence, including potential implications to the cost centre owner and Board be highlighted.
- It is recommended that Management implement corrective measures for those who violate protocols in an escalating manner, from additional training to moving approval authority to their supervisor to requiring repayment / garnishment).

Management Response:

AP will investigate consolidating information into a 'decision-tree' format. Currently contacts schools/departments when requests for payment are submitted via cheque requisition that could have been purchased via vendors of record prior to payment being made. Invoices received with a request to issue payment via cheque requisition are routinely returned to the school with a notice advising them of the purchasing policy and the need to create either a purchase order, or a purchase requisition with a few exceptions such as: groceries, catering, and other special payments requested by central departments.

2. Review of One-Time Vendor Payments:

Context:

The four one-time vendor sub-categories were created to track specific characteristics for the Board. *Canadian One-Time* is meant to represent goods and services received, *One-Time Fee for Service* is meant to track specific services provided, some of which may have tax implications (i.e. issuance of a T4A), *US One-Time* is meant to track transactions in US Dollars and the Wire Draft and the *Money Order* sub-category tracks these transfers. In addition to process related controls, AP also reviews for proper account allocation and frequency of vendor use. With respect to meals, the Boards approved meal rates for conferences and seminars is used as a reasonability gauge when reviewing meal costs.

Observations:

With respect to frequently used one-time vendors, IAM reviewed all vendors with greater than five transactions (Appendix 2) and noted that for services delivered at schools, no documentation relating to reference checks, validation of credentials or insurance requirements were included. This appears to be a result of cost centre owners engaging vendors independently and not utilizing central services. IAM also noted that approved vendors as well as our educational partners could have been used in the majority of good/service-related samples tested.

IAM also reviewed all one-time trade vendors with aggregate spend greater than \$25k noting that most expenditures related to settlements, rent deposits, refunds and commission payments for international student recruiters. For expenditures related to goods/services, IAM noted that requisite documents were attached for all samples, with the exception of four instances where some documentation was not included in the electronic record (see Appendix 3).

Risks:

- Without appropriate due diligence, there is a risk that one-time trade vendors, specifically those who are in contact with students, may not have required clearances, insurance and warranties in place.

Recommendations:

- AP and PS should formalize a process to flag one-time vendors who exceed a fixed number of uses or dollar amount based on PPAP. Flagged vendors should be referred to PS who can reach out to the cost centre owner and vendor to understand what was provided and determine if the Supplier Profile Questionnaire Form or other form of due diligence should be performed. Additionally, AP and PS staff should alert the individuals supervisor after two or three of violations requesting the supervisor to outline corrective measures or accept the risk in their supervisory capacity.

Management Response:

AP staff will bring these instances to the attention of the Contract Specialist or the Management Team in Purchasing for them to review and initiate the appropriate action. Typically, we flag when a vendor has been used at least three times for Purchasing review.

AP and PS will reach out to the cost centre supervisor after multiple infractions are noted, requesting them to accept the risks of using the non-approved vendor or to outline corrective measures to be implemented.

Conclusion:

An appropriate foundation has been established to enable the processing of one-time vendor invoices for goods and services received by the TDSB. Specific enhancements, such as consolidating the 'rules' into one location or as a decision tree would benefit cost centre owners. In addition, awareness training around the need for due diligence (clearances, insurance etc.) in order to reduce risk exposure should be considered as a preliminary measure with escalation to the supervisory level as required.

We express our appreciation for the co-operation and assistance we received from management and staff from Accounts Payable and Purchasing Services.

Appendix-1

One-time Categories

#	Vendor Category	Amount (\$)	No. of Transactions	Nature of Transactions	Scope In/Out
1	Canadian Onetime Vendor	6,736,609	4,249	Mainly trade vendors for local goods and services rendered	In Scope
2	One-time Fee for Service	1,302,241	2,296	Professional fee for services like the educational program, presentation, speakers, events at school.	
3	U.S. Onetime Vendor	200,075	77	Goods and Services rendered from US	
4	Wire Draft and Money Order	73,741	3	Local vendors paid through wire transfer and money orders	
5	Payroll One Time Vendor	3,085,052	3,174	Records severance, reimbursements and, other payroll-related transactions	Out of Scope (Payroll /Student Related)
6	Gratuities One Time Vendor	28,161,810	2,749	Used by Payroll to payout past employee Gratuities	
7	Continuing Ed One Time Vendor	45,694	579	Used to refund students for cancelled courses / registration	
8	One Time Non-Resident Refund	3,860,010	346	Used to refund international students whose visas have been rejected, cancelled their registration, or decided to attend another institution	
9	One Time US Wire Payments (Refunds)	540	2	Subscription to Mangahigh.com	
10	Employee One Time Vendor	Nil	Nil	No longer being used	Out of Scope (Not in use)
11	Bursaries One Time Vendor	Nil	Nil	No longer being used	
12	Trust Onetime Vendor	Nil	Nil	No longer being used	
13	No description	Nil	Nil	No longer being used	
14	North Albion C. I.	Nil	Nil	No longer being used	
15	Purchasing RFQ One time vendor	Nil	Nil	No longer being used	

Appendix-2

Frequently Utilized One-Time Vendors to review

Vendors	Frequency	Amount(\$)
Oak Park Deli	20	21,857
J & J Good Eats	10	7,060
Make It Happen	9	13,089
East Of York Gourmet Food Co	9	4,221
Margaret Kryz Incorporated	8	16,317
Encore Catering	8	12,380
Fitness Movers	8	5,690
Alan Colley	7	9,650
HOZA Creative Mediation	7	5,820
Speed River Timing	7	9,039
Creative Club	6	6,068
Downey's Farm Market	6	7,447
Ian James Catering Ltd	6	7,618
Food Dudes Inc.	5	10,895
Total		\$137,151

Appendix-3

High Dollar Vendor Transactions without Requisite Documents Attached.

Vendors	Amount \$
Cerise Fine Catering – Parent Conference, no evidence of site procurement attached in SAP.	79,817
Answerplus Inc. –Answering service for Toronto Student Transportation – submitted / approved by same person, also questionable as to why they are not an approved vendor	57,222
On Side Restoration – project number but no additional detail.	56,209
Great Lakes Canoe Journey – no quotes, PReq created after invoice rec'd	27,000