Chapter 3
Section
3.03

Community Colleges—Acquisition of Goods and Services

Background

Ontario's 24 community colleges are governed by the *Ontario Colleges of Applied Arts and Technology Act, 2002* (Act). According to the Act, colleges are to offer a comprehensive program of career-oriented, post-secondary education and training to assist individuals in finding and keeping employment, to meet the needs of employers and the changing work environment, and to support the economic and social development of their local communities.

According to the Association of Colleges of Applied Arts and Technology of Ontario (ACAATO), colleges employ 17,000 academic staff and 16,800 other employees. Enrolment data from the Ministry of Training, Colleges and Universities (Ministry) indicate that 215,000 full- and part-time students are enrolled in community colleges.

Total college expenditures have increased from $1.8 billion in 2001 to $2.3 billion in the 2004/05 fiscal year, or 32%. Enrolment increased from 199,000 to 215,000, or 8%, over the same period. Funding from ministry grants and student tuition has grown in line with expenditures during the 2001–05 period.

Audit Objective and Scope

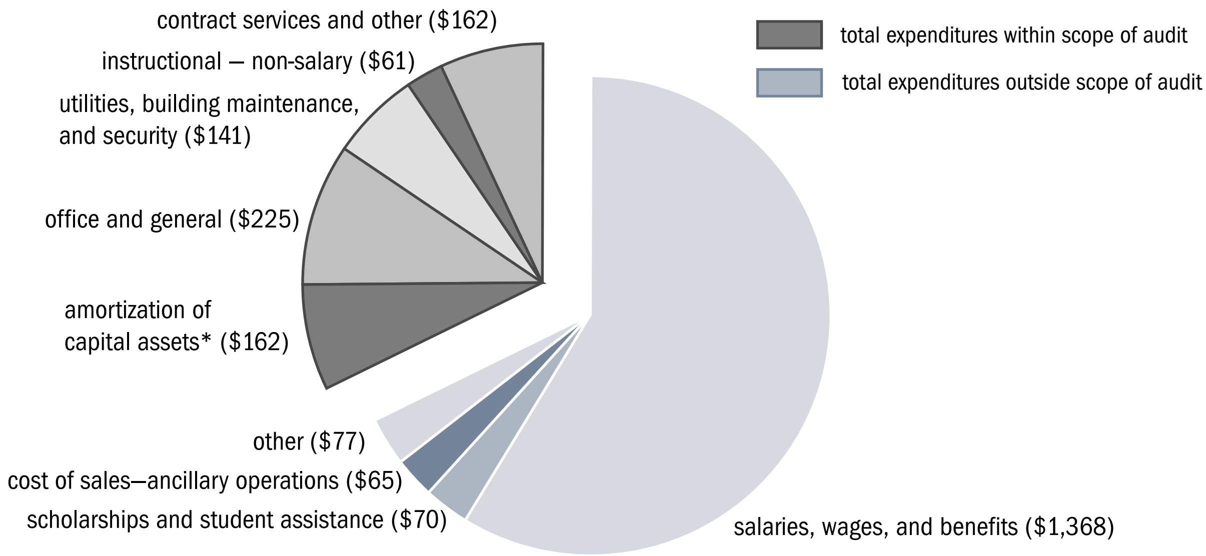
This was the first value-for-money (VFM) audit conducted in the community college sector, enabled by an expansion of the mandate of the Office of the Auditor General of Ontario effective April 1, 2005. The expansion allows us to conduct VFM audits of institutions in the broader public sector such as community colleges (this audit), Children's Aid Societies (see Section 3.02), hospitals (see sections 3.05 and 3.06), and school boards (see Section 3.11). We chose to examine purchasing practices as a means to gain a broad exposure to, and understanding of, overall college expenditures and operations, which will assist our Office in selecting and planning future audits in the community college system.

Our audit objective was to assess whether the purchasing policies and procedures in place at selected colleges were adequate to ensure that goods and services were acquired economically.

Our audit focused on a broad range of expenditures but did not include employee compensation and benefits, student assistance, purchases made by ancillary operations (for example, bookstores, food services, and student residences), or the costs of acquiring college facilities. As shown in Figure 1, of

Figure 1: College Expenditures, 2004/05 ($ million)

Source of data: Ministry of Training, Colleges and Universities



* includes buildings and structures, which were outside the scope of this audit

the $2.3 billion spent by colleges in 2004/05, $751 million was spent in areas covered by this audit, while about 87% of the expenditures outside the scope of our audit related to compensation and benefits to staff.

Our on-site audit work covered the purchasing policies and procedures at four colleges: Conestoga, Confederation, George Brown, and Mohawk. At each of the four colleges, we selected a sample of purchases for review. The processes to be followed for each of these purchases varied based on each college's established policies but generally depended on the value of the purchase. In addition, we compared the purchasing policies of several other colleges to those of the colleges we audited.

Enrolment and expenditure information for the four colleges we audited is summarized in Figure 2.

Our audit was substantially completed in May 2006 and was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and procedures as we considered necessary in the circumstances. The criteria used to conclude on our audit objective were provided to senior management of the colleges we audited and were related to the systems, policies, and procedures that should be in place and operating effectively.

Summary

We found that the purchasing policies at the colleges we audited were adequate to ensure that goods and services were acquired economically and were generally being followed. All of the colleges we audited were participating in purchasing consortia in order to reduce the costs of goods and services acquired. Nevertheless, we found some areas where procedures could be strengthened, as follows:

- Some major contracts with suppliers had not been re-tendered for a number of years. Therefore, colleges might not have known whether the goods or services could be

obtained at a better price, and other potential suppliers did not have an opportunity to bid on these public-sector contracts.

- Where non-purchasing personnel managed the purchasing process—for example, for purchases relating to technology products—policies and procedures were not always followed, increasing the risk that the goods and services purchased did not represent the best value.
- Before making major purchases in certain areas, colleges did not always clearly define their needs and objectives for those purchases and therefore could not ensure that the purchases met their needs in the most cost-effective manner.
- For large purchases, the colleges normally established committees to evaluate competing bids. However, they had not developed procedures for committee members to follow, such as identifying the evaluation criteria for the non-monetary aspects of bids (to ensure they were appropriate and consistent). As a result, colleges could not be assured that all committee members ranked bids in the same manner.
- Policies governing gifts, donations, meals, and hospitality were neither clear nor consistently enforced. While the individual amounts were not significant, we noted several examples of gifts purchased for staff, including, at one college, five gift cards worth $500 each.

Detailed Audit Observations

PURCHASING CONSORTIA

In *Ontario Budget 2004—Budget Papers*, the government identified purchasing in the broader public sector as an area where improvements could be made that it anticipated could result in savings of "… hundreds of millions of dollars [that] can be channelled back into key front-line public services." The BPS Supply Chain Secretariat was established at the Ministry of Finance to promote purchasing initiatives such as purchasing consortia at hospitals, school boards, colleges, and universities. Purchasing consortia are intended to achieve savings through high-volume, group tendering for goods and services to obtain the lower prices associated with greater volumes. Group purchasing also reduces administrative costs, since all purchases are managed by one organization on behalf of all members of the group (rather than each member institution separately managing each purchase for itself).

At the time of this initiative, most of Ontario's community colleges were already members of purchasing consortia, having partnered with other public-sector organizations such as other colleges, universities, school boards, hospitals, and municipalities in an attempt to reduce their costs. For example, 18 of Ontario's 24 community colleges, including two of the colleges we audited, partici-

Figure 2: The Four Colleges Audited—Enrolment and Expenditures (2004/05)

Source of data: Association of Colleges of Applied Arts and Technology of Ontario and Ministry of Training, Colleges and Universities

	College			
	George Brown	**Mohawk**	**Conestoga**	**Confederation**
Enrolment (full-time-equivalent)	**14,800**	**10,500**	**6,900**	**3,200**
Expenditures ($ 000)				
within scope of audit	47,440	30,632	20,586	18,556
outside scope of audit	106,036	93,130	66,841	38,832
Total expenditures ($ 000)	**153,476**	**123,762**	**87,427**	**57,388**

pate in a consortium to purchase insurance. In addition, colleges purchase library books and related materials through a bibliocentre to reduce costs. According to *Ontario: A Leader in Learning. Report and Recommendations*, a 2005 report prepared for the Ministry of Training, Colleges and Universities, this initiative alone resulted in estimated savings of $10 million per year. Colleges also share the results of their group-purchasing efforts with other colleges to assist them in their price negotiations.

All four of the colleges we audited participated in consortia for electricity. Each college also participated in purchasing consortia for other goods and services, such as natural gas, printing and photocopying, cleaning services, and paper products. We also noted instances where colleges used the prices obtained by consortia comprised of other colleges to get a better price from their suppliers.

COMPETITIVE ACQUISITION PRACTICES

The policy or expectation at the colleges we audited was for purchases to be made competitively (except for relatively smaller-dollar sundry items). At each college, the processes to be followed to obtain competitive bids were dependent on the value of the purchase. We found that, if followed, the competitive acquisition policies, both at the colleges we audited and at those where we reviewed the policies, would ensure a fair and open competitive acquisition process.

At the four colleges audited, we found that the established policies were generally followed for most of the purchases we examined. We noted only two significant exceptions, as follows.

First, none of the colleges we audited had policies regarding the maximum number of years that the college may deal with a vendor without re-tendering the contract. We noted several cases where purchases had been made from the same vendors for many years. As a result, colleges may not have been in a position to know whether the prices being paid were still reasonable, and other potential suppliers were not given an opportunity to bid for the business. These cases included contracts for security services, cleaning services, electrical work, and the ongoing purchases of furniture and office/instructional supplies. For example, at one college, security services, which cost $350,000 in 2005, had been purchased from the same supplier since 1998 without re-tendering, while at another college, furniture purchases totalling $735,000 in 2005 had been purchased from the same supplier for a number of years, also without re-tendering.

Second, due to requirements for technical or other expertise, certain purchases were managed by non-purchasing personnel. We found two cases, both from the same college, of material non-compliance with college policies.

In the first instance, the college planned to purchase significant amounts of information-technology equipment over a three-year period for use in a new technology centre and a laptop program for business students. We noted the following:

- Only two vendors were invited to bid on a three-year agreement, even though there were several other major information-technology vendors that could have provided the required equipment.
- The vendor with the higher bid was awarded the contract. The presentation made to the Board of Governors compared prices for the first year of the three-year agreement, and just for this first year, the chosen vendor had offered a one-time, $100,000 discount. Even with this first-year discount, however, the chosen vendor's bid was still $200,000 higher than its competitor's bid. The price differential in the second and third year would depend on the amount and mix of equipment purchased in those years.
- The college recommended this vendor to the Board of Governors primarily because the Information Technology Department had

received good service from it for a number of years. However, there was no information in the file indicating that the other, well-known, vendor's reputation for service was not as good.

In the second instance, a $225,000 contract to develop project-management methodology was awarded without competition on the basis of an undocumented recommendation from a dean at a nearby university.

RECOMMENDATION 1

To help ensure that the prices paid for major purchases are competitive, as well as to give all potential suppliers a fair opportunity to obtain college business, colleges should limit the number of years they use the same supplier without re-tendering.

To help ensure that purchases comply with college policies, colleges should require that purchasing departments oversee major purchases made by other departments at the college.

NEEDS IDENTIFICATION

Making economical purchases involves buying the right goods and services, when needed, at the best price. While the four colleges we audited had competitive acquisition processes in place to ensure that they obtained the best price, they had not developed adequate procedures to ensure that they always bought the most appropriate goods or services based on well-defined needs. For example, new computer equipment costing $8.7 million was purchased to meet certain specifications established by the Information Technology (IT) Department of one college. A planning document posed a number of questions regarding the IT strategy the college should pursue. However, there was no documentation addressing these questions or outlining the final strategy that was agreed upon and nothing to link the strategy to equipment specifications.

Normally, needs and objectives can be more economically satisfied when they are well defined. This results for two reasons. First, when needs and objectives are well defined, vendors are able to use their expertise to recommend the most relevant or appropriate products or staffing levels. For example, one bidder, when apprised of the different levels of demand for photocopying services at different college sites, was able to lower the college's costs by proposing a more cost-effective equipment mix—lower-capacity, lower-cost copiers were used at low-demand sites. Such expertise could also be applied to contracts for services such as cleaning and security, if potential suppliers were informed of the purchasing needs or objectives and given the opportunity to identify the most cost-effective way of meeting them.

Second, when needs and objectives are well defined, management is in a better position to find new and innovative ways to improve service or lower costs. For example, one college was able to meet its objective of having equipment for students to train on without having to actually purchase the required expensive industrial equipment. Instead, the college entered into an agreement with a manufacturer of such equipment whereby the manufacturer permitted students to use the equipment in return for the opportunity to demonstrate the equipment to prospective customers invited to the college for this purpose.

Formally defining what is to be accomplished through proposed major expenditures would also provide colleges with a basis for:

- developing criteria to evaluate the non-monetary aspects of competing bids; and
- subsequently determining whether the goods or services acquired are meeting the college's expectations/needs.

RECOMMENDATION 2

To help ensure that objectives are achieved at the lowest cost, colleges should specifically identify and define their needs before making significant purchases.

EVALUATION OF BIDS

As mentioned earlier, the four colleges we audited used tenders or requests for proposals for the majority of their major purchases. Vendors' proposals for major purchases are often complex and involve a number of non-monetary aspects that must be evaluated. Normally, the colleges established committees comprised of faculty and/or other staff to carry out such evaluations.

However, the colleges did not establish the procedures to be followed by the evaluation committees. We noted, in the absence of such procedures for the purchases we examined, common weaknesses in the committees' procedures, including the following:

- Committees did not identify the criteria members were to use to evaluate the non-monetary aspects of bids. This increases the risk of bids being unfairly ranked as the result of inappropriate or inconsistent criteria being used by different members.
- After a committee member summarized the prices submitted by competing vendors, there was no evidence that the summary was checked for accuracy by another member. Lack of such checking increases the risk of errors and the misranking of bids going undetected, particularly where the bids are complex or where budgetary limitations result in only components of a bid, rather than the entire bid, being selected. While the errors we found were not significant, they do illustrate the need for a verification process.

RECOMMENDATION 3

To help ensure that the best proposals are selected when major purchases are planned, colleges should:

- develop procedures for evaluation committees, including a requirement that they identify the criteria to be used to evaluate the non-monetary aspects of proposals; and
- require that the price summary be checked by someone other than the person who prepared it.

EMPLOYEE EXPENSES

At the four colleges we audited, policies governing gifts, donations, and meal and hospitality expenses were not clear and were essentially left to the judgement of department heads. Insofar as such expenses are being paid for by college funds, we would expect that their benefit to the college and/or its students should be demonstrable. We found several examples of questionable expenditures on individual expense claims and purchasing-card summaries, such as:

- one claim for five $500 and fifty $25 gift cards, purchased for distribution to staff;
- numerous claims for gifts or flowers to employees;
- a total of $1,500 claimed for five members of a college to attend a political party fund-raising dinner, despite the political party noting in its registration form that donations from provincially funded educational institutions are inappropriate (the $1,500 was originally paid by an individual's personal credit card and then reimbursed by the college);
- several claims by staff who took other staff to lunch or dinner or who exceeded reasonable meal expenses while travelling (for example, $860 for wine and cheese followed by

dinner for five staff attending a conference in San Francisco); and

- a claim for airfare that included a flight to Los Angeles for a vacation following a flight to San Francisco for a one-and-a-half-day conference (the college was not reimbursed for the cost of the additional airfare).

While such expenditures are small in relation to total college spending, they nevertheless represent a questionable use of public funds.

RECOMMENDATION 4

To help ensure that college funds are used appropriately and to the benefit of colleges and their students, colleges should implement clear policies for gifts, donations, and meal and hospitality expenses.

SUMMARY OF RESPONSES BY COMMUNITY COLLEGES

Recommendation 1

The colleges agreed to limit the number of years that colleges use the same supplier without re-tendering. They indicated that appropriate policies would be developed and implemented. These could vary depending on the type of service or products being acquired.

The colleges also agreed to require that purchasing departments oversee major purchases made by other departments at the college. For example, one college indicated that revised purchasing policies and procedures would emphasize the importance of having the purchasing department oversee major purchases. In addition, senior management will reinforce to College staff the need to follow the Purchasing Policy and Procedures at all times and that additional staff would enable more involvement of the purchasing department in major purchasing activities. Another college indicated that it would require clear adherence to policies and evidence to support decisions but that it could not provide additional resources to be present at all discussions and meetings.

Recommendation 2

The colleges agreed and indicated that, before making significant purchases, they would ensure that needs are identified and defined and properly documented.

Recommendation 3

The colleges agreed to develop procedures for evaluation committees, including a requirement that they identify the criteria to be used to evaluate the non-monetary aspects of proposals. One college indicated that it had already refined its processes for evaluating non-monetary aspects of proposals. Others indicated that they would either document existing procedures or would ensure that appropriate criteria will be developed and decided on prior to evaluating proposals.

The colleges also agreed to require that the price summary be checked by someone other than the person who prepared it. The colleges had either implemented processes for double-checking or were in the process of revising their policies and procedures to ensure that prices are double-checked.

Recommendation 4

The colleges agreed that there was a need for clear policies and had either already developed them or had committed to developing them.

MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES RESPONSE

The Ministry of Training, Colleges and Universities fully appreciates the professionalism of the Office of the Auditor General in conducting this audit of the acquisition of goods and services at the colleges of applied arts and technology and the co-operation extended to the Office by the four audited colleges—Conestoga, Confederation, George Brown, and Mohawk.

The report makes it clear that Ontario colleges of applied arts and technology operate responsibly under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, Ontario Regulation 34/03, and the Minister's Binding Policy Directives.

The Ministry will continue to work with the colleges to identify better practices to implement and strengthen their control framework over procurement and expenditure management.