



The Corporation of the Town of Greater Napanee

Procurement Process Review

Privileged and Confidential

Prepared for Ewart O'Dwyer Barristers and Solicitors

KPMG Forensic Inc.

November 11, 2024

This report contains 16 pages



The Corporation of the Town of Greater Napanee
Procurement Process Review - DRAFT
Privileged and Confidential - Prepared for Ewart O'Dwyer Barristers and Solicitors
November 11, 2024

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1 KPMG Mandate

1.1 Background and Objectives

1. KPMG Forensic Inc. ("KPMG") was engaged by Ewart O'Dwyer, solicitor, on behalf of The Corporation of the Town of Greater Napanee ("Napanee" or "Town"), to conduct a forensic review of the Town's procurement process. The purpose of this forensic review is to understand if there are any weaknesses in Napanee's current procurement process that may expose Napanee to possible fraud risks and what recommendations the Town could consider implementing to improve its policies and internal controls. This forensic review included identifying potential process gaps that could be exploited to commit fraud and suggest recommendations that the Town could act upon to further strengthen the current procurement process in order to reduce the risk of fraud.
2. In March 2023, Napanee became aware of a large equipment purchase order, which may have circumvented the Town's Purchasing Policy By-law #2021-0046 (the "Procurement Policy"). We understand that the Town's Mayor, Council, and Administrators would like to understand if other procurements may have also circumvented the Procurement Policy and as such, have requested a forensic review of the procurement process that was in place during the 2022 fiscal year.
3. We have identified 4 procurement types based on the Procurement Policy reviewed:
 - a) Goods – This includes tangible purchases by Napanee from day-to-day items to larger equipment purchases.
 - b) Services – This includes services acquired by Napanee that would typically not be categorized as construction.
 - c) Construction – This includes larger capital projects, typically done over a longer period of time.
 - d) Credit Cards – This includes procurements made via Town issued credit cards.

1.2 Approach

4. KPMG's approach for the Process Review included the following key steps:
 - a) Obtaining an understanding of the Town's goods, services, construction, and credit cards procurement processes based on a review of the Procurement Policy, review of other related Town documents, and inquiries with Town personnel regarding their knowledge of these processes;



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- b) Sampling various transactions to test the application of the goods, services, construction, and credit cards procurement processes;
- c) Identifying possible fraud risks and existing mitigations that may exist in these processes;
- d) Identifying potential process gaps that could be potentially exploited to commit fraud;
- e) Validating our process, mitigation, and gap understanding with Mr. Nathan Murphy, current Treasurer, and Ms. Nicole Davidson, former Treasurer;
- f) Based on the potential gaps that exist in the procurement process, providing Management with some suggestions on the types of measures that could be implemented to better mitigate against the identified fraud risks in Napanee's procurement process.

1.3 Fraud Overview

- 5. In order to conduct this process review, we have been guided by the following key fraud concepts:
 - a) Fraud typically involves an intentional act, which involves deception, concealment and/or violation of trust, to obtain money, property, services, and/or information for personal or business advantage that causes detriment to the organization.
 - b) Fraud may be perpetrated by:
 - i. one or more individuals, among employees, management, those charged with governance – typically known as internal frauds; and/or
 - ii. external and/or third parties – typically known as external frauds.
 - c) According to the Association of Certified Fraud Examiners¹, there are three main categories of fraud:
 - i. Asset Misappropriation – involves fraud schemes that include theft and misuse of company assets;
 - ii. Corruption and Misconduct – may occur when there is wrongful use of influence in a business dealing in order to procure a benefit; and

¹ The Association of Certified Fraud Examiners is the world's largest anti-fraud organization and provider of anti-fraud training and education.



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- iii. Financial Statement Fraud – may occur whether there is an intentional misrepresentation of financial information (e.g. overstatement of assets/revenues, understatement of liabilities/expenses, improper disclosures, etc.).



2 Process Review

2.1 KPMG Process Understanding

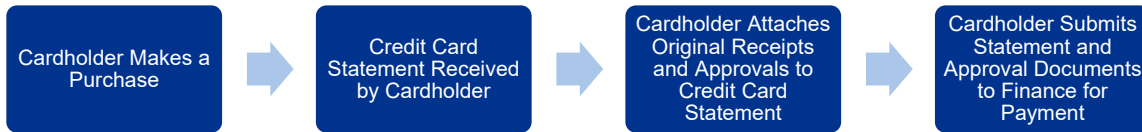
6. Based on our understanding of Napanee's procurement process (based on information obtained from the inquiries we conducted and the documentation that we reviewed), we have classified the main procurement processes of Napanee into the following types:
 - a) Standard Procurement of Goods, Services, and Construction;
 - b) Non-Standard Procurement of Goods, Services and Construction; and
 - c) Credit Cards.
7. We have briefly outlined each procurement type and their sub-processes below.

2.1.1 Goods, Services, and Construction



8. Detailed process flowcharts can be found in **Appendix A: Process Flowchart – Standard Procurement of Goods and Services** and in **Appendix B: Process Flowchart – Standard Procurement for Construction**.
9. We have also detailed the process for non-standard procurement of goods, services, and construction in **Appendix C: Process Flowchart – Non-Standard Procurement of Goods, Services, and Construction**.

2.1.2 Credit Cards



10. A detailed process flowchart can be found in **Appendix D: Process Flowchart – Procurement Via Credit Card**, which also outlines the procedures for the issuance of credit cards and departures of employees. However, the focus for this review is on expense authorization.

2.2 Potential Fraud Risk Identification

11. With our understanding of these processes and considering that Napanee operates within the municipal sector in Ontario, KPMG identified a total of 15 possible inherent internal/external fraud risks (i.e. before any consideration of the measures that the Town has in place to manage these risks).

12. These 15 possible fraud risks are described in **Schedule 1: Summary of Fraud Risks and Mitigation**.

2.3 Mitigating Measures

13. Through our inquiries and documentation review, KPMG gathered information about existing Napanee internal controls and processes that could potentially mitigate against the identified fraud risks in the procurement process.

14. See Schedule 1 for the mitigating measures identified relating to the 15 possible internal/external fraud risks.

2.4 Potential Gaps

15. KPMG identified potential gaps in how Napanee mitigates the identified fraud risks through several methods, including but not limited to:

- a) Interviews with Town personnel,
- b) Review of Town policies, particularly the Procurement Policy, and



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- c) Sampling of specific procurements to walk through the process.
- 16. These potential gaps are also noted in Schedule 1.
- 17. Where no fraud controls or other measures and/or considerations are present, an unmitigated fraud risk exists.
- 18. Where potential gaps in the Town's internal controls and policies were identified, KPMG provided potential considerations for the Town, to enhance their existing policies and processes to better mitigate identified fraud risks.



3 Potential Enhancement Opportunities

3.1 Potential Enhancement Opportunities to Further Mitigate Identified Fraud Risks

19. Schedule 1 provides descriptions of additional measures that Napanee could consider in order to further mitigate against identified fraud risks.

3.2 Other Potential Enhancement Opportunities

20. In addition to those identified in Schedule 1, KPMG has outlined other potential enhancement opportunities for consideration in the table below, which may strengthen other processes in place at the Town. These additional items were identified in the course of our review.

Other Potential Enhancement Opportunities to Consider		
Issue	Implication	Potential Enhancement Opportunities to Consider
<p>The Procurement Policy references certain documents that may be utilized through the procurement process (e.g. Qualified Supplier Roster, Vendor of Record List) and certain processes/roles that are defined. However we understand not all of the documents/processes/roles that are included in the Procurement Policy are actually developed (e.g. process for Limited Competition procurements, which is a form of non-standard procurement), being used (e.g. Supplier roster), or are undefined (e.g. Emergency Authorized Person) as at the time of our review.</p> <p>We also observed certain inconsistencies within the</p>	<p>The absence of clarity on these documents, processes, and roles in addition to these inconsistencies may lead to confusion or uncertainty among Town personnel and an increased workload for Town employees throughout the procurement process.</p>	<p>The Town might consider thoroughly reviewing their Procurement Policy to identify documents/processes/roles referred to within and if these documents/processes/roles do not exist, either revise the Procurement Policy to remove reference to them, or develop and implement their use.</p> <p>Similarly, this review would help to identify other inconsistencies within the Procurement Policy that need to be rectified to help avoid confusion.</p>



Other Potential Enhancement Opportunities to Consider		
Issue	Implication	Potential Enhancement Opportunities to Consider
Procurement Policy (e.g. the Sections of the Procurement Policy refer to the use of contracts but there is no reference to contracts in Appendix B).		
We observed several instances where inadequate documentation and/or approvals were available to support a procurement, either due to the inability to locate the documents as a result of filing issues or due to the documents not existing altogether.	The lack of clear underlying processes, templates, supporting documentation and/or approvals available to support procurement transactions may leave the Town more susceptible to wrongdoing and may have financial reporting impacts if supporting documentation cannot be provided to external auditors or tax authorities.	The Town might consider centralizing their document storage and developing a standardized approach to filing required documentation for a procurement transaction. This should be applicable to all departments involved in procurement.
Decisions made relating to procurement steps are often undocumented.	The lack of documentation of these decisions limits the audit trail of the purchase. This can lead to difficulty understanding why certain decisions are made and increase the risk of fraud or corruption.	The Town might consider developing a standardized document/document checklist to be used for all procurements outlining decisions made throughout the process to include in the procurement file.
The Town does not have a standalone Conflict of Interest Policy. The Town references the Municipal Conflict of Interest Act in Appendix M in the Procurement Policy. However, the Municipal Conflict of Interest Act is only applicable to Council members and not Town employees.	This lack of a standalone Conflict of Interest Policy may lead to actions that are not in the best interest of the Town. Town personnel may not be aware of what comprises conflicts of interest. Actions taken by Town personnel which represent a conflict of interest, in reality or in appearance may cause reputational damage to the Town.	The Town might consider implementing a Conflict of Interest Policy applicable to all Town personnel and Council members detailing the definition of conflict of interest and how to identify conflicts, assess, respond and report any actual or perceived conflicts of interest.



Other Potential Enhancement Opportunities to Consider		
Issue	Implication	Potential Enhancement Opportunities to Consider
<p>There is limited training in place for Town personnel or Council with respect to:</p> <ol style="list-style-type: none"> 1) Procurement, 2) Conflicts of interest, and 3) Fraud awareness. 	<p>As a result of this limited training, Town personnel may not be aware of:</p> <ol style="list-style-type: none"> 1) The requirements set out in the Procurement Policy and the implications of not adhering to them; 2) What comprises conflicts of interest and the actions that should be taken by Town personnel which represent a conflict of interest, in reality or in appearance, which may cause reputational damage to the Town. 3) What constitutes fraud, how fraud may be perpetrated within the Town, red flags to look out for or what to do if they suspect fraud has occurred. 	<p>The Town might consider implementing some regular and refresher training for Town personnel commensurate with job responsibilities. The Town could ensure personnel are aware of all policies and procedures that are relevant to their role, including how and where to access them.</p>
<p>We did not see evidence of any whistleblower mechanism being in place for Napanee. Such mechanisms can allow for anonymous reporting by Town personnel, Council members, constituents, or third parties (including suppliers).</p>	<p>Inappropriate activities may go undetected if Town personnel, Council members, constituents or third parties do not have a way to report incidents.</p>	<p>The Town might consider implementing an anonymous whistleblower program. This would involve providing Town personnel, Council members, constituents and third parties (including suppliers) with information on how they can reach out anonymously, including steps that would be taken. The Town could also consider including the expectation of Town personnel and Council members to report any inappropriate activity as part of their Code of Conduct. Whistleblowers should be protected from retaliation for making a report.</p>



4 Scope of Review

21. To help conduct this procurement review, KPMG relied upon the following documentation:

- a) By-law No. 2021-0046 – A By-Law to Define Procurement Policies and Procedures for The Corporation of the Town of Greater Napanee and to Repeal By-Laws 05-05 and Amendment Bylaw 2014-0051
- b) By-law No. 05-05 – A By-law to Adopt a Policy to Govern the Purchasing of Goods and Services by the Town of Greater Napanee
- c) By-law No. 2014-0051 – Being a By-law to Amend By-law No. 05-05 (A By-law to Adopt a Policy to Govern the Purchasing of Goods and Services by the Town of Greater Napanee)
- d) By-law No. 2022-0021 – Being a By-law to Authorize the Temporary Delegation of Authority to the Chief Administrative Officer for Certain Acts for the Period Between Nomination Day and the Commencement of the New Council Term
- e) By-law No. 2021-0046 Procurement Summary – Delegation of Purchasing Authority
- f) Memorandum of Authority Templates for the following:
 - i. Single Source Less Than \$100,000
 - ii. Single Source between \$100,000-\$500,000
 - iii. Emergency Procurement
 - iv. Cooperative Purchasing
 - v. Optional Extension of Contract
- g) Memorandum of Delegated Authority Templates for the following:
 - i. Request for Proposal
 - ii. Less than \$50,000
 - iii. Tender



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- h) January 13, 2022 Procurement Meeting Presentations Versions 1 and 2, the related Procurement By-law Talking Points summary document, and the Outlook Attendance for the meeting
- i) Department Organization Chart updated as of March 2023
- j) RFT and other supporting documents for the Acrylic Surfacing for Multi-Sport Court project
- k) RFP and other supporting documents for the Big Bright Lights project
- l) RFT and other supporting documents for the Commercial Chain Link Fence project
- m) RFQ and other supporting documents for the Compact Utility Tractor project
- n) RFP and other supporting documents for the Design and Supply of Prefabricated Steel Maintenance Garage project
- o) RFP and other supporting documents for the Enterprise Resource Planning project
- p) RFP for the Food and Beverage Concession at the SPC project
- q) RFT and other supporting documents for the Supply and Delivery of Winter Sand & Screenings project
- r) RFT for the Concrete Sidewalk Repair project
- s) RFP and other supporting documents for the Dog Control & By-law Enforcement Service project
- t) Email titled "Information Requested" received from Nathan Murphy on August 22, 2023 listing of corporate credit card holders
- u) VISA Expense Report Template dated August 21, 2023
- v) VISA Statements as of March 9, 2023 and available supporting documents for the transactions
- w) VISA Statements as of July 12, 2023, expense reports, and available supporting documents for the transactions
- x) Invoices for Small Goods and Services in 2023 for Batch 14, Batch 64, and Batch 203

22. In addition to the documentation reviewed, KPMG had discussions and/or correspondence with the following Town employees:



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- a) Nathan Murphy, Treasurer
- b) Nicole Davidson, Former Interim Treasurer
- c) Jessica Walters, Clerk / Director of Legislative Services



5 Assumptions and Limitations

5.1 Assumptions

23. In performing this procurement review, KPMG has made the following assumptions:

- a) All relevant information about the procurement processes and internal controls have been provided to us for this review and this information is accurate and complete. We have relied upon the information provided to us as outlined in Section 4 of this report.
- b) Napanee categorized the procurement information provided by types of procurement and departments with accuracy. This categorization was used as a basis of our sample selection and was relied on for our report.
- c) No individual(s) that should have been included in this Process Review were intentionally excluded.

5.2 Limitations

24. Our report is limited for the following reasons:

- a) As this review was focused on identifying possible fraud risks and the extent of their mitigation in the procurement process, we have not identified any possible fraud risks that may exist in other Napanee processes and have not considered the effectiveness of any measures that Napanee may have in place to mitigate against these possible fraud risks.
- b) Due to the nature and evolution of fraud, it is not possible to establish a complete list of all fraud risks that could affect Napanee. The fraud risks identified during this review were based on the steps taken as part of the approach followed as described in Section 1.2.
- c) Our understanding of Napanee's procurement process was as of Fall 2023. We have not reviewed any changes that have been implemented since that time, and therefore if additional fraud risks exist relating to changes in the process or if potential considerations have already been implemented by the Town these have not been reflected in our report.
- d) Napanee provided us with limited information when asked for complete lists of all procurements due to the following reasons:
 - i. There is no single system in place;



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- ii. There is no centralized repository for documents;
- iii. Various departments run their own procurements;
- iv. There was a change in bidding system around March/May 2022 to "Bids and Tenders." Previously systems used were Merx and Biddingo, and record keeping from those systems could not be accessed by Napanee.

25. Our comments in this report are subject to any modifications or alteration that may become necessary should additional information be received in the future.

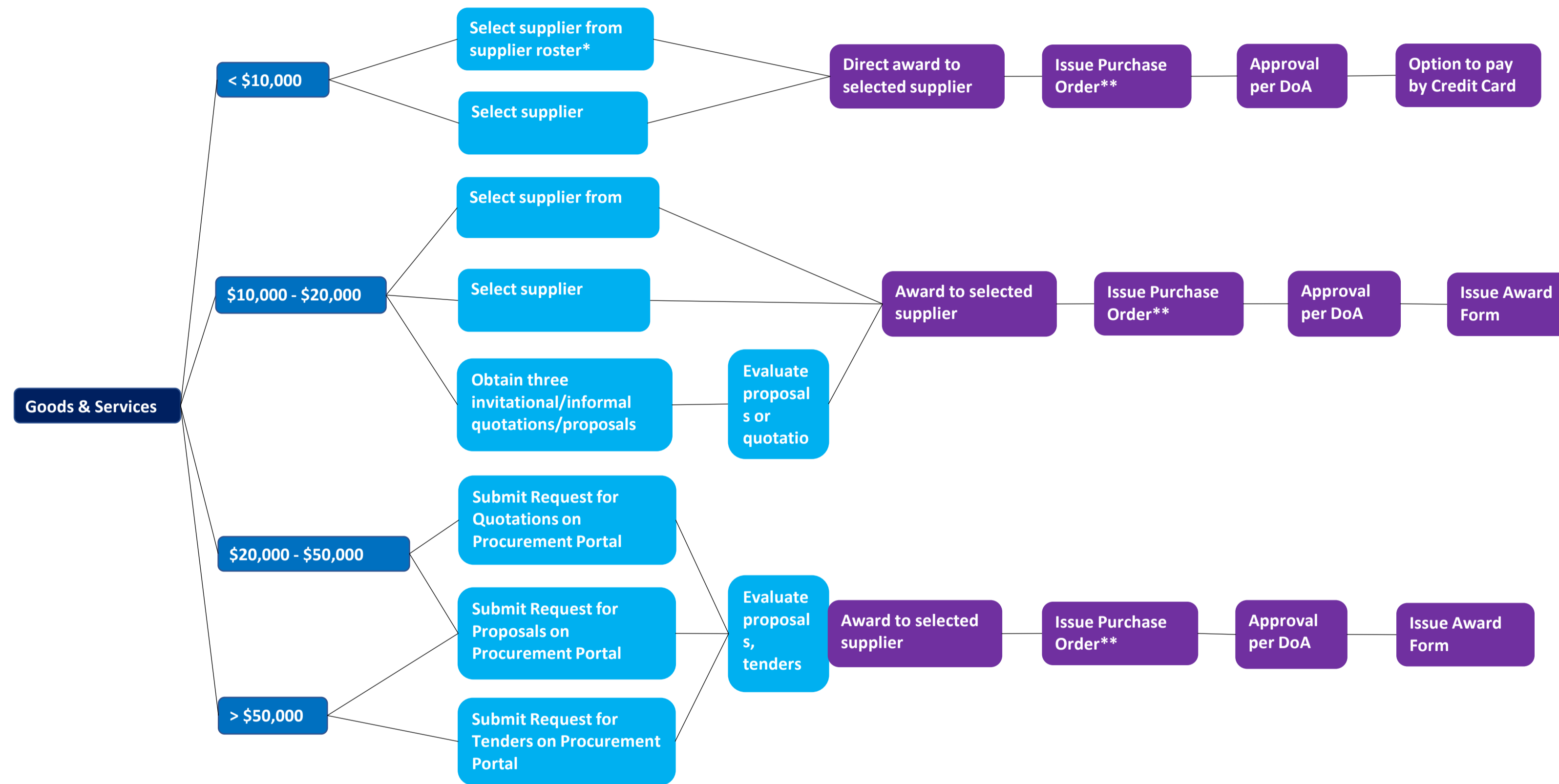
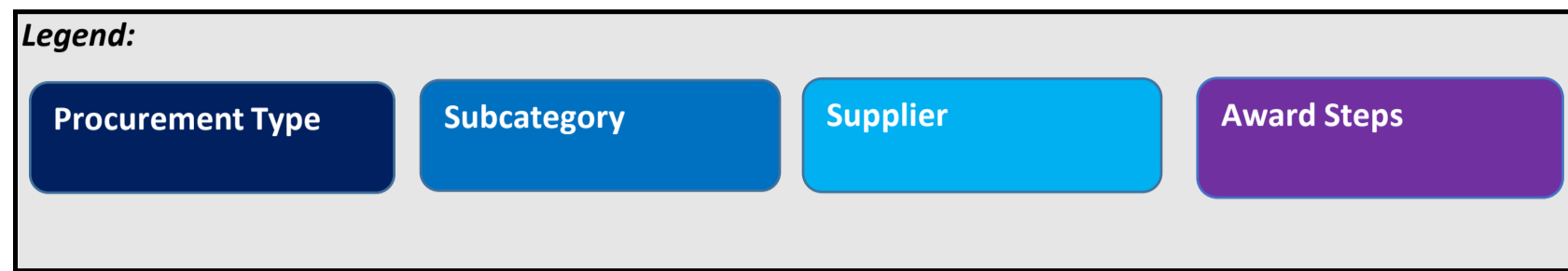


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6 Restrictions

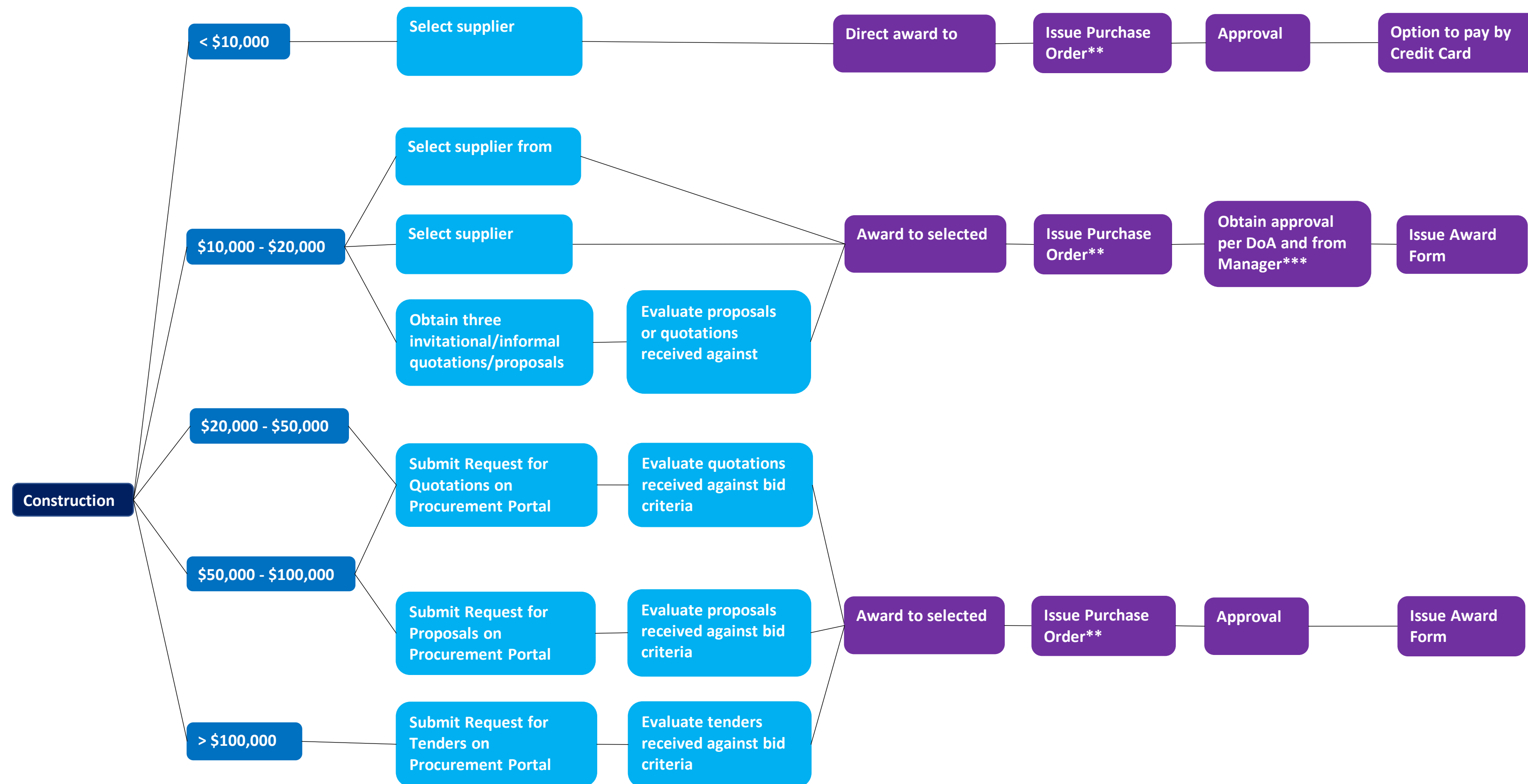
26. This report, schedule, and appendices ("Report") are Privileged and Confidential and have been prepared to assist Ewart O'Dwyer in providing legal advice to Napanee regarding their procurement processes. We further understand that our report may be shared with Napanee for their internal use only. We consent to these uses of our report.
27. Other than the indicated use, our report may not be disclosed, copied, quoted, or referred to in whole or in part, whether for the purposes of litigation, disciplinary proceedings, or otherwise, without our prior written consent in each specific instance. Such consent will not be unreasonably withheld, including in the event of disciplinary proceedings, litigation, or other similar legal process or proceedings. We will not assume any responsibility or liability for any costs, damages, losses, liabilities, or expenses incurred by Ewart Dwyer, Napanee, or anyone else, as a result of circulation, publication, reproduction, use of or reliance upon our report.
28. Our procedures were planned to develop a general understanding of the fraud risks and existing anti-fraud mitigations solely in respect of Napanee's procurement process. We have relied upon information provided to us throughout this engagement without independent verification or audit.
29. During the course of the assessment, KPMG was provided with various documents and information by Napanee during the procurement process review as outlined in Section 4 of this report and our procedures were solely based on the information provided to us. However, should additional documentation or other information become available that impacts upon the report, we will reserve the right, if we consider it necessary, to amend our report accordingly, although we are not obliged to do so.
30. This engagement does not constitute an audit, review, or compilation of financial statements or financial information and, accordingly, we express no opinion or other form of assurance on financial statements or financial information. Furthermore, we are not lawyers, and comments in this report are not and should not be interpreted to constitute legal advice or opinion.

**The Corporation of the Town of Greater Napanee - Procurement Process Review
Appendix A: Process Flowchart - Standard Procurement of Goods and Services**



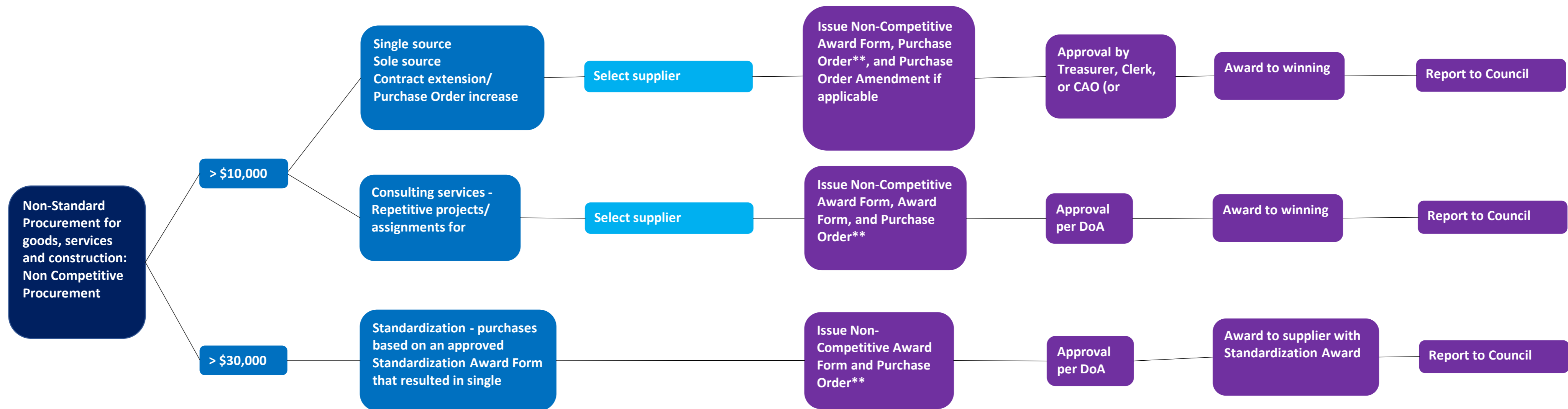
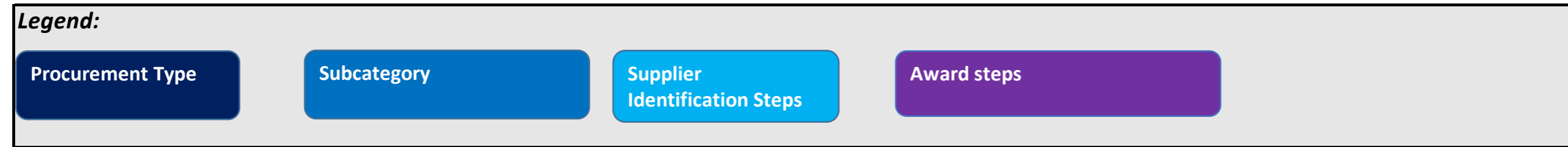
Notes:
 * At the time of our review, we understand that Napanee does not actually have a supplier roster.
 ** Per our review of the Procurement Policy, there is some ambiguity around the use of Purchase Orders and Contracts.

**The Corporation of the Town of Greater Napanee - Procurement Process Review
Appendix B: Process Flowchart - Standard Procurement for Construction**

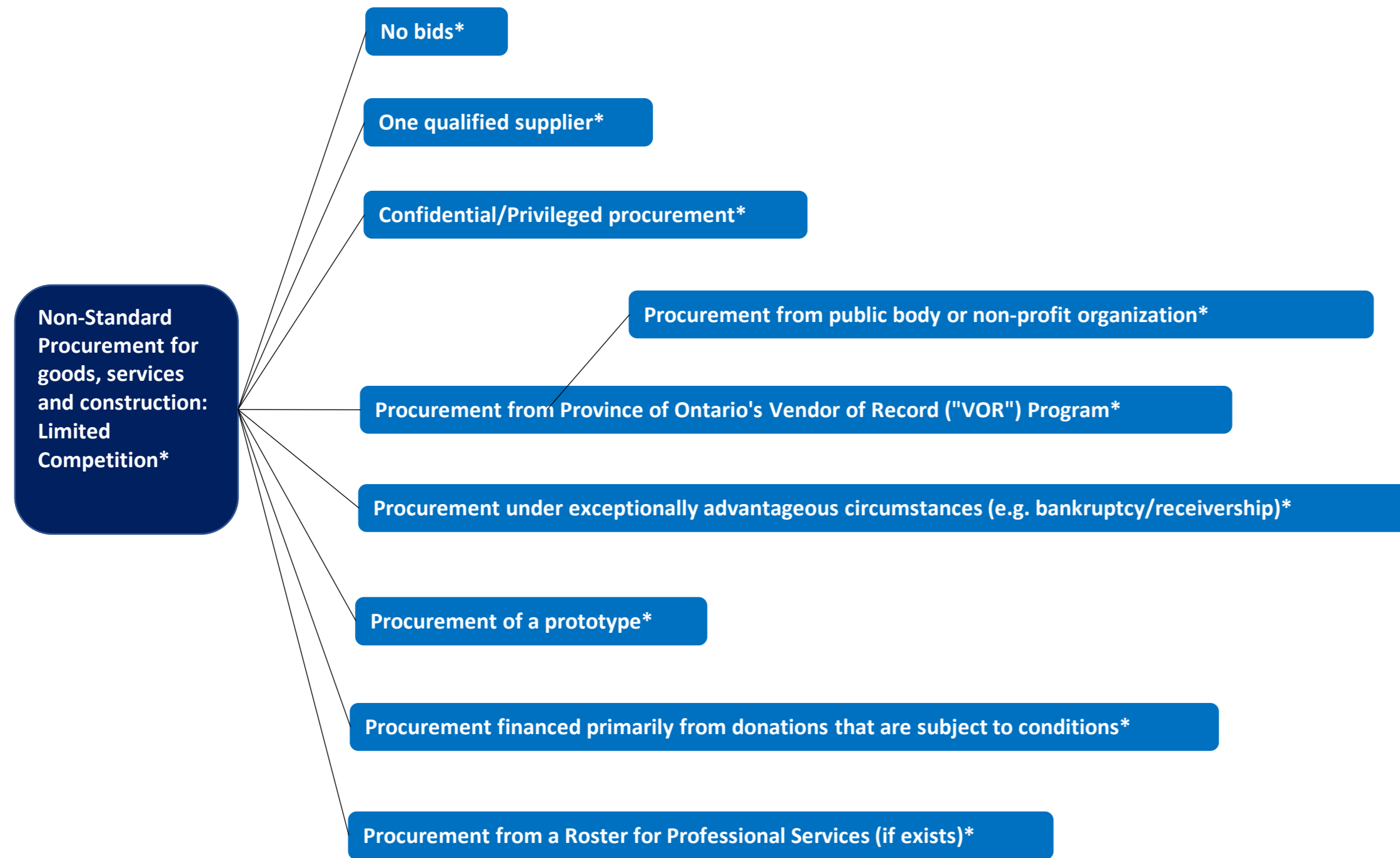


Notes:
 * At the time of our review, we understand that Napanee does not actually have a supplier roster.
 ** Per our review of the Procurement Policy, there is some ambiguity around the use of Purchase Orders and Contracts.
 *** Per our review of the Procurement Policy, Appendix B, for Construction procurements between \$10,000-\$20,000, there is specific reference to "Manager Approval" that is not present for the other subcategories.

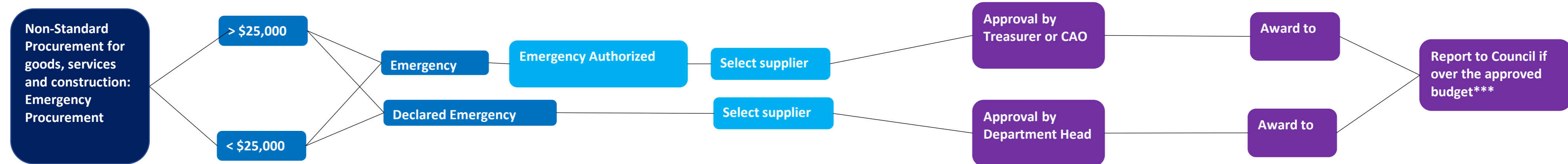
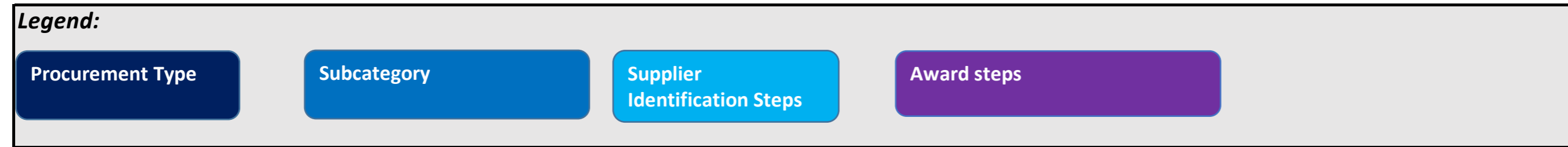
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 Appendix C: Process Flowchart - Non-Standard Procurement of Goods, Services, and Construction



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Appendix C: Process Flowchart - Non-Standard Procurement of Goods, Services, and Construction



The Corporation of the Town of Greater Napanee - Procurement Process Review
Appendix C: Process Flowchart - Non-Standard Procurement of Goods, Services, and Construction

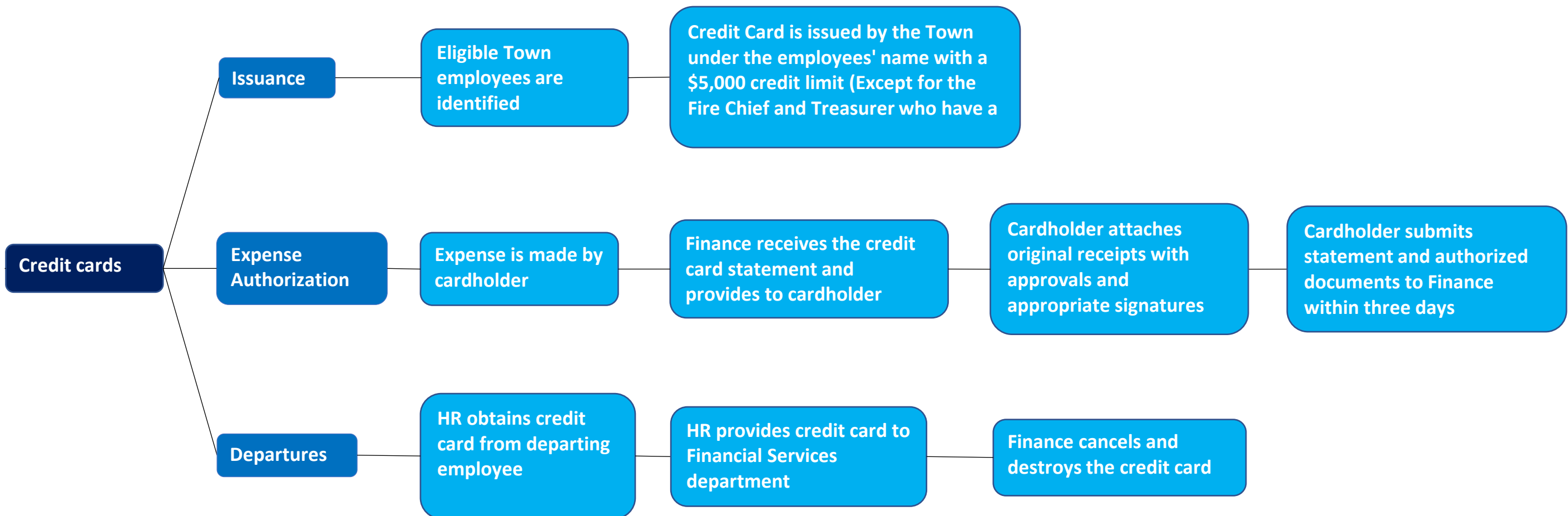
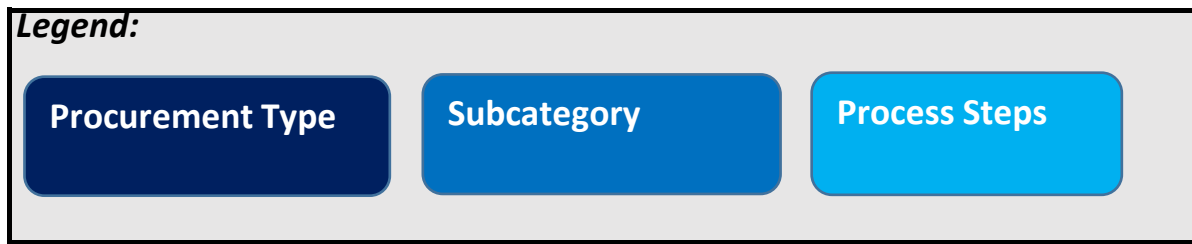


Notes:

- * Per our review of the Procurement Policy, while the circumstances of when a 'Limited Competition' is permissible, there doesn't appear to be a description of the process that needs to be followed for these procurement types.
- ** Per our review of the Procurement Policy, there is some ambiguity around the use of Purchase Orders and Contracts.
- *** Per our review of the Procurement Policy, Appendix B, although a report must go to Council if the procurement is over the approved budget, there doesn't appear to be any specified actions if the emergency procurement is on or below budget.

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Appendix D: Process Flowchart - Procurement Via Credit Card



THE CORPORATION OF THE TOWN OF GREATER NAPANEE – PROCUREMENT PROCESS REVIEW
Schedule 1: SUMMARY OF FRAUD RISKS AND MITIGATIONS

The following table summarizes the fraud risks that were identified as part of our review of Town of Napanee’s Procurement Process, along with the controls, other measures, and considerations that could potentially mitigate these fraud risks:

Fraud Risk Identification					Mitigating Measures	Gaps Identified	Potential Consideration(s) to Address Gaps
Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
1	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process, Select Supplier	Corruption	<p>Internal Fraud: Bias in decision-making by Town employees when awarding a supplier which could result in less-than-ideal contracts.</p>	<p>The Town adheres to the Municipal Conflict of Interest Act in lieu of having their own Conflict of Interest Policy.</p> <p>The Procurement Policy outlines other requirements of Town staff as it relates to Conflicts of Interest as per Appendix M of the Procurement Policy. These requirements include, but are not limited to:</p> <ul style="list-style-type: none"> • Employees, advisors or members of Council must declare a conflict of interest during the competitive bidding process if one exists. • Including certain provisions in contracts with suppliers and consultants pertaining to conflicts of interest. 	<p>The Town does not have its own standalone Conflict of Interest Policy and relies on both Appendix M in the Procurement Policy and the Municipal Conflict of Interest Act for guidance.</p> <p>In addition, the Municipal Conflict of Interest Act is only applicable to Council members and not Town staff.</p> <p>Appendix M of the Procurement Policy does not provide clear steps for employees, advisors or members of Council to take if a conflict of interest is identified, such as:</p> <ul style="list-style-type: none"> • How a conflict of interest is to be reported; • Who a conflict of interest is to be reported to; • When in the process a conflict should be reported. <p>The Procurement Policy also does not appear to contemplate any review of any declared conflicts of interest, particularly for significant procurements, to ensure that all potential biases are identified and addressed proactively to enable a transparent procurement process that includes decisions being made that are in the best interest of Napanee and its objectives.</p>	<p>The Town could consider implementing their own Conflict of Interest Policy applicable to all Town employees and Council members outlining what constitutes a conflict of interest and how to identify conflicts, assess, respond and report any actual or perceived conflicts of interest.</p> <p>The Town could also consider implementing regular and refresher training on their Procurement and Conflict of Interest Policies commensurate with job responsibilities. The Town could consider ensuring employees are aware of all policies and procedures that are relevant to their role, including how and where to access them and may even consider requiring employees and Council members to acknowledge that they have reviewed and adhere by these policies on an annual basis</p> <p>The Town could also ensure that the procurement process reviews any declared conflicts of interest that relate to any of the bidders involved in the procurement to ensure that adequate mitigations are in place in order to uphold the transparency and integrity of the procurement process.</p>

This schedule should be read in conjunction with the Napanee “Procurement Process Review” report dated November 11, 2024 that accompanies this Schedule 1.

THE CORPORATION OF THE TOWN OF GREATER NAPANEE – PROCUREMENT PROCESS REVIEW
Schedule 1: SUMMARY OF FRAUD RISKS AND MITIGATIONS

The following table summarizes the fraud risks that were identified as part of our review of Town of Napanee’s Procurement Process, along with the controls, other measures, and considerations that could potentially mitigate these fraud risks:

Fraud Risk Identification					Mitigating Measures	Gaps Identified	Potential Consideration(s) to Address Gaps
Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
2	Goods Services Construction Credit Cards	Identify Procurement Type	Corruption	Internal Fraud: Purposely selecting an inappropriate procurement type to avoid obtaining appropriate approvals (e.g. circumventing the regular procurement process by inappropriately designating the purchase as an emergency, failing to bring contract modifications to the appropriate authority).	Appendix B of the Procurement Policy outlines the various requirements relating to a procurement based on their dollar value and type. Appendix C of the Procurement Policy outlines the procedures for Non-Standard Procurements.	The Procurement Policy lacks clarity relating to the Non-Standard Procurement of goods, services or construction particularly relating to the following: <ul style="list-style-type: none"> • When reporting is required to Council (e.g. Section 30.2 requires emergency purchases > \$100,000 to be reported, Appendix B indicates all emergency purchases should be reported). • Who holds the position of the ‘Emergency Authorized Person’ at Napanee. • Steps required to be taken by Town personnel when completing a Non-Standard Procurement, including when these steps are to be taken. 	The Town could consider revising the Procurement Policy to provide more clarity as to the steps required for each level of procurement and also consider ensuring that the Finance department is at least consulted but ideally involved in all procurements above a certain value. Additionally, the Town could consider implementing internal controls surrounding the selection of a procurement type. For example, clearly identifying the dollar thresholds for the various levels of procurement and standardizing the requirements for ease of comprehension. The Town could also consider clearly outlining steps and documentation required for undertaking a Non-Standard Procurement, including the requirement to obtain documentation and non-verbal approvals prior to the purchase.
3	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process, Select Supplier	Corruption	Internal Fraud: Elected officials or management employees of the Town could pressure Town employees into awarding purchases to specific vendors for personal gain.	The Town has Codes of Conduct in place outlining the conduct required of its employees and Council members, particularly the requirements to act without self-interest, maintain integrity and carry out duties impartially.	The Town does not have a method for employees, Council members, constituents or third parties to anonymously report breaches of the Codes of Conduct, which would include the fraud risk described.	The Town could consider implementing an anonymous reporting mechanism, such as a whistleblower hotline, that could be posted to the Town’s website. This would involve providing Town employees, Council members, constituents and third parties (including potential suppliers) with information on how they can speak out anonymously and include steps that would be taken by the Town. The Town could also consider including the expectation of Town personnel and Council members to report any inappropriate activity as part of their Code of Conduct. Whistleblowers should be protected from retaliation for making a report and the line should be regularly monitored and reported on. .

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THE CORPORATION OF THE TOWN OF GREATER NAPANEE – PROCUREMENT PROCESS REVIEW
Schedule 1: SUMMARY OF FRAUD RISKS AND MITIGATIONS

The following table summarizes the fraud risks that were identified as part of our review of Town of Napanee’s Procurement Process, along with the controls, other measures, and considerations that could potentially mitigate these fraud risks:

Fraud Risk Identification					Mitigating Measures	Gaps Identified	Potential Consideration(s) to Address Gaps
Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
4	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process, Select Supplier	Corruption	Internal Fraud: Receiving kickbacks or accepting bribes in order to influence the awarding of contracts to specific vendors.	The Town has Codes of Conduct in place outlining the conduct expected of its employees and Council members, particularly the requirements to act without self-interest, maintain integrity and carry out duties impartially. Appendix D of the Procurement Policy outlines the Town’s Statement of Ethics for procurement which is to be followed by all employees authorized to procure on behalf of the Town. Larger dollar value purchases require a more formalized procurement process in the form of Requests for Quotations, Proposals or Tenders that may involve different parties and/or Departments.	Similar to #3, the Town does not have an anonymous reporting mechanism in place to report such behaviour if an individual was to become aware of it. Similar to #1, the Town does not have its own Conflict of Interest Policy for Town personnel to follow.	In addition to the potential considerations described in #1 and #3, the Town could consider implementing regular and refresher training for Town personnel and Council members on the following topics: <ul style="list-style-type: none"> • The Town’s Code of Conduct • Fraud Awareness (including what constitutes fraud, how fraud may be perpetrated within the Town, red flags to look out for and what to do if they suspect fraud has occurred).
5	Goods Services Construction	Prepare Purchase Order/Contract and Obtain Approval	Corruption	Internal Fraud: Intentionally splitting a contract value under a dollar threshold in the Procurement Policy to avoid going through the appropriate approvals.	Section 12.3 of the Procurement Policy outlines that “No employee of the Town shall divide or split a purchase or a contract with the sole intent of avoiding the requirements of this policy or to circumvent the prescribed approval authority dollar limits”.	While the Procurement Policy states that this action is not permitted, it does not appear that any retrospective checks are completed by the Town to ensure that contract splitting has not occurred.	Napanee could consider segregating duties to ensure that the individual/Department initiating the procurement is not also approving the procurement. The Town could also consider implementing regular (e.g. quarterly) reviews of contracts awarded by vendor. This review could look to identify the following: <ul style="list-style-type: none"> • Instances of multiple contracts of similar or round dollar values awarded to the same vendor within a short period of time. • Similarities between contract or invoice descriptions for the same vendor. <p>Additionally, the Town could consider identifying clear penalties for non-compliance with the Procurement Policy.</p>

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Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
6	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process	Asset Misappropriation	Internal Fraud: Risk that purchases are made from organizations that are owned by employees and not disclosed to the Town.	Section 6.4 of the Procurement Policy outlines that <i>“No goods, services or construction will be purchased from an officer or employee of the Town, or any associate or family member of an officer or employee, unless the extent of the interest of such individual has been fully disclosed to the CAO or designate and the purchase has been subsequently approved by the General Manager or Financial Services/Treasurer”</i> . Additionally, Appendix M of the Procurement Policy outlines the requirement for employees to disclose actual or perceived conflicts of interest.	It appears that the Town relies solely on their employees or officers to disclose conflicts of interest and does not conduct proactive reviews of vendors in order to identify potential undisclosed relationships with Town employees or Council members. Similar to #1, the Town does not have a standalone Conflict of Interest Policy applicable to Town employees.	In addition to the potential considerations described in #1, the Town could consider requiring vendors to disclose relationships with employees of the organization as part of the procurement process. The Town could also consider conducting background checks on vendors with contracts over a set dollar threshold in order to help identify any undisclosed relationships with Town employees or Council members. Additionally, Napanee could consider segregating duties to ensure that the individual/Department initiating the procurement is not also approving the procurement.
7	Goods Services Construction	Prepare Purchase Order/Contract and Obtain Approval	Asset Misappropriation	Internal Fraud: Creation of fictitious purchase orders by Town employees.	Town purchase order forms appear to be manually completed on triplicate paper and sequentially numbered making them difficult to replicate.	The Procurement Policy does not appear to clearly outline who is responsible for the creation and approval of purchase orders at the Town, particularly in the case of direct awards of contracts. Additionally, it does not appear to outline procedures in place to ensure that purchase orders are legitimate and that the purchase is a legitimate business need prior to payment being made by the Town. Based on review of certain sampled purchase orders, they did not always appear to be completed with all the required information and include only one sign off.	The Town could consider reviewing and updating the Procurement Policy with a particular focus on addressing inconsistencies and vagueness. The Town could also consider improving their documentation of review and approval of procurement related documents (e.g. invoices, purchase orders, etc.) to provide clear evidence of segregation of duties, purchase rationales, and appropriate approvals. Napanee could also control the supply of the paper purchase orders and ensure that one copy is provided to the Finance Department. This would allow the Town to be able to ensure that they are aware of all purchases and allow them to follow up on missing purchase order copies.

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Fraud Risk Identification					Mitigating Measures	Gaps Identified	Potential Consideration(s) to Address Gaps
Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
8	Goods Services Construction	Select Supplier	Corruption	<p>Internal Fraud: Town employees colluding with vendors and performing schemes such as price fixing, bid rotation or bid suppression.</p> <p>External Fraud: Vendors colluding and performing schemes such as price fixing, bid rotation or bid suppression.</p>	<p>As discussed in #4, the Town has Codes of Conduct in place outlining the conduct required of its employees and Council members. Appendix D of the Procurement Policy outlines the Town’s Statement of Ethics for procurement which is to be followed by all employees authorized to procure on behalf of the Town.</p> <p>Section 7 and Appendix M of the Procurement Policy outlines responsibilities of vendors of the Town as they relate to conflicts of interest, involvement in developing competitive documents, and illegal or unethical bidding practices. Additionally, Section 7.6 states that <i>“The Town will report any suspected cases of collusion or other bid-rigging offences under the Competition Act to the Competition Bureau or to other relevant authorities”</i>.</p>	<p>As discussed in #3, the Town does not have a method for employees, Council members, constituents or third parties (including suppliers) to anonymously report breaches of the Code of Conduct or Town policies, which would include the fraud risk described.</p> <p>There does not appear to be any retroactive review by the Town of awarded contracts to identify if there have been instances of wrongdoing. This is further made difficult where documentation on the procurement process is not properly maintained.</p>	<p>As discussed in #3, the Town could consider implementing an anonymous reporting mechanism, such as a whistleblower hotline, that could be posted to the Town’s website.</p> <p>The Town could also consider more thoroughly enforcing their policies relating to document retention and consider developing a centralized method for storing and accessing procurement related documentation.</p> <p>The Town could also consider performing retrospective reviews of awarded contracts periodically to look for instances of wrongdoing.</p>
9	Goods Services Construction	Select Supplier	Asset misappropriation	<p>External Fraud: Vendors providing lower quality goods or services than what was agreed upon in the contract or overbilling the Town for contracted goods, services or construction.</p>	<p>As outlined in #8, Section 7 of the Procurement Policy outlines responsibilities of vendors of the Town, particularly the requirement for suppliers to adhere to ethical business practices.</p> <p>Section 22 of the Procurement Policy outlines the responsibilities of departments as it relates to Contract Management and Supplier Performance, including the requirement to ensure that quality control is undertaken and that payments are made in accordance with the contract.</p>	<p>The Procurement Policy does not provide clarity on the steps that a Department is to take relating to the evaluation of supplier performance and contract management.</p> <p>Section 22.1.5 references the Town’s Supplier Performance Evaluation Protocol being available to suppliers through the Town’s external website. However, we were unable to locate this protocol on the website.</p>	<p>The Town could consider clearly identifying steps for Town employees to take throughout a contract to evaluate the supplier’s performance, possibly through a checklist or similar document to be included in the file relating to a particular procurement. The Town could consider implementing this process particularly for construction contracts, but also for other contracts of higher dollar value.</p> <p>As discussed in #3, the Town could consider implementing an anonymous reporting mechanism, such as a whistleblower hotline, that could be posted to the Town’s website.</p>

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Fraud Risk Identification					Mitigating Measures	Gaps Identified	Potential Consideration(s) to Address Gaps
Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
10	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process, Select Supplier	Corruption	External Fraud: Submission of token bids/fraudulent proposals, to make the bid from a particular vendor appear more favourable.	As outlined in #8, Section 7 of the Procurement Policy outlines responsibilities of vendors of the Town, particularly that the Town may refuse to do business with any supplier engaging in illegal or unethical business practices. Section 21 of the Procurement Policy outlines the role of the Bid Review Committee, which is formed when the Treasurer is made aware of irregularities, complaints or challenges in respect of a procurement process.	The Town appears to lack a robust system for evaluating bids, and therefore may not be able to identify token or fraudulent bids if they were to occur. The Procurement Policy is vague regarding the process for bid evaluation and who at the Town is involved. A Bid Review Committee is only put in place in a reactive situation, i.e. after an irregularity or complaint has occurred.	The Town could consider reviewing and updating the Procurement Policy with a focus on clarifying the steps relating to bid review and evaluation, this may include: <ul style="list-style-type: none"> Who at the Town is responsible for reviewing bids and evaluating them against the bid criteria, Developing a standardized process (e.g. due diligence on suppliers submitting bids) and related documentation (e.g. bid evaluation forms) to be used by Town employees in the process. Ensure Town employees reviewing bids have received sufficient training on what to look out for as it relates to fraudulent or unethical bidding practices.
11	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process, Select Supplier	Corruption	External Fraud: Vendor intentionally misrepresents or falsifies their qualifications, capabilities, or the quality of their goods or services in order to win a contract.	The Town allows vendors to participate in pre-qualification activities through a Request for Supplier Qualification.	The Procurement Policy does not appear to clearly identify steps for Town employees to take to determine whether or not a vendor has the qualifications and capability to complete a particular contract.	As discussed in #10, the Town could also consider detailing steps to be taken by Town employees as part of the bid review and evaluation process to verify a vendor’s qualifications and capabilities. This may include requesting evidence of required qualifications, references from previous clients, proof of previous work, due diligence and media searches on the supplier, etc.
12	Goods Services Construction	Initiate Tender/Bid/Quote/ Other Process, Select Supplier	Corruption	Internal Fraud: Town employees intentionally setting specific bid requirements to influence vendor selection. External Fraud: Vendor colluding with Town employees to influence bid requirements leading to their selection.	As discussed in #8, the Town has following policies in place to mitigate this risk: <ul style="list-style-type: none"> Codes of Conduct for employees and Council members. Appendix D of the Procurement Policy regarding the Town’s Statement of Ethics for Procurement. Section 7 of the Procurement Policy regarding Supplier Conduct and Conflicts of Interest. Appendix M of the Procurement Policy regarding Conflicts of Interest. 	The Procurement Policy is vague regarding who is involved in the determination of bid requirements and how many people are involved in this process. Similar to #3, the Town does not have a method for employees, Council members, constituents or third parties (including suppliers) to anonymously report breaches of the Code of Conduct or Town policies, which would include the fraud risk described.	Similar to #10, the Town could also consider reviewing and updating their Procurement Policy to include clarity on who is involved in setting the bid requirements and ensure more than one individual is involved in the process. As discussed in #3, the Town could consider implementing an anonymous reporting mechanism, such as a whistleblower hotline, that could be posted to the Town’s website.
13	Goods Services Construction	Prepare Purchase Order/Contract and Obtain Approval	Asset misappropriation	Internal Fraud: Intentional manipulation of the vendor set-up process for personal gain (e.g. a Town employee inputting personal banking information instead of vendor banking information for payment)	A vendor is likely to inquire with the Town if any payment of outstanding invoice(s) is not addressed.	The Procurement Policy does not appear to touch on the vendor set-up process.	If not addressed in another policy, the Town could consider addressing the vendor set-up process in the Procurement Policy. This may include: <ul style="list-style-type: none"> Who is responsible for controlling and updating the vendor master list. Periodically reviewing changes made to information on the vendor master list. Where this list is to be kept. Controls surrounding who is able to make changes to the list.

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Fraud Risk Identification					Mitigating Measures	Gaps Identified	Potential Consideration(s) to Address Gaps
Ref #	Procurement Type	Sub-Process	Type of Fraud	Fraud Risk Description			
14	Credit Cards	Cardholder makes a purchase	Asset Misappropriation	<p>Internal Fraud: Employees using Town issued credit cards for personal expenditures or unauthorized purchases.</p>	<p>Appendix O of the Procurement Policy outlines the eligible uses of Town issued credit cards, including the consequences of misuse.</p> <p>The cardholder must attach original receipts to monthly credit card statements and obtain approvals from the appropriate authority level.</p> <p>All credit cards have a maximum limit of \$5,000, with the exception of the Fire Chief and Treasurer who have a maximum credit limit of \$10,000.</p>	<p>It appears that some circumstances may allow for an employee (e.g. at more Senior Levels) to approve their own credit card purchases.</p> <p>It appears that the supporting documentation provided for credit card purchases does not always provide rationale for the purchase, making it difficult for an approver to determine if purchases are reasonable or not.</p>	<p>The Town could consider implementing a more formalized process for approving purchases made with Town issued credit cards. For example, every employee with a Town issued credit card should be assigned an individual who is responsible for reviewing and approving the expenses that they have incurred and questioning the reasonability of the charges.</p> <p>The Town could also consider implementing a more thorough credit card expense reporting process. This may include requiring Town employees to complete monthly credit card expense forms that outline not only the vendor and amount of purchase but also the following information:</p> <ul style="list-style-type: none"> • Rationale for the purchase • Proof of approval for the purchase to be made • Who the purchase relates to (or the department).
15	Credit Cards	Cardholder makes a purchase	Asset Misappropriation	<p>Internal Fraud: Use of Town credit cards by people other than the designated cardholder without their knowledge.</p>	<p>Appendix O of the Procurement Policy outlines ineligible uses of the Town’s credit cards, including “Under no circumstances will the card be loaned out to co-workers, colleagues or any other associates”.</p> <p>The cardholder is responsible for providing Financial Services with supporting documentation relating to charges on their Town issued credit card.</p>	<p>It appears that some Town employees may not be aware of the policies in place relating to the use of Town issued credit cards.</p>	<p>The Town could consider implementing regular and refresher training on the acceptable use of Town issued credit cards with employees that have one.</p> <p>Other measures, such as audits and transaction monitoring, could also be used to identify potential credit card activity that does not relate to the card holder (e.g. transactions that do not relate to the cardholder’s Department).</p>

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