

Audit of Selected Contracting Activities of the Privy Council Office

Final Report

November 5, 2007

Summary and Management Action Plan

Summary

Introduction

In April 2005, Finance Canada undertook to provide selected internal audit services to the Privy Council Office (PCO) on an interim basis. As part of this arrangement, the Internal Audit and Evaluation Division of Finance Canada engaged Consulting and Audit Canada (CAC), now designated Audit Services Canada (ASC), to conduct an audit of Privy Council Office (PCO) procurement activities.

Objectives, Scope and Methodology

The original objectives of this audit were to provide assurance that:

- Procurement and contracting activities complied with Treasury Board (TB) Contracting Policy, the Financial Administration Act (FAA) and PCO policies;
- Procurement and Contracting Services (PCS) practices ensured fairness, transparency and value for money when contracts were awarded;
- The financial and management controls designed to oversee PCO procurement activities were appropriate; and
- Transaction costs associated with procurement activities are justified in relation to the benefits received.

The scope of the audit work was later narrowed to focus on compliance with the TB Contracting Policy, applicable FAA requirements and certain PCO policies. Furthermore, not every aspect of these policies and legislation were tested. The audit work focussed on selected key controls. An opinion, therefore, can be given only in relation to compliance with those controls.

The audit focused on elements of the procurement process, from the definition of requirements to the award of the contracts.

A sample of 44 procurement files was selected for examination from fiscal year 2002-2003. One contract was cancelled before it was awarded leaving 43 files in the sample. Four of those files were found to be Memoranda of Understanding with other government organizations and as such are excluded from the application of TB Contracting Policy. They were therefore removed from the sample. This left a sample of 39 files which contained various types of contract documents, consisting of local purchase orders, departmental contracts, call-ups against standing offers, letters of agreement, and confirming orders.¹

Main Findings

The reader of this report is cautioned that following findings relate only to contract files selected as part of the sample and may not be representative of all current procurement activities undertaken at PCO.

Specifically, the period selected for audit (fiscal 2002-2003) was two years prior to the detailed examination phase and the release of the report was further delayed due to capacity limitations in the Internal Audit function. Also, because a judgmental sample was used, the sample characteristics do not permit the extrapolation of the results on this audit to the whole population. An audit opinion can be given only in relation to those contracts tested in the sample from the 2002-2003 fiscal year.

The main findings in the sample are summarized below.

Before any type of contract can be awarded, sufficient unencumbered funds need to be set aside through a formal process as prescribed by section 32 of the FAA, whereby an employee with financial authority certifies that funds are available. Of the 39 procurement files audited from 2002-2003, 7 were not properly authorized. We also found cases where contracts and/or amendments were not approved by an employee with authority as per the PCO financial

¹ A confirming order is a purchase order issued to a supplier, listing the goods or services and terms of an order placed orally or otherwise in advance of the usual purchase document. PCO uses confirming orders for services only.

authorization documents. The audit found that the financial authorization documents had not been updated for some time.

In nearly half of the procurement files examined, the contractor started work before an official contract was approved and issued. This was found to occur for various contract types ranging in value from \$4K to \$100K. Similarly, half of the contract amendments examined were issued after the expiry of the original contract or previous amendment. As per TB Contracting Authority, it is expected that a contract be in place before work is started or goods are delivered.

²

The audit also found that PCS staff signing contracts on behalf of PCO had not been given the formal authority to do so. A delegation of authority matrix, which would give contracting authority, was not in place.

The statement of work (SOW) is the basis of a sound contract and usually leads to a clear definition of deliverables. Effective management oversight is jeopardized in the absence of a clear definition of deliverables. During our audit, we found that in 16 of the 39 files examined for the 2002-2003 fiscal year, the SOW was absent or not clear.

A Contract Review Committee (CRC) is in place within PCO. Its mandate is principally aimed at examining service contracts exceeding \$10,000. The CRC process constitutes an oversight mechanism with the objective of enforcing compliance to applicable policies and ensuring the application of sound procurement practices. However, given that the CRC did not prevent the findings and weaknesses identified by the audit, its terms of reference should be re-examined with the objective of giving the CRC a more prominent role in the future.

File documentation also needs to be improved, particularly with respect to security requirements, CRC review, and price support. For example, PCO uses a standard form to document security requirements when contracting for services. The form, however, does not specifically identify cases where no security clearances are needed. This makes it difficult to assess whether security requirements were addressed. We also found that answers to questions or observations from CRC members were not always documented in procurement files. Answers to follow-up questions or comments from CRC are managed through e-mails, but were not included in some of the files we audited. TB Contracting Policy recommends that decisions made by review units be recorded and available for subsequent internal audits or evaluations. Similarly, price support needs to be documented in contract files, but was lacking in some files.

Overall Conclusion and Recommendations

It was found that, for the sample of 2002-2003 files chosen for audit, PCO procurement activities did not comply with a number of key TB Policies as well as certain aspects of the FAA. Key findings concern the delegation of authorities, the timing of contract and amendment approvals, the adequacy of the roles and responsibilities of the CRC and appropriate file documentation. Improvements to these areas would strengthen procurement practices.

In this regard, several recommendations are outlined in this report. Principal among these is the recommendation to provide training to PCO managers and PCS contracting staff. The training should cover all aspects of the procurement process including relevant policies, regulations, and legislation. It is important that all personnel involved in procurement activities, including line managers, be informed of their responsibilities and be kept up to date regarding current contracting policies and procedures.

Other recommendations in this report aim to strengthen the control framework pertaining to procurement activities, including the role and scope of the CRC already in place. Follow-up regarding fulfilment of these recommendations should be undertaken prior to March 31st, 2008.

² It should be noted that 6 of these cases related to standing offers issued by PWGSC allowing the Project Authority to verbally authorize the Offerer to proceed with the task(s), with formal confirmation to follow by the issuance of a call-up. While these standing offers did not specify timelines for issuing call-up documentation in such circumstances, consultations conducted by the audit team confirmed that documentation should be prepared and signed immediately or as soon as possible. Accordingly, the audit team applied a criterion of 2 working days in such cases.

Management response:

As noted in the report, the audit findings were based on a judgemental sample and relate to transactions that took place in the 2002-2003 fiscal year.

Given the time period covered by the audit, and the fact that the findings cannot be extrapolated to the broader population of transactions, a follow-up audit on contracting activity will be launched later this fiscal year. There have been a number of initiatives to improve departmental contracting since the 2002-03 audited year including the regular review and update of contracting and financial authorities as well as functional training for most procurement specialists.

The attached Action Plan addresses the findings identified by this audit.

Appendix D – Management Action Plan

Contracting Audit Action Plan

ADM Corporate Services Branch has overall responsibility for the Action Plan

Item	Recommendation	Corrective Measures	Responsibility	Target Date
1	Contracting Authority is formally delegated and communicated;	Contracting authorities for employees who work in procurement and contracting services employees have been reviewed, updated, approved and communicated.	Finance and Corporate Planning Division (FCPD)	Completed
2	Both contracting authorities and financial authorities are reviewed and updated at least annually;	<p>Contracting and financial authorities have been reviewed.</p> <p>As part of the annual review, PCO will undertake in 2007/08, an in-depth review of its delegation of authority chart in consultation with management.</p> <p>As part of PCO due diligence process, the delegation of authorities will be reviewed on annual basis.</p>	<p>FCPD</p> <p>FCPD</p>	<p>Completed</p> <p>Fall 2007</p>
3	Ongoing training is provided to PCO staff with contracting authority regarding:	<p>Managers are being reminded on an ongoing basis of the existing departmental policy regarding the development of the SOW. This issue was included in a departmental bulletin on contracting to formally advise staff.</p> <p>A Contracting Guide for Managers is being developed to further assist staff involved in contracting activities and a training tool is being produced as part of the Guide project.</p> <p>Formal training for staff will be available by the Fall 2007 and will be provided on an ongoing basis for future requirements. It is expected to take 6 to 12 months to train all existing staff.</p>	<p>Administration Division (ADMIN)</p> <p>ADMIN</p> <p>ADMIN</p>	<p>Complete</p> <p>Fall 2007</p> <p>Fall 2007</p>
	b. Authority limits;	<p>Departmental contracting authority limits are listed in the current PCO Contracting Policy document available to all staff on the PCO Intranet site.</p> <p>A reference to these limits was included in the bulletin to remind PCO staff.</p> <p>This aspect of contracting will also be included in both the Guide and the training tool.</p>	ADMIN	Complete
	c. The requirement for a properly-approved, formal contract in place prior to the commencement of work; and	<p>This requirement is clearly stated in the departmental contracting policy and was included in the bulletin to remind clients of the existing service standards included in the departmental contracting policy.</p> <p>This issue will also be addressed in the Guide and the training tool.</p>	ADMIN	Complete

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	d. The use of, and processes for, contract amendments.	<p>Contract amendments are permitted under the TB Contracting Policy provided they are justifiable and documented accordingly. PCS staff are cognizant of this issue and are advising clients to identify their future needs to permit the establishment of long-term/multi-year contracts in order to help alleviate requirements for amendments.</p> <p>A reminder on the timing of amendments was included in the bulletin and this issue will be addressed in the Guide and training tool.</p> <p>The CRC's mandate will be reviewed with respect to approval of amendments and will be revised as necessary.</p>	<p>ADMIN</p> <p>ADMIN</p>	<p>Complete</p> <p>Fall 2007</p>
4	<p>Ongoing training is provided to PCS personnel regarding all aspects of the procurement process. Particular areas requiring attention include:</p> <p>a. Verification of FAA Section 32 authorization;</p>	<p>As part of the normal contracting process, PCS staff utilizes the departmental signing authority matrix and the specimen signature database to verify signing authorities. PCS procedures have been revised to ensure that the Section 32 authority on procurement documents are signed before the "Approved for the Minister" block is signed.</p>	ADMIN	Complete
	b. Competitive versus non-competitive requirements; and	<p>Training has been and will continue to be provided on an on-going basis.</p> <p>Most PCS staff have participated in the mandatory training courses for functional specialists and the remaining staff have been scheduled to participate over the coming months. As well, staff are attending other procurement related training and courses as part of their ongoing skills development.</p>	ADMIN	Complete
	c. Standardized file documentation requirements including security requirements, price support and CRC review documentation.	<p>Security requirements are currently handled in accordance with departmental policy. A checkbox has been added to the revised contract request form, which was released in September.</p> <p>A file documentation checklist for service contracts was established several years ago and is currently in use within this section. Files are being monitored more closely to ensure compliance with this list. A checklist for goods contracts is being developed.</p>	<p>ADMIN</p> <p>ADMIN</p>	<p>Complete</p> <p>Complete</p>

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Item	Recommendation	Corrective Measures	Responsibility	Target Date
5	Monitoring and review is strengthened, specifically with respect to:			
	a. Enhanced CRC role and scope;	The CRC's mandate is to review contract proposals and comment on the degree of compliance with departmental and TB policy and the mandate will be reviewed to determine if an enhanced role is necessary.	ADMIN	Fall 2007
		A review of current departmental policies in the areas of non-competitive, ratification and amendment authorities will be undertaken.	ADMIN	Fall 2007
		Quarterly contracting activity reports are being provided to CRC members and senior management.	ADMIN	Complete
	b. PCS review of SOW quality, including definition of deliverables;	PCS is now reviewing SOWs more rigorously and, when appropriate, ensures that deliverables are clearly defined. PCS contracting staff have attended training on developing SOWs and have been given clear direction regarding implementing this requirement. Files are monitored more closely to ensure adherence.	ADMIN	Complete
c. PCS validation of price support;	The Documentation Requirements section of the departmental contracting policy has been revised to include a requirement that project authorities provide a statement confirming the fairness and reasonableness of the level of effort indicated in contractors' proposals. The revised policy will be released shortly. This requirement is also included in the checklist.	ADMIN	Complete	
d. PCS review of contract approvals; and	Formal delegation of signing authorities has been dealt with in items 1 and 2 and approval authority definitions have been reviewed and revised. Definitions in the departmental contracting policy document have been revised to provide consistency with those in the contract form. The revised document will be released shortly.	ADMIN	Complete	
e. PCS intervention when a competitive process is required.	PCS staff is aware of this requirement and have been instructed to enforce this aspect of the policy more rigorously. This is also part of the challenge function of the CRC and members are expected to provide appropriate comments when necessary.	ADMIN	Complete	