



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

Audit of Contracting

Western Economic Diversification Canada
Audit, Evaluation & Disclosure Branch
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Canada 

Acknowledgement

The Audit, Evaluation and Disclosure Branch would like to acknowledge the cooperation provided by the management and staff of the Headquarters and Regions during the conduct of this audit. It is anticipated that the results of this audit will add value to the Department's contracting activities.

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1.0 EXECUTIVE SUMMARY

- 1.1** Procurement is an issue of high significance in the Government of Canada. As a result, increased attention has been given to this area across the federal public service. Due to increased awareness, and in recognition of the risk associated with procurement, an Audit of Contracting was included in Western Economic Diversification Canada's (WD) approved 2008-2011 Risk-Based Audit Plan.
- 1.2** The overall objective of the audit was to provide assurance that WD's contracting function is operating efficiently, economically and effectively, and in accordance with both Treasury Board and departmental policies and directives. The specific objectives of the audit were:
- To assess the extent to which a management control framework is in place, meets Treasury Board and departmental expectations, and is functioning as intended; and
 - To determine the extent to which departmental contracting activities and practices comply with Treasury Board and departmental standards.
- 1.3** The audit, conducted in accordance with the Government of Canada Standards for Internal Auditing, covered the procurement of goods and services approved during the fiscal year 2007-2008. During that period, WD awarded a total of 646 contracts for goods and services totalling \$7.6 million. The audit scope covered approved contracts, call-ups against standing offers, supply arrangements, purchase orders and acquisition card purchases. Selected transactions were examined in detail in order to assess compliance with policies, guidelines and procedures.

Findings and Conclusions

- 1.4** The results of the audit indicate that, in many key areas, the department is managing its procurement and contracting program well. The basic components of a contracting management framework exist.
- 1.5** Generally, contract requests are clearly defined, adequately justified, properly approved and appropriate procurement methods are utilized. There is a high degree of compliance with Sections 32 and 34 of the Financial Administration Act (FAA). Contracts over \$10,000 are proactively disclosed on WD's public website.
- 1.6** There are areas where improvement can be made to strengthen overall effectiveness of the contracting function. Those areas of improvement are outlined in the recommendations included in this report.
- 1.7** In the professional judgement of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusion contained in this report. In accordance with the Government of Canada internal audit standards, a reasonable assurance is provided that the existing WD contracting management control

framework meets Treasury Board Secretariat and departmental expectations and is functioning as intended. The conclusion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed with management.

2.0 INTRODUCTION

Background

- 2.1** Western Economic Diversification Canada (WD) conducts its procurement activities to support the Department in achieving its strategic outcomes, which are:
- Policies and programs that support the development of Western Canada;
 - Economically viable communities in Western Canada with a high quality of life; and
 - A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system and Innovation.
- 2.2** The Department's procurement objectives are to acquire goods and services in a manner that enhances access, fairness and competition. While focusing on fair value and planning for operational requirements, the department supports aboriginal businesses and promotes green procurement. In fiscal year 2007-2008, WD awarded 646 goods and services contracts totalling approximately \$7.6 million. These expenditures represent 50 percent of the non-salary expenditures of approximately \$15.2 million for 2007-2008.
- 2.3** Procurement is an issue of high significance in Government. As a result, increased attention is being given to this area across the federal public service. The potential negative impacts of non-compliance with regulations are significant. Operational requirements for timely delivery of goods and services and the need to comply with government contracting regulations can be competing objectives. The objective of government procurement is to acquire goods and services in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and Canadians.
- 2.4** WD's last audit of contracting was completed in January 2004. Both the federal government and departmental standards and practices have changed considerably since 2004. As a result, this audit includes criteria based on the new standards. The Audit of Contracting was included in WD's approved 2008-2011 Risk-Based Audit Plan.

Objectives

- 2.5** The overall objective of the audit was to provide assurance that WD's contracting function is operating efficiently, economically and effectively, and in accordance with Treasury Board and departmental policies and directives. The specific objectives of the audit were:
- To assess the extent to which a management control framework is in place, meets Treasury Board and departmental expectations, and is functioning as intended; and

- To determine the extent to which departmental contracting activities and practices comply with Treasury Board and departmental standards.

2.6 The audit focused on the following key risk areas to the procurement function:

- TB and WD policies, guidelines and procedures were not followed;
- An acquisition that should have been submitted to the Contract Review Committee for their review and approval, was not forwarded to them;
- The contracting process did not provide value for money, was unfair, inaccessible and not transparent;
- Communication of policies or training provided to those who are doing contracting was inadequate and inefficient; and
- A standing offer or supply arrangement was not used for procurement of the ten groups of commodities on the mandatory standing offer list.

Scope and Methodology

2.7 The audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada. The auditors examined the management framework, procurement and contracting policies, guidelines, procedures, processes and practices in place. The auditors conducted interviews with selected Contract Review Committee members, Managers, Regional Finance Managers, Contracting Officers, and other key staff. Detailed testing of 184 transactions processed from April 1, 2007 to March 31, 2008 (see Table 1 below) was conducted to determine if policies and procedures were followed. The contracts, call-ups against standing offers and supply arrangements were selected based on professional judgment and representation.

Table 1- Sample Transactions

Type	Sample Size
Competitive contract	36
Non-competitive (sole-source) contract	30
Call-up against Standing Offer	12
Supply Arrangement	7
Purchase Order	30
Acquisition Card	69
Total	184

3.0 FINDINGS AND RECOMMENDATIONS

Policy Framework

General Criterion: *WD policies, guides and manuals are consistent with government policies relating to contracting for goods and services.*

- 3.1** Although WD does have policies and procedures in place around procurement and contracting practices, a number have not been recently updated to reflect changes in Treasury Board policies, Government Contract Regulations and guidelines. For example, the increase in authority to purchase goods from \$5,000 to \$25,000 has not been reflected in the WD Administration Desk Guide.
- 3.2** Currently, Corporate Services is undertaking an internal review of departmental procurement and contracting practices, processes and procedures. As a result of this departmental review, it is anticipated that these policies and procedures will be updated in order to be consistent with the Treasury Board policies and guidelines. In addition, the WD Contracting for Goods and Services Procedures and WD Administration Desk Guide should be fully integrated. The review and implementation of changes is scheduled to be completed by March 2009.
- 3.3** Table 2 shows departmental policies and guides identified and reviewed during the audit.

Table 2 – WD Policies and Procedures

Description	Date Issued/Updated
Administration Desk Guide (Chapter 120-Procurement and Chapter 130-Contracting for Services)	September 26, 2005
Contracting for Goods and Services Procedures	April 2006
Contracting Policy	December 21, 2005
Contracts Over \$10K Proactive Disclosure	June 14, 2007
Acquisition Cards Policy	December 5, 2005
Contract Review Committee Terms of Reference	October 22, 2007 (in process of revision)

- 3.4** It is imperative to review and update the existing departmental policies and procedures on a regular basis to avoid non-compliance from reliance on outdated information. This is especially true after significant changes to government policies and procedures.
- 3.5** Several inconsistencies as a result of a lack of standard guidelines were identified in procurement and contracting practices and processes across the department, as follows:
- Each region was completing contracting and procurement forms in slightly different ways, meaning that consistency between the regions did not exist; and
 - Sign off in the various regions was again handled in different ways.
- 3.6** Good Practice: Contracting Officers in the Saskatchewan and Manitoba Regions established desk procedures for procurement and contracting.

Recommendation #1: Standard guidelines and forms should be established and consistently applied across regions. Updated departmental policies, procedures, and forms should be communicated to staff.

Roles and Responsibilities

General Criterion: *WD organizational structure, roles and responsibilities are clearly defined, understood and documented.*

- 3.7** The organizational structure, roles and responsibilities related to procurement and contracting are clearly defined and understood. However, the roles and responsibilities of some individuals need to be clarified. Departmental manuals do not outline roles and responsibilities of the Assistant Deputy Minister or the Contract Review Committee. Similarly, the departmental Administration Desk Guide does not include the Assistant Deputy Minister's sole-source contracting responsibilities.
- 3.8** Corporate Administration provides policy direction, advice and oversight concerning procurement and contracting. This functional role is communicated via the intranet.
- 3.9** Treasury Board Contracting Policy requires that contracting authorities establish and maintain a formal challenge mechanism for all contractual proposals. The Contract Review Committee and the Corporate Procurement Services Officer fulfill this role for sole-source contracts over \$10,000, and in exceptional and unusual contracting situations. The Contract Review Committee, accountable to the Executive Committee, has a mandate to ensure consistency and compliance in contracting practices across the department in order to meet Treasury Board contracting requirements. The Contract Review Committee has a current terms of reference.
- 3.10** At the regional level, the Contracting Officer reviews all contracting requests, prepares contract documentation and forwards them to the Regional Finance Manager for review and approval. Roles and responsibilities of the Regional Finance Manager were specified in the Contract Review Committee's Terms of Reference, WD Contracting for Goods and Services Procedures, and WD Administration Desk Guide. However, the Contracting Officer's roles and responsibilities were not specified in WD Administration Desk Guide.
- 3.11** The manager's roles and responsibilities are included in the departmental guides. The delegated financial authorities are specified in the WD Summary of Delegated Financial Signing Authorities signed by the Minister of Western Economic Diversification Canada on February 9, 2007.
- 3.12** Contract Review Committee members, Corporate Administration staff, Regional Finance Managers, and Contracting Officers interviewed demonstrated a good understanding of their roles and responsibilities for procurement and contracting.

Communication/Training

General Criterion: *Communication and training pertaining to contracting is sufficient, available and is provided where required in a timely manner.*

- 3.13** Training on contracting policies and procedures is available and is provided in a timely manner. However, training provided on some contracting methods or tools should be enhanced. In some instances, managers, Regional Finance Managers, and Contracting Officers were not familiar with policies and processes relating to Advance Contract Award Notices, Professional Services Online, or MERX (electronic bidding).
- 3.14** The Corporate Procurement Services Officer provides training and guidance on procurement and contracting to departmental staff. In 2008 to date, eight sessions were held in all regions but Saskatchewan for 83 attendees. The topics covered in the training are quite comprehensive.
- 3.15** During November 2006 to October 2007, 55 departmental directors, managers, finance officers and contracting officers were provided training on procurement/contracting. As well, all the Managers interviewed had taken the mandatory training for delegation of financial signing authority.
- 3.16** WD supports the certification program for contracting staff. Corporate Administration has identified regional procurement specialists. These procurement specialists have taken or are taking some of the training courses required for the Procurement, Materials Management and Real Property certification program.
- 3.17** Corporate Administration has posted extensive procurement and contracting information on the intranet. Later in 2008-09, Corporate Services Branch plans to provide a "one stop shop" for procurement information on the intranet. The British Columbia Region has also posted contracting information on the intranet.
- 3.18** Communication between Headquarters and the regions, and within the regions, is generally good. The Regional Contracting Officers, Regional Finance Managers and managers indicated that they receive relevant contracting information from Headquarters. The Corporate Procurement Services Officer sends procurement bulletins or emails to the regions on a periodic basis. The regional managers interviewed pointed out that they maintain good communication with their finance and administration staff. Several officers stated that they also periodically receive procurement/contracting information from Public Works and Government Services Canada.

Recommendation #2: Corporate Administration should enhance its current training to include additional information on Advance Contract Award Notices, Professional Services Online and MERX to regional staff involved in procurement and contracting.

Monitoring and Reporting

General Criterion: *Monitoring practices and controls are adequate to ensure compliance with contracting policies and directives. Information reported is sufficient, appropriate and consistent.*

- 3.19** The monitoring practices and controls in place are sufficient with a few exceptions. There are some monitoring practices that need to be formalized in the guide. At the Headquarters level, the Contract Review Committee and the Corporate Administration staff perform the monitoring and control functions for procurement and contracting. The Corporate Procurement Services Officer reviews all requests for sole-source contracts over \$10,000 and exceptional and/or unusual contracting requirements such as Advance Contract Award Notices and Professional Service Online. The Corporate Procurement Services Officer submits these requests along with recommendations to the Contract Review Committee, which approves or rejects the requests. The contracts approved by the Contract Review Committee are recorded in the Sole-Source Contract Register.
- 3.20** The regions are required by Corporate Administration to submit quarterly reports of awarded contracts. Corporate Administration staff review these reports to identify contracting trends, sole-source contracts over \$10,000 not submitted to Contract Review Committee for approval, and potential non-compliance issues such as contract splitting. The Corporate Procurement Services Officer prepares annual statistical reports on the department's contracting activities for presentation to Contract Review Committee and Executive Committee. Some of these procedures are not currently included in the WD Administration Desk Guide.
- 3.21** At the regional level, the Contracting Officer and the Regional Finance Manager perform monitoring and control functions relating to procurement and contracting activities. The Contracting Officer reviews the requests for contracts submitted by the managers. The Regional Finance Manager reviews all requests for contracts and supporting documentation before awarding contracts. The WD Administration Desk Guide does not currently provide detailed procedures for competitive processes.

Contract Planning and Requirements Definition

General Criterion: *Requirements are clearly defined, appropriate contracting methods are selected, and justification documented.*

- 3.22** The TB Contracting Policy requires contracting authorities to use competitive processes whenever feasible, achieve best value in meeting their needs, and establish supplier requirements in advance to the start of the contract. In all of the 66 contracts (36 competitive and 30 sole-source) reviewed, the auditors noted that the statement of work clearly describes the objectives, work or services to be performed, timelines and deliverables of the contract. Requirements for goods or services were clearly defined and documented in all 85 contract files (including call-ups against standing offers and supply arrangements) examined. In one case, the department was not cost-effective in the procurement of licensed software costing over \$77,000 from a sole-source supplier. After installation and testing the software, staff determined that additional funds of over \$131,000 would be required to procure upgraded

software to meet departmental requirements. As a result, management decided to use existing software instead of the recently purchased software to meet the business needs. Had management assessed the existing software against the identified business needs, that initial \$54,000 procurement would not have been necessary.

- 3.23** The TB Contracting Policy requires contracting authorities to ensure that an employer-employee relationship does not exist when contracting for services of individuals. The Department specifies in their standard contract that the contractor is to be engaged as an independent contractor and he/she is not nor shall be deemed to be an employee of her Majesty.
- 3.24** The Contracting Policy Notice 2007-04- Non-Competitive Contracting requires departments to provide full justification when choosing a non-competitive procurement strategy. All of the 30 sole-source contracts reviewed included justification, but the 14 sole-source contracts issued after the issuance of the Notice did not include clear answers to the seven questions required by the Notice. Provision of responses to the seven questions on the procurement file would strengthen support for the validity of the justification for sole-source contracting.
- 3.25** Good Practice: In January, 2008, the British Columbia Region developed and started using a standard memorandum containing the seven questions provided in Annex A of the Contracting Policy Notice 2007-04. The manager completes the memorandum and the Assistant Deputy Minister approves the memorandum.

Recommendation #3: WD should take the necessary measures to ensure full compliance to Contracting Policy Notice 2007-04- Non-Competitive Contracting and that documentation is placed on file to support the justification for non-competitive contracting.

Pre-approvals

General Criterion: *Appropriate approvals are in place for each contract and funds are committed (Section 32 of the FAA).*

- 3.26** The Minister of Public Works Government Services Canada (PWGSC) has delegated to government departments the authority to procure goods up to \$5,000. WD's delegated officers may purchase directly from suppliers up to \$5,000 per order of goods on a purchase order, provided the requirement cannot be met from a standing offer method of supply instituted by PWGSC. In three regions, the auditors found cases where delegated officers exceeded their \$5,000 authorized expenditure limit for goods purchased.
- 3.27** Effective April 1, 2005, the use of standing offers was mandatory for ten groups of commodities where PWGSC has established standing offer lists. Prior to conducting any procurement activity, a purchaser must determine whether PWGSC has already established a standing offer for that good or service. Where PWGSC has put in place a standing offer, and identified it as mandatory, the delegated officer shall use the standing offer to meet

- operational requirements. In a few cases, computer hardware and software was purchased directly, contrary to the above requirements.
- 3.28** According to the WD Administration Desk Guide, the manager who has a spending authority is to sign a Request for Services form when requesting a contract. The auditors noted that in 29 of the 85 (38%) requests for contracts examined, the manager requested by email not by signed form. Two forms on file were not signed by the manager. One form was signed by an officer without delegated signing authority. In the review of acquisition card purchases, the auditors found 13 transactions not pre-approved by the manager with delegated financial authority.
- 3.29** Good Practice: The Alberta Region developed a Request for Acquisition Card Purchase form. The requestor and the authorized manager sign the form before the cardholder makes the purchase.
- 3.30** The Contract Review Committee is the approval authority for:
- Non-competitive contracts exceeding \$10,000 and amendments; and
 - Exceptional and/or unusual contracting requirements.
- 3.31** Approval of the Contract Review Committee was not obtained for one contract issued after using an Advance Contract Award Notice and two contracts issued after an unsuccessful competitive process. Approval of the Assistant Deputy Minister was also not obtained for three requests for sole-source contracts.
- 3.32** A contract is an agreement that is binding on both parties for the acquisition of services. The document describes the subject of the transaction, the price and conditions agreed upon and the timeframe within which services are to be delivered. The Regional Finance Manager and contractor must sign the contract before commencement of contract. The Regional Finance Manager and contractor must also sign contract amendments. An individual without proper contracting authority was found to have signed one contract reviewed. In two cases, the contractors did not sign contract amendments. The auditors' analysis revealed that nine of 85 contracts examined were signed by the Regional Finance Managers between 2 to 12 days after contract commencement, and 16 of 85 were signed by the contractors between 2 to 21 days after contract commencement. Other contract irregularities identified were several instances where contracts were amended after the original contract had expired and were no longer legally in force. In other cases, the contract was not amended for work that was completed after contract end date.
- 3.33** The auditor noted that the 85 requests reviewed were authorized by individuals with delegated financial authority (FAA Section 32) and the Regional Contracting Officers committed the funds in the financial information system. In one case, the purchase order was processed to commit the expenditure after receipt of the invoice and receipt of the goods and services.

Recommendation #4: WD should take the necessary measures to ensure full compliance to procurement and contracting policies and procedures. Specifically, all acquisitions of goods and services must be pre-authorized, mandatory national standing offer lists must be used, contracts must be signed before contract

commencement, and contract amendments must be signed before the end date of the original contract.

Content of Contract Files

General Criterion: *The content of each contract file for goods and services is in accordance with TB and WD policy and directives.*

3.34 The TB Contracting Policy requires that contract files be documented in such a way that all options, decisions, approvals and justifications are documented. The auditors examined contract files to ensure that the necessary information was included. The auditors identified several deficiencies in the contract files reviewed, as follows:

- 32 out of 85 files did not have completed and signed Request for Services forms (e-mails from the managers were on file).
- One sole-source contract file for \$76,000, did not have a copy of the written decision of the Contract Review Committee (copy was filed at the Corporate Administration);
- One competitive contract file over \$37,000 did not contain the proposal submitted by one of the two suppliers nor did it contain the proposal evaluation providing evidence of the contract award process;
- Nineteen files did not have signed purchase orders; and
- Two purchase orders for service contracts, each over \$3,000, did not have price quotes from at least three vendors.

3.35 In one region, the auditors found no evidence on file to verify the appropriate security clearance of contractors selected.

3.36 Good Practice: In the Alberta Region, the Contracting Officer is using a checklist, which lists the items to be included in the contract file.

3.37 Complete contract files would facilitate management oversight and would provide a complete audit trail.

Recommendation #5: WD should ensure proper and complete documentation in contract files and should establish one departmental standard to be used by all regions for contract file maintenance.

Invoicing

General Criterion: *Invoices submitted by contractors meet the contract terms of reference and provide sufficient information for the certification of Section 34 of the FAA.*

3.38 In all cases, the corresponding invoices for the 85 goods and service contracts and 30 purchase orders examined were certified under Section 34 of the FAA by individuals with proper delegation of financial authority. The auditors were able to verify the supporting documentation in order to substantiate compliance with the contract terms of payment and determine reasonableness of expenditures paid.

- 3.39** The auditors found one contract issued by PWGSC on behalf of WD was not in accordance with terms of the contract. In that case, holdbacks of over \$16,000 were paid to the contractor instead of being held back.

Approval of Payment

General Criterion: *Verification of invoices under Section 33 of the FAA is in accordance with TB and departmental policy and directives.*

- 3.40** Invoices are approved for payment by the managers who have delegated financial authority for Section 34 of the FAA, and then submitted to Finance for Section 33 verification and subsequent payment. The TB Account Verification Policy requires that account verification processes be designed and operated in a way that will maintain probity while taking into consideration the varying degrees of risk associated with each claim. As a guide, an invoice verification checklist has been prepared by Corporate Finance and Programs and was posted on the intranet. The checklist lists the items to be verified when reviewing each payment. It was not clear if all regional Finance Officers use the checklist.

Post-Contract Evaluation

General Criterion: *Post-contract evaluations are completed in accordance with policy.*

- 3.41** The TB Contracting Policy requires that, upon completion of a service contract, the contracting authority should evaluate the work performed by the consultant or professional. Under the current practice, when a contract is completed, the Contracting Officer sends a Contractor Performance Evaluation Report form to the manager who completes, signs and returns it to the Contracting Officer. The manager responds to the eight questions on the Contractor Performance Evaluation Report. The manager also indicates the overall performance of the consultant as being inadequate, poor, satisfactory, very good or excellent. The procedures for post-contract evaluation are provided in the WD Administration Desk Guide.
- 3.42** At the time of the audit, 55 of 85 contracts examined had been completed. Post-contract evaluations had not been done for 14 contracts of those 55 contracts (25 percent). One Contractor Performance Evaluation Report was completed and submitted a year after completion of the contract.
- 3.43** Good Practice: In the Alberta Region, the Contracting Officer's file checklist includes the Contractor Performance Evaluation Report.
- 3.44** Post-contract evaluations help maintain a high standard of contract performance for future contracts.

Recommendation #6: WD should complete post-contract evaluations in accordance with policy and in a timely manner.

Proactive Disclosure

General Criterion: *Mandatory publications of applicable contracts (contracts >\$10,000) are proactively disclosed, as required.*

3.45 The Government of Canada requires full disclosure of all contracts entered into by the Department for amounts over \$10,000. Corporate Administration staff prepares quarterly disclosure reports using contract information taken from the financial information systems. WD published proactive disclosure reports on WD's public website for all four quarters of 2007-08 sampled. The auditors found that all the 45 contracts over \$10,000 examined were appropriately and accurately disclosed.

4.0 CONCLUSION

4.1 The results of the audit indicate that, in many of the key areas, WD is managing its procurement and contracting program well. The basic components of the management framework exist:

- There is a Contract Review Committee and Corporate Procurement Services Officer at Headquarters that review and/or approve requests for non-competitive (sole-source) contracts over \$10,000 submitted by the regions;
- There are Regional Finance Managers and Contracting Officers in each region that review and/or approve requests for contracts;
- There is a procurement specialist in each region;
- Managers generally understand contracting policies and guidelines and their roles and responsibilities for procurement;
- Training is available for all staff involved in procurement and for departmental staff;
- Contracting information is available on the intranet; and
- Good communication takes place between Headquarters and the regions.

4.2 Generally, the contract requests are clearly defined, adequately justified, properly approved and appropriate procurement methods are utilized. There is a high degree of compliance with Sections 32 and 34 of the FAA. Contracts over \$10,000 are proactively disclosed on WD's public website.

4.3 There are areas where improvement can be made to strengthen overall effectiveness of the contracting function. Those areas of improvement are outlined in the recommendations included in this report.