

Fall 2012



Report of the Auditor General of Canada to the House of Commons

CHAPTER 1

Planning the Use of Professional Service Contractors



Office of the Auditor General of Canada

OAG

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
Distribution Centre
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953

Fax: 613-943-5485

Hearing impaired only TTY: 613-954-8042

Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Her Majesty the Queen in Right of Canada, represented by the Minister of Public Works and Government Services, 2012.

Cat. No. FA1-2012/2-1E-PDF

ISBN 978-1-100-21241-8

ISSN 0821-8110

CHAPTER 1

Planning the Use of Professional Service Contractors

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance;
- gather the evidence necessary to assess performance against the criteria;
- report both positive and negative findings;
- conclude against the established audit objectives; and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

Table of Contents

Main Points	1
Introduction	3
Focus of the audit	4
Observations and Recommendations	6
Resource planning for employees and contractors	7
Planning for employees is not currently integrated with planning for contractors	8
Public Works and Government Services Canada has begun to integrate planning for employees with planning for contractors	8
Health Canada and Human Resources and Skills Development Canada have yet to integrate their resource planning	9
Planning and assessing the use of contractors	11
Public Works and Government Services Canada plans for contractor use at the branch level	11
Public Works and Government Services Canada assessed most benefits, costs, and risks related to its use of contractors	12
Health Canada and Human Resources and Skills Development Canada focus their planning for contractors at the project and program level	13
Health Canada and Human Resources and Skills Development Canada conduct limited assessments of benefits, costs, and risks of contractor use	15
Conclusion	17
About the Audit	18
Appendix	
List of recommendations	20

Planning the Use of Professional Service Contractors

Main Points

What we examined

The need for human resources in organizations can be met by hiring additional staff or through contracting. In the federal government, professional service contractors can be engaged to meet unanticipated changes in workload and to obtain specialized expertise. This resourcing option provides managers with the necessary flexibility to meet their operational needs or to obtain expertise that is not available in a department or agency.

Professional services are usually provided by self-employed individuals or independent organizations engaged for a fixed period of time to provide expertise in such areas as information technology, management consulting, health services, and engineering and architecture. The specific conditions and details of the work to be performed are outlined in a contract.

We audited Public Works and Government Services Canada, Health Canada, and Human Resources and Skills Development Canada. Together, these departments reported that they spent just over \$2 billion on professional and special services contracts in the 2010–11 fiscal year, about 25 percent of the total amount spent government-wide on contracts in this category. We examined whether these three departments adequately plan their use of professional service contractors. We did not audit how contracts were administered and amended.

Audit work for this chapter was completed on 17 July 2012. Details on the conduct of the audit are provided in **About the Audit** at the end of the chapter.

Why it's important

The federal government spent \$8.1 billion in the 2010–11 fiscal year on professional and special services contracts with external individuals and organizations. When used strategically, professional service contractors complement the existing workforce by supplementing the knowledge and skills of public servants. Several recent audits and studies in Canada and other countries have recognized the need to strategically

manage contracted professional services, and have also raised concerns about contractors being used to complement the work of public servants on a long-term basis.

In the current environment of fiscal restraint, departments and agencies have been under pressure to reduce their expenditures and increase the flexibility of their workforce. At the same time, they need to carefully plan their use of contractors to ensure that they mitigate potential risks such as loss of corporate knowledge and in-house expertise.

What we found

- The three departments we examined plan for their need for employees and contractors separately. That is, they do not consider employee and contracting information together when making resourcing decisions. This hampers the ability of these departments to consider the full range of resourcing options available to them. As such, these departments may not be able to reassess whether the mix of employees and contractors is still optimal to achieve their business objectives. Public Works and Government Services Canada has begun to change its resource planning processes for the 2012–13 fiscal year, with a view to integrating human resource planning with other planning processes.
- Health Canada and Human Resources and Skills Development Canada primarily plan for contractor use at the project and program levels. This reduces their ability to collect or analyze information at a high enough level to fully assess departmental needs and to identify ongoing resource gaps. These two departments also conduct limited assessment of the benefits, costs, and risks of contractor use at the branch or department level.

The departments have responded. The departments agree with our recommendations. Their detailed responses follow the recommendations throughout the chapter.

Introduction

1.1 Federal departments and agencies rely on various types of human resources to deliver programs and services to Canadians. These resources include public servants who are hired for an indeterminate or temporary period of time and contractors engaged for a specified period of time. According to the Treasury Board's Contracting Policy, public service managers can engage contractors to meet unanticipated changes in workload, to obtain special expertise, or to replace an employee during temporary absences. Contractors can also be used for longer periods of time to perform ongoing work.

Professional service contractors—

Contractors who are self-employed or who work for firms. They are contracted for fixed durations to implement special projects or initiatives or provide expertise in a professional, scientific, technical, or managerial field.

Professional and special services—

All professional services performed by individuals or organizations, including the services of engineers and architects, scientific analysts, doctors, nurses, and other medical personnel, as well as consultants providing other technical, professional, and management expertise.

1.2 **Professional service contractors** are contractors who provide specialized expertise. The Canadian federal government spent \$8.1 billion in the 2010–11 fiscal year on **professional and special services**, which may also include related goods provided by individuals and organizations external to the federal government.

1.3 Government priorities may have an impact on the decision to hire employees or use contractors. For example, in his Annual Report to the Prime Minister of Canada for the 2011–12 fiscal year, the Clerk of the Privy Council indicated that departments should experiment with more nimble workforce models; they should also continue to identify tasks and functions that resources outside the public service are better placed to carry out. The Clerk also highlighted the need to continue building the public service workforce through targeted recruitment to fill gaps in key skills.

1.4 In the current climate of fiscal restraint, which requires federal organizations to curb their spending, there is an increasing need to ensure an optimal mix of resources in order to manage public funds in the most cost-effective manner. In deciding whether to hire employees or to use contractors, management must give careful consideration to a variety of factors. Strategic and well-informed decisions about the nature and mix of a department's human resources should enable the department to achieve its business objectives.

1.5 Over the past decade, the use of and spending on contractors by governments have prompted a number of countries—the United Kingdom, the United States, Australia, and New Zealand—to look at how consultants are planned for, engaged, and managed. For example, the United Kingdom Committee of Public Accounts produced a report on the topic in 2010. This Committee expressed concern that heavy reliance on contractors may indicate a lack of skills and expertise in the public service. Other concerns included questions of cost-effectiveness

and the extent to which government organizations understood the work that consultants routinely perform for the government. The Committee made a number of recommendations aimed at addressing these and related concerns.

1.6 Here in Canada, National Defence, a significant user of contractors, has recognized that there are specific challenges associated with their management. In reviews of its internal processes, the Department indicated that it did not know how many contractors it engaged and that it did not always consider and document alternatives to using professional service contractors. In 2010, the Department committed to collect basic information on contractors as well as to consider and document the human resource alternatives and decisions for high-risk contracts.

Focus of the audit

1.7 We selected three departments for this audit: Public Works and Government Services Canada, Health Canada, and Human Resources and Skills Development Canada. Together, these departments accounted for about 25 percent of the federal government's spending on professional and special services contracts in the 2010–11 fiscal year as reported in the Public Accounts of Canada (Exhibit 1.1).

1.8 The three departments we audited have very different mandates and operating environments. As a result, they have different resource needs. For example, Health Canada's regulatory mandate may require the use of highly specialized skills that are not needed on an ongoing basis. Human Resources and Skills Development Canada delivers ongoing essential programs and services to Canadians and may need contractors with technical and specialized skills to support these programs. Public Works and Government Services Canada provides its services mainly to other federal organizations and demand for its services can fluctuate, requiring some degree of resource flexibility.

1.9 The departments we audited used different types of professional and special services:

- At Public Works and Government Services Canada, most spending was for business services, engineering and architectural services, and informatics services.
- At Health Canada, most spending was for health and welfare services, scientific and research services, and management consulting services.

- At Human Resources and Skills Development Canada, most spending was for business services, informatics services, and management consulting services.

1.10 We examined the processes in place between 1 April 2010 and 31 March 2012 to see whether each of the three departments

- included information on the use of professional service contractors in organizational human resource, business, or other planning processes at the branch or departmental level; and
- based their decisions to engage professional service contractors on adequate analyses of resource options and on assessments of benefits, costs, and risks.

1.11 More details about the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 1.1 The departments we audited accounted for about 25 percent of federal spending on professional and special services in the 2010–11 fiscal year

Department audited	Branches audited	Total departmental spending (\$ millions)	Percentage of total federal government spending
Public Works and Government Services Canada	<ul style="list-style-type: none"> • Real Property Branch • Translation Bureau • Parliamentary Precinct Branch • Information Technology Services Branch 	\$1,167	14.4%
Health Canada	<ul style="list-style-type: none"> • First Nations and Inuit Health Branch • Health Products and Food Branch • Corporate Services Branch • Healthy Environment and Consumer Safety Branch 	\$424	5.2%
Human Resources and Skills Development Canada	<ul style="list-style-type: none"> • Processing and Payment Services Branch • Skills and Employment Branch • Innovation, Information and Technology Branch • Strategic Policy and Research Branch 	\$422*	5.2%
Total spending by audited departments		\$2,013	24.8%
Total spending by federal government		\$8,130	100%

*\$313 million of the \$422 million is related to the administration of federal transfer payments and delivery of nation-wide programs such as the Canada Student Loan Program. These services are provided by private sector organizations and by other levels of government.

Source: Receiver General for Canada

Observations and Recommendations

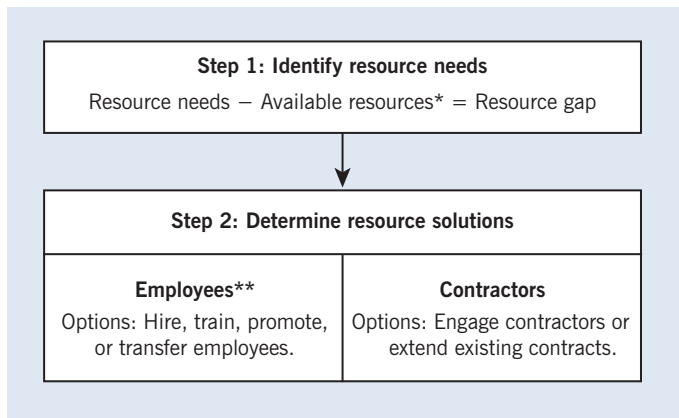
1.12 The Treasury Board and the Public Service Commission delegate authorities for human resource planning and management directly to deputy ministers. These responsibilities include having the right mix of resources in place to meet the organization’s business goals. To achieve the right mix, departments must understand their current resources, gaps in skills and experience, and options to fill these gaps, including the use of contracted resources.

1.13 There is no specific guidance on how to plan for professional service contractors. However, broader policies and guidance—such as the Policy on Investment Planning, the *Financial Administration Act*, the Treasury Board Secretariat’s Integrated Planning Guide, and the Privy Council Office’s Guidance for Deputy Ministers—require departments and agencies to plan and manage their resources on a rational basis. Some of this guidance also highlights the importance of integrated planning.

1.14 The Treasury Board of Canada Secretariat’s 2007 Integrated Planning Guide states that a resource analysis is a key component of planning. The Guide indicates that a resource analysis includes information such as demographics, skills, competencies, and the nature of the **contingent workforce**. The resource analysis is then used to conduct a gap analysis in order to identify resource shortages and surpluses (Exhibit 1.2).

Contingent workforce—Individuals hired or contracted on a temporary basis who are not part of the indeterminate public servant workforce. They can be temporary government employees (term, casual, and student employees), temporary help workers, or professional service contractors.

Exhibit 1.2 Resource planning process



*Available resources are current indeterminate and term employees, and professional service contractors.
**Employees can be indeterminate, term, casual, and student employees.

1.15 As market conditions and government priorities change over time, departments need to reassess whether the mix of employees and contractors is still optimal. If this mix is not carefully considered, there is a risk that functions filled by contractors will remain contracted out whether or not this is the best option. Similarly, there is a risk that functions currently staffed by employees may remain staffed without consideration of other options.

1.16 The use of contractors also involves risks that are important to assess from a branch or departmental perspective. For example, while the risk of the loss of corporate knowledge may be low when a contractor is engaged for a short time, it increases if many contractors are engaged by a branch or department for longer periods.

1.17 We examined whether the selected departments analyzed and planned their use of employees and contractors at the branch or departmental level, in an integrated manner, to meet business objectives. We examined whether this planning included an analysis of the mix of employees and contractors, information on how contractors are currently used, and how they could be used to fill identified resource gaps.

1.18 We also examined whether the departments identified and assessed the benefits, costs, and risks associated with using professional service contractors to fill resource gaps and meet business needs.

1.19 We focused on branch- and departmental-level documentation of human resource, business, and other planning, as well as information collected on contractors. We also interviewed department officials including deputy heads.

Resource planning for employees and contractors

1.20 A number of planning processes, including human resource and business planning, are used to manage department resources. Human resource planning involves analyzing the current workforce and identifying any workforce gaps to meet the current and future needs of the organization. Having the right people at the right place at the right time enables managers to carry out their projects in order to meet departmental priorities as outlined in corporate business plans. We examined branch human resource plans and business plans for the fiscal years 2010–11 and 2011–12 to see if the departments planned their use of current and future employees.

Planning for employees is not currently integrated with planning for contractors

1.21 We found that all three departments collected information on their employees as part of their human resource planning process. Information collected included employee demographic characteristics, retirement information, types of employment, occupational groups, vacancies, and employee mobility. This information was available for each branch examined in each of the three departments. The information was used to identify current in-house resource capacity and resource gaps so that each department could develop a human resource plan to meet its business objectives.

1.22 However, while the departments planned for contractors to varying degrees and at different organizational levels in the 2011–12 fiscal year (details for each department are covered in the section on planning and assessing the use of contractors), the planning for employees and contractors was not integrated. That is, they did not consider employee and contractor information together when making resourcing decisions. As a result, the departments' ability to consider the full range of resourcing options available to them is reduced. In addition, departments may not be able to assess or reassess whether they still have the best mix of employees and contractors to achieve their business objectives.

Public Works and Government Services Canada has begun to integrate planning for employees with planning for contractors

1.23 Public Works and Government Services Canada has begun to change its resource planning process for the 2012–13 fiscal year, with a view to integrating information on employees and contractors. Changes include using contracting information from the branch procurement plans in branch human resource planning.

1.24 One objective of this exercise is to help the department identify its resource requirements and an acceptable ratio between the indeterminate and flexible workforce, including resources acquired through temporary help services, standing offers, and contracts for professional services. Some of the Department's guiding principles for integrated resource planning include

- identifying core and non-core business activities;
- considering the full range of resourcing options, including contracts for professional services, to ensure a degree of flexibility in the workforce; and

- adopting a risk management approach by analyzing the risks associated with the resourcing options and their potential short-term and long-term impacts.

According to Department officials, further changes planned for the 2013–14 fiscal year should result in a more comprehensive overall human resource planning process.

1.25 We are encouraged by the steps that Public Works and Government Services Canada is taking to integrate human resource planning with other planning processes. Such integration is key for the Department to consider the full range of resourcing options, including both employees and contractors, to meet its business needs.

1.26 Recommendation. Public Works and Government Services Canada should complete the integration of its human resource planning with other relevant planning processes, and refine the integration as necessary in order to consider the full range of resourcing options to meet its business needs.

Public Works and Government Services Canada’s response.

Agreed. Public Works and Government Services Canada will continue to enhance its integration of resource planning, including planning for staffing and planning for professional services. Specific direction on the requirement to consider the full range of resourcing options, including contractors, when developing resourcing strategies to meet business needs, is being developed for inclusion in the Integrated Planning Guidelines for the 2013–14 planning cycle. The Strategic Resourcing Plan will also be expanded to include more detail on the planned use of professional services and temporary help services, along with the usual planned hiring of public servants.

Health Canada and Human Resources and Skills Development Canada have yet to integrate their resource planning

1.27 At Health Canada and Human Resources and Skills Development Canada, we found that both departments plan for their need for employees and contractors separately. The branches we examined did not integrate planning of their employee requirements with their use of contractors. Managers in charge of specific projects or programs planned for employees through human resource planning and for contractors through procurement planning. We found that since human resource planning and contractor planning were not integrated, these two departments currently do not have an overall picture of their resource needs.

1.28 Health Canada. Health Canada managers indicated they are in the process of implementing an information system to collect and summarize data on employees and contractors. According to officials, this system will allow them to have a better understanding of the overall resources required to achieve the Department's business objectives in the future.

1.29 Human Resources and Skills Development Canada. Human Resources and Skills Development Canada has recognized that integrated resource planning, which includes information on the usage of contractors, is not taking place in all branches. In one directorate within a branch, we noted that the directorate relies on information technology contractors, and has recently begun to integrate information on skills and costs of contracted services as well as those of employees in order to staff resources for planned projects.

1.30 Recommendation. Health Canada and Human Resources and Skills Development Canada should take steps in their planning to bring together information on both employees and contractors in order to consider, where appropriate, the full range of resourcing options to meet their business needs.

Health Canada's response. Agreed. Health Canada intends to enhance existing practices to permit the analysis of human resource requirements and professional contracting needs as part of the integrated operational planning framework, which in turn will support management assessment of options to meet specific business needs. The plan is to have this fully implemented in the Departmental Operating Planning cycle for the 2014–15 fiscal year.

Human Resources and Skills Development Canada's response. Agreed. Human Resources and Skills Development Canada recognizes planning for business needs requires both a “top down” and “bottom up” approach, and currently plans for use of contractors at the project and program level, where much of the specific project or program design takes shape, and there is sufficient commonality of skills requirements and human resource needs to warrant this approach.

Therefore, where appropriate, the Department will review and update its 2013–14 integrated resource business planning processes and related guidelines, to ensure that the requirement to identify resources to address capacity gaps includes consideration of the full range of resourcing options, at both the branch and project or program levels.

Planning and assessing the use of contractors

1.31 Although planning for employees and contractors is not integrated, the departments we examined did plan for contractors to varying degrees and at different organizational levels. We examined whether the selected departments analyzed and planned their use of contractors at the branch or departmental level to meet business objectives. This examination included whether departments had information on how contractors are currently used, and how they could be used to fill identified resource gaps.

1.32 We also examined whether the departments identified and assessed the benefits, costs, and risks (described as follows) associated with contractor use to fill resource gaps and meet business needs.

Benefits:

- less time and effort required to identify and engage a contractor with the required knowledge and skill set compared to hiring or training an employee to perform the work;
- increased flexibility of resources—no obligation to contractor after completion of contract; and
- access unique skill sets not available in-house.

Costs:

- contractor's fees compared to the cost of training or hiring an employee to perform the work.

Risks:

- development of an **employer–employee relationship**, which would result in unintended benefits to the contractor and obligations on the part of the employer;
- conflict between the work-related duties and the private interests of the contractor, which could improperly influence the performance of his or her duties; and
- loss of corporate knowledge through extended reliance on a contractor, leading to an inability to benefit from the knowledge internally or to perform the work in the future.

Employer–employee relationship—Defined by the Canada Revenue Agency as a relationship in which the employer is required to deduct Canada Pension Plan contributions, Employment Insurance premiums, and income tax from remuneration or other amounts it pays to employees. Factors that may create an employer–employee relationship include close supervision, work that employees are also performing, and the provision of working space and equipment. According to the Treasury Board's Contracting Policy, contracting authorities are to ensure that a contract for services will not result in an employer–employee relationship.

Public Works and Government Services Canada plans for contractor use at the branch level

1.33 At Public Works and Government Services Canada, we found that all four branches we examined had identified, in their various planning processes and strategies, how professional service contractors were to be used to address resource gaps such as project management skills and service delivery functions.

1.34 We also found that three of the four branches had identified their core and non-core functions and established target ratios of employees to contractors to guide their resourcing decisions. For example, the Real Property Branch identified its real property service management and administration functions as the strategic and core activities of the branch, to be performed largely by employees. It considers its service delivery functions as non-core activities, for which it engages private sector contractors based on the target ratios it has established. The Information Technology and Services Branch also established a target ratio of 80 percent employees to 20 percent contractors based on an industry standard.

1.35 We found instances where the Department periodically reassessed decisions to use contractors in order to obtain assurance that the decisions were still valid. For example, the Department made a strategic decision in the late 1990s to contract out its real property service delivery functions. Since that time, a number of assessments were undertaken to determine whether that approach was still cost-effective.

Public Works and Government Services Canada assessed most benefits, costs, and risks related to its use of contractors

1.36 We found that Public Works and Government Services Canada has assessed most of the benefits, costs, and risks associated with its use of contractors at the branch or department level. For example, the branches we audited assessed benefits such as

- the flexibility to engage a contractor without having obligations to the contractor after completion of the contract,
- the capacity to obtain specialized expertise externally, and
- the cost-effectiveness of using contractors where employees would have to be hired or trained to do the work.

1.37 At the branch and department level, we found that Public Works and Government Services Canada has recognized the need to improve its assessment of the risks related to the creation of an employer–employee relationship. The Department has implemented a framework and additional guidelines and checklists to help managers mitigate these risks when they decide to engage contractors.

1.38 Additionally, as a result of a review of workspace use in February 2012—which included contractors—Public Works and Government Services Canada carried out an assessment of its long-term use of contractors. The review found that the Department had

almost 500 contractors who worked on its premises, of which some had been there for more than six years. A number of measures were recommended to avoid placing the Department in an employer–employee relationship with contractors. These measures included requiring the Deputy Minister’s approval when any contractor is engaged for three or more consecutive years, and properly identifying contractors in the departmental directory.

1.39 However, where the Department has relied on contractors over a period of several years, we found that the Department had done little assessment of risks related to the loss of corporate knowledge at the branch or department level. This is an important risk, particularly for functions that are largely contracted out for extended periods and for tasks requiring specialized expertise.

Health Canada and Human Resources and Skills Development Canada focus their planning for contractors at the project and program level

1.40 Planning for the use of contractors at the branch or department level is important because it allows departments to identify broader resource needs, such as skill sets required on an ongoing basis. At Health Canada and Human Resources and Skills Development Canada, we found limited resource planning for contractors at the branch or department level.

1.41 Health Canada. At Health Canada, we found that planning for contractors was done primarily at the project and program level. Managers in charge of projects and programs within each branch assessed their available resourcing options and, when applicable, identified the need for contractors in their budget. While this information was summarized, most branches did not analyze it from a branch perspective to assess whether they had the right mix of employees and contractors or to identify ongoing resource gaps.

1.42 However, for its largest branch, the First Nations and Inuit Health Branch, which accounted for 81 percent of the Department’s total spending on professional and special services contracts in the 2011–12 fiscal year, Health Canada identified the need to use contractors in its health care services and carried out a branch-level analysis of its reliance on nurses. In an effort to reduce its reliance on health care contractors, the Branch has developed strategies to recruit and retain nurses.

1.43 Human Resources and Skills Development Canada. At Human Resources and Skills Development Canada, we found that planning for contractors was done primarily at the project and program levels.

Department officials informed us that a strategic decision was made to plan the use of contractors in this way. They told us that the Department considered it appropriate to plan this way, given the small percentage of the Department's total spending that is spent on contractors.

1.44 While it has some information at the project level, we found that the Department does not collect information at a high enough level to fully assess departmental needs and gaps, and to determine if using contractors is the most cost-effective way to perform the work.

1.45 For example, the Department has identified that it has a lack of project managers and recognizes that solutions to address this need include training employees and contracting project management services. However, we found that it had not assessed the magnitude of the problem in terms of how many project managers are needed and in terms of the costs of hiring and training employees and of using contractors to fill this gap.

1.46 We also found no reference in the departmental staffing strategy about the need to recruit or retain project managers in order to help address the resource gap. Without this information, the Department will have difficulty ensuring that it has the most cost-effective solution to fill the project management resource gap.

1.47 Recommendation. Health Canada and Human Resources and Skills Development Canada should identify and collect relevant information, such as the skill sets required and those available in the employee workforce, to be able to complement their current resource planning process in order to determine resource gaps at the branch or departmental level.

Health Canada's response. Agreed. Health Canada has already started to take steps to make analytical reports on procurement and contracting practices data available to managers to support them in informed decision making.

Human Resources and Skills Development Canada's response. Agreed. Human Resources and Skills Development Canada will review its current resource business planning practices, to ensure that, where appropriate, it takes into consideration resource gaps at the branch and departmental levels. In this regard, it has initiated the following corrective actions.

As an initial step, the Department is currently conducting a capacity analysis for information technology projects for integration into the Departmental Planning cycle by 2014–15. In addition, for other

smaller thematic areas, Human Resources and Skills Development Canada plans to review data and practices already in place for planning managers at the project and program levels, to enhance the ability for more integrated decision making at the branch and departmental levels. Finally, the Department will continue to assess employee skills sets as part of its integrated human resource planning and resource allocation decisions, and take into account gaps that may be addressed through training or use of other resourcing options (for example, terms or contractors). These actions will improve the information base currently in place and will allow for a more robust assessment, identification, and integration of resourcing information.

Health Canada and Human Resources and Skills Development Canada conduct limited assessments of benefits, costs, and risks of contractor use

1.48 Assessing benefits, costs, and risks at the branch or department level is important because it enables departments to assess risks—such as over-reliance on contractors—which may not have been identified on a contract-by-contract basis.

1.49 With the exception of the First Nations and Inuit Health Branch at Health Canada, which assessed costs and risks of relying on contracted nurses, we found little assessment of benefits, costs, and risks of contractor use at the branch or department level in either department. More specifically, we did not find that benefits such as the flexibility of engaging contractors or the capacity to obtain specialized expertise had been assessed. Nor had the departments assessed potential risks related to employer–employee relationships.

1.50 We also found very limited assessment of whether using contractors was the most cost-effective way to perform the work in either department. For example, at Health Canada, we reviewed an information technology contract for a project to develop and implement an online licence application system. Technical work on this project has been contracted out since 2006 under 33 different contracts with 11 companies, for a total of \$5.2 million. Although the Department identified a resource need that could not be met with existing resources, we did not find evidence that the Department assessed other options—such as hiring or training an employee. The need for system maintenance was identified as ongoing. The Department informed us that after six years, as a result of realigning departmental priorities to save costs, it is now planning to have the maintenance work performed in-house.

1.51 We also noted another example where a project manager was engaged through a series of contracts over a 72-month period on two projects. We did not find any documented analysis that the department considered other resourcing options at the time the project manager was initially engaged for the two projects. In addition, we saw no subsequent reassessment when the contracts were renewed.

1.52 Recommendation. Health Canada and Human Resources and Skills Development Canada should assess and document relevant benefits, costs, and risks of engaging contractors and address any concerns arising from this assessment.

Health Canada's response. Agreed. Health Canada will make use of existing integrated planning processes to ensure that the risks, costs, and benefits associated with the engagement of professional service contractors are considered prior to making resourcing decisions.

For the fiscal year 2012–13 Corporate Risk Profile review, Health Canada will include risk of over-reliance on professional service contractors in its Corporate Risk Profile exercise.

Human Resources and Skills Development Canada's response. Agreed. Human Resources and Skills Development Canada recognizes the importance of ensuring clear linkages and usage of integrated information on resourcing, and will work to strengthen this element of its integrated resource business planning process. As such, it will make use of its existing integrated resource planning activities to ensure that the risks, costs, and benefits associated with the engagement of professional service contractors are identified, and better articulated and shared with managers to facilitate their resource decision making. Further, where appropriate, it will examine whether existing risk management processes and practices should be updated to include those risks related to the use of professional service contractors.

Conclusion

1.53 To be more flexible and cost-effective, departments need to know the extent and nature of their contracted resources and to consider and document alternatives on a regular basis. In the course of this audit, we saw evidence of good practices for determining how contractors are used to fill resource gaps, and for assessing the benefits, costs, and risks of using contractors. We also saw areas for improvement, such as the need to take into account the work performed by contractors in resource analyses.

1.54 We concluded that Public Works and Government Services Canada adequately planned for and assessed the benefits, costs, and risks of its contractor use at the branch or department level.

1.55 We concluded that planning for contractor use at the project and program levels at Health Canada and Human Resources and Skills Development Canada was not sufficient to identify the optimal solutions to fill resource gaps at the branch or department levels. We also found that these two departments conducted limited assessment of the benefits, costs, and risks of contractor use at the branch or department level.

1.56 The federal government has identified an increasing need for a more flexible workforce. Therefore, this is an opportune time to improve strategic planning and assessment of contractor use. While there is no guidance on how to specifically integrate planning and assessment of contractors with employees, policy direction encourages integrated planning. Departments may do so in a way that suits their business needs, given that they have different mandates and operating environments.

1.57 Although the findings contained in this report apply only to the departments we audited, in our opinion, it is important for other departments and agencies to be aware of the issues we have identified, and to share good practices in this area.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objective

The objective of our audit was to determine whether selected departments adequately plan their use of professional service contractors.

Scope and approach

Our audit focused on how three departments, which accounted for about 25 percent of the reported federal spending on professional service contractors, planned the use of professional service contractors. These departments are Public Works and Government Services Canada, Health Canada, and Human Resources and Skills Development Canada.

We examined how planning for professional service contractors was done at the branch level and at the department level. In each department we selected four branches, which were among the greatest users of professional service contractors in these departments, for detailed audit work:

- At Public Works and Government Services Canada, we audited the Real Property Branch, the Translation Bureau, the Parliamentary Precinct Branch, and the Information Technology Services Branch.
- At Health Canada, we audited the First Nations and Inuit Health Branch, the Health Products and Food Branch, the Corporate Services Branch, and the Healthy Environment and Consumer Safety Branch.
- At Human Resources and Skills Development Canada, we audited the Processing and Payment Services Branch; the Skills and Employment Branch; the Innovation, Information and Technology Branch; and the Strategic Policy and Research Branch.

We collected evidence through documentation review, interviews with department officials (including deputy heads), and review of planning processes.

In each department, we also examined a non-representative sample of 12 professional service contracts and associated documentation (such as business cases) to see what information was collected and if benefits, costs, and risks were assessed. Many of the contracts we reviewed were large-value contracts.

Finally, we conducted interviews with the Chief Human Resources Officer for the Government of Canada.

We did not look at planning the use of temporary help workers. We did not audit how contracts were administered and amended.

Criteria

Criteria	Sources
To determine whether selected departments adequately plan their use of professional service contractors, we used the following criteria:	
Selected departments include the use of professional service contractors in branch or departmental human resource, business, or other planning processes.	<ul style="list-style-type: none"> • Policy on Investment Planning—Assets and Acquired Services, Treasury Board, 2009 • Integrated Planning Guide, Treasury Board of Canada Secretariat • 2010–11 Public Service Renewal Action Plan, Privy Council Office
Selected departments base their decisions to hire professional service contractors on adequate resource analyses and assessments of benefits, costs, and risks.	<ul style="list-style-type: none"> • Policy on Investment Planning—Assets and Acquired Services, Treasury Board, 2009 • Integrated Planning Guide, Treasury Board of Canada Secretariat • Contracting Policy, Treasury Board

Management of Public Works and Government Services Canada, Health Canada, and Human Resources and Skills Development Canada reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit period examined was 1 April 2010 to 31 March 2012. Audit work for this chapter was completed on 17 July 2012.

Audit team

Assistant Auditor General: Ronnie Campbell

Principal: Michelle Salvail

Lead Director: Milan Duvnjak

Director: Lori-Lee Flanagan

Alexandre Boucher

Lisa Harris

Nicole Leger

Robyn Roy

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Resource planning for employees and contractors	
1.26 Public Works and Government Services Canada should complete the integration of its human resource planning with other relevant planning processes, and refine the integration as necessary in order to consider the full range of resourcing options to meet its business needs. (1.23–1.25)	Public Works and Government Services Canada’s response. Agreed. Public Works and Government Services Canada will continue to enhance its integration of resource planning, including planning for staffing and planning for professional services. Specific direction on the requirement to consider the full range of resourcing options, including contractors, when developing resourcing strategies to meet business needs, is being developed for inclusion in the Integrated Planning Guidelines for the 2013–14 planning cycle. The Strategic Resourcing Plan will also be expanded to include more detail on the planned use of professional services and temporary help services, along with the usual planned hiring of public servants.
1.30 Health Canada and Human Resources and Skills Development Canada should take steps in their planning to bring together information on both employees and contractors in order to consider, where appropriate, the full range of resourcing options to meet their business needs. (1.27–1.29)	<p>Health Canada’s response. Agreed. Health Canada intends to enhance existing practices to permit the analysis of human resource requirements and professional contracting needs as part of the integrated operational planning framework, which in turn will support management assessment of options to meet specific business needs. The plan is to have this fully implemented in the Departmental Operating Planning cycle for the 2014–15 fiscal year.</p> <p>Human Resources and Skills Development Canada’s response. Agreed. Human Resources and Skills Development Canada recognizes planning for business needs requires both a “top down” and “bottom up” approach, and currently plans for use of contractors at the project and program level, where much of the specific project or program design takes shape, and there is sufficient commonality of skills requirements and human resource needs to warrant this approach.</p> <p>Therefore, where appropriate, the Department will review and update its 2013–14 integrated resource business planning processes and related guidelines, to ensure that the requirement</p>

Recommendation	Response
	<p>to identify resources to address capacity gaps includes consideration of the full range of resourcing options, at both the branch and project or program levels.</p>
<p>Planning and assessing the use of contractors</p> <p>1.47 Health Canada and Human Resources and Skills Development Canada should identify and collect relevant information, such as the skill sets required and those available in the employee workforce, to be able to complement their current resource planning process in order to determine resource gaps at the branch or departmental level. (1.40–1.46)</p>	<p>Health Canada’s response. Agreed. Health Canada has already started to take steps to make analytical reports on procurement and contracting practices data available to managers to support them in informed decision making.</p> <p>Human Resources and Skills Development Canada’s response. Agreed. Human Resources and Skills Development Canada will review its current resource business planning practices, to ensure that, where appropriate, it takes into consideration resource gaps at the branch and departmental levels. In this regard, it has initiated the following corrective actions.</p> <p>As an initial step, the Department is currently conducting a capacity analysis for information technology projects for integration into the Departmental Planning cycle by 2014–15. In addition, for other smaller thematic areas, Human Resources and Skills Development Canada plans to review data and practices already in place for planning managers at the project and program levels, to enhance the ability for more integrated decision making at the branch and departmental levels. Finally, the Department will continue to assess employee skills sets as part of its integrated human resource planning and resource allocation decisions, and take into account gaps that may be addressed through training or use of other resourcing options (for example, terms or contractors). These actions will improve the information base currently in place and will allow for a more robust assessment, identification, and integration of resourcing information.</p>

Recommendation	Response
<p>1.52 Health Canada and Human Resources and Skills Development Canada should assess and document relevant benefits, costs, and risks of engaging contractors and address any concerns arising from this assessment. (1.48–1.51)</p>	<p>Health Canada’s response. Agreed. Health Canada will make use of existing integrated planning processes to ensure that the risks, costs, and benefits associated with the engagement of professional service contractors are considered prior to making resourcing decisions.</p> <p>For the fiscal year 2012–13 Corporate Risk Profile review, Health Canada will include risk of over-reliance on professional service contractors in its Corporate Risk Profile exercise.</p> <p>Human Resources and Skills Development Canada’s response. Agreed. Human Resources and Skills Development Canada recognizes the importance of ensuring clear linkages and usage of integrated information on resourcing, and will work to strengthen this element of its integrated resource business planning process. As such, it will make use of its existing integrated resource planning activities to ensure that the risks, costs, and benefits associated with the engagement of professional service contractors are identified, and better articulated and shared with managers to facilitate their resource decision making. Further, where appropriate, it will examine whether existing risk management processes and practices should be updated to include those risks related to the use of professional service contractors.</p>