

# Audit Report



## Audit of Procurement Practices

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Audit and Evaluation Directorate

April 2014



Library and Archives  
Canada

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Canada

Canada

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## EXECUTIVE SUMMARY

### *Background*

The Audit and Evaluation Directorate's 2013–16 Risk-Based Audit Plan identified an audit of procurement practices to assess the control environment in place at Library and Archives Canada (LAC) relating to procurement practices.

The Contracting and Materiel Management Division (CMMD) is responsible for providing functional leadership, guidance, advice and services to the Responsibility Centre Managers (RCMs) with regard to procurement and contracting services in order to assist them in obtaining the goods and services required to support program delivery. The CMMD is part of the Strategic Planning and Infrastructure Management Directorate, which reports to the Chief Financial Officer (CFO).

The objective of the procurement and contracting function within LAC is to ensure the acquisition of goods and services in a manner that enhances access, competition and fairness, and that results in the best value and/or an optimal balance of overall benefits to the Crown and for Canadians.

The objective of this audit was to evaluate the effectiveness of the internal control framework over the procurement process.

### *Findings and Recommendations*

Overall, LAC's controls over the procurement of goods and services are properly designed and applied to ensure that procurement activities are performed in compliance with relevant federal legislation and related policies. Our testing of a sample of 35 contracts demonstrated that controls in place had been applied in accordance with defined procedures. Specifically, we noted that all requisitions had been approved by the proper delegated authority and that all procurement for temporary help services (THS) had been reviewed by the CMMD. To strengthen the procurement process, improvements are recommended regarding monitoring practices, procurement planning, and the training and tools available to RCMs and staff. The results are identified below by area of improvement.

#### **Monitoring and Reporting**

Monitoring and reporting are two key activities in a controlled environment. They help ensure that inconsistencies or irregularities in the procurement process are identified quickly and resolved to support a fair and open procurement process. At LAC, a Procurement Review Committee (PRC) is in place and provides oversight on procurement activities when required. Furthermore, procurement reports are regularly provided to Senior Management. However, these reports did not contain information on procurement trends that could highlight anomalies or areas of higher risk, such as employee-employer relationships. This limit had no impact at LAC since the audit did not identify any issues related to employee-employer relations.

It is recommended that the Procurement Review Committee (PRC), including Senior Management, be provided with procurement reports that highlight procurement information, performance, and trends in order to strengthen overall procurement oversight.

#### **Procurement Planning**

The manager of the CMMD does not have an overall procurement plan to assist in the planning of procurement activities. In addition, based on the results of our interviews with CMMD management, the CMMD is not always consulted early enough in the planning stage to ensure that sufficient resources are available to complete the required procurement processes in the expected time frame. This limits LAC's ability to deliver on its mandate. It is recommended that an annual procurement plan, based on operational requirements, be completed and made available to the manager of the CMMD to assist in planning LAC's annual procurement strategy.

#### **Procurement Training**

A number of procurement-related training sessions were offered to RCMs and administrative staff. However, these sessions were not mandatory and, as a result, were not attended by all staff involved in procurement activities. This increases the risk that basic procurement processes and tools may not be known to and used by RCMs and staff, resulting in increased time and delays in completing the procurement process. This may also increase the perception that the procurement process is not

efficient. It is recommended that the CFO require all personnel with procurement responsibilities to complete relevant procurement training in a timely manner.

### **Procurement Tools**

The CMMD has developed a number of tools to assist RCMs in the procurement process. However, with the ongoing implementation of SharePoint, these tools were not available on the CMMD's SharePoint site at the time of this audit. Having access to the right tools will increase the ability of RCMs and staff to complete the procurement process and ensure the delivery of goods and services within identified procurement standards. It is recommended that the CMMD expedite the migration of procurement tools to the SharePoint platform and communicate with RCMs on a regular basis regarding the importance of using these tools and involving the CMMD early in the procurement process.

### **Procurement Staff**

From August to October 2013, the CMMD's service standards had been met on average 70% of the time. At the time of the completion of the audit field work, there were two vacant positions in the CMMD, which may have contributed to the current service levels. It is recommended that the manager of the CMMD review the current organizational structure against LAC's procurement plan and consider whether sufficient resources exist at the right levels to support LAC's needs.

### *Audit Conclusion*

The results of this audit indicate that LAC's controls for the procurement of goods and services are properly designed and applied to ensure that procurement activities are performed in compliance with relevant federal legislation and related policies.

### *Statement of Assurance*

The audit conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

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### *Acknowledgements*

We wish to express our appreciation for the cooperation and assistance afforded to the internal audit team by management and staff during the course of this assurance engagement.

## INTRODUCTION

### Background

Library and Archives Canada (LAC) is a federal cultural institution whose mandate is to acquire, preserve, promote and make accessible Canada's documentary heritage. This heritage includes works and documents of all types that relate to Canada's history and culture. LAC procures goods and services to support the delivery of its mandate.

As a federal institution, LAC's procurement policies and procedures must comply with relevant federal legislation and respect the principles of access, competition, fairness, and best value or benefits to the Crown. The Contracting and Materiel Management Division (CMMMD) is responsible for providing functional leadership, guidance, advice and services to the Responsibility Centre Managers (RCMs) with regard to procurement and contracting services, in order to assist RCMs in obtaining the goods and services required to support program delivery. The CMMMD is part of the Strategic Planning and Infrastructure Management Directorate, which reports to the Chief Financial Officer (CFO). It comprises a team of 10 full-time resources in the Purchasing and Supply category at various levels.

The objective of the procurement and contracting function within LAC is to ensure the acquisition of goods and services in a manner that enhances access, competition and fairness, and that results in the best value and/or an optimal balance of overall benefits to the Crown and for Canadians. In this regard, and consistent with the Treasury Board (TB) *Contracting Policy*, LAC's contracting practices are expected to be conducted in a manner that will:

- Stand the test of public scrutiny in matters of prudence and probity, facilitate access, encourage competition, and reflect fairness in the spending of public funds;
- Ensure the excellence of operational requirements;
- Support long-term industrial and regional development and other appropriate national objectives, including aboriginal economic development;
- Comply with the federal government's obligations under the North American Free Trade Agreement (NAFTA), the World Trade Organization – Agreement on Government Procurement (WTO-AGP), and the Agreement on Internal Trade (AIT); and
- Adhere to the principles set out in the code of conduct for procurement.

LAC formed a Procurement Review Committee (PRC) to help ensure that the institution is in compliance with TB's procurement and contracting objectives. The PRC reviews non-competitive or limited tendering procurement requests in excess of \$25,000, all Advance Contract Award Notices (ACANs), amendments requested in excess of 50% of the original award value, requirements related to TB submissions, requests above the departmental delegation of authority, and all procurement requests of a sensitive nature.

### Risk Assessment

A risk assessment was conducted during the planning phase of the audit to help ensure the audit focused on areas of most significance. The following risks were identified:

- Risk that LAC is liable for pension and other benefits as a result of employee-employer relationships being created through recurring contracts with individuals;
- Risk that procurement activities are not conducted in compliance with central agency policies and legislation;
- Risk that procurement activities are not completed in a timely manner to support the achievement of LAC objectives;
- Risk that oversight mechanisms are not effective in identifying, analyzing, and monitoring procurement activities across the institution;
- Risk that resources related to procurement are insufficient to ensure timely, accurate and complete services to clients, reducing the Contracting and Materiel Management Division's ability to meet its objectives and its clients' needs; and
- Risk that the contracting process is not transparent and/or equitable, leading to a damaged reputation and negative publicity.

## Objective and Criteria

The objective of this audit was to evaluate the effectiveness of the internal control framework over the procurement process. Specifically, the audit assessed whether:

- LAC has policies, systems, and controls in place to enable transparent, efficient and effective procurement activities that are reflective of relevant federal legislation and policies;
- Mechanisms are in place to help ensure compliance with LAC's procurement policies and practices; and
- Effective monitoring and reporting mechanisms are in place to provide management with accurate, relevant, and reliable information for decision-making regarding the delivery of procurement services.

The audit criteria for this audit were:

- Procurement policies and procedures have been documented and are designed to ensure compliance with relevant federal legislation;
- Procurement policies and procedures are communicated to, and understood by key stakeholders;
- Mechanisms and controls are in place to effectively manage risks related to procurement and contracting;
- An HR plan for the CMMD exists to help ensure that the Division has the right resources with the right skill sets to support LAC's contracting and procurement requirements;
- An oversight body meets regularly and receives key information to allow for effective monitoring of objectives, strategies and results related to procurement and contracting;
- Responsibility for monitoring of compliance with financial management laws, policies and authorities is clear and communicated, and monitoring of compliance is formally documented and reported to management;
- Expected procurement results are clearly defined and monitored; and
- The relevance, utility, and timeliness of procurement services is formally assessed and monitored.

## Scope

The audit field work was carried out from September to December 2013. The original scope of the audit covered procurement transactions for fiscal years 2005–2006 through to September 2013. Following data analysis, the audit focused on procurement activities between 2009-2010 and 2013-2014 for transaction testing. The audit focused on the policies, procedures, processes and controls over procurement that were in place.

## Methodology

The audit field work was conducted in accordance with the Government of Canada's *Policy on Internal Audit* and with the auditing standards established by the Institute of Internal Auditors. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that the audit objective is achieved.

The audit included various audit procedures as considered necessary to provide such assurance. These included, but were not limited to, the following:

- Interviews and process walkthroughs with representatives of the Contracting and Materiel Management Division;
- Examination and review of documentation related to procurement policies and procedures, including meeting minutes and sample reports on procurement activities; and
- Conducting of tests of operating effectiveness for key procurement controls based on a sample of 35 procurement transactions. Our sample included 25 centralized procurement transactions and 10 decentralized transactions.

## FINDINGS AND RECOMMENDATIONS

### Monitoring and Reporting

**There are opportunities to improve procurement monitoring and reporting activities, trends, and performance to strengthen overall oversight.**

Monitoring and reporting are two key activities in a controlled environment. They help ensure that inconsistencies or irregularities in the procurement process are identified quickly and resolved to support a fair and open procurement process. We expected to find a monitoring and reporting process that supports the delivery of procurement activities and that assesses the status of contractors over time in order to monitor changes in that status and prevent employee-employer relationships from being formed.

Our testing of a sample of 35 contracts demonstrated that the controls in place had been applied in accordance with defined procedures. Specifically, we noted that all requisitions had been approved by the proper delegated authority and all procurement for THS had been reviewed by the CMMD.

In relation to monitoring, LAC has a Procurement Review Committee (PRC) in place to support the RCMs and the CMMD in resolving issues and to provide guidance related to procurement. As part of its mandate, the PRC is expected to increase compliance with acts, regulations, trade agreements and policies through procurement planning, monitoring and processing. The PRC, which consists of one director general and three directors, meets if required, at the request of the manager of the CMMD. Although the PRC mandate includes procurement monitoring, the committee does not receive reports or information on a regular basis regarding procurement activities. This limits the PRC's ability to carry out effective monitoring and oversight.

Prior to August 2013, the Management Board (MB), which meets on a weekly basis, was provided with little information about procurement. Beginning in August 2013, MB was provided with procurement data that included a summary of transactions by type, the number of requisitions received, and the status of files greater than \$25,000, as well as with reports related to the CMMD's service standards. Although these statistics are useful, they do not provide details on contract trends that may result in an increased risk of non-compliance with relevant policies and legislation or risk of potential employee-employer relationships.

A number of controls have been implemented to assess the status of independent contractors in order to avoid the creation of employee-employer relationships. Tools such as LAC's Work Situation Questionnaire and the Canada Revenue Agency guide entitled "Employee or Self-employed" were available to staff to assist in assessing the status and nature of the contractor relationship. However, the responsibility for monitoring contractor status over time has not been assigned to a specific resource, thus limiting the identification of potential employee-employer relationships.

Throughout our review of procurement transactions, we noted that a number of contracts had been amended over a number of years to increase the total time of the contract. Although the task authorizations noted the completion of specific tasks, and included specific dates for completion of the work, the ongoing amendments may create a risk of a potential employee-employer relationship. However, the audit did not identify any issues relating to employee-employer relationship at LAC.

Although controls over the procurement process were in place, the above findings may highlight anomalies or areas of higher risk, such as employee-employer relationships.

#### **Recommendation 1**

The PRC and Senior Management should be provided with procurement reports highlighting procurement information, performance and trends in order to strengthen overall procurement oversight.

### Procurement Planning

**LAC does not currently have an overall procurement plan to assist in the planning of procurement activities.**

It was expected that LAC would have a formal procurement planning process in place to assist the CMMD in planning the procurement strategy and allocating resources accordingly.

At the time of the audit, LAC did not have a formal or integrated institutional procurement plan identifying potential needs for goods or services to support the delivery of operational priorities and LAC's mandate. The lack of an institutional procurement plan may contribute to inefficiencies in the procurement process because of insufficient information for planning purposes.

A formal procurement planning process would allow the CMMD to develop a procurement schedule and strategy to establish timelines for carrying out each step of the procurement process, from the awarding of the contract to the fulfillment of the requirement. This would enable the CMMD to allocate resources accordingly and help ensure the timeliness of the process, including allowing sufficient time to ensure that the proper procurement vehicle is used. In addition, the procurement plan would allow for the monitoring of the actual performance against planned activities and for the proper allocation of resources.

#### **Recommendation 2**

An annual procurement plan, based on operational requirements, should be completed and made available to the manager of the CMMD to assist in planning the procurement strategy.

## **Procurement Training**

### **The procurement process is not consistently understood by RCMs.**

We expected that the personnel involved in the procurement of goods and services would have received the required training to inform them of procurement requirements and the tools available.

Based on the results of our interviews and our review of procurement documentation and procurement files, we noted that the procurement process was not consistently understood by RCMs. There appears to be confusion about the procurement vehicles available, as well as about the related timelines required to complete the procurement process. The lack of understanding by the employees involved in procuring goods and/or services can contribute to delays in the procurement process and increase the risk of inappropriate procurement vehicles being used. This situation was also noted by CMMD personnel. In addition, RCMs did not consistently involve the CMMD early on in the procurement process and, as a result, the proper procurement vehicle was not always selected. In these instances, the process had to be restarted, which created delays in securing the required goods or services.

Furthermore, because of the Deficit Reduction Action Plan, a number of positions have been eliminated within LAC, which has resulted in the reassignment of personnel to different positions. Consequently, personnel have been assigned new procurement responsibilities for which they have not received appropriate training.

In order to address this situation, the CMMD offered a number of procurement training sessions to RCMs and their staff during the 2012–2013 fiscal year. These half-day sessions provided an overview of the procurement process, legislative requirements, procurement vehicles, available tools and resources, and the roles and responsibilities of personnel involved in the procurement process. However, the training sessions were not mandatory and, as a result, were not attended by all personnel. Our review of attendance sheets demonstrated that a total of 41 employees registered for the sessions, with 35 completing the course. This increases the risk that inappropriate procurement processes and tools may be used by RCMs and staff, resulting in increased time and delays in completing the procurement process. This may also increase the perception that the procurement process is not efficient. Lack of knowledge directly affects the efficiency of the procurement process and the delivery of LAC's mandate.

#### **Recommendation 3**

The CFO should require all personnel with procurement responsibilities to complete relevant procurement training in a timely manner.



## Procurement Tools

**Procurement tools are not all readily accessible to personnel on the CMMD SharePoint site.**

We expected to find readily available procurement policies and procedures to guide all personnel involved in the procurement process.

To assist RCMs and staff in completing procurement requests, the CMMD has developed a number of tools. Specifically, the Procurement and Contracting Guide provides information on legislative requirements, delegations of authority, procurement vehicles, and the responsibilities related to the procurement of goods and services. The guide also covers topics such as unacceptable practices, which include payroll and pay deductions that could lead to an employee-employer relationship. Other tools are also available, such as standard contracts, standard forms, checklists, and templates. In particular, the Work Situation Questionnaire is a tool available to RCMs to assess the nature of the relationship with a contractor.

With the ongoing implementation of SharePoint, the CMMD is in the process of migrating all procurement information to its SharePoint site. As a result, we noted that procurement tools are not currently readily available on the CMMD's SharePoint page, thus limiting access to important procurement information.

### Recommendation 4

The CMMD should expedite the migration of procurement tools to the SharePoint platform and communicate with RCMs on a regular basis regarding the importance of using the appropriate tools and involving the CMMD early in the procurement process.

## Procurement Staff

**The CMMD's resource level is not currently at full capacity.**

We expected the CMMD to have a plan in place to help ensure the Division has the right resources with the right skill sets to support LAC's contracting and procurement requirements.

Based on our review of the CMMD's organization chart, the CMMD consists of 10 positions at different levels of the Purchasing and Supply (PG) category. Specifically, the CMMD is composed of 1 PG-06, 4 PG-04s, 2 PG-03s and 3 PG-02s. Our review of job descriptions demonstrated that the tasks required for each level are similar to the tasks for contracting specialists at the same level in other federal organizations.

At the time of the audit field work, two positions were vacant within the CMMD. As noted by the manager of the CMMD, in general, some positions are always vacant because of temporary absences such as disability or maternity leave. In addition, it was noted that it is difficult to obtain temporary replacements for these positions because of the high demand for procurement specialists in the public sector. For the period from August to November 2013, statistics demonstrated that CMMD service standards had been met on average 70% of the time. This may be in part due to vacancies in the procurement division. A departmental procurement plan would greatly contribute to addressing CMMD resource levels and requirements.

### Recommendation 5

The manager of the CMMD should review the current organizational structure against LAC's procurement plan and consider whether sufficient resources exist at the right levels to support LAC's needs.

## Appendix A – Management Action Plan

Internal Audit Recommendations	Management Response to the Recommendation	Action(s) to be taken	Estimated Completion Date	Responsibility
<p><b>1 -</b> The PRC and Senior Management should be provided with procurement reports highlighting procurement information, performance and trends in order to strengthen overall procurement oversight.</p>	<p>Agree.</p>	<p>Reports will be provided to PRC and Senior Management on a monthly basis highlighting procurement information, performance and trends.</p>	<p>1<sup>st</sup> quarter of 2014-2015</p>	<p>Director general, Strategic Planning and Infrastructure Management</p>
<p><b>2 -</b> An annual procurement plan, based on operational requirements, should be completed and made available to the manager of the CMMD to assist in planning the procurement strategy.</p>	<p>Agree.</p>	<p>An annual Procurement plan will be developed as part of the current Integrated Planning processes at LAC. Collaboration with Integration, Planning and Accountability Division will be required.</p>	<p>1<sup>st</sup> quarter of 2014-2015</p>	<p>Director general, Strategic Planning and Infrastructure Management</p>
<p><b>3 -</b> The CFO should require all personnel with procurement responsibilities to complete relevant procurement training in a timely manner.</p>	<p>Agree.</p>	<p>LAC will ensure that all personnel with procurement responsibilities complete the relevant training sessions before taking on procurement responsibilities.</p>	<p>3<sup>rd</sup> quarter of 2014-2015</p>	<p>Director general, Strategic Planning and Infrastructure Management</p>
<p><b>4 -</b> The CMMD should expedite the migration of procurement tools to the SharePoint platform and communicate with RCMs on a regular basis regarding the importance of using the appropriate tools and involving the CMMD early in the procurement process.</p>	<p>Agree.</p>	<p>LAC will ensure that all approved tools and procurement forms are available on the Procurement SharePoint site, and communicated to staff.</p>	<p>1<sup>st</sup> quarter of 2014-2015</p>	<p>Director general, Strategic Planning and Infrastructure Management</p>
<p><b>5 -</b> The manager of the CMMD should review the current organizational structure against LAC's procurement plan and consider whether sufficient resources exist at the right levels to support LAC's needs.</p>	<p>Agree.</p>	<p>LAC will review its Procurement resources and align them with the new Annual Procurement Plan.</p>	<p>3<sup>rd</sup> quarter of 2014-2015</p>	<p>Director general, Strategic Planning and Infrastructure Management</p>

## Appendix B – Risk Ranking of Recommendations

The following table presents the recommendations and assigns risk rankings of high, moderate or low. Risk rankings were determined based on the relative priorities of the recommendations and the extent to which the recommendations indicate non-compliance with Treasury Board policies and other relevant policies and standards.

Recommendations	Risk Level
1 - The PRC and Senior Mangement should be provided with procurement reports highlighting procurement information, performance and trends in order to strengthen overall procurement oversight.	Low
2 - An annual procurement plan, based on operational requirements, should be completed and made available to the manager of the CMMD to assist in planning the procurement strategy.	High
3 - The CFO should require all personnel with procurement responsibilities to complete relevant procurement training in a timely manner.	Moderate
4 - The CMMD should expedite the migration of procurement tools to the SharePoint platform and communicate with RCMs on a regular basis regarding the importance of using the appropriate tools and involving the CMMD early in the procurement process.	Moderate
5 - The manager of the CMMD should review the current organizational structure against LAC's procurement plan and consider whether sufficient resources exist at the right levels to support LAC's needs.	Low

## Appendix C – Sampling Methodology

### Rationale

The following factors were considered for the sampling methodology:

- Management’s concerns related to recurring contracts with individuals and the competitiveness and equity of the LAC procurement process;
- Type of procurement vehicle;
- Source of the procurement process (centralized versus decentralized);
- Access to procurement transaction information; and
- Limitation of cost and time to perform testing.

The sample was selected from among the procurement transactions incurred during fiscal years 2009–2010 through to September 2013, the period under scope.

To select a sample of procurement transactions, we obtained data downloads in Excel format from CMMD representatives for the years under scope. As one of management’s main concerns related to recurring contracts, our sample focused on the procurement of temporary help services. In addition, the sample was selected based on the recurrence of transactions with the same contractors. As the largest portion of temporary help related to information technology resources, our largest sample was selected from Task Authorizations for IT, which are processed centrally by the CMMD.

<b>Distribution of Sample by Procurement Type</b>		
<b>Procurement Type</b>	<b>Quantity</b>	<b>Percentage of Sample</b>
<b>Centralized Procurement</b>		
Task Authorizations	13	37%
Temporary Help Services	4	11%
Competitive Processes (PS-Online Competitive)	4	11%
Sole Source	1	3%
Task-Based Informatics Professional Services (TBIPS)	3	9%
<b>Decentralized Procurement</b>		
Tasks Authorizations	10	29%
<b>Total</b>	<b>35</b>	<b>100%</b>