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**Audit of the Weapon Effects
Simulation Contract**

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Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
ADM(Mat)	Assistant Deputy Minister (Materiel)
AWR	Additional Work Requirement
CCLS	Contractor Conducted Logistics Support
CDRL	Contract Data Requirements List
CRS	Chief Review Services
DCS	Dismounted Company Suites
DGLEPM	Director General Land Equipment Program Management
DGMSSC	Director General Materiel Systems and Supply Chain
DRMIS	Defence Resource Management Information System
DND	Department of National Defence
FAA	<i>Financial Administration Act</i>
FAM	Financial Administration Manual
GFE	Government Furnished Equipment
LOP	Level of Performance
MR	MAPLE RESOLVE
OPI	Office of Primary Interest
PAM	Procurement Administration Manual
UOTS	Urban Operations Training System
WES	Weapon Effects Simulation



Results in Brief

In 2009, Chief Review Services (CRS) conducted an analysis of contracts within the Department of National Defence (DND). Based on attributes such as materiality, duration, and payment method, the Weapon Effects Simulation (WES) Contract was deemed to benefit from audit coverage. It was therefore included in the CRS Risk-based Audit Plan for fiscal years 2013/14 to 2015/16. The objective of this audit was to assess whether risk management practices, governance structures, and internal controls were in place to effectively administer the WES Contract and optimize value for money for the Contractor Conducted Logistics Support (CCLS) elements of the contract.

The WES capability was acquired to address the deficiency in simulating realistic weapon effects during force-on-force field training exercises. Force-on-force training is based on the traditional military two-sided engagement in which one side plays the role of the enemy. The WES system permits soldiers to be trained in the way that they would fight in a real situation and provides effective after-action reviews to enhance commanders' ability to train and evaluate their troops. As the Army Managed Readiness Plan¹ evolved, the requirement for three major Regular Force WES exercises per year was reduced to two due to the tempo of operations in Afghanistan.

The WES Contract was awarded to a contractor in February 2003 with an original value of \$128 million. The initial capability was delivered in October 2006, and support services for the WES system and training exercises were then provided through a turnkey² CCLS service. The contract ceiling price increased to \$209 million as of August 2012 through 15 contract amendments to address contract options and refine contract terms and conditions.

Findings and Recommendations

Value for Money. The CCLS services are based on firm fixed payments³ and comprise two types of simulation training exercises: milestone and Dismounted Company Suites (DCS) training exercises. The contract stipulates that milestone payments must be made for the milestone exercises over the 10-year life of the CCLS services. During the first seven years of the CCLS, DND did not utilize 32 percent of the person-training days for the milestone exercises and 65 percent of the DCS training blocks, but still had to pay for them. This misalignment between payments and the level of training exercise usage occurred mostly due to an unexpected change in training tempo in preparation for semi-annual troop rotations in Afghanistan. The

Overall Assessment

Generally, the WES Contract was administered in accordance with the contract terms and the WES system was deemed to be effective in adding training realism and effectiveness. However, improvements in the payment terms, asset safeguarding, and performance measures would benefit the option years of the contract.

¹ The Army Managed Readiness Plan was a three-year training cycle to prepare land forces elements for operations in accordance with Canadian Army tasks in the Force Posture and Readiness objective.

² Turnkey contracts outsource all of the sustainment services to a contractor rather than using DND resources.

³ Firm fixed payments are fees that are paid monthly.



absence of contract clauses to adjust to a change in training tempo resulted in an estimated \$8.8 to \$12.4 million in unused training.

Assistant Deputy Minister (Materiel) (ADM(Mat)) should develop and implement a scalable and results-based pricing structure for the CCLS services option period and the Urban Operations Training System (UOTS) project.⁴

Asset Safeguarding. After the initial delivery of the WES equipment, the contract detailed that the equipment would be loaned back to the contractor to stock, maintain, and ensure equipment availability for the WES training exercises. A loan agreement was not established as prescribed by the contract requirements between DND and the contractor. The Procurement Administration Manual (PAM) provides guidance to procurement staff on how DND should manage government furnished equipment (GFE). However, the PAM guidance does not include WES equipment as a category requiring a loan agreement. A loan agreement ensures appropriate asset safeguarding relating to asset stocktaking, asset visibility, and return of asset upon contract expiration.

ADM(Mat) should establish a loan agreement for the WES equipment and clarify in its guidance and procedures the definition of (GFE) and how it should be managed accordingly.

Contractor Performance Management and Information for Decision Making. The current performance measures did not identify key variations from expected performance. The level of performance (LOP) payment is determined by one single measure: the availability of the WES equipment during training. This measure resulted in performance pay to the contractor for all training exercises where LOP was measured even though the desired outcome was not always achieved. Additionally, the contractor did not provide certain reporting deliverables to DND despite being required to do so in the contract. The information in these reports could have been used to support decision making.

ADM(Mat) should develop and implement a balanced suite of performance measures and identify and request appropriate Contract Data Requirements List (CDRL) deliverables that are linked to payment for the CCLS option years.

Financial Management. Approximately 50 percent of the procurement payment files reviewed did not have appropriate documentation to demonstrate that the goods or services were received. The Financial Administration Manual (FAM) and the PAM did not clearly define the required supporting documentation to be kept on file in order to demonstrate receipt of goods or services. This resulted in inconsistent interpretations of what constitutes appropriate documentation and audit trail.

The following has been recommended:

- a) Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)) should provide clear policy guidelines that demonstrate due diligence in meeting the specific supporting documentation required for Section 34 account verification; and

⁴ The UOTS will be used for simulation training in urban areas, which differs from the WES that was designed for warfare in open terrain.



- b) ADM(Mat) should update the PAM to include guidelines for appropriate supporting documentation for Section 34 account verification that are aligned with ADM(Fin CS) guidance and standard operating procedures.

Risk Management. Procurement risks were not managed and communicated by the contractor and DND procurement management staff. A formal and well-developed risk management practice could help the WES procurement management staff to proactively identify and manage risks before they materialize into significant issues.

ADM(Mat) should enhance the PAM to clarify the requirement for risk management throughout the procurement life-cycle and develop and execute a procurement risk management plan for the remainder of the WES Contract, taking into account the contractor-performed risk management.

Note: Please refer to [Annex A—Management Action Plan](#) for the management response to the CRS recommendations.



1.0 Introduction

1.1 Rationale for Audit

CRS conducts risk analysis on a regular basis to identify contracts that may benefit from audit coverage. The CRS October 2009 Analysis of Contracts,⁵ based on a systematic approach, identified the WES Contract to be audited. It was thus included in the CRS Risk-based Audit Plan for fiscal years 2013/14 to 2015/16. The WES Contract scored high in most of the risk criteria, including materiality, duration, and terms of payment.

1.2 Background

In keeping with the Defence White Paper, Defence Planning Guidance 98, and the Canadian Army's mission, the WES capability was acquired to address the deficiency in simulating realistic weapon effects during force-on-force field training exercises. Force-on-force training is based on the traditional military two-sided engagement in which one side plays the role of the enemy. The WES system permits soldiers to be trained in the way that they would fight in a real situation and provides effective after-action reviews to enhance commanders' ability to train and evaluate their troops.⁶ Most of the WES capability was outfitted at Canadian Manoeuvre Training Centre Wainwright where both instrumented and non-instrumented WES training exercises are held. Instrumented training allows training exercise data to be collected in "real time," which then allows exercises to be better monitored. Non-instrumented WES training exercises also take place at Combat Training Centre Gagetown and are deployable to other locations, such as bases and units, as required.

The WES Contract was awarded to a single prime contractor in February 2003 with an original value of \$128 million. Subsequently, the contract ceiling price was increased to \$209 million as of August 2012 through 15 amendments to refine contract terms and conditions, establish a budget for additional work requirements (AWR) and exercise some of the procurement options for additional WES equipment with supplementary CCLS services.

The contract is made up of three key deliverables, as follows:

Initial Equipment Delivery and Acceptance. The basis of payment was a firm fixed price at \$96 million for 16 milestones. The initial capability was delivered in October 2006, while most of the remaining milestones were completed in 2008.

AWR. A budget of \$40 million was established for work, such as new weapons integration, throughout the contract terms that is over and above the existing contract requirements but within the scope of the project. Each task is priced individually according to the requirements and must be authorized through a DND task authorization form.

CCLS. The \$73 million CCLS service provides a turnkey solution to the Department for all support services for the WES system and training exercises. DND was to pay the contractor for

⁵ CRS Analysis of Contracts, October 2009: <http://crs-csex.mil.ca/reports-rapports/pdf/2009/129P0875-eng.pdf>.

⁶ WES Project Charter, version amendment 1, February 26, 2002.

the training predefined in the CCLS services, whether or not the Department scheduled and conducted the training. At the time of contract award, three major regular force exercises were to be held per year. However, operational commitments in Afghanistan reduced this need to two exercises per year to accommodate the troop rotations every six months. The training comprises seven training exercises and 208 blocks of five-day DCS training exercises every year for 10 years until the expiry of the contract in 2016. The contractor was required to provide turnkey support services and ensure the WES equipment was functioning and available throughout the WES training exercises. Additional LOP⁷ payments were based on the availability of the equipment as specified in the contract. LOP payment is awarded to the contractor when the achieved availability of the equipment is higher than the established thresholds in the contract.

1.3 Objective

The audit objective was to assess whether risk management practices, governance structures, and internal controls were in place to effectively administer the contract and optimize value for money.

1.4 Scope

- The scope of the audit included DND's procurement and management of the in-service support portion (i.e., CCLS services) of the WES Contract, from November 2006, when the contract value for the CCLS services was last amended, to August 2014, when the audit conduct phase concluded.
- The audit excluded the acquisition of initial equipment. However, verification of payments worth \$15.7 million for the initial equipment delivery was included in the judgmental samples⁸ of the audit.
- A total of 31 procurement files were selected as follows:
 - 7 files for the initial equipment payment (from 2004 to 2011);
 - 7 files for milestone payments (from 2008 to 2013); and
 - 17 files for AWR payments (from 2008 to 2013).

1.5 Methodology

The audit results are based on the following:

- review of applicable capital acquisition and procurement management policies, guidelines, and procedures;
- interviews with key personnel within DND, as well as with the contracting authority of Public Works and Government Services Canada;

⁷ The LOP entitlement is determined by the operational availability of both the deployed groups and the Exercise Control Centre group for WES equipment.

⁸ The sample of payments was based on professional judgment.

- examination and analysis of acquisition management information, contract documentation and associated management information and records, contractor reports, and deliverables; and
- testing of a judgmental sample of procurement files, including procurement related information such as invoices and supporting documentation retained in the procurement files and payment records in the Defence Resource Management Information System (DRMIS).

1.6 Audit Criteria

The audit criteria can be found at [Annex B](#).

1.7 Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms to the Internal Auditing Standards for the Government of Canada as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.



2.0 Findings and Recommendations

2.1 Value for Money

The CCLS services are comprised of milestone and DCS training exercises. These exercises were not fully utilized but were paid for in fixed fees in accordance with the contract.

Baseline training is what constitutes a predefined level of milestone and DCS training exercises over the life of the contract. Milestone exercises are made up of five instrumented and two non-instrumented training exercises per year with a predetermined number of participants, training location, and requirements. DCS is a non-instrumented training exercise that is deployable across Canada and is flexible in the number of participants and training duration.

The WES Contract provides the Department an option to extend the in-service support (CCLS services) for five additional years after completion of the current CCLS services. Furthermore, the UOTS project will deliver an urban operation training capability, with the associated in-service support, that will leverage the existing WES capability.

2.1.1 Fixed Payment for the Baseline Training

The existing rigid payment structure for the CCLS services is not scalable to adjust to a lower level of training activities than was established for the baseline training. The audit examined the actual level of training activities and observed that 32 percent of the milestone exercises⁹ and 65 percent of the DCS training blocks¹⁰ were not used during the first seven years of the CCLS services. However, the Department still had to pay for these services in fixed fees in accordance with the contract. Although the milestones included three regular force battle group¹¹ exercises per year, due to operational commitments in Afghanistan, the Army Managed Readiness Plan was revised to require only two battle groups to undergo WES training per year.

The lower than planned usage of milestone exercises primarily resulted from the changing operational tempo that occurred when the actual training deviated from the predefined baseline requirements. From 2007 to 2013, instrumented training exercises were mostly conducted in a single occurrence with a large number of participants as opposed to running five individual smaller exercises as prescribed in the CCLS services contract. With fewer actual training occurrences, fewer participants attended the milestone exercises than were initially planned. The procurement team indicated that one reason for the low usage of DCS training was the low level of awareness and acceptance by units in the initial years of the CCLS services. In more recent years, both DND and the contractor have been taking an active role to promote the use of DCS. The usage of DCS training exercises has grown from an average of 25 percent (from 2007 to 2011) to 61 percent (from 2012 to 2013) of the fixed baseline training specified in the contract.

⁹ The percentage of milestone exercises not used was determined by the number of person training days (i.e., the number of participants and the duration of a training exercise).

¹⁰ DCS training is supported by the contractor in number of blocks, with each block running for five days.

¹¹ A battle group includes 1,200 personnel with a mix of weapons and armoured and wheeled vehicles.

As there were no clauses in the WES Contract to allow for amendments of deliverables due to changing circumstances, the lower than planned usage of the baseline training has resulted in about \$8.8 million to \$12.4 million worth of training that was not utilized¹² over the seven years of CCLS services (from 2007 to 2013). In an environment where priorities and operational demands are changing, a rigid milestone contract that does not provide flexibility to adjust the level of training activities may not fully provide value for money in meeting the long-term needs of the Department. Consideration should be given to review and amend contracting processes across ADM(Mat) that would enable DND to effectively adjust to changing operational demands.

2.1.2 Summary

The absence of contract clauses to allow for adjustments to the predetermined baseline training in response to changes in operational tempo has resulted in \$8.8 to \$12.4 million worth of unused training from 2007 to 2013 for the CCLS services.

CRS Recommendation

1. ADM(Mat) should develop and implement a scalable and results-based pricing structure for the CCLS services option period and the UOTS project.

OPI: ADM(Mat)

2.2 Asset Safeguarding

The CCLS services provide a turnkey solution where the contractor is responsible for tasks such as transporting, setting-up, issuing, cleaning, and maintaining the WES equipment, as well as providing logistics support to WES exercises. After initial delivery and acceptance in 2006, the WES equipment has been mostly stocked in DND warehouses at Canadian Forces Base Wainwright and Canadian Forces Base Gagetown by the contractor to support exercises. Throughout the CCLS contract period, there was a sufficient quantity of WES equipment during training exercises. However, there are some areas related to safeguarding of the equipment that require improvement.

2.2.1 Loan Agreement

The WES Contract specified that upon delivery and acceptance of the WES equipment, it would be loaned back to the contractor as GFE through a loan agreement.¹³ A 2011 CRS audit recommended that improvements in the oversight and management of GFE are required.¹⁴ GFE refers to DND-owned items that will be loaned to the contractor and returned to DND in essentially the initial condition, subject to reasonable wear and tear. A loan agreement usually

¹² The estimate of the unused training assumed that 50 to 70 percent of the baseline training cost was variable but that all the recurring cost was fixed.

¹³ WES Contract 1.5; WES Contract Annex B 1.4.1.

¹⁴ CRS 2011 Audit Report on GFE: <http://crs-csex.mil.ca/reports-rapports/2011/158P0915-eng.aspx>.

details the expectations of the contractor in managing DND equipment. However, a loan agreement was not established between DND and the contractor as required by the WES Contract.

A loan agreement is an instrument that ensures that the WES equipment would be returned to DND upon contract expiration. The terms of a standard DND loan agreement also require the contractor to initiate and complete a one hundred percent (100%) manual stocktaking of the DND equipment that is under the contractor's custody at least once every two years. Without such an agreement, DND is not able to stipulate that the contractor must perform a full stocktaking, which would give assurance of the existence and quantity of WES equipment, as well as ensure the return of the WES equipment upon expiry of the contract.

The audit team was informed that DND procurement staff members have periodically performed partial inventory verification to ensure that WES equipment was appropriately safeguarded. The WES contractor has submitted annual reports to DND on the WES inventory under its custody. However, there is no evidence that the contractor performed full stocktaking.

A loan agreement also enhances DND's visibility of assets loaned to contractors. Once a loan agreement is signed, the contractor is assigned a loan account, and each GFE item is also assigned a serial number in DRMIS so that the GFE can be traced. A signed loan agreement enables DND to perform risk-based reviews through Director Quality Assurance¹⁵ to ensure the loan agreement is respected.

The PAM provides three categories¹⁶ of GFE that are eligible to be loaned to a contractor. However, under the existing PAM categories, it is not clear whether the WES equipment is eligible to be loaned since it is not similar to equipment described in the three categories listed in the PAM. Additionally, the WES procurement staff indicated that they received conflicting direction regarding whether a loan agreement was required for the WES equipment. The absence of a loan agreement for WES equipment valued at \$61 million¹⁷ has reduced DND's ability to track the loaned equipment in DRMIS. According to staff of Director Quality Assurance, this would be one of the largest loaned equipment accounts for the Canadian Army.

Summary

A loan agreement has not been established between DND and the contractor for the WES equipment as per the contract requirement. A loan agreement would ensure appropriate asset safeguarding related to asset stocktaking, asset visibility, and the return of assets to DND upon contract expiration.

¹⁵ Director Quality Assurance is a directorate within ADM(Mat) that is responsible for administering the requirements of the loan agreement on behalf of DND.

¹⁶ GFE Category 1 includes machine tools, special production tooling, special test equipment, tooling and ground handling equipment. GFE Category 2 includes prototypes, sealed samples and models. GFE Category 3 includes equipment to be used for food service contracts.

¹⁷ Contractor Held Inventory Report, March 31, 2013.



CRS Recommendation (High Significance)

2. ADM(Mat) should do the following:
 - a) establish a loan agreement for the WES equipment; and
 - b) clarify in their guidance and procedures the definition of GFE and how it should be managed accordingly.

OPI: ADM(Mat)

2.3 Contract Performance Management and Information for Decision Making

Performance measures and LOP payments should be structured to support operational requirements. The current performance measures do not encourage desired performance and are not sufficient or relevant enough to identify critical variations from the expected performance.

Performance measures are indicators, targets, and/or standards that are relevant to meeting the operational requirements and are able to provide an accurate assessment of the quality of goods and/or services provided by the contractor. Performance related payment should only be used to encourage and reward performance that meets or exceeds expectations.

2.3.1 Contract Performance Measures

The WES Contract includes eleven performance indicators that are used to assess CCLS services. Ten of these performance indicators were qualitative and were assessed subjectively by both DND and the contractor at the completion of each WES training exercise. The only quantitative performance indicator used was that of operational availability, which is the percentage of required WES equipment that is available and functioning throughout a training exercise. In addition to the fixed payment for the CCLS baseline training exercises, the LOP payment is awarded to the contractor when the achieved operational availability is higher than the established threshold in the contract.

Good Practices

Improved availability of support from contractor field service representatives during milestone exercises helped to minimize participants' downtime. As well, the increased frequency of CCLS meetings with the contractor improved the communication and resolution of issues.

2.3.2 Performance Issues in Exercise MAPLE RESOLVE 2013

From 2007 to 2012, the WES system was primarily used for simulation training that was in line with the operational priorities of that period. This training was different than the initial intent of the WES capability. However, it was assessed to be an effective system that added training realism and effectiveness. It was not until 2013 that the land training authority started using the WES system for force-on-force training exercises as initially intended in the contract.

MAPLE RESOLVE (MR) 2013 was a large scale instrumented force-on-force training exercise, conducted as part of the milestone training exercises under the CCLS services. Until this exercise, DND had been satisfied with the overall performance of the CCLS services and the



contractor had been receiving over 99 percent of the maximum allowable LOP payments of all the instrumented exercises supported.

||||| As a result, the performance measure was met, and LOP payments were issued

||||| In addition to the CCLS fixed contract costs, DND incurred significant effort and costs for activities such as exercise planning and for moving approximately 2,000 soldiers, personnel, and hundreds of military vehicles to and from units and bases across Canada.

||||| the contractor was still entitled to

||||| The qualitative performance indicators were also used to assess exercise performance, but they functioned more as a form of feedback and ||||| Furthermore, these performance indicators did not identify other simulation service qualities that impacted directly on the outcome effectiveness of a training exercise.

Research of similar support contracts¹⁸ showed that a combination of performance indicators was used to assess and reward the degree of success of simulation-based training. Some of these performance indicators included a point system for equipment availability that was weighted in accordance with such things as relevance in an exercise, availability of both individual and interdependent systems, mean time between equipment repairs, and mean time between equipment failures.

2.3.3 Information to Support Decision Making

The WES Contract included the CDRL that specified the information and the necessary level of detail that the contractor was to submit as well as the required timeframe and frequency. Some of the CDRL documents provided important information for decision making and could also be used for performance monitoring. However, DND did not receive the CDRL documents for 14 of the 32 CCLS deliverables, or these were not submitted according to the frequency stated in the contract. Like other contract deliverables, the CDRL has been included in the fixed basis of payment. If any of the CDRL data deliverables were deemed irrelevant or no longer required, waivers with justifications should have been properly documented and retained.

The current turnkey CCLS services provide DND with limited information and visibility as to activity costing, equipment capacity and utilization, equipment maintenance, and obsolescence

¹⁸ Research of F16 Mission Training Center Simulation Service and RAND Corporation research on contractor logistics support metrics in the United States Air Force.

documentation¹⁹ relevant to a contract and/or specific procurement to ensure that all DND procurement has a complete record. Examination of the sampled files showed that invoices were all certified by the appropriate authority and the price paid was in accordance with the basis of payment set out in the contract or in the respective DND task authorization in the cases of AWR procurement. However, the audit noted inconsistencies in recordkeeping in 52 percent of the sampled files.

2.4.1 Section 34 Account Verification Documentation

The FAA requires the Section 34 account verification process to be performed on all payments. The verification process includes ensuring appropriate documentation is retained on file to support receipt of goods and services. Of the 31 procurement files examined, the audit identified 16 files for payments totalling \$13.6 million that did not contain a sufficient audit trail to allow the audit team to confirm the receipt of the contract deliverables. Such information was not always documented consistently or sufficiently in the files. Guidelines on how to perform Section 34 account verification were provided in the FAM and the PAM, including the requirement to maintain appropriate supporting documentation for audit trail purposes. The WES procurement team followed the guidance that ADM(Mat) provided on what constitutes an appropriate audit trail. This guidance considered the signature of the technical authority²⁰ as appropriate documentation. However, the signature on its own does not provide evidence of due diligence that the goods or services were received. Neither the FAM nor the PAM provided a detailed interpretation of what constitutes proper evidence.

2.4.2 Summary

The lack of clear interpretation in the FAM and the PAM of what constitutes appropriate evidence has contributed to inconsistent supporting documentation. Sixteen out of 31 sampled procurement files do not have appropriate documentation to confirm that goods or services were delivered.

CRS Recommendation

4. a) ADM(Fin CS) should provide clear policy guidelines that demonstrate due diligence in meeting the specific supporting documentation required for Section 34 account verification.

OPI: ADM(Fin CS)

- b) ADM(Mat) should update the PAM to include the guidelines for appropriate supporting documentation for Section 34 account verification that are aligned with ADM(Fin CS) guidance and standard operating procedures.

OPI: ADM(Mat)

¹⁹ According to the PAM 3.4, examples of documentation include the contract and/or the DND 626 Task Authorization for AWR procurement, amendments if any, the record of financial approvals, original invoices with backup documents and signatures, correspondence, supporting documentation, and justification.

²⁰ The technical authority is “the individual responsible for providing information, guidance, and advice on the technical aspect of a product,” who also takes part in the Section 34 account verification process to “confirm that the goods and services were received.” PAM, June 2013.



2.5 Risk Management

Procurement risks were not managed and communicated by the contractor and DND procurement management staff.

Risk management is a systematic process that identifies, assesses, understands, acts on, and communicates risk issues.²¹ Sound risk management practices in the WES procurement could help proactively identify and manage risks before they materialize.

2.5.1 DND Visibility of Contractor-conducted Risk Management

The WES Contract states that the contractor was responsible for managing risks related to the contract.²² The contractor developed a CCLS Risk Management Plan that was in line with the requirement in the DND risk management guidelines. The status of risk management was to be reported in a Quarterly Status Report, which is one of the 32 CCLS CDRL data deliverables. However, the Quarterly Status Report was no longer received by DND as it was deemed to be redundant with another CCLS CDRL data deliverable, the Statement of Readiness Report. The DND procurement staff required the contractor to provide a Losses and Damage Report for the WES equipment instead of receiving the Quarterly Status Report.

Good Practice

The contractor CCLS Risk Management Plan was in accordance with DND risk management guidelines.

The Statement of Readiness Report and the Losses and Damage Report contained valuable information relating to the readiness of various CCLS components for upcoming WES exercises and to lost or damaged WES equipment. These reports do not include information on the status of CCLS risk management as did the Quarterly Status Report. As a result, DND has very little awareness of any risks that were managed by the contractor. The risks identified by the contractor would help the DND procurement management staff to manage the risks related to the contract.

2.5.2 Procurement Risk Management

As per the PAM requirements, DND procurement management staff is responsible for managing risks that are associated with the WES procurement.²³ However, DND procurement staff did not formally manage all of the risks that were associated with the WES CCLS services. For example, although some CCLS risks were discussed during meetings, a formal DND risk register was not developed to identify and manage all of the WES procurement risks. The PAM outlines the procurement management staff's responsibility for managing procurement risks; however, it is largely focused on the risk management activities in early project management stages that lead

²¹ DND/CF Integrated Risk Management Guidelines, January 2007, page 1.

²² WES Contract Annex B 4.2.3.

²³ "Procurement is a sub-process of acquisition. The procurement process begins with the identification of a requirement and the approved funding, includes all associated contracting, contract management and financial activities required to satisfy that requirement ..." PAM, Section 1.2.2.



up to the award of a contract. The PAM does not explicitly expand on risk management activities during the transition from project management staff to procurement management staff.

A formal and well-developed risk management practice could help the WES procurement management staff to proactively identify and manage risks before they materialize into issues. For example, some issues in exercise MR 1301²⁴ could have been avoided had there been a well-developed risk management practice to help the WES procurement management staff to proactively identify and manage the risks that led to those issues.

2.5.3 Summary

Risks related to CCLS procurement were not managed by the DND procurement management staff because the PAM is unclear on the transition of risk management responsibility from project management to procurement management. As well, the WES Contract risks that the contractor managed were not communicated to DND as required by the contract.

CRS Recommendation

5. ADM(Mat) should do the following:
 - a) enhance the PAM to clarify the requirement for risk management throughout the procurement life-cycle; and
 - b) develop and execute a procurement risk management plan for the remainder of the WES Contract, taking into account the contractor-performed risk management.

OPI: ADM(Mat)

²⁴ This was the first milestone exercise in 2013.

3.0 General Conclusion

Overall, the WES Contract was administered in accordance with the contract terms. However, there is room for improvement to ensure effective governance, risk management, and controls are in place to improve value for money as DND prepares to negotiate the option years.

The WES capability is a key component of readiness to ensure that the Canadian Army is prepared to be successful in various assigned missions. The WES system was also deemed to be effective in adding training realism and effectiveness. Although there were rigid payment terms, the procurement staff was able to negotiate activities to benefit the Crown. Increased availability of contractor staff during exercises and more frequent CCLS meetings with the contractor improved communication and resolution of exercise-related issues. Since 2012, there has been a noticeable increase in the use of the DCS due to increased awareness and acceptance of simulation-based training at the unit level.

To help ensure simulation training is delivered to meet the Army's changing requirements, a more flexible basis of payment would provide better value for money. As the Army Managed Readiness Plan evolved after contract award, the number of regular force exercises was reduced due to the operational tempo in Afghanistan. The WES equipment that is being managed by the contractor is not on a loan agreement as stipulated in the contract. This impacts on the asset safeguarding related to stocktaking, asset visibility, and assurance of returning the WES equipment to DND. Improved performance measures and information for decision making will help ensure that the Army is receiving its expected outcomes.

Guidance on appropriate supporting documentation for Section 34 account verification will help the recordkeeping for the WES procurement staff. It will also ensure consistency in applying Section 34 requirements throughout the Department.

Finally, clearer guidance on the risk management process that is required for the transition from project delivery to in-service support sustainment will help ensure risk management processes are in place for the whole procurement cycle.



Annex A—Management Action Plan

CRS uses recommendation significance criteria as follows:

Very High—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

High—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

Moderate—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

Low—Controls are in place but the level of compliance varies.

Very Low—Controls are in place with no level of variance.

Value for Money

CRS Recommendation (High Significance)

1. ADM(Mat) should develop and implement a scalable and results-based pricing structure for the CCLS services option period and the UOTS project.

Management Action

ADM(Mat)/Director General Land Equipment Program Management (DGLEPM) will develop and implement, for the five-year contract option (if exercised), a pricing structure that is variable, scalable, and based on training demand.

OPI: ADM(Mat)/DGLEPM

Target Date: November 2016

Asset Safeguarding

CRS Recommendation (High Significance)

2. ADM(Mat) should do the following:
 - a) establish a loan agreement for the WES equipment; and
 - b) clarify in their guidance and procedures the definition of GFE and how it should be managed accordingly.



Management Action 2a

ADM(Mat)/DGLEPM will establish a loan agreement for the WES equipment.

OPI: ADM(Mat)/DGLEPM

Target Date: November 2015

Management Action 2b

ADM(Mat)/Director General Materiel Systems and Supply Chain (DGMSSC) will review and update policy and process documents (PAM and Supply Administration Manual), as required, to clarify guidance and procedures in the management of GFE.

OPI: ADM(Mat)/DGMSSC

Target Date: November 2016

Contract Performance Management and Information for Decision Making

CRS Recommendation (Moderate Significance)

3. ADM(Mat) should do the following:
 - a) develop and implement a balanced suite of performance measures; and
 - b) identify and request appropriate CDRL deliverables that are linked to payments for the CCLS option years.

Management Action

ADM(Mat)/DGLEPM is developing a new performance measurement approach to be implemented for the five-year contract option. New, appropriate CDRL deliverables are being identified for implementation for the five-year contract option (if exercised).

OPI: ADM(Mat)/DGLEPM

Target Date: November 2016

Financial Management

CRS Recommendation (Moderate Significance)

4. a) ADM(Fin CS) should provide clear policy guidelines that demonstrate due diligence in meeting the specific supporting documentation required for Section 34 account verification.

b) ADM(Mat) should update the PAM to include the guidelines for appropriate supporting documentation for Section 34 account verification that are aligned with ADM(Fin CS) guidance and standard operating procedures.

Management Action 4a

FAM Chapter 1016-3 – Account Verification will be amended to provide additional guidance on supporting documentation required to support the execution of Section 34. Furthermore, the Corporate Departmental Accounting Office will issue Standard Operating Procedure 1.09 on procure-to-pay, which will provide more detailed instructions on the inclusion of sufficient documentation to support Section 34 account verification.

OPI: ADM(Fin CS)

Target Date: March 2015

Management Action 4b

ADM(Mat)/DGMSSC will review and update the PAM to ensure that the supporting documentation required for account verification are aligned to ADM(Fin CS) policies and procedures, and that the resulting guidelines are clear to practitioners involved in the processing and certification of Section 34.

OPI: ADM(Mat)/DGMSSC

Target Date: June 2015

Risk Management

CRS Recommendation (Moderate Significance)

5. ADM(Mat) should do the following:
 - a) enhance the PAM to clarify the requirement for risk management throughout the procurement life-cycle; and
 - b) develop and execute a procurement risk management plan for the remainder of the WES Contract, taking into account the contractor-performed risk management.



Management Action 5a

ADM(Mat)/DGMSSC will update the PAM to clarify the requirement for risk management throughout the procurement life-cycle, from requirements planning to disposal. They will also investigate the need for developing a risk management plan as part of the procurement documentation.

OPI: ADM(Mat)/DGMSSC

Target Date: November 2016

Management Action 5b

ADM(Mat)/DGLEPM will develop a risk management plan for the remainder of the WES Contract that will address the execution of a risk management process defined as “a systematic process that identifies, assesses, understands, acts on, and communicates risk issues,” (reference section 2.5 of this internal audit report). Risks will be identified, assessed, and communicated through existing mechanisms, including through the equipment strategy process. The “act on” step will be performed to the greatest extent possible, but will be limited in its implementation as offsets from core program execution will be required in order to fully implement a successful risk management program.

OPI: ADM(Mat)/DGLEPM

Target Date: November 30, 2015.



Annex B—Audit Criteria

The audit criteria were assessed using the following levels:

Assessment Level and Description

Level 1: Satisfactory

Level 2: Needs Minor Improvement

Level 3: Needs Moderate Improvement

Level 4: Needs Significant Improvement

Level 5: Unsatisfactory

Governance

- 1. Criteria.** Roles and responsibilities of the contract management staff are adequate to provide oversight, and an adequate monitoring process is in place with accurate information for decision making.

Assessment Level 3: The turnkey WES contracting solution has limited the number of DND resources that are administering the contract and reduced the information and visibility in key costing and maintenance activities.

Internal Control

- 2. Criteria.** Financial management is in accordance with the FAA, Treasury Board, and DND Contract Policy.

Assessment Level 3: The clarity of DND's guidelines has to be improved to ensure a proper audit trail is consistently documented and maintained for Section 34 account verification. The record of payment of the contract managed by the DND procurement staff was understated. This could result in spending over the approved budget.

- 3. Criteria.** DND assets are safeguarded/accounted for and managed efficiently.

Assessment Level 4: Loan agreement for the WES equipment has not been established in accordance with the contract terms to help ensure adequate asset safeguarding related to stocktaking, visibility, and assurance of returning the equipment.

- 4. Criteria.** The contract includes adequate clauses to ensure risk to the Crown is minimized and value for money is provided.

Assessment Level 4: Some clauses and the inflexible milestone payment structure of the contract limited the achievement of value for money.

5. **Criteria.** The contract and its management achieve the performance level for the training requirement.

Assessment Level 3: The existing performance measures were not sufficient to ensure that the services delivered met the expected performance and that the contractor was only rewarded for improved performance beyond the terms of the contract. Some improvements in the information requested and in the monitoring of reports would benefit DND and help ensure contract deliverables are in accordance with the contract terms.

Risk Management

6. **Criteria.** Risks are identified, assessed, ranked, mitigated, quantified with cost impact, and reported in accordance with relevant policy and best practices.

Assessment Level 3: Procurement risks were not formally identified, ranked, quantified, and mitigated by the DND procurement management staff.

Source of Criteria

Treasury Board Secretariat, Audit Criteria related to the Management Accountability Framework: A Tool for Internal Auditors, March 2011.

1. Reference to: G-2, G-6, AC-1, AC-2, AC-3, PPL-4, LICM-1, LICM-4
2. Reference to: ST-2, ST-7, ST-10, ST-12, ST-12, ST-15, ST-18, ST-20, RP-3
3. Reference to: ST-8, ST-9, ST-14
4. Reference to: ST-22, RM-7, RP-2
5. Reference to: G-4, ST-17, RP-1, RP-2, RP-3, CFS-1, CFS-2
6. Reference to: RM-1, RM-2, RM-4, RM-5, RM-6