



Office of the Procurement  
Ombudsman

Bureau de l'ombudsman  
de l'approvisionnement

## OFFICE OF THE PROCUREMENT OMBUDSMAN



# CHAPTER 4

## PROCUREMENT PRACTICES REVIEW

### *MANDATORY STANDING OFFERS*

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## Executive Summary

In Budget 2005, the Government announced measures to help lower federal government procurement costs by using the large size of the federal government to get the best possible price. Accordingly, it became mandatory for all government departments to use Standing Offers (SOs) or other methods of supply put in place by Public Works and Government Services Canada (PWGSC) to purchase common goods and services (“commodities”). In April 2005, Treasury Board (TB) revised its Contracting Policy to make the use of SOs mandatory for 10 commodities.

As a common service organization and the government’s main contracting arm, PWGSC then developed a policy to take a government-wide approach whereby departments are not to put their own SOs in place unless required under exceptional circumstances, as this would defeat long-term benefits and savings.

This review covered the period from April 2005 to August 2008. For calendar year 2007, the total volume of business through call-ups against SOs amounted to approximately \$1.5 billion. The 10 mandatory commodities accounted for 57% of this total. We limited the scope of our review to PWGSC as SOs for the mandatory commodities are put in place and managed by PWGSC alone. Given the overall complexities and characteristic of SOs, other methods of supply such as Supply Arrangements or multi-departmental instruments were not included in our review.

The main objective of this review was to identify effective practices and areas for improvement with respect to the fairness, openness and transparency of government procurement. In that regard, we focused on suppliers’ access and PWGSC’s reporting of departments’ usage of SOs. We were then able to formulate some initial impressions of mandatory SOs and to examine in greater detail the reporting and analysis used to support the management of three specific categories of commodities: Vehicles, Fuels and Human Resource Support Services (HRSS).

Mandatory SOs affect many industries with very different business environments. This office intends to examine, in future reviews, the effects of the SO method of supply on the fairness, openness and transparency of government procurement over a number of years.

An SO is an offer from a supplier to provide goods or services at prearranged prices, with set terms and conditions. Under this method, suppliers are normally provided with an estimate of the quantity expected to be purchased during a specific period of time. Departments fill their specific needs by issuing subsequent contracts (call-ups) against these SOs, and as a result, suppliers are not normally required to compete again to meet individual government requirements.

Benefits of the SO method of supply include lower administrative costs and less need for government to carry inventory. It also provides a consistent approach for both the government and suppliers to conduct business at a reasonable level of effort and cost.

A supplier not successful in obtaining a mandatory SO has limited opportunity for doing business directly with the government, until such time as a new Request for Standing

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Offer (RFSO) is competed. This calls into question the fairness and openness of extending the initial period of an SO by exercising options over a long period.

The U.S. government uses a method of supply called Multiple Award Schedules, which bears some similarity to SOs. While this method has its own limitations, most Schedules are continuously open, unlike SOs, so suppliers can qualify at any time. In addition, goods and services can be added at any time to ensure the government has access to the latest technology. In our view, further consideration should be given to adapting some of the best practices of other jurisdictions to Canada.

Standing Offers have been the subject of much concern in the supplier community. For example, the Business and Institutional Furniture Manufacturer's Association (BIFMA) felt that the consolidation of requirements has made it more difficult for suppliers to access federal government business and that the government is moving from an inclusive to an exclusive approach, putting businesses and particularly small and medium-sized enterprises (SMEs) at risk.

On the other hand, PWGSC maintains "that Standing Offers actually can reduce order consolidation in many cases since they make it easier to award many smaller projects to multiple suppliers."

PWGSC issued a Policy Notification, which states that the term of a mandatory SO should typically be one year in length and those optional extension years may be included if required. The Department informed us that "this statement is a recommendation, and not a directive." It has further stated that it does not have a fixed standard for the duration of an SO and that the period of each one is established on a case-by-case basis.

We found that the initial period of the SO method of supply was one year for two of the ten mandatory commodities. One used another method, and for the remaining seven, the period ranged from more than a year to nearly five years with an average of just over two years.

During our review, we were informed that the time required to put SOs in place is usually six to nine months because of process requirements and the limited number of resources available within PWGSC to manage the commodities.

We found that this is one of the reasons SOs are being put in place for longer periods. While we understand the issue of administrative convenience, longer periods reduce access to government contracts for suppliers and could limit opportunities for obtaining the latest technology, improving quality and achieving savings from price adjustments.

We noted that the SO database report provided by PWGSC to assess the period of the SOs contained several anomalies, which resulted in the exclusion of observations on extension periods from our review. These anomalies can have a significant impact on any analysis done using this database.

PWGSC informed us that this database is not the only source of analytical information used by commodity teams for decision making, and that the Department is working to

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improve the accuracy of the data captured in the system. To address the data accuracy issues identified, the Department is upgrading training for procurement personnel to reflect the importance of good record keeping and monitoring data received.

Given the importance of the need for accurate reports on the duration of standing offers for planning and monitoring, we encourage the Department to analyze the database to ensure its integrity. Meanwhile, users of the outputs from this system, especially senior decision makers, should be made aware of its shortcomings. If the Department relies on better sources of information for decision making, then a cost-benefit study should be undertaken to see if the expenditure involved in maintaining and upgrading it should be continued.

With respect to the three specific categories of commodities, we found that mandatory SOs for Vehicles are competed on a yearly basis, those for Fuels are renewed every two years, while those for HRSS are based on a four-year cycle.

In our view, when SOs are competed, all suppliers must have access to reliable information to price their bids accordingly and ensure the “optimal balance of overall benefits to the Crown and the Canadian people.” To achieve this balance and to support effective decision making in the management of this method of supply, solid analysis of the demand must be done by the Department.

We examined the process of recording call-ups for planning purposes. We considered the timeliness and quality of government reports on SOs.

The Contracting Policy recommends that call-ups against SOs be reported by all departments to PWGSC for consolidation. Some departments cannot readily provide this data as they do not have the appropriate automated reporting systems in place. PWGSC’s preparation of the annual report on government usage is therefore not finalized until eight to nine months after the end of the reporting period. In addition, we noted that PWGSC has been unable to match over 30% of the data supplied by government departments to any active SO, leading us to question the reliability of the data and the effectiveness of the decisions made using these reports.

PWGSC informed us that “it has been working with client departments to develop an automated system, and hopes to eliminate this issue over the coming year.”

PWGSC requests regular call-up activity reports from suppliers, as a condition for maintaining an SO, to assist the Department in tracking usage and forecasting future demand. Suppliers have informed us that they incur additional costs to prepare and submit these reports. With regard to the three categories of commodities we reviewed, we noted that the commodity team for:

- Vehicles has its own tracking system (as PWGSC is the main department issuing call-ups) and has other sources of information available to it, so it does not make use of supplier-generated reports;

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- Fuels has developed annual “Previous Buy Information Reports” for departments to track usage and has access to other sources of information, so it analyzes only supplier reports to identify unusual patterns not aligned with forecasts from departments; and
- HRSS has access to various usage reports, including those from suppliers, but does not analyze any of this information.

This means that suppliers prepare and submit reports that are being ignored for the most part.

Vehicles and Fuels have effective practices to plan, develop and manage their SOs. These commodity teams make effective use of their own internal reports, industry publications, and department and supplier consultations to keep track of usage and market trends in order to forecast demand. The same does not appear to be true for HRSS.

All three commodity teams have resource challenges to varying degrees. Vehicles has six full-time procurement specialists to manage eight SOs. Fuels has eight full-time employees – procurement specialists and administrative staff – to manage approximately 70 SOs. HRSS currently has only one junior procurement specialist to manage approximately 80 similar SOs.

Interviews with PWGSC procurement personnel indicated that extensive work can be involved in the preparation and management of standing offers. Staff have stated that given the funding and labour pressures found within the procurement sectors, renewal efforts of SOs are sometimes limited, and that in some instances, they are not renewed as often as the Department would like. This may lead to concerns over accessibility for suppliers to these instruments.

Subsequent to the completion of our review, we were informed by PWGSC that it is now in the process of replacing the HRSS standing offer with a new instrument. This instrument is being developed after extensive consultation through working groups with both client departments and the supplier industry. The Department is confident that this tool has greater functionality than the previous tool, in particular with respect to accessibility for suppliers. For example, while HRSS had a four-year term, this tool allows for frequent refreshes (every 15 months) of the named suppliers and prices.

### Recommendations

The procurement process should be driven by timely and accurate information in order to achieve the expected outcomes, efficiency and effectiveness. Implementation of the following recommendations should promote fairness, transparency and access for all suppliers, while improving practices that promote quality and innovation.

Based on our general observations related to the duration of SOs, we recommend that PWGSC:

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- clarify its policy by establishing a set of key criteria to develop a standard for the duration of SOs that would strike a balance between government objectives and promote the principles of access, openness and fairness for suppliers;
- provide guidance and tools to assist its procurement personnel to implement the standard;
- once a standard is established, require that reasons for any deviation from the standard be fully documented and approved by a higher authority; and
- use current communications channels to inform the supplier community of its revised standard.

Based on our general observations related to the three specific categories, we recommend that PWGSC:

- take measures to improve the reliability of its SO database;
- work with departments to improve usage reporting information integrity and timeliness;
- analyze suppliers' reports when those reports are required to supplement other sources of information, and integrate the results into the decision-making process;
- eliminate unnecessary reporting requirements for mandatory SO suppliers;
- develop and document processes for consistency to make use of information in order to effectively manage mandatory SOs; and
- ensure that its commodity management teams have adequate resources to effectively carry out planning, development and management functions.

The Department was given an opportunity to comment on this report, and its comments have been taken into consideration in finalizing this chapter.

PWGSC has informed us that it agrees with the primary thrust of the report in that procurement authorities should consider, in addition to other factors, fair and timely access to competitive processes for suppliers, and it will revise instructions to procurement personnel to emphasize this objective.

## **Background**

### **Context**

4.1 In Budget 2005, the Government announced measures to streamline and consolidate procurement to make it more efficient. It stated that these measures “will ensure that the federal government better pursues opportunities to reduce the cost of its purchases, by using the size of the federal government to get the best possible price. To achieve this goal, it will become mandatory for all government departments to buy their products or services at established prices from a method of supply (known as “standing offers”) negotiated by the Department of Public Works and Government Services Canada (PWGSC).”

4.2 The Treasury Board (TB) Contracting Policy recommends the use of a Standing Offer (SO) as a method of supply where the same goods and services (“commodities”) commercially available from suppliers are required by departments and agencies. Under this method, suppliers are normally provided with an estimate of the quantity expected to be purchased during a specific period of time.

4.3 As a result of the Budget, and PWGSC’s role as a common service organization and the government’s main contracting arm, TB revised its Contracting Policy as follows: “As of April 1, 2005, for commodities listed in Schedule 4 below, and where PWGSC has developed SOs in support of these commodities, the use of those SOs is mandatory.”

<b>Commodities for which Standing Offers are mandatory on April 1, 2005</b>
Information Processing and Related Telecom Services (D)
Professional, Administrative and Management Support Services (R)
Ground Effect Vehicles, Motor Vehicles, Trailers, and Cycles (N23)
Telecommunications Equipment and Accessories (N58)
General Purpose Automatic Data Processing Equipment (including Firmware), Software, Suppliers, and Support Equipment (N70)
Furniture (N71)
Office Machines, text processing systems and visible recording equipment (N74)
Office Supplies and Devices (N75)
Clothing, Accessories and Insignia (N84)
Fuels, Lubricants, Oils and Waxes (N91)

Source: Treasury Board Secretariat, Contracting Policy – Appendix C, Schedule 4



4.4 Further to TB amending the Contracting Policy, PWGSC revised its policy to take a government-wide approach for the establishment and implementation of SOs for mandatory use by departments and agencies for certain commodities.

4.5 Although the PWGSC policy does contain a few exceptions to the mandatory use of these SOs, departments are not to put their own SOs in place as this would defeat the long-term benefits and savings of the government-wide approach.

### Objectives

4.6 The breadth and depth of the general subject of mandatory SOs (including Supply Arrangements and other multi-departmental instruments) is enormous as it affects many industries with very different business environments. This office intends to examine, in future reviews, the effects of the SO process on the fairness, openness and transparency of government procurement over a number of years.

4.7 This review was to identify effective practices and areas for improvement. More specifically, the review provided an opportunity to formulate some initial impressions of mandatory SOs and to examine in greater detail the implementation of SOs for three specific categories of commodities.

### Scope

4.8 The review covered the period from April 2005 to August 2008. Since mandatory SOs are put in place and managed by PWGSC, we limited our scope to PWGSC. More specifically, this review assessed the extent to which mandatory SOs are fair, open and transparent. In particular, we reviewed:

- PWGSC's acquisition database to determine access for suppliers – the typical period of time that mandatory SOs are in place, including the initial period and any extensions for:
  - all 10 commodities, in general; and
  - three specific categories of commodities:
    - Passenger Motor Vehicles (Ground Effect Vehicles, Motor Vehicles, Trailers and Cycles), referred to as “Vehicles” for the purposes of this review;
    - Liquid Propellants and Fuels – Petroleum Base, and Aviation Fuel (Fuels, Lubricants, Oils and Waxes), referred to as “Fuels” for the purposes of this review; and
    - Human Resource Support Services (Professional, Administrative and Management Support Services), referred to as “HRSS” for the purposes of this review;

- PWGSC's reporting on departments' overall usage; and
- the reporting and analysis used in support of PWGSC's planning, development and management of mandatory SOs. In order to get a cross-section of the types of information sources available to the commodity teams and how they are used to make decisions to renew or extend those SOs, we selected the same three specific categories of commodities as above.

## Methodology

4.9 We examined the policy framework related to SOs; we analyzed PWGSC's acquisition database listing all SOs for the 10 mandatory commodities issued by PWGSC from December 2005 to August 2008; and we reviewed PWGSC's 2007 report, which shows government call-up activities by department.

4.10 We also reviewed the testimonies given by various stakeholders in their appearances before House of Commons Standing Committees.

4.11 We consulted with suppliers and government procurement personnel. More specifically, we conducted interviews with commodity teams for each of the three selected categories - Vehicles, Fuels and HRSS. In addition, we sent questionnaires to a sampling of suppliers that have participated in the procurement process for these three categories of mandatory SOs to obtain their feedback on fairness, openness and transparency.

## Description and process

4.12 An SO is an offer from a potential supplier to provide goods or services, as and when requested, at prearranged prices, under set terms and conditions, and for a specific period of time (known as the "validity period"). SOs are used when one or more departments have an anticipated need to purchase goods or services but have not determined when, where and how much they will require during a certain period.

4.13 An SO is not a contract. Since it is not a contract, "winning" an SO does not guarantee any level of business to a supplier. When departments have a specific requirement, they do not have to carry out a full procurement process (development of a detailed statement of the requirement, bid evaluation criteria, evaluation of bids, etc.) with its cost and timeline implications. As long as the goods or services are available through an SO, departments can define details (such as service requirement, quantity of goods and delivery date) and issue a call-up.

4.14 At the end of its original period, an SO can be:

- discontinued: if other procurement approaches will be used to meet departmental requirements;
- renewed: if there is a need for updated terms and conditions, pricing, or to add new requirements – all suppliers have an opportunity to compete; or

## MANDATORY STANDING OFFERS

- extended: past the original validity period if, for example, this was pre-planned and advertised in the original Request for Standing Offer, or it is due to unforeseen circumstances. Extensions usually do not provide access to new suppliers to compete.

4.15 There are five types of SOs: National Master (NMSO), available to any or specified department(s), across the country; Regional Master (RMSO), available to any or specified department(s) within a prescribed geographical area (e.g. the National Capital Region); National Individual (NISO), for the use of an individual department across the country; Regional Individual (RISO), for the use of an individual department within a prescribed geographical area; and Department Individual (DISO), available to individual department – only PWGSC can authorize entry into subsequent contracts.

4.16 A mandatory Standing Offer (SO), for the purposes of this review, is an SO falling within one of the 10 mandatory commodities. This is an important clarification because, with its 2005 introduction of mandatory SOs, Treasury Board clarified in the Common Services Policy the term “Standing Offer” to include any other method of supply put in place by PWGSC for general government use, such as a Supply Arrangement (a framework where bids can be solicited from a pool of pre-screened suppliers, based on a minimum set of terms and conditions) and other multi-departmental instruments.

4.17 For each commodity, there can be a number of categories of goods and services and SOs are competed or negotiated by category. Depending on the anticipated volume of business in each category, SOs may be issued to multiple suppliers to ensure adequacy of supply.

4.18 Appearing before the House of Commons Standing Committee on Government Operations and Estimates, which was examining the federal procurement process, the Business and Institutional Furniture Manufacturer’s Association (BIFMA) indicated that, with respect to furniture procurement, its members have the perception that PWGSC’s “philosophy has moved from a historically inclusive procurement process to a more exclusive process.”

4.19 Concluding that the government’s intention was to consolidate requirements, BIFMA further noted that small suppliers foresaw a significant potential loss of business as they would have difficulty competing against larger companies. They were concerned about how they might be able to access opportunities to sell to government in the new environment, from two main perspectives: reduced opportunities to do business directly with departments, and long wait times before non-winning suppliers can compete again.

4.20 We did not examine the procurement process for this commodity and therefore cannot comment on the merits of this testimony. However, we note that the comments were made by the Canadian Furniture Task Group, a sub-organization of BIFMA representing over 75 companies, and their perceptions should be taken into consideration in developing procurement strategies.

4.21 Although the process by which an SO is established usually mirrors that of a publicly published solicitation process, in our view, the policy making SO mandatory

reduces suppliers' opportunities to do business directly with departments across Canada. In addition, since normally there would only be one SO solicitation process for a particular category, any supplier who did not win or any new supplier on the market would have to wait for the entire period of the SO (including any extensions) to expire before getting a new opportunity to compete. PWGSC has also informed us that the length of time is calculated on a commodity-by-commodity basis.

4.22 PWGSC suggests that suppliers "could still have access to business in these areas through subcontracting opportunities or under the exception process." PWGSC, through its Office of Small and Medium Enterprises, "will continue to monitor the impact of our procurement changes on the supplier community and address concerns as they arise."

## General observations

### Finding the balance – administrative convenience versus open access

4.23 SOs represent significant government spending. In the 2007 calendar year, the total volume of business through call-ups against SOs amounted to approximately \$1.5 billion. The 10 mandatory commodities accounted for 57 % of this total.

4.24 One of the objectives in Budget 2005 was to "reduce the procurement cost through consolidating purchasing government-wide, so that it can leverage its buying power to get the best possible prices." Since an SO is one way to consolidate government requirements, it supports this objective.

4.25 An SO is a convenient method of supply that saves time and money. From the government's point of view, the advantages are lower administrative costs and less need for departments to carry inventory. SOs constitute a consistent approach for businesses to access government opportunities at a reasonable level of effort and cost.

4.26 There are also benefits for suppliers. Having already competed once for an SO, they are part of a limited number of selected suppliers that can provide to departments for the length of the SO and be awarded call-ups without normally having to compete again to meet individual requirements. It also allows them to gain experience in doing business with the government.

4.27 However, the introduction of mandatory SOs represents a fundamental change in the government's approach in that, for the 10 mandatory commodities, there are limited opportunities for refreshing prices or for qualifying other potential suppliers during the period of the SOs. This can have both perceived and real effects on the principles of fairness, openness and transparency of government procurement.

4.28 A supplier not successful in obtaining a mandatory SO has limited opportunity for doing business directly with the government until a new Request for Standing Offer is issued. This raises the question of whether this reduced access is fair and open to suppliers, particularly small and medium-sized enterprises (SMEs).

4.29 Appearing before the House of Commons Standing Committee on Government Operations and Estimates on February 26, 2009, referring to contracts the Canadian Federation of Independent Business, which represents 105,000 SMEs, stated that “recent attempts by Public Works to amalgamate federal contracts into fewer very large contracts have made it even more difficult for smaller companies to access the federal government contracts. All SMEs really want is fair and open access to government contracts.”

4.30 As stated by the Association of Classification and Organization Consultants in recent discussions with the Office of the Procurement Ombudsman about the mandatory SO for HRSS, “access to procurement contracts is an issue that people are passionate about.”

4.31 To ensure fairness, openness and transparency, the planning, development, and management of mandatory SOs must be of high quality. Reliable and timely information needs to be analyzed and fed into decision-making processes to permit accurate forecasting. This will ensure that this method of supply is used appropriately and effectively, providing the “. . . optimal balance of overall benefits to the Crown and the Canadian people.”

### **Policy**

4.32 In December 2005, PWGSC issued a Policy Notification with regard to SOs. Under “Procedures” the policy states that “the term of the SO or SA should typically be one year in length. For those that require significant effort or timelines to establish, or may generate better value by offering longer terms, optional extension years may be included.”

4.33 PWGSC has informed us that, in its view, the one-year period stipulated in the Policy Notification does not constitute a standard but was to be used as a guideline. The Department has further informed us that it does not have a fixed standard for the duration of an SO, and that the period of each one is established on a case-by-case basis.

### **Access**

#### **Ten mandatory commodities**

4.34 We reviewed the PWGSC acquisition database of over 500 mandatory SOs that were issued during the review period, in response to 42 Requests for Standing Offers for the 10 mandatory commodities. The database comprised the initial SOs issued, as well as amendments that included extensions.

4.35 Our review determined that only two commodities had mandatory SOs with initial periods of one year: Ground Vehicles, Motor Vehicles, Trailers and Cycles; and Office Supplies and Devices. For the remaining commodities, the periods range from more than one year to nearly five years, the overall average being over two years.

4.36 In our review of the Department's database which lists SO suppliers, references, periods and amendments, we found anomalies that lead us to question the reliability of the data: For example:

- apparent omission of some SOs (e.g. supplier reference numbers start at 010 instead of 001);
- data revealing non-consecutive numbering of amendments for some SOs;
- same reference number having two descriptions, e.g. 001 to 007 described as NMSO, but 008 to 015 described as Supply Arrangement; and
- apparent incorrect entries in the period of an SO – some with an unreasonably short or even negative period (where the starting date is later than the expiry date) and, in at least one case, a period ending in 2100.

4.37 Because of the discrepancies found in the database, we had to exclude the review of the extensions to the initial period. As a result, we could not determine from our review of the database whether commodity teams are striking an appropriate balance between ensuring timely access for suppliers and the level of effort, time and costs borne by both PWGSC and suppliers for this type of method of supply.

4.38 PWGSC informed us "that the reports produced by this database is not the primary source of analytical information used by commodity teams for decision-making, and that the department is working to improve the accuracy of the data captured in the system. Additionally, reporting of data is affected by the methodology of inputting data into the procurement system and that there is no material impact upon clients or suppliers". To address the data accuracy issues identified, the department is upgrading training for procurement personnel to reflect the importance of good record keeping and monitoring data received.

4.39 Given the importance of the need for accurate reports on the duration of standing offers for planning and monitoring, we encourage the Department to analyze the database and restore its integrity. Meanwhile users of the outputs from this system, especially senior decision makers should be made aware of its shortcomings. If the Department has better sources of information and does not rely on the information produced from this database for decision making, a cost benefit study should be undertaken to see if the expenditure involved in maintaining and upgrading it should be continued.

4.40 Notwithstanding the PWGSC policy guideline, the initial period of one year for mandatory SOs appears to be the exception. This may be limiting opportunities for other potential suppliers and could have severe repercussions on SMEs in particular.

4.41 The long-term period of SOs prevents new suppliers from qualifying which could hampers the government's ability to keep pace with changing technology and quality, and to benefit from revised pricing structures adapted to new market conditions.

**Three specific categories: Vehicles, Fuels and HRSS**

4.42 Mandatory SOs for Vehicles are competed on a yearly basis. The commodity team told us that there is a well established and detailed cycle of renewal that is understood by all parties and there is a long history of consistent demand. The annual competitive process is based on the dynamic nature of the vehicle manufacturing sector. New models and changes to existing models are introduced each year, and production schedules and volumes vary each year. All of these mandatory SOs are with large manufacturers.

4.43 Mandatory SOs for Fuels are issued and renewed every two years as this is the preferred model based on supplier and department consultations. The commodity team told us that a two-year period reduces administrative costs and is a short enough period to ensure that the pricing structure is current, while also allowing enough time for suppliers to plan. PWGSC had previously renewed these SOs on an annual basis, but found that this increased the workload for their procurement personnel and for departments. They also considered a three-year period but, based on department and supplier feedback, this was not implemented. Over 70% of these mandatory SOs are with SMEs.

4.44 Mandatory SOs for HRSS are due to expire in September 2009 are based on a four year cycle, on a much longer timeline than those for Vehicles and Fuels: SOs. In terms of determining the initial validity period, and any options to extend the period, the approach tends to be informal, e.g. discussions with departments, suppliers and within PWGSC.

4.45 The HRSS commodity team told us that, while new suppliers are unable to access bidding opportunities during lengthy SO periods, there is a need to balance the workload associated with managing these SOs, since it can take six to nine months to put them in place. The team also stated that it would not be cost-effective or realistic to issue new Requests for Standing Offers every two to three years. In fact, the team suggested that, for the next time, the period should be even longer, i.e. four years with an option to extend for an additional one-year period. Since over 95% of these mandatory SOs are with SMEs, closing opportunities to them for four years or more may have a significant impact on their ability to survive if they mainly rely on government business.

4.46 Subsequent to the completion of our review, we were informed by PWGSC that it is now in the process of replacing the HRSS standing offer with a new instrument. This instrument is being developed after extensive consultation through working groups with both client departments and the supplier industry. The Department is confident that this tool has greater functionality than the previous tool, in particular with respect to accessibility for suppliers. For example, while HRSS had a four-year term, this tool allows for frequent refreshes (every 15 months) of the named suppliers and prices.

**US Government**

4.47 The The U.S. government uses a method of supply called Multiple Award Schedules, which bears some similarity to SOs. While this method has its own

limitations, most Schedules are continuously open, unlike SOs, so suppliers can qualify at any time. In addition, goods and services can be added at any time to ensure the government has access to the latest technology. In our view, further consideration should be given to adapting some of the best practices of other jurisdictions to Canada.

### **PWGSC reports on SO usage**

4.48 We are concerned about the timeliness of the data submitted by departments as required by TBS. Since departments are required to provide data on usage of call-ups and some do not have the appropriate automated reporting systems in place to readily provide this kind of information, such reporting requires significant effort, leading to delays in data availability. As a result, it takes eight to nine months for PWGSC to complete the government-wide report.

4.49 We are even more concerned about the quality of the data submitted by departments. We noted that more than 30 percent of the call-ups could not be validated by PWGSC because they could not be matched to an active SO. The call-up data was either entered in error, miscoded or referred to an SO that does not offer the goods or services in question.

4.50 These issues impact the ability for commodity teams to make effective decisions pertaining to the management of SOs and to provide suppliers with business volume estimates for future requirements.

4.51 PWGSC informed us that government-supplied information is not the primary source of information used by some commodity teams in their decision-making; in fact, PWGSC indicated that its commodity managers typically use data provided by suppliers, their own analytical models and experience for this process. If this is so, we can question why the government invests money, time and effort in collecting such data.

4.52 However, PWGSC has informed us that, “it has been working with client departments to develop an automated system, and hopes to eliminate this issue over the coming year”.

### **Planning, development and management – Vehicles, Fuels and HRSS**

4.53 An important part of the mandatory SO process involves making decisions about whether to continue using this method of supply, or how and when to renew or extend the period of an SO. Commodity teams need accurate, timely, complete and relevant data in order to forecast demand to make effective decisions.

4.54 We expected to see:

- reports of both historical usage and forecast demand supplied to and used by the commodity teams to make informed decisions; and
- a documented analysis system to assist in the decision-making process, as well as dedicated resources and tools.



4.55 Overall, we found there were ample information sources available for decision-making in two of the three categories. These sources include: PWGSC-generated government-wide SO usage reports, internal reports from tracking systems, market activity reports, trade publications and websites, consultations with departments and suppliers, and quarterly or monthly supplier-generated usage reports.

4.56 Suppliers indicated to our office that they have to perform extra work outside of their normal business practices to meet usage reporting requirements. This led us to believe that the cost for this extra work may be passed on to the government or absorbed by suppliers.

4.57 The use of all available information, however, varies considerably between the three commodity teams.

### **Vehicles**

4.58 The Vehicles commodity team indicated that it has accurate, timely, complete and relevant information that is integrated into the decision-making process.

4.59 The team has its own detailed, up-to-the-minute, actual usage information for the majority of the business (as PWGSC is the main department issuing call-ups), so the team does not believe it needs information beyond what is readily available on previous purchasing activities through its own tracking system and other means. As a result, no use is being made of supplier-generated reports.

4.60 Demand forecasts for the renewal of SOs are based on the previous year's usage, with input from departmental fleet managers as to their needs for the following year. PWGSC also meets with specific departments on special requirements, such as changes to Royal Canadian Mounted Police patrol cars.

4.61 The commodity team also meets with manufacturers to gain an understanding of upcoming models, features and availability. This enables PWGSC to determine the availability of supply.

4.62 At present, the demand side of the equation is somewhat controlled by product availability. The total government demand is not substantial enough to greatly influence product line/volume decisions made by manufacturers.

4.63 Volume forecasts from departments were identified by the team as an area that could be improved. However, the team recognizes that it may be difficult for departments to forecast quantities required due to factors such as funding availability (end of fiscal year surpluses, etc.) and shifting priorities.

4.64 The team also factors into the decision-making process market knowledge generated from supplier conferences and government policy decisions, such as the commitment to "green" vehicles.

4.65 The commodity team has received supplier feedback appreciative of the centralized coordinated approach used by PWGSC. Our office also received feedback

from suppliers that indicates they are fully satisfied with the mandatory SO process for this category and consider it fair, open and transparent.

4.66 We found that the team has effective practices. Its comprehensive environmental scan and analysis fully supports the effective planning, development and management of this commodity.

4.67 The Vehicles commodity team has six full-time employees, all procurement specialists, to handle its operations and manage eight standing offers. However, finding qualified and experienced procurement personnel remains a concern. The team stated that it takes at least three years for a person to gain enough market knowledge and learn enough about the procurement cycle to effectively do the job. There are also challenges with respect to attracting and retaining qualified staff. The team indicated that there are staffing actions under way within the general work area that may be used to supplement existing resources, as 8 to 10 full-time employees would be optimal.

## Fuels

4.68 The Fuels commodity team indicated that the information they receive is timely, reliable and, to a large extent, integrated into decision-making.

4.69 Previous Buy Information Reports, developed by the team for each department, show the usage of SOs. These reports are sent to each department months ahead of the SO renewal dates. This information is used to assist departments in establishing two-year demand forecasts.

4.70 The team also receives quarterly usage reports from suppliers. These reports allow the identification of unusual use patterns that may impact the next cycle's forecast. However, formal analysis is not done except when the team notices that usage is not aligned with forecasts; estimated business volumes are then adjusted for the renewal of the SOs.

4.71 Pricing is competitive and based on an industry marker, which fluctuates with market prices. The team relies upon industry publications, such as the Canadian Oil Register Buyer's Guide and Platts Oilgram News, to determine weekly market value. A discounted rate, established in each SO, is applied to the average weekly market value of the commodity – the larger the estimated volume in the SO, the greater the potential for discounts and savings.

4.72 Our office received feedback from suppliers indicating that they are mostly satisfied with the mandatory SO process and consider it fair, open and transparent.

4.73 We found that the environmental scan and analysis adequately supports the planning, development and management of this commodity.

4.74 The Fuels commodity team has eight full-time procurement specialists and administrative support staff to handle its operations and manage approximately 70 SOs. The team is concerned about the years to come, when corporate knowledge will be jeopardized by the retirement of and turnover in key procurement personnel.

4.75 A human resources staffing plan is developed every year, but it is not always fully implemented, depending on the available funding. Also, the team indicated that finding people with the right skills and experience is a difficult challenge. The team stated that, beyond procurement and contract administration experience, there is a need for business “sense,” such as knowledge of the market and its structure, the method of supply, the basis for determining prices, and knowledge of alternate fuel sources in cases of non-delivery.

4.76 The team is mitigating the current and anticipated shortage of experienced procurement personnel by hiring administrative support staff to perform such tasks as maintaining the data management system. This permits procurement personnel to concentrate on commodity analysis, and the development and management of SOs.

## HRSS

4.77 The HRSS commodity team was unable to verify whether any of the usage information received is accurate, timely, complete or relevant. In addition, we found that this team does not integrate this information into decision-making.

4.78 Even though the team receives annual call-up reports from departments and government-wide spending analyses, and provides monthly usage reports, a challenge it faces is the limited time and resources it has available to monitor and track activity levels and analyze historical information.

4.79 In terms of planning for future years, the team indicated that demand is ongoing and understood through informal interaction with departments. According to the team, this, coupled with the team’s detailed knowledge of the market and experience with departments, supports the decision to create or renew an SO.

4.80 The feedback our office received from suppliers indicates that, for HRSS, approximately 60% considered the mandatory SO process fair, open and transparent.

4.81 We found that the planning, development and management of this commodity is, to a large extent, based on the team’s knowledge and experience – as opposed to a thorough environmental scan and analysis to support decision-making.

4.82 There is currently only one junior procurement specialist to handle operations, along with other responsibilities, and to manage SOs with approximately 80 suppliers.

4.83 The mandatory SO for HRSS is up for renewal in 2009. Under the previous procurement process, PWGSC received approximately 400 bids to evaluate. We were told that for this type of work, ideally, three senior procurement specialists would be required. However, we understand that there are no formal plans in place to increase capacity, and any actions would have to take into consideration available funding.

4.84 The Department has since informed us that HRSS will be extended for approximately six months, and will subsequently be replaced by the Tasks and Solutions Professional Services (TSPS) instrument, which will be adequately resourced.

4.85 Subsequent to the completion of our review, we were informed by PWGSC that it is now in the process of replacing the HRSS standing offer with a new instrument. This instrument is being developed after extensive consultation through working groups with both client departments and the supplier industry. The Department is confident that this tool has greater functionality than the previous tool, in particular with respect to accessibility for suppliers. For example, while HRSS had a four-year term, this tool allows for frequent refreshes (every 15 months) of the named suppliers and prices.

## Conclusion

4.86 We recognize that the process of acquiring goods and services through SOs is a useful procurement tool from which the government derives administrative savings. We also recognize that reducing the number of solicitations the government has to issue also reduces processing time and the possibility of errors and omissions in the bidding and evaluation process.

4.87 However, it is incumbent upon the Department to ensure a balance between achieving administrative efficiencies and preserving suppliers' right to compete for government business.

4.88 The Department should develop reasonable standards, perhaps by category, for the duration of SOs. The reason for any deviation from the standard would then have to be fully documented and should be considered for approval by the senior departmental review committee responsible for the procurement challenge and oversight function (currently the PWGSC Business Operations Committee).

4.89 Over 30% of the data of government-produced data on SOs could not be reconciled, and there is no government-wide automated system to capture call-up data. This lack of data integrity impacts the value and reliability of the data and its integrity. The government's ability to make sound decisions is therefore affected, the integrity of information being important and necessary to support decision making, program review and reporting obligations.

4.90 PWGSC request from suppliers to provide reports on actual call-ups against mandatory SOs, but that information is used unevenly. If the reports are not required, the government should not ask for them, as suppliers have to perform work over and above their normal business operations to produce them, resulting in extra costs that are either passed on to the government or absorbed by suppliers. If the reports are needed, they should be properly analyzed to ensure fairness and transparency, and the results should be integrated into the decision-making process to support any subsequent procurement.

4.91 In bidding on an SO, and seeking to offer competitive prices, suppliers need to know with a reasonable degree of accuracy and certainty what the potential business volume is. A new supplier can only derive this from information contained in the Request for Standing Offer, whereas an existing supplier has direct experience to draw

upon in preparing its bid. If the demand forecast data is not realistic, this is unfair to a new supplier and places it in a considerably weakened competitive position.

4.92 The government seeks value for money in the expenditure of public funds. Accurate business volumes increase the likelihood that suppliers will be able to submit bids that would support the government achieving best-value. While Vehicles and Fuels have effective practices and appear to be in a relatively strong position, the same does not appear true for HRSS.

4.93 Last, but not least, one of the biggest challenges for the commodity teams procurement personnel is capacity in terms of both qualifications (experience and skills) and numbers. Teams generally handle large volumes of files at any given time, which leads to a tendency to focus on awarding standing offers to make them available to other government departments to deliver their programs rather than monitoring and analyzing the use of SO. Unless sufficiently funded human resource plans are developed and implemented, the situation is unlikely to improve.

## Recommendations

4.94 From a supplier's perspective, one direct effect of SOs is that the number of current suppliers doing business with the government for the period of that SO is reduced significantly. In addition, new potential suppliers would have no opportunity to participate in SOs already issued. In our view, therefore, it is imperative that a standard be developed governing the length of time SOs are in effect in order to ensure that there is an appropriate balance between the achievement of administrative savings by the government and the fundamental right of all suppliers to bid on government contracts.

4.95 The procurement process should be driven by timely and accurate information in order to achieve the expected outcomes, efficiency and effectiveness. Implementation of the following recommendations should promote fairness, transparency and access for all suppliers, while improving practices that promote quality and innovation.

4.96 Based on our general observations related to the duration of SOs we recommend to PWGSC that they:

### Develop standards and ensure access

- clarify its policy by establishing a set of key criteria to develop a standard that would strike a balance between government objectives and promote the principles of access, openness and fairness for suppliers;
- provide guidance and tools to assist its procurement personnel to implement the standard; and,
- once a standard is established, require that reasons for any deviation from the standard be fully documented and approved by a higher authority: and

- ensure that the conveniences for the government of longer validity periods, such as lowering administrative burden and costs, do not override the significant benefits of using the shortest possible cycle;
- use current communications channels to inform the supplier community of its revised standard.

4.97 Based on our general observations related to the three specifics categories we recommend to PWGSC that they:

**Improve reporting data**

- take measures to improve the reliability of its SO database.
- work with departments to improve usage reporting information timeliness and integrity in order to reduce the 30% error rates in usage reports; and
- ensure commodity teams receive timely information in order to effectively manage the commodity.

**Analyze and integrate reporting**

- integrate the results of the analysis of supplier-generated reports into the planning, development and management of SOs where commodity teams have limited sources or no other valid source of information on usage.

**Eliminate unnecessary reporting**

4.98 PWGSC should eliminate the mandatory requirement for suppliers to submit reports that make no substantive contribution to the planning, development and management of specific SOs when:

- there are other valid sources of information available regarding the usage of that commodity; or
- PWGSC has a tracking and monitoring system.

**Develop consistency in managing SOs**

4.99 PWGSC should ensure that it has a clearly documented process in place for collecting, analyzing and making use of relevant information in order to provide a more certain basis for making decisions in the management of the SO process.

**Ensure adequate resourcing**

4.100 PWGSC should ensure the resources are in place in each commodity team (including budget, number of personnel, their skills, competencies, and knowledge) to effectively carry out planning, development and management functions.

## MANDATORY STANDING OFFERS

The Department was provided an opportunity to comment on this report, and their comments have been taken into consideration in finalizing this report.

PWGSC has informed us that they agree with the primary thrust of the report in that procurement authorities should consider, in addition to other factors, fair and timely access to suppliers to competitive processes, and they will revise instructions to procurement personnel to emphasize this objective.