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Audit of the Procurement Practices

Office of the Chief Audit and Evaluation Executive
Audit and Assurance Services Directorate

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Executive Summary

Introduction

The 2010-11 to 2012-13 Risk-Based Audit Plan of the Department of Canadian Heritage (PCH) included an audit of Departmental procurement practices. On an annual basis, PCH procures between \$30M and \$70M of goods and services, depending on the occurrence of special, non-recurring events (e.g. Expos, Olympics and Paralympics). A number of stakeholders may be involved in the procurement process since procurement authorities are delegated to various positions within the Department, in accordance with an approved Departmental Delegated Signing Authorities Chart. Key elements of the governance structure used by PCH to oversee contracting and procurement related activities include the Contracting and Materiel Management and Directorate (CMMD) within the Financial Management Branch, and the Contract Review Committee (CRC).

For purpose of this audit, contracting and procurement activities were segmented into the following categories: temporary help services; professional services under \$10,000; professional services over \$10,000; call-ups against standing offer; purchase orders; and, Public Works and Government Services Canada (PWGSC) purchase orders. Based on an assessment of risk and frequency of occurrence, the audit's scope excluded acquisition cards, Commissionaire Services and inter-departmental agreements.

The objectives of this audit were to provide PCH senior management with assurance that an adequate management control framework is in place to effectively support contracting and procurement activities, and contracting and procurement activities are processed in a manner that is compliant with applicable policies, procedures and regulations. The scope of the audit covered activities for the period from October 1, 2009 to September 30, 2010.

Key Findings

Throughout the audit fieldwork, the audit team observed several examples of how controls are properly designed and applied effectively. This resulted in several positive findings which are listed below:

- A CRC is in place to provide oversight of contracting and procurement activities;
- There is a knowledgeable, experienced and dedicated procurement function that is responsible for procurement activities at PCH;
- Intranet web sites with relevant and appropriate information, such as procurement policies, processes, procedures and guides, are available for PCH employees to reference;
- PCH employees are aware of who to contact for contracting and procurement questions;
- PCH employees are satisfied with the level of service they receive from the CMMD;

- Purchases were only made for approved requisitions where sufficient funds were available; and,
- Amounts for goods and services received were accurate and appropriately approved by a delegated authority.

The audit team also identified areas where management practices and processes could be improved.

- The CRC's membership consists of members of CMMD and contracting and procurement officers from the special operating agencies within the Department. These members have specialized expertise and knowledge in procurement. Other aspects, such as legal and program, should be considered during the review of contracting activities. The current composition of the CRC does not allow for these subject matter experts. Additional clarification is required as to when it is necessary to obtain the Committee's approval and what type of supporting documentation should be submitted.
- Sector input on procurement needs has not been analyzed in order to create short-term and long-term procurement plans, and the procurement planning process has only just begun to be integrated with efforts underway within the Department to address the Treasury Board *Policy on Investment Planning* (to be fully implemented by April 1, 2012).
- Current monitoring mechanisms can be improved through follow-up to ensure corrective actions have been implemented.
- To ensure contracting and procurement activities continue to be processed in a manner that is compliant with applicable policies, procedures and regulations, employees would benefit from further clarity, re-enforcement or reminders regarding expectations and responsibilities and requirements related to procurement activities.
- To prevent payment risks, relevant controls should be reviewed.

Recommendations

1. The Director General of the Financial Management Branch should build on the CRC's existing Terms of Reference to provide clarity on the appropriate membership composition for the Committee, the type of information required for their review of contracting requests, and requirements for the Committee's review of contracts and amendments processed through PWGSC.
2. The Director General of the Financial Management Branch should build on existing procurement planning practices to:
 - develop short-term and long-term procurement plans for the Department in order to maximize resource and cost efficiencies; and,
 - integrate the procurement planning process with the investment planning process.

3. The Director General of the Financial Management Branch should develop a practice to ensure management takes corrective action to address errors highlighted in purchasing activity reports, and segregation of duties issues identified in access rights verification reports.
4. The Director General of the Financial Management Branch should revise, clarify and communicate procurement and finance procedures including vendor selection, monitoring and approval practices and procedures.
5. The Director General of the Financial Management Branch should conduct an analysis to ensure that the system controls and the compensating controls in relation to payment risks are functioning properly.
6. The Director General of the Financial Management Branch should ensure that additional training/communication for staff involved in procurement activities is available to allow for greater clarification and re-enforcement of contracting and procurement requirements.

Statement of Assurance

In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed to with management. The opinion is applicable only to the entity examined and within the scope described herein. The evidence was gathered in compliance with Treasury Board policy, directives, and standards on internal audit. Sufficient evidence was gathered to provide senior management with the proof of the opinion derived from the internal audit.

Audit Opinion*

In my opinion, contracting and procurement practices have control weaknesses, with moderate risk exposures that require Management attention related to contracting and procurement governance, procurement planning, monitoring mechanisms and clarity on procedural requirements and expectations.

* The audit opinion is based on overall materiality and risk as represented by the noteworthy findings and recommendations reported.

Original signed by:

Richard Willan

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With the assistance of external resources

1. Introduction and Context

1.1 Authority for the Project

The authority for this audit is derived from the multi-year Risk-Based Audit Plan, which was recommended for approval by the Departmental Audit Committee in February 2010 and approved by the Deputy Minister in March 2010.

1.2 Background

Government goods and services procurement is governed by several policies, statutes and regulations, including the *Competition Act*, the *Department of Public Works and Government Services Act*, the *Financial Administration Act*, the *Contracting Policy*, the *Government Contracts Regulations*, the *Code of Conduct for Procurement* and the *Values and Ethics Code for the Public Service*.

Section 9 of the *Department of Public Works and Government Services Act* gives the Minister of Public Works and Government Services Canada (PWGSC) exclusive responsibility for the procurement of all goods as described in the Act. Other departments and agencies may only procure goods either when their own legislation specifically permits this activity or when an appropriate delegation of authority has been provided by the Minister of PWGSC.

The procurement process is a common business process which starts with identifying a procurement need and finishes with a finalized payment being issued. At the Department of Canadian Heritage (PCH), a number of stakeholders may be involved in the procurement process since authority is delegated to various positions within the Department, in accordance with the approved Departmental Delegated Signing Authorities Chart. The governance structure used to oversee contracting procurement related activities includes the Contracting and Materiel Management Directorate (CMMD) which is located within the Financial Management Branch. The CMMD role is to ensure accountability by providing support and advice to clients and ensure that procurement activities within the Department are compliant to policies and directives.

While low dollar value/low risk contracts are challenged within the CMMD's Procurement and Contracting Operations Section, CMMD has created a Contract Review Committee (CRC) to act as a formal challenge mechanism for high dollar value/high risk contractual proposals. The role of the Committee is to ensure that departmental contracting is conducted in a manner that will stand the test of public scrutiny in matters of prudence and probity, facilitate access, encourage competition, and reflect fairness in the spending of public funds. Not all contracting requests are required to be reviewed by CMMD or the CRC; the authorities and responsibilities vary depending on the procurement mechanism used, the commodity required and the overall procurement value. To fulfill its requirements, CMMD had approximately 19 full-time equivalents

(FTEs), with \$1.42M and \$0.09M in salary and operational budgets respectively in fiscal year 2009-2010.

On an annual basis, PCH procures between \$30M and \$70M of goods and services, depending on the occurrence of special, non-recurring events (e.g. Expos, Olympics and Paralympics). For the purposes of this audit, procurement activities have been grouped into the following categories: temporary help; professional services under \$10,000; professional services over \$10,000; call ups against standing offer; purchase orders; and, PWGSC purchase orders. The total activity for the period under review was 5,644 contracts at a value of approximately \$40.4M. Based on an assessment of risk and frequency of occurrence, the audit team excluded 1,324 acquisition cards statements valued at \$2.1M and 3 Commissionaire services and 165 inter-departmental agreements valued at \$2.4M. The use of acquisitions card at PCH is managed by the Accounting Operations, Financial Policy and Systems Directorate, Financial Management Branch, not CMMD, and follows a separate process.

For the purpose of examination of procurement files, contracting and procurement commitments totalled \$35.9M dollars. These are segmented as follows:

		Temporary Help	Professional Services >\$10K	Professional Services <\$10K	Call up against standing offer	Purchase Order	PWGSC PO
Transaction Type	Sampling Population	TH	PS1	PS2	942	PO	9200
Number of 'Contracts'	4,152	74	134	528	891	2,413	112
Dollar Value (000's)	\$35,865	\$929	\$6,264	\$1,550	\$6,560	\$2,805	\$17,757

2. Objective

The objectives of this audit were to provide PCH senior management with assurance that:

1. An adequate management control framework is in place to effectively support contracting and procurement activities; and,
2. Contracting and procurement activities are processed in a manner that is compliant with applicable policies, procedures and regulations.

The results are reported under governance, internal control and risk management.

3. Scope

The scope of this audit covered activities for the period from October 1, 2009 to September 30, 2010. The audit team examined CMMD activities and contract management and procurement practices in other sectors of the Department.

This audit does not cover procurement and contracting activities related to the 2010 Shanghai Expo, as this project will be audited separately in 2011.

4. Approach and Methodology

The approach and methodology used for the audit were consistent with Treasury Board Secretariat's *Internal Auditing Standards for the Government of Canada*, and *Policy on Internal Audit*.

The audit methodology included performing various audit procedures to address the audit's objectives.

Approach for Audit Objective 1:

- interviews with key personnel in CMMD, Financial Management Branch, and a selection of Responsibility Centre Managers;
- review of documentation related to contracting and procurement policies and procedures (i.e. the *Financial Administration Act*, the *Contracting Policy*, the *Government Contracts Regulations*, the *Code of Conduct for Procurement*, etc);
- review of CMMD and CRC documentation (i.e. organizational charts, roles and responsibilities, delegations of authorities, allocations of resources, CRC mandate, CRC minutes, etc.)
- review of management reports and supporting documentation (i.e. procurement plans, activity reports, training plans, tools, service standards); and,
- assessment of contracting and procurement processes.

Approach for Audit Objective 2:

- data analytics on the population of procurement transactions to identify anomalies and trends for the purpose of selecting a sample representative of the procurement population;
- testing of procurement activities and transactions to ensure compliance with policies and procedures within the scope of the audit – a sample of 45 contracts were randomly selected and 15 contracts were judgementally selected from the stratified population; and,
- 20 interviews were conducted with key personnel in CMMD, Financial Management Branch, and a selection of Responsibility Centre Managers.

5. Observations and Recommendations

Based on evidence gathered through an examination of documentation, interviews conducted and analysis, each audit criterion was assessed by the audit team. Conclusions for each criterion are provided in Appendix A.

Management practices and processes relating to procurement activities at the Department were found to be controlled in specific areas; however, the audit team identified opportunities for improvement resulting in seven recommendations in the areas of governance and internal controls. During the course of this audit, minor observations were communicated to Management.

5.1 Governance

5.1.1 Contracting and Procurement Governance

The CRC's membership consists of members of CMMD and contracting and procurement officers from the special operating agencies within the Department. These members have specialized expertise and knowledge in procurement. Other aspects, such as legal and program, should be considered during the review of contracting activities. The current composition of the CRC does not allow for these subject matter experts. Additional clarification is required as to when it is necessary to obtain the Committee's approval and what type of supporting documentation should be submitted.

Analysis

At PCH, the procurement governance and oversight structure is comprised of the CMMD and the CRC, which reviews contracting requirements and serves as a challenge mechanism. A "Look Ahead Report" is distributed to senior management, including the Deputy Minister and the Minister's Office, which contains a summary of all recently awarded and amended high dollar value/high risk contracting and procurement activity as well as current and upcoming requests for proposal and sole source contracts.

The CRC was formalized two years ago and its Terms of Reference have not been revised. The audit team found that the CRC consists only of members of CMMD and contracting and procurement officers from the special operating agencies within the Department. The audit team noted that there is a lack of clearly defined requirements on the type of supporting documentation that should be provided by procurement officers to the CRC for their review of the contracting request.

It was noted that the role of the CRC is unclear with regards to reviewing contracts processed through PWGSC. The audit team found that the Committee is not required to review contracts processed through PWGSC, however, all unplanned PWGSC contract

amendments do require CRC review. This information has not been formally communicated to PCH employees.

In instances where contracts are processed through PWGSC without the CRC review, it is unclear if PWGSC performs a similar assessment as the Committee to ensure that the work to be carried out is within the scope of responsibilities and financial authority of PCH.

Risk Assessment

There is a risk that if the membership of the CRC is comprised only of members with similar backgrounds and fields of employment, the Committee may not provide the necessary breadth and depth to review all aspects of contracting and procurement activities within PCH.

Without clear direction from the Committee on what type of supporting documentation is required to adequately review a contracting request, there is a risk that PCH employees may not submit sufficient or appropriate information to the CRC to support an informed decision.

There is a risk that contracts processed through PWGSC without CRC review will not receive the same challenge or review to ensure that the work to be carried out is within the scope of responsibilities and financial authority of PCH.

Recommendation

1. The Director General of the Financial Management Branch should build on the CRC's existing Terms of Reference to provide clarity on the appropriate membership composition for the Committee, the type information required for their review of contracting requests, and requirements for the Committee's review of contracts and amendments processed through PWGSC.

5.1.2 Procurement Planning

Sector input on procurement needs has not been analyzed in order to create short-term and long-term procurement plans, and the procurement planning process has only just begun to be integrated with efforts underway within the Department to address the Treasury Board *Policy on Investment Planning* (to be fully implemented by April 1, 2012).

Analysis

Annex C of the Department's Integrated Business Plan is the tool currently used by sectors within PCH to identify their procurement needs. Historically, Annex C completion rates have been low and consequently a low percentage of procurement requirements have been identified at the outset of the planning year. The threshold for

input in the procurement plan was previously higher (\$50K per contract) than it currently is. The revised threshold, implemented in the last procurement plan exercise, was lowered to \$10K per contract. Annex C was recently redesigned to enable CMMD to capture sufficient information to create short-term and long-term plans for contracting and procurement needs.

The audit team noted that in the current year, the sectors' responses to Annex C have been coordinated by the business planning group but have not yet been analyzed by the CMMD. As such, management has not yet developed short-term or long-term procurement plans.

PCH is currently preparing its first five year investment plan as part of the new *Policy on Investment Planning* requirements. While the Treasury Board *Policy on Investment Planning* is a relatively new initiative, PCH's Financial Management Branch is of the view that the applicability of the *Policy on Investment Planning* would be limited to special projects and information technology.

The audit team noted that the Department's procurement planning process has only just begun to be integrated with the efforts that are underway to address the *Policy on Investment Planning*.

Risk Assessment

When there is insufficient or inadequate procurement planning, there is a risk that PCH is not obtaining the best value for goods and services purchased and there may be missed opportunities for cost savings and efficiencies. There is also a risk that insufficient or inadequate procurement planning acts as an impediment to allowing CMMD to prepare itself appropriately to support the Department's procurement requirements.

By not integrating the procurement planning process and the investment planning processes, there is a risk that there are duplicate processes and potentially multiple versions of data provided in separate procurement and investment plans and reports.

Recommendation

2. The Director General of the Financial Management Branch should build on existing procurement planning practices to:
 - develop short-term and long-term procurement plans for the Department in order to maximize resource and cost efficiencies; and,
 - integrate the procurement planning process with the investment planning process.

5.2 Internal Control

5.2.1 Monitoring Mechanisms

Current monitoring mechanisms can be improved through follow-up to ensure corrective actions have been implemented.

Analysis

CMMD currently distributes a semi-annual purchasing activity report to Sector Heads that highlight potential “errors” within the data (e.g. data entry errors). While the semi-annual purchasing activity report is well received by Sector Heads, it is noted that there is no follow-up to ensure corrective actions have been implemented (i.e. the report is distributed to Sector Heads, requiring corrections, but follow-ups are not conducted to validate that corrective actions have been taken).

As part of its ongoing operations, the Financial Systems section in the Financial Management Branch reviews user roles and rights in SAP. The audit team noted that while cases of inappropriate segregation of duties in SAP are being identified and reported by Financial Management Branch through this process (and through the production of Access Verification Rights reports), the segregation of duties issues are not being resolved. There is no follow-up completed by the Financial Systems section on the identified issues. Managers are being informed of overlap or incompatibilities in roles and they are given the opportunity to either modify or retain the SAP access rights.

Risk Assessment

Insufficient follow-up on current monitoring mechanisms increases the risk that potential inappropriate procurement transactions are repeated.

Recommendations

3. The Director General of the Financial Management Branch should develop a practice to ensure management takes corrective action to address errors highlighted in purchasing activity reports, and segregation of duties issues identified in access rights verification reports.

5.2.2 Contract and Procurement Procedures

To ensure contracting and procurement activities continue to be processed in manner that is compliant with applicable policies, procedures and regulations, employees need further clarity, re-enforcement or reminders regarding expectations, responsibilities and requirements. To prevent payment risks, relevant controls should be reviewed.

Analysis

During the control testing, the audit team found that contracting and procurement activities are generally processed in a manner that is compliant with applicable policies, procedures and regulations. The following highlights key areas where the audit team found exceptions in control testing:

- The audit team did not find clear Departmental guidelines as to what is acceptable evidence to demonstrate that expenditure initiation approval was obtained prior to proceeding to tendering. This finding applies to the Temporary Help Services, Professional Services under \$10,000 and Purchase Order contracting mechanisms, where testing was inconclusive due to the variety of methods used to evidence expenditure initiation (e.g. email, signature). For PWGSC Purchase Order, Professional Service over \$10,000, Call-up Against Standing Offers contracting mechanisms, where the audit team did find evidence of expenditure initiation approval, this was a result of Sector/Branch level processes and not Departmental guidelines.
- While all PCH contracts have a designated section for the *Financial Administration Act* (FAA) Section 32 signature, the audit team found inconsistencies in how it was evidenced in the sample reviewed. Interviewees noted that the FAA Section 32 signature was not required if it was evidenced elsewhere (e.g. through an e-mail or on a purchase requisition).
- In 4 of the 5 Temporary Help Service files reviewed, justification for the need for temporary help was not appropriately completed as required by the Temporary Help Service guidance (during the internal audit validation process, justification was provided for 3 of the 4 Temporary Help Service files in question).
- On 3 of the 11 sole source files reviewed, the appropriate justification or documentation for vendor selection was not retained as required by the Call-up Against Standing Offers or the PWGSC Purchase Orders terms and conditions.
- 28 of the 60 files reviewed (10 Professional Services over \$10,000, 7 Professional Services under \$10,000, 9 Purchase Orders and 2 PWGSC Purchase Orders) had contracts that were not authorized prior to the work being performed, the contract start date or the delivery of the goods.

- 8 of the 60 files reviewed (2 Professional Services over \$10,000, 1 Professional Services under \$10,000, 1 Call-up Against Standing Offer, 1 Purchase Order and 3 PWGSC Purchase Orders) did not have sufficient evidence (e.g. email, communication or notes to file) to demonstrate that the contracts were appropriately managed or monitored. While CMMD has issued a communiqué to highlight the managers' role in monitoring and managing contracts, interviewees noted the need for clarification on how this should be evidenced.
- 6 of the 18 amendments reviewed (1 Temporary Help Services, 2 Professional Services over \$10,000, 1 Professional Services under \$10,000, and 2 PWGSC Purchase Orders) should have received additional review and approval by either senior management or the CRC. Exceptions found by the audit team included amendments that: put a contract over Departmental thresholds; required additional CRC review; required additional delegated authority approval; and, were approved after the contract end date.
- While testing financial system controls (including compensating controls) the audit team noted that a duplicate payment was made to a vendor as a result of a project manager erroneously creating a goods receipt on the vendor's quotation. Upon receiving the vendor's actual invoice, the project manager reversed the goods receipt for the quotation, unaware that a payment to the vendor had already been made. The payment for the actual invoice was approved by the Financial Management Branch as the invoice and the quotation did not have the same invoice number in the Financial System. While a compensating control corrected this error allowing funds to be recovered, management recognizes the need for further analysis to ensure that related controls are functioning properly.

The audit team found that procurement training for employees outside of the CMMD is not mandatory (other than orientation) and is conducted only at the request of management. There is no formal process in place for tracking the attendance of the training provided by CMMD.

Risk Assessment

When there is insufficient understanding or clarity on procurement and contracting requirements, there is increased risk that staff and managers undertake unauthorized or inappropriate contracting and procurement activities which increases the risk of non-compliance with policy requirements.

Without adequate financial system controls, there is increased risk that duplicate payments can be made to a vendor.

Recommendations

4. The Director General of the Financial Management Branch should revise, clarify and communicate procurement and finance procedures including vendor selection, monitoring and approval practices and procedures.
5. The Director General of the Financial Management Branch should conduct an analysis to ensure that the system controls and the compensating controls in relation to payment risks are functioning properly.
6. The Director General of the Financial Management Branch should ensure that additional training/communication for staff involved in procurement activities is available to allow for greater clarification and re-enforcement of contracting and procurement requirements.

5.3 Risk Management

During the audit planning phase, no specific risks were identified in the area of risk management related to contracting and procurement which warranted further investigation in the audit examination phase. As such, audit objectives and audit procedures developed for this audit did not include a detailed examination of risk management. No additional or significant recommendations were made in the area of risk management.

Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> • well managed, no material weaknesses noted; and • effective.
2	Controlled	<ul style="list-style-type: none"> • well managed, but minor improvements are needed; and • effective.
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> • control weaknesses, but exposure is limited because likelihood of risk occurring is not high; • control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> • financial adjustments material to line item or area or to the department; or • control deficiencies represent serious exposure; or • major deficiencies in overall control structure. <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAEE and the subjects matter’s Director General or higher level for corrective action.</p>

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements (4) and/or moderate issues (3) were observed, these were reported in the audit report, and the exposure risk is noted in the table below.

Audit Criteria	Conclusion on Audit Criteria	Observations
1.1 Adequate governance/ oversight exists over contract and procurement related activities.	3	<ul style="list-style-type: none"> • Areas for improvement were noted in the governance and oversight of contracting and procurement related specifically to the Contract Review Committee (CRC).
1.2 Procurement planning activities adequately establish the needs and requirements of the department and results in a long term procurement plan.	3	<ul style="list-style-type: none"> • Contracting and Materiel Management and Directorate (CMMD) needs to develop short-term and long-term procurement plans, as well as integrate the procurement planning process with the investment planning process.
1.3 Authority, responsibility and accountability for the procurement process are clearly defined and communicated.	1	<ul style="list-style-type: none"> • The authority and accountability for the procurement process are clearly defined and communicated.
1.4 Relevant and reliable information on contracting/ procurement activities is developed and reported to stakeholders in a timely manner.	2	<ul style="list-style-type: none"> • The “Look Ahead” report is provided to management. • CMMD is meeting its reporting requirements to stakeholders; however, decreasing the frequency to semi-annually the purchase activity report reduces reporting timeliness.
1.5 Employees are provided the necessary tools and training to support their contracting and procurement responsibilities.	2	<ul style="list-style-type: none"> • Areas for improvement were noted in the tools and training provided in the support of contracting and procurement responsibilities (e.g. cross-training of Procurement Officers and CMMD succession plans).
1.6 Monitoring mechanisms are in place to ensure compliance with financial management and procurement laws, policies and authorities.	3	<ul style="list-style-type: none"> • While some monitoring mechanisms exist within Financial Management Branch, areas for improvement were noted relating to the strengthening of the data analytics and the follow-up on corrective actions pertaining to

		segregation of duties and purchasing activities reports.
1.7 Processes and practices are in place to identify and implement continuous improvements to the procurement process.	2	<ul style="list-style-type: none"> • Client feedback on CMMD performance should be formally solicited. In addition, lessons learned should be formalized to identify and implement continuous improvements to the procurement process. • The current service delivery standards should be reviewed to confirm their appropriateness.
2.1 Requirements are clearly articulated and defined and expenditure initiation is approved appropriately.	3	<ul style="list-style-type: none"> • Additional guidance and training is required to clarify what is acceptable evidence of expenditure initiation approval. • Weaknesses were noted in the documentation of Temporary Help Services justification.
2.2 Purchases are made only for approved requisitions where sufficient funds are available (FAA Section 32).	3	<ul style="list-style-type: none"> • Purchases are made only for approved requisitions where sufficient funds are available (<i>Financial Administration Act</i> (FAA) Section 32). There is an opportunity to clarify how FAA Section 32 should be evidenced on contracts.
2.3 Tendering and bid selection is fair, open, and transparent, complies with prescribed government requirements, and is documented.	3	<ul style="list-style-type: none"> • Tendering and bid selection is fair, open, and transparent, complies with prescribed government requirements, and is documented. Weaknesses exist in appropriately justifying or documenting vendor selection in the Temporary Help Services, Call-up against Standing Offers and PWGSC Purchase Order contracting and procurement mechanisms.
2.4 Contracts are in place covering all activities and costs related to the activity.	3	<ul style="list-style-type: none"> • Minor instances were noted related to the non-use of PCH standard contracts and inadequate segregation of duties. • Weaknesses were noted in the timely authorization of contracts.

<p>2.5 Contracts are appropriately administered including monitoring the contract, the receipt and acceptance of deliverables, the monitoring of financial performance and resolving vendor issues.</p>	<p>3</p>	<ul style="list-style-type: none"> • File testing indicated that there is unclear direction as to what evidence is required to ensure a contract has been appropriately managed and monitored. • Approval processes around amendments are not always carried out as required. • One instance was noted where a duplicate payment was made to a vendor indicating a potential weakness in financial systems controls.
<p>2.6 Amounts for goods and services received are accurate and approved by a delegated authority.</p>	<p>2</p>	<ul style="list-style-type: none"> • File testing indicated that, for the most part, amounts for goods and services received were accurate and FAA Section 34 was appropriately approved by a delegated authority. • Minor instances noted where insufficient documentation was retained to accurately determine if FAA Section 34 duties were fully performed.
<p>2.7 Payments are certified appropriately and quality assurance is performed where applicable.</p>	<p>1</p>	<ul style="list-style-type: none"> • Payments have been certified appropriately. • Quality assurance is performed where applicable.

Appendix B – Management Action Plan

Project Title: Audit of Procurement Practices

Management Action Plan			
5.1 Governance			
Recommendation	Actions	Who	Target Date
<p>1-The Director General of the Financial Management Branch should build on the CRC’s existing Terms of Reference to provide clarity on the appropriate membership composition for the Committee, the type information required for their review of contracting requests, and requirements for the Committee’s review of contracts and amendments processed through PWGSC.</p>	<p>Agree, amended terms of reference are scheduled to be presented to the Finance Committee.</p>	<p>Assistant Director, Policies and Compliance, CMMD</p>	<p>Sept. 13, 2011</p>
Recommendation	Actions	Who	Target Date
<p>2-The Director General of the Financial Management Branch should build on existing procurement planning practices to:</p> <ul style="list-style-type: none"> ○ develop short-term and long-term procurement plans for the Department in order to maximize resource and cost efficiencies; and, ○ integrate the procurement planning process with the investment planning process. 	<p>Agree, short and long term procurement plans will be presented to members of the Finance Committee as an annex to our annual contracting activity report.</p> <p>Agree, the long term procurement plan will be used as one of the input source to develop the five-year investment plan.</p>	<p>Assistant Director, Policies and Compliance, CMMD</p> <p>Deputy Director General, FMB</p>	<p>June 14, 2011</p> <p>Update of the Five-Year Investment Plan in 2014-2015</p>

5.2 Internal Controls			
Recommendation	Actions	Who	Target Date
3- The Director General of the Financial Management Branch should develop a practice to ensure management takes corrective action to address errors highlighted in purchasing activity reports, and segregation of duties issues identified in access rights verification reports	<p>We agree to strengthen the existing monitoring mechanisms by developing a procedure whereby Sector Hubs would follow-up or confirm that the issues identified in the purchasing activity report have received adequate attention and corrective actions have been undertaken by the sectors.</p> <p>Agree, the process to address inappropriate segregation of duties in SAP will be reviewed.</p>	<p>Assistant Director, Procurement and Contracting Operations, CMMD</p> <p>Manager, Financial Systems</p>	Sept. 30, 2011
Recommendation	Actions	Who	Target Date
4- The Director General of the Financial Management Branch should revise, clarify and communicate procurement and finance procedures including vendor selection, monitoring and approval practices and procedures.	<p>Agree, we will update the procurement and finance procedures and incorporate them as part of the revised training package discussed under recommendation 6 below.</p>	<p>Assistant Director, Policies and Compliance, CMMD</p> <p>Manager, Financial Policies and Internal Controls</p>	Dec. 31, 2011

Recommendation	Actions	Who	Target Date
<p>5- The Director General of the Financial Management Branch should conduct an analysis to ensure that the system controls and the compensating controls in relation to payment risks are functioning properly.</p>	<p>We agree to perform an analysis to determine that the systems controls and the compensatory controls are consistent with the established procedures to ensure that any human or system errors are addressed properly.</p>	<p>Director, Accounting Operations, Financial Policy and Systems</p>	<p>June 30, 2011</p>
Recommendation	Actions	Who	Target Date
<p>6-The Director General of the Financial Management Branch should ensure that additional training/communication for staff involved in procurement activities is available to allow for greater clarification and re-enforcement of contracting and procurement requirements.</p>	<p>We agree to evaluate the need for PCH employees involved with contracting to have the necessary training available to allow for greater clarification and re-enforcement of contracting and procurement requirements. Where necessary, existing training will be adjusted accordingly.</p>	<p>Assistant Director, Policies and Compliance, CMMD</p>	<p>Dec. 30, 2011</p>