

# Internal Audit of CMC Renovation Project

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**Acronyms used in the report**

A&ES	Architectural and Engineering Services
CMC	Canadian Meteorological Centre
DND	Department of National Defence
EC	Environment Canada
EUMA	Euma Investments Ltd.
FAA	Financial Administration Act
GCR	Government Contracting Regulations
MSC	Meteorological Service of Canada
PWGSC	Public Works and Government Services Canada
TB	Treasury Board

**Prepared by Audit and Evaluation**

**Acknowledgments**

The Audit and Evaluation Project Team, Jeremy Hill, of HDP Group Inc. and Satianan Debidin under the direction of Jean Leclerc, would like to thank those individuals who contributed to this project and particularly Environment Canada employees, more specifically those working with the Meteorological Service of Canada in Dorval, Quebec.

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\* No management was required since the audit does not make any recommendations.

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## **EXECUTIVE SUMMARY**

In order to implement an urgent renovation project at the MSC operational center in Dorval, Quebec, Environment Canada had requested and received Treasury Board's approval for an increase in Ministerial delegation authority to contract for the renovations.

The purpose of this internal audit was to:

1. Determine the extent to which contracting practices for architectural and engineering services have complied with the terms and conditions of the Memorandum of Agreement between the legal entity 101430 Canada Inc., located in Montreal and the Crown, with the provisions of the Government Contracting Regulations, the Treasury Board Policy on Contracting, the Financial Administration Act and the limitations provided in the increased authority;
2. Describe how the increased delegation authority has been used;
3. Comment on the utility of the increased delegation authority in responding to the requirement of the supercomputer installation; and
4. Identify and describe any lessons learned and their transportability.

### **Conclusions**

After reviewing all relevant contracting documents, and conducting interviews with the key personnel, we concluded that:

All contracts and call-ups were issued in accordance with the provisions of the Government Contracting Regulations, the Treasury Board Policy on Contracting, the Financial Administration Act and the terms of the existing agreement.

Absent the increased flexibilities to contract above the normal departmental limits, the project could not have been completed within the required timeframe.

CMC management increased management controls for the project in order to ensure that the terms of the contracting and construction were followed.

### **Suggestions for Future Consideration**

In the capital construction project contracting process reviewed herein, we identified a number of "best" practices that are recommended for adoption to manage similarly large projects involving short timelines:

1. **a senior level departmental official (it was a Director General in the case of the CMC renovation/construction project) be tasked with the project management as his or her sole responsibility. This assists, as was observed in the audit , in the facilitation of communication, decision making and credibility with contractors and other stakeholders;**

- 2. the project authority should require the presentation of no less than three proposals for each call up. One of the companies invited to submit a proposal should be selected by Environment Canada; and**
- 3. a project steering committee be established with mandatory representation from Public Works and General Services Canada (PWGSC), as well as departmental and organizational representation, and that no authorization be considered final or binding absent the review and approval of the proposal by the steering committee.**

## **1.0 INTRODUCTION**

In order to address an urgent renovation project at the Meteorological Service of Canada (MSC) operational center in Dorval, Quebec, the department sought and received Treasury Board's (TB) approval for an increase in Ministerial delegation authority to obtain architectural and real property construction services. The authority also directed EC to obtain construction services pursuant to an existing real property management agreement related to the same site with the firm EUMA.

The construction was to have started in 2001, continuing for 4 fiscal years and be finished in fiscal 2004 - 2005, at a total cost of \$7.2 million. The increased Ministerial authority was conditional upon the agreement of EC to conduct, within six months of the completion of construction, an internal audit of the increased delegation authority. The Departmental Audit and Evaluation Committee included the requirement to complete this audit in its 2003-2004 Audit and Evaluation plan, but due to various constraints, the start of the audit was postponed to 2004-2005.

### **1.1 Background**

The mandate of the Canadian Meteorological Centre (CMC) is to produce meteorological analyses and forecasts for the network of weather centres across the country.

Through the provisions of the Government Contracting Regulations and the Financial Administration Act, federal government departments are given contracting authority to engage in the purchase of goods and services. Where, however, there is a need to exceed the delegated contracting amounts, for example as a result of an emergency situation, departments can request exemption from adherence to either limits or processes for contracting. These "flexibilities", as they are known, empower departments to purchase services other than in accordance with the general rules. When this occurs, reporting requirements in the form of audit or evaluation conditions are often imposed to ensure that the exemptions have been justifiably sought and correctly used.

Prior to the approval of the CMC renovation project and receiving increased delegation authority by Treasury Board, the Crown had a leasing agreement and a property management agreement with the previous owner of the building, 101430 Canada Inc. When the Crown decided to purchase the building in 1997, two new agreements, between the same parties, replaced the previous ones: a Memorandum of Agreement of Settlement and a Property Management Agreement.

In 1998, Environment Canada accepted that, effective October 1<sup>st</sup>, 1997, "101430 assigned to Euma Investments Ltd ("Euma") all of its right, title and interest in and on the Property Management Agreement and, by extension, the Settlement Agreement".

The renovation project was managed under two separate contracts. One was for Architectural and Engineering Service (A&ES) with the firm MLC associés inc., experts conseils, and the other was for construction services with Euma.

At the time the project was initiated, the MSC had already hired the firm MLC associés inc., experts conseils to provide A&E services for the renovation project pursuant to a standing offer<sup>1</sup> which was selected through a competitive process to provide such services. This offer was conditional upon EC receiving the enhanced authority.

The Treasury Board authority provided for an increase from \$40K to a total amount not to exceed \$320K for competitive contracts and allowed for other companies to compete in the event that the existing contract with the MLC was not extended. Further, should an amendment be made to a competitive contract, the authority provided for an increase from \$20K to a maximum of \$96K.

The second contract, for capital construction services, was with Euma Investments Ltd., as specified in the Memorandum of Agreement of Settlement dated July 1997, between Euma's predecessor firm, 101430 Canada Inc. and Her Majesty the Crown in right of Canada. The Treasury Board granted increased spending authorities for construction to up to \$6.880M for the initial contract and to \$260K for contract amendments. At the time of the work, Environment Canada was bound by the provisions of the:

- Contract for Service between Her Majesty in Right of Canada as represented by Environment Canada and Euma Investments Ltd. dated June 20, 2002, contract number 02-EUMA-04; and
- The TBS condition attached to the increased authority delegated to the Minister of the environment.

The Memorandum of Agreement for Settlement provided for a blanket contract with the property management company and also had a clause of first right of refusal in favour of the company. This meant that all future renovation contracts [or call-ups] were handled within the larger contract.

## **1.2 Objective and Scope**

### **1.2.1 Objective**

The primary purpose of this internal audit engagement was to:

1. Determine the extent to which contracting practices for architectural and engineering services have complied with the terms and conditions of the Memorandum of Agreement between the legal entity 101430 Canada Inc., located in Montreal and the Crown, with the provisions of the Government Contracting Regulations, the Treasury Board Policy on Contracting, the Financial Administration Act and the limitations provided in the increased authority;
2. Describe how the increased delegation authority has been used;

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<sup>1</sup> A standing offer is considered, pursuant to Treasury Board Contracts Policy, to be a competitive contract.



3. Comment on the utility of the increased delegation authority in responding to the requirement of the supercomputer installation; and
4. Identify and describe any lessons learned and their transportability.

### **1.2.2 Scope**

Pursuant to the Treasury Board condition attached to the approval of increased authority, the scope of work for this audit engagement was limited to the increased authority. Specifically, the components of this audit are:

- A review of the use of the contracting authority flexibility related to the Architectural and Engineering Services;
- A review of the use of the contracting authority flexibility related to the capital construction undertaken at CMC; and
- An assessment of the utility of the contracting flexibilities for Architectural and Engineering services and capital construction.

### **1.3 Report Organization**

This report is organized into four chapters: Chapter 1 presents background information to the audit and outlines the objectives and scope of the review. Chapter 2 presents a description of the methodology employed to conduct the audit. Chapter 3 presents our observations related to the audit. Chapter 4 identifies our suggestions for future considerations relevant to the use of this contracting authority.

## **2.0 PROJECT METHODOLOGY**

### **2.1 Methodology**

This audit used a multiple-lines-of-evidence approach as summarized in the table below. This approach allowed the audit team to bring together information from different sources to formulate findings and support conclusions.

Field Work and Analysis	Details
Background Document Review	Feb - March 2005
A site visit to CMC Dorval	March 2005
Contract review of Master Contract and amendments for contract for Architectural and Engineering Services	All transactions
Contract review of Master Contract and amendments for contract for Capital Construction Services	All transactions
Interviews with CMC Dorval personnel	3 interviews
Review of Government Contracting Regulations	March 2005
Review of Financial Administration Act provisions	March 2005

### **2.1.1 Background Document Review**

As a starting point, the project team undertook a review of initial background documentation on the departmental use of this delegation. Subsequently, we conducted field work at the CMC Dorval site and reviewed contract documents with the participation of facilities management staff. Documents reviewed included:

- Departmental documents including: Preliminary Project Approval (PPA) and Effective Project Approval (EPA) for the renovation project at the Canadian Meteorological Centre (CMC) in Dorval, Quebec.
- Memorandum of Agreement of Settlement made and entered into in the City of Montreal Province of Quebec dated July 1997 between 101430 Canada Inc. and Her Majesty the Queen in right of Canada as represented by the Minister of Public Works and Government Services, (the Property Management Agreement).
- Documents requesting Preliminary Project Approval (PPA) and Effective Project Approval (EPA) for the renovation project at the Canadian Meteorological Centre (CMC) in Dorval Quebec.
- Investment Analysis Report – Project Approval Expansion at the Canadian Meteorological Centre (CMC) in Dorval Quebec, prepared by Jean-Claude Goudreau, Facility Manager January 2002.
- Letter from Environment Canada to Euma Investments Ltd, dated September 11, 2001 confirming Property Management Agreement termination.
- Letter from Euma Investments Ltd and 101430 Canada Inc. dated May 5, 1998 assigning the interests of 101430 Canada Inc. to Euma Investments Ltd pursuant to the provisions of the Property Management Agreement, consented to on behalf of Her Majesty the Queen in right of Canada by Alistair Kellie, Director Computers and Telecommunications Canadian Meteorological Centre, Environment Canada.
- Letter from Euma Investments Ltd dated June 20, 2002 “Re: Agrandissement du sous-sol au Centre Météo Canada” addressed to Regional Manager, Client Service Unit.
- Authorization for the Exercise of Capital Construction and Architectural and Engineering Services given by Treasury Board for the Capital Construction of Canadian Meteorological Centre, dated February 15, 2002 signed by Minister of the Environment, David Anderson.
- Projet d’agrandissement du sous-sol – Travaux réalisés par l’expert conseil – modalités et conditions, février 14, 2002. (proposal from MLC associés experts conseils).
- Contracting documents related to the transaction with MLC associés experts conseils in respect to agreements and accepted trade rules.

- Contract for Service between Her Majesty in Right of Canada as represented by Environment Canada and Euma Investments Ltd. dated June 20, 2002, contract number 02-EUMA-04.
- All contracting documents related to the renovation project in Dorval.

### **2.1.2 Key Informant Interviews**

We also interviewed the members of the CMC who were most involved in the administration and direction of the renovation project contract including:

Jean Claude Goudreau - Facilities Manager CMC

Mario Béliveau – Financial Officer - CMC

Pierre Dubreuil – Director General – CMC

Our interviews reviewed the history of the memorandum of agreement, the Property Management Agreement, the practices and processes involved in completing the renovation contract and the assessment of the degree to which the increased Ministerial authority had assisted in the completion of the project.

## **3.0 FINDINGS AND CONCLUSION**

While the objective of this audit was to determine the extent to which contracting practices for architectural, and engineering services and capital construction services have complied with the provisions of Government Contracting Regulations; the Treasury Board Policy on Contracting; and the Financial Administration Act and the Memorandum of Agreement between the legal entity 101430 Canada Inc., located in Montreal and the Crown, this audit also assessed how the increased authority was used, its utility and opportunity for transportability.

### **3.1 Architectural and Engineering Services**

#### **3.1.1 Objective**

To determine the extent to which the Architectural and Engineering Services (A&ES) contracts complied with government contracting requirements.

#### **3.1.2 Criteria**

**All engineering services contracts must conform to the limitations provided in the increased authority, the requirement of the Financial Administration Act, and Treasury Board Policy on Contracting.**

### **3.1.3 Findings**

The audit found that all contracting transactions with the MLC including call ups against the standing offer were issued in accordance with the provisions of the Government Contracting Regulations, the Treasury Board Policy on Contracting and the Financial Administration Act.

## **3.2 Capital Construction Services (CCS)**

### **3.2.1 Objective**

To assess whether CCS contracting processes complied with the terms and conditions of the Memorandum of Agreement and government contracting requirements.

### **3.2.2 Criteria**

**All constructions contracts award were executed according to the Memorandum of Agreement taking into account Euma's first choice of refusal, limitations imposed by the increased authority, the requirement of the Financial Administration Act, and Treasury Board Policy on Contracting.**

### **3.2.3 Findings**

The audit revealed that there were 36 call-ups and that three call-ups were amended downwards to lower financial values. It was also confirmed that at that time, EC had an immediate need for additional space in order to accommodate new equipment that was necessary for the CMC to maintain its level of operation. Management at the CMC strongly indicated that without the increased authority, Environment Canada would not have been able to undertake the necessary construction on time.

The increased delegation provided a directed authority to employ a specific contractor and to follow a specific contracting process. This authority actually accelerated the process for contracting and construction that would have taken up to 30 months if pursued according to the estimate supplied by PWGSC<sup>2</sup>. The time for contracting and construction for the entire project took 12 months.

Signing authority for individual call ups pursuant to the contract was delegated to the Director General at CMC responsible for the project, P. Dubreuil. While not mandated as part of the specific authority, the CMC Director General responsible for the project imposed several additional contracting conditions. Those conditions were:

- EUMA was required to present three submissions from three different contractors for any specific work. CMC would select the winning contractor from those three submissions;

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<sup>2</sup> Interview with P. Dubreuil

- For the work proposed, one of the companies to be invited to submit a submission was selected by CMC and EUMA was required to include a proposal from that company in the group of three presented for selection by CMC;
- CMC established a project steering committee with membership from PWGSC and MSC; and
- Decisions reached regarding contractor selection and approval of action plans were taken only on the advice of the project steering committee. In addition, no steering committee meetings were held without the attendance, either in person or via teleconference, of the representatives from PWGSC and MSC.

As per the agreement between the parties, the contracts and call ups issued provided for the payment to Euma a sum of 14% as a management fee, which was somewhat higher than the standard 10% for the industry at that time.

Absent the availability of the contracting flexibilities the construction contract services could not have been provided within the time frame required. The flexibilities allowed EC to contract rapidly to obtain construction related services which were considered urgent.

Many times, call-ups were awarded based upon extraordinarily short timelines. The shortest time frame was less than twenty four hours. While time frames were short, all applicable contracting formalities were observed.

Management of the delivery of the work performed pursuant to call ups was executed according to the contract and resided with the Director General and the Facilities Manager. Both the Director General and the Facilities Manager, devoted a significant amount of time and effort to the completion of this special project.

Because of the unique nature of this renovation project, the contracting process and the importance placed upon the successful completion of this project, both the Director General and the Facilities Manager held themselves available to address day to day project management decisions on a full time basis throughout the project. All payments, however, were approved by the Director General.

## **4.0 CONCLUSIONS**

Based on an assessment of the processes and actions taken by senior management and the manner in which the increased authority has been used, the audit team concludes that:

- All contracts and call ups were issued in accordance with the provisions of the Government Contracting Regulations, the Treasury Board Policy on Contracting, the Financial Administration Act and the terms of the existing agreement.
- Absent the increased flexibilities to contract above the normal departmental limits, without the engagement of PWGSC as contract authority and absent the contracting

process authority contained within the agreement and increased authority, the project could not have been completed within the timeframe.

- CMC management increased their daily management of the project in order to ensure that the terms of the contracting and construction were more strictly followed than would have been the case if the increased flexibility and authority were not granted.

## **5.0 SUGGESTIONS - BETTER PRACTICES**

In this chapter, specific recommendations are outlines to assist EC in determining when flexibilities to expedite capital construction could be used and how. These may be considered better practices should a similar requirement to provide flexibilities arise.

In the capital construction project contracting process reviewed herein, we noted a number of practices that would be advisable to adopt should a similar situation present itself again.

It is suggested that where a project is of significance, either financially or from a program point of view, that:

- 1. a senior level departmental official (Director General in this case) be tasked with the project management as his or her sole responsibility. This assists, as we observed in the review herein, in the facilitation of communication, decision making and credibility with contractors and other stakeholders.**
- 2. the project authority should require the presentation of no less than three proposals for each call up. One of the companies invited to submit a proposal should be selected by Environment Canada.**
- 3. a project steering committee be established with mandatory Public Works and General Services Canada (PWGSC), departmental and organizational representation, and that no authorization be considered final or binding absent the review and approval of the proposal by the steering committee.**