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Internal Audit Services Branch

Audit of Procurement Practices

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Executive Summary

The National Procurement Team (NPT) within the Chief Financial Officer Branch (CFOB) is the contracting authority at Employment and Social Development Canada (ESDC). The NPT is responsible for processing departmental procurement requisitions up to \$2 million and provides advice, guidance and support to Responsibility Centre (RC) managers.

Audit Objective

The objective of this audit was to determine whether the Department has an effective and efficient procurement control framework to provide advice and information on, and to manage procurement requisitions.

Summary of Key Findings

- Client-targeted information on iService could be better organized and promoted to realize expected efficiencies of NPT's "Click-Call-Consult" service model.
- Focus group participants were satisfied with processing timeliness and advice received from officers.
- NPT has established a sound risk-based processing model based on the assignment of commodity portfolios to specialized officers.
- Existing processes to verify appropriate expenditure initiation by RC managers are not adequate. However, migration to the new financial system is expected to resolve existing issues with the inclusion of an automated authorization process.
- Guidance pertaining to security and intellectual property (IP) requirements could be enhanced.
- Inconsistent record-keeping practices for paper files were noted.
- Data analytic testing is not undertaken for procurement processed by the NPT.

Audit Conclusion

The audit concluded that overall, the Department has an effective control framework to manage procurement requisitions under its authority. However opportunities exist to improve efficiencies and client communication by encouraging greater client self-service via the web (iService).

Recommendations

The Chief Financial Officer (CFO) should:

- Assess service channel usage patterns and seek to optimize client self-service through iService as opposed to other service delivery channels by:
 - enhancing roles and responsibilities documentation;
 - working with the Innovation, Information and Technology Branch (IITB) to better organize and improve the site's layout design; and
 - promoting and re-directing clients when possible to increase iService uptake and encourage client self-service.
- Upon implementation of SAP, track and report service standards, in addition to subsequently determining whether established standards are appropriate.
- Enhance iService to:
 - explicitly identify the RC Manager responsibilities regarding Security and IP requirements; and
 - refer clients to the appropriate policies, guidelines and the subject matter experts within Security and the Centre of Expertise for IP.
- Pursue opportunities to migrate its record-keeping approach from paper-based files to electronic files to increase efficiency and consistency.

1.0 Background

1.1 Context

The NPT within the CFOB is the contracting authority at ESDC. The NPT is responsible for processing departmental procurement requisitions up to \$2 million and provides advice, guidance and support to RC managers. Delegated RC managers are accountable to exercise expenditure authority, define business requirements, evaluate technical bid components and manage contract deliverables. The departmental procurement approach went from a decentralized model to a national approach to procurement in September 2010, with the implementation of NPT. Additionally, as part of its Procurement Renewal and Excellence, the CFOB has defined procurement service delivery channels based on the “Click-Call-Consult” service delivery model, promoting self-service delivery channels when possible.

1.2 Audit Objective

The objective of this audit was to determine whether the Department has an effective and efficient procurement control framework to provide advice and information on, and to manage procurement requisitions.

1.3 Scope

The audit scope included:

- Supporting structures, practices and procedures undertaken by the NPT to process procurement requisitions initiated by RC managers.
- Information and advice targeted to departmental RC managers and supporting staff.
- Procurement contracts and supporting documentation.

The audit scope focused on procurement activities which are directly within the NPT’s accountability. Procurement requirements greater than \$2 million are outside of the Department’s delegated authority. These requests are managed by Public Works and Government Services (PWGSC) and were not included within the scope.

Authority to procure using acquisition cards for amounts under \$5,000 was delegated to departmental branches and regions from CFOB in fiscal-year 2012–13. Considering regional activity to harmonize processes as well as work undertaken by Internal Audit Service Branch’s (IASB) Continuous Auditing function, all acquisition card activity under \$5,000 was excluded from the audit.

1.4 Methodology

A number of methodologies were employed during the conduct of this audit, including:

- Process review
- File review
- Documentation review and analysis
- Interviews with management and staff within CFOB
- Focus groups were held with various levels of delegated RC managers and also with their support staff. These groups represented five National Headquarter Branches and one Region

File review results were derived from a statistically valid random sample of 202 NPT processed procurement files in 2012–13 with a confidence interval of 95 percent, a presumed error rate of 5 percent and a precision interval of ± 3 percent.

2.0 Audit Findings

2.1 Information on the iService site could be better organized and promoted

Guidelines and information provided to clients

The audit team organized a series of focus group sessions to gather information on the NPT service experience from a sample of RC managers and their support staff. The audit team also performed a thorough review of information, guidelines and directives posted online, targeted to NPT clients.

Most focus group participants stated that procurement roles and responsibilities are not clearly defined, communicated or well understood. Specifically, individuals cited the lack of a single, consolidated document outlining responsibilities, specific step-by-step activities, and timelines related to the entire procurement process. Many individuals stated that their knowledge of the procurement process came as a result of previous experience when they were guided through the process by procurement agents. NPT clients also indicated that forms they are required to complete contain insufficient instruction on what information should be included. Participants mentioned that they would benefit from having access to examples of completed templates.

CFOB has established a client service model of *Click* (via the iService intranet site), *Call*, or *Consult* with the intention to drive enquiries as much as possible to the lower cost self-service channels. Yet we found that clients prefer to use the phone and email service channels, both of which allow them to interact with an officer when seeking information. Of note, NPT clients indicated that they were satisfied with the direct support they receive from assigned officers. However clients expressed little interest in using the iService site when seeking information, citing perceived issues such as difficulty in finding information and outdated information. Clients further stated that updates to iService information or templates are often not clearly identified.

In contrast to client perception, our review of the iService site revealed that it already contained the majority of the tools and guidelines clients indicated were needed. This documentation includes a “how do I buy” section, various templates, and a step-by-step “Requirements Definition Checklist Tool”. Although valuable information is available, there remains an opportunity to enhance the layout and provide additional details that clients are seeking. For example, existing information on roles and responsibilities could be enhanced to provide a summary of each process step within the procurement life-cycle, outline associated required documents and typical timelines. Moreover the iService layout needs to be better organized to improve the ability to find information. For example, the detailed step-by-step tool developed for RC managers to assist them in the procurement process is not easily findable or clearly titled. Furthermore, we noted that NPT also develops Procurement Bulletins to update clients on subjects such as updated policies, changes in processes and to promote available training. While these bulletins are a key

communication tool, they are not easily accessible on iService, thereby limiting potential awareness of the information.

Additionally, despite the existence of a departmental on-line “Procurement 101 training”, RC managers and support staff both mentioned an absence of available procurement training. Managers cited the only procurement training they had taken was during their delegated financial authority training. While the general lack of awareness indicates a need to better promote the course, there was generally limited interest in procurement overview training from focus group participants. However there was significant interest in guidance on the procurement process within ESDC. In our view, this information would be more efficiently and effectively provided through enhancing iService rather than through a traditional training approach.

While NPT should first look to enhancing the layout of iService, there is clearly a necessity to better promote the site to its target audience. iService presents the NPT with an opportunity to become more efficient by re-directing procedural questions to the intranet site which would enable NPT officers to focus on undertaking more value-added activities. Procurement officers should encourage clients to use iService in their response to client questions (either verbally or via email) whereby they could point to the appropriate iService links.

Recommendation

The CFO should assess service channel usage patterns and seek to optimize client self-service through iService as opposed to other service delivery channels by:

- enhancing roles and responsibilities documentation;
- working with IITB to better organize and improve the site’s layout design; and
- promoting and re-directing clients when possible to increase iService uptake and encourage client self-service.

Management Response

Agree. CFOB will promote the use of iService as the source of information on procurement, and will clarify procurement information, including roles and responsibilities. The estimated completion date is June 2014.

Client satisfaction and processing timeliness

Although service standards have been developed and posted on the CFOB intranet site to articulate processing times for differing commodity types, we were informed by NPT that the measures are not tracked, reported nor used to evaluate service delivery effectiveness. In addition, focus groups participants indicated they were unaware that

service standards existed and were generally not informed of expected processing times for contract requests. Furthermore we noted that service standards are not posted on iService and rather found within the “Procurement Community” section of the CFOB intranet. File review results also revealed that only three out of 202 files had evidence that expected timelines were communicated. The audit team was informed that upon implementation of the new financial system in April 2014, NPT will have the ability to more easily track and report its service standard results.

While expected timelines could be better communicated, we did not find any issues with processing timelines themselves. Focus group participants were generally satisfied with contracting turnaround time. File review results further revealed that 75% of contracts (or purchase orders for goods) were established within 15 working days of receiving an expenditure initiation request from the delegated RC manager, and within 24 days for 85% of the files reviewed. Although the majority of files are processed quickly, it is important to note that 7% of the files we reviewed took between 40 and 68 working days to establish contracts.

We were informed that procurement officers receive informal feedback from their clients on an ongoing basis. Although NPT undertook a formal client survey in 2012, it has not established a process to systematically solicit and manage client feedback. We would encourage NPT to implement a more formalized approach to soliciting client feedback as well as periodically engaging departmental senior management.

Recommendation

Upon implementation of SAP, the CFO should track and report service standards, in addition to subsequently determining whether established standards are appropriate.

Management Response

Agree. Once SAP is implemented, the CFO will communicate, track, report and review service standards. The estimated completion date is October 2014.

2.2 NPT has incorporated a sound risk-based processing approach

NPT has incorporated a risk-based processing model whereby commodity portfolios (i.e. Hospitality, Information Technology Consulting, Advertising, etc.) are divided and assigned to officers based on complexity, dollar value and expertise. Procurement requests are initially reviewed by a manager who will subsequently assign the file to the appropriate officer. This approach allows specialized officers to apply the varying procedures and requirements pertaining to each commodity.

The risk-based approach relies heavily on the expertise and competency of the NPT officers. We found that officers are well supported through access to colleagues, managers, and PWGSC subject matter experts. Junior officers receive additional coaching

support by pairing them with more senior officers. Furthermore, training provided is comprehensive and includes several mandatory courses as well as the opportunity to follow the Treasury Board of Canada Secretariat (TBS) established certification program. We were informed that officers are encouraged to stay current on Government of Canada procurement practices when developing their annual learning plans.

2.3 Opportunities exist to enhance some of NPT's processing controls

Processing Controls

Our file review identified high error rates related to expenditure initiation authorization. The *Financial Administration Act* stipulates that only individuals who have the appropriate delegated authority may authorize expenditures and enter into a procurement contract on behalf of the Department.

We found that 98% of selected contract files were authorized by an appropriate NPT contracting officer. However, we also found that expenditure initiation approval by a delegated RC manager was not performed appropriately within 15% of the files selected. Errors generally resulted from undated or illegible signatures which prevented our ability to validate whether the individual had authority.

The forthcoming departmental migration to the new financial system is expected to resolve the signing authority issues. We were informed that the new system will include an automated authorization process whereby a delegated RC manager will provide authorization electronically. The approval process will incorporate a fully automated verification whereby the RC manager's credentials will be validated with a signing authority database. Should the system's implementation be delayed, we suggest that NPT consider adopting a manual officer validation for contract requests to mitigate existing errors.

In addition, we identified that RC managers determine the necessary security clearance and IP requirements for contracts. Process reviews and client focus groups revealed that these requirements are not systematically scrutinized by Security and the IP Centre of Expertise to ensure they are appropriate. While NPT officers do their best to ensure that Security and IP clauses are identified by RC managers, they do not have the responsibility to validate whether the requirements are appropriately identified. NPT could mitigate this risk by augmenting roles and responsibilities documentation to state that RC managers are accountable to ensure appropriate clauses are included within the contract through consultations with Security and the IP Centre of Expertise.

Moreover, the file review also identified an error rate of 13% where there was no documentation on file to identify whether the contractor was a former public servant. We were informed that NPT has resolved this issue through the establishment of a new attestation-based process in September 2013, which requires the vendor to formally confirm whether or not they are a former public servant in receipt of a pension.

Recommendation

The CFO should enhance iService to:

- explicitly identify the RC Manager responsibilities regarding Security and IP requirements; and
- refer clients to the appropriate policies, guidelines and the subject matter experts within Security and the Centre of Expertise for IP.

Management Response

Agree, noting that the Integrity Services Branch (ISB) is responsible for security related policies, guidelines and processes, and that IITB is responsible for information technology security policies, guidelines and processes. The CFOB will link to the information these branches have on iService. The estimated completion date is June 2014.

Also of note, CFOB procurement specialists will continue to provide advice and information related to IP policies and guidelines on IP in contracts, as well as IP contractual terms and conditions. The IP Centre of Expertise provides expert advice on issues and cases on IP issues that are not related to contracts and in contracts when procurement specialists are unable to do so.

File maintenance

Our file review demonstrated that contracting information is well maintained within the financial system. In 100% of the files reviewed, the paper-based information corresponded to data maintained within the Corporate Management System. However, the file review also revealed inconsistent file documentation practices applied by NPT officers. While some files were well organized and contained detailed completed officer checklists, others contained a collection of unorganized papers and were without completed officer checklists. Section 5.2.2 of the *TBS Contracting Policy* requires contracting authorities to ensure that contract files are properly documented, while section 12.3 requires the files to be well structured.

Given the manual effort required to maintain the paper-based files and the existing inconsistencies, we suggest the migration to an electronic file-management approach. We noted that the vast majority of documentation contained within the paper-based files originated as electronic documents; imaging would only be required to store contract signatures, which are often received via fax. Not only would this enable a more structured approach and more timely management oversight, it would also result in greater efficiencies by enhancing the “shareability” of files and freeing-up floor space currently used to store physical files. This would enable file access by Accounts Payable agents located in Montreal and Winnipeg allowing for invoice comparison with stipulated contract

deliverables. It could also provide RC managers with “read-only” access to their contract files thereby reducing the risk of duplicate and incomplete documentation by potentially creating one contract file.

Recommendation

The CFO should pursue opportunities to migrate its record-keeping approach from paper-based files to electronic files to increase efficiency and consistency.

Management Response

Agree. CFOB will pursue the opportunity to migrate to electronic files, taking into consideration that it may not be possible for some bid documentation. The estimated completion date is June 2014.

2.4 Monitoring of performance and trends could be further expanded

NPT has proactively undertaken various studies with the goal of identifying opportunities for efficiency. These studies include the examination of commodity usage for potential Standing Offer opportunities as well as examining the possibility of increasing acquisition card usage for purchases deemed to be low-risk. Of note, the audit’s file review identified that 22% of all files contained at least one amendment. IASB encourages NPT to continue and expand its efforts to identify efficiency opportunities, particularly related to the establishment and increased usage of Standing Offers as well as potentially decreasing the number of contract amendments.

In addition we noted that the Procurement Directorate has developed a comprehensive monitoring plan to identify potential errors and non-compliance issues related to acquisition card usage. We would encourage management to include other types of procurement initiated by NPT in its monitoring plan.

3.0 Conclusion

The audit concluded that overall, the Department has an effective control framework to manage procurement requisitions under its authority. However opportunities exist to improve efficiencies and client communication by encouraging greater client self-service via the web (iService).

4.0 Statement of Assurance

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the assessment of the procurement control framework. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

Audit Criteria	Rating
It is expected that:	
<ul style="list-style-type: none"> There is a clearly defined and communicated accountability framework outlining roles and responsibilities for procurement. 	○
<ul style="list-style-type: none"> RC managers and supporting staff can readily access and be provided with relevant, reliable and understandable guidelines, procedures, tools, training, and advice. 	○
<ul style="list-style-type: none"> The procurement organizational structure and supporting processes: <ul style="list-style-type: none"> are well-defined, risk-based, and include key controls to ensure adherence to relevant legislation and policy requirements. 	● ○
<ul style="list-style-type: none"> Adequate support, guidance, tools and training are provided to procurement officers. 	☆
<ul style="list-style-type: none"> Procurement processes are consistently applied, timely and meet client expectations. 	●
<ul style="list-style-type: none"> Procurement officers and RC managers perform their respective roles and comply with relevant policy and procedural requirements while executing contracts. 	○
<ul style="list-style-type: none"> Practices are in place to monitor performance and trends, continuously improve procurement processes and ensure the needs of departmental managers are met. 	○

- ☆ = Best practice
 ● = Sufficiently controlled, low risk exposure
 ○ = Controlled, but should be strengthened, medium risk exposure
 ○ = Missing key controls, high risk exposure

Appendix B: Glossary

CFO	Chief Financial Officer
CFOB	Chief Financial Officer Branch
ESDC	Employment and Social Development Canada
IASB	Internal Audit Services Branch
IITB	Innovation, Information and Technology Branch
IP	Intellectual Property
ISB	Integrity Services Branch
NPT	National Procurement Team
PWGSC	Public Works and Government Services of Canada
RC	Responsibility Centre
TBS	Treasury Board of Canada Secretariat