



Chief Review Services

AUDIT OF
CONTRACTING FOR
PROFESSIONAL AND TECHNICAL SERVICES

November 2001

7050-9-4-2 (CRS)

Amended: February 20, 2002

TABLE OF CONTENTS

Synopsis i

Executive Overview..... l

Background 1

Audit Purpose..... 1

Audit Scope and Methodology..... 2

Findings 4

BETTER INFORMATION..... 4

FOLLOWING THE STRATEGY & KNOWING THE OPTIONS..... 7

IMPROVED STATEMENTS OF WORK..... 18

USE OF "PROFESSIONAL HELP BROKERS" 21

MORE INFORMED CONTRACT MANAGEMENT..... 24

Concluding Remarks 27

Annex A – Summary of Recommendations..... A-1

Annex B – Summary of Management Response B-1

Annex C – Audit Criteria C-1

Annex D – Methodology for Review of Contracts D-1

Synopsis

Over the past several years, the Department has relied increasingly on service contracts to obtain many of the skills sets lost through the refocusing on core services and downsizing. The objective of this internal audit was to examine trends in service contracting and to assess pertinent policies, delegated authorities, information systems, process and practices for their contribution to the effective management of these services.

Contracting can be an attractive alternative to managers faced with a public service staffing regime, which has been acknowledged to be inflexible, if not out-dated. In fact, we noted growth in service contracting, with DND annual expenditures for professional and technical services increasing by 26 per cent over the period FY 1994/95 to 1999/00. At the same time, we observed considerable inflexibility in contracting regulations and restrictions; these were also developed at a time when the work environment and labour market were considerably different. In this respect, we identified a significant increase over the past five years in the use of, what we have termed, Professional Help Brokers. These firms provide needed expertise "at arms length" and have become intermediaries in the process; adding cost, but often little additional value. We question whether the public interest is genuinely served by regulations which effectively encourage this contracting vehicle.

We found that lack of, or lack of knowledge of, longer-term HR strategies, frequently results in managers opting for reactive solutions to their resource requirements. Accordingly, the risks associated with these solutions are only evaluated on the basis of individual contracting transactions. Short-term contracting solutions often evolve into longer-term arrangements, and only when these can be considered at the corporate level do the greater risks become evident. These risks include: the emergence of key competency gaps; statements of work that are not sufficiently differentiated from the work of employees; and, potential damage to employee morale.

In all, we identified six main issues. Chief among these is the long-standing, and increasingly pressing, need for improved information so that the inherent risks in service contracting can be monitored and managed at the corporate level. This lack of information impeded our capacity to assess the extent of any non-compliance with applicable contracting policies and regulations. Nonetheless, we did observe specific compliance issues in six per cent of a sample of 300 contract expenditures. The most serious, albeit somewhat isolated, cases involved delegated authority being exceeded and expenditures made without the benefit of a written contract. In addition, for 39 per cent of the sample, we had concerns about the implications of long-term contracting arrangements.

In general, we have recommended changes at the departmental level to provide managers with improved tools, training and support in order that they can better manage their resource requirements strategically, with contracting – in all its forms – as one option. In the near term, it will be necessary to innovate in order to exploit existing flexibility with respect to staffing and contracting. However, the more promising solutions are likely to involve changes in the public service HR framework. In this regard, there are many evident parallels and interdependencies

between the staffing and contracting regimes as avenues through which managers access resources and expertise.

Undoubtedly, the results of the government HR Reform will alleviate certain of the inflexibility and corresponding pressures which may favour contracting, versus staffing, solutions to meeting resource requirements. Similarly, within the Department, the development of HR strategies, as well as the clarification of establishment restrictions will be beneficial. It will be particularly important that HR strategies specifically address circumstances involving long-term service contracting arrangements. These macro-level initiatives should do much to affect the upward trends relative to contracting activity.

While not all of the audit recommendations are being aggressively acted upon, we recognize that a practical balance must be struck between controls, their costs and the benefits to be derived. The Materiel Group has defined a number of positive actions, including consideration of contract monitoring mechanisms, interim to the full implementation of MASIS. Given that the Materiel Group accounts for a significant portion of DND's contracting for professional and technical services, action to address the audit recommendations within that Group will be key to improving the Department's management of service contracting overall.

Executive Overview

Results in Brief

Service contracting for professional and technical services within DND has increased by approximately 26 per cent over the past five years. Our audit identified a critical requirement for improved information to enable monitoring of these expenditures. Although the incidence of non-compliant contracts highlighted through the audit were not particularly high (six per cent), we must provide the caveat that the lack of quality contracting information made it difficult to identify the complete population. We have raised concerns about the number of weak Statements of Work (SOWs) and the high percentage of contracts that we noted to be at risk of developing an Employer/Employee relationship. As well, we noted a significant increase in the use of, what we have termed, Professional Help Brokers during the past five years, and we question whether this technically-compliant practice, is genuinely serving the public interest.

Background

In less than a decade, the labour markets for government have altered significantly. In the early 1990s, there was much emphasis on re-engineering and downsizing in response to reduced budgets, and a deliberate refocus on core services and competencies. Fewer than ten years later, recruiting and retention became major challenges facing public sector management, mainly due to shifting demographics and greater demand for "knowledge workers". The Department has relied increasingly on service contracts to obtain many required professional skill sets. Accordingly, the objective of this internal audit was to examine trends in service contracting and to assess pertinent policies, delegated authorities, information systems, processes and practices for their contribution to the effective management of these services.

...an increased
reliance on service
contracts....

The benefits of contracting are well understood. The practice allows the Department to access specific expertise either to undertake identified projects or to employ and learn from private-sector methodologies. Contracting also enables DND to augment its workforce to meet peak requirements and seasonal demands. Larger scale, alternative service delivery (ASD) solutions allow the Department to capitalize on industry expertise in certain areas, while keeping internal resources focused on core activities. When strategically planned and applied, these approaches to contracting can make an important contribution to the performance of defence business.

Planning Challenges and Managing Risks

Given external factors—such as an uncertain labour market and the ever-changing range of skill sets needed in a time of rapid technological evolution — developing sound strategic plans to address human resource issues is a critical, albeit formidable, challenge. Without such plans, we found that managers may opt for reactive solutions to their resource requirements: the

risks associated with these solutions are then evaluated on an individual, rather than corporate, level. Contracting for services tends to more often be the reactive solution because of its attractiveness relative to the extended timeframes and obstacles, perceived and real, associated with alternative hiring mechanisms.

...risks are evaluated incrementally, at an individual, rather than corporate, level.

Value-based Approach

As a number of studies have noted, rigidities within the current long-standing system of staffing and HR management within the Federal Public Service, place at risk the capacity of departments to effectively recruit and retain staff. What became apparent to us is that, like the public service employment regime, contracting regulations were developed at a time when the environment was significantly different. Attributes and peculiarities of the contracting regulations have generated practices that conform to law/regulations, but may not obviously serve the public interest.

...*Professional Help Brokers*, have become the intermediaries... adding cost but often little additional value. DND tends to be a heavy user of this contracting avenue.

Business is attuned to the opportunities involved, and the labour market has responded to the need for expertise through firms that provide experts at arms-length. The result is compliance with the letter of contracting regulations, but perhaps not the intent. These firms, referred to in this report as *professional help brokers*, have become the intermediaries in the process, adding cost but often little additional value. DND tends to be a heavy user of this contracting avenue, given the practice of obtaining the services of well-trained, experienced individuals who have left the CF at a relatively early stage in their work life.

The audit encountered parallels between issues associated with contracting and staffing — they both involve avenues through which expertise can be acquired for various durations and involving various degrees of competition. With respect to staffing, at least one department has undertaken to take an approach whereby applicable expectations/values (fairness, competition and transparency) are defined, authority is delegated to managers, guidance, practical tools and training are made available, staffing experts provide consulting expertise, and information is captured to enable monitoring. This reinforces the ownership and accountability of the manager and this same values-based approach could be applied to contracting. This approach contrasts with the circumstance whereby staffing experts or contracting authorities endeavour to control the process, and managers have incentive to exploit any available loopholes to overcome extensive controls and extended timeframes.

The DND Experience

An internal audit, reported in 1995, identified an increase in service contracting; this current audit has again observed growth in this area, with annual expenditures identified as professional and special technical services (Standard Object 04) increasing by 26 per cent between FY 1994/95 and FY 1999/00 (exclusive of the expenditures related to the NATO Flight Training Centre (NFTC) and the Integrated Relocation Pilot Project (IRPP) and some other large

engineering contracts). We also identified a significant increase in the use of *professional help brokers* during the same period. We noted that short-term contracting solutions frequently evolve into longer-term situations, and only when these can be considered collectively at the corporate level, do the risks become evident. These risks include: the emergence of key competency gaps as former DND/CF personnel retire from the contract work force; contract statements of work which do not properly distinguish the work of contractors from that of employees; and, potential damage to employee morale.

...short-term contracting solutions frequently evolve into longer-term situations.

Our 1995 audit identified a spectrum of systemic issues involving authorities, guidance, information and oversight. The report concluded that it was necessary to: *"...re-think the management of the service contracting process at a macro-level, particularly in light of the risks and opportunities being introduced by changes in the departmental and public service environments."* Certain specific improvements have been made since that time; ADM(Fin CS) has issued a revised "Delegation of Authorities for Financial Administration for DND and the CF", and ADM(Mat) has issued new contracting DAOD's. A Defence Contracting Advisory Committee (DCAC) was also established as recommended. While terms of reference for this committee include the review of contracting practices and the identification of financial information requirements, its focus to date has been on policy development, training and the dissemination of contracting guidance.

Our 1995 audit... concluded that it was necessary to "...rethink the management of the service contracting process...." Certain specific improvements have been made.

Principal Audit Concerns

This current audit has identified six main areas of concern as follows:

- Contracting Information: accurate, consolidated corporate information on the extent and nature of service contracting does not exist;
- Knowledge of HR Strategies and Options: contracting decisions, even those having long-term implications, tend to be made incrementally and without consideration of the full-range of staffing (e.g. casual, term and various PS and departmental programs) and contracting (e.g. standing offer, omnibus) options;
- Statements of Work: improved statements of work are required to better distinguish the work of contractors from that of employees;
- Reliance on Professional Help Brokers: increased use of brokers, who may charge fees to facilitate arms-length contracting arrangements, warrants monitoring and is, in our view, symptomatic of a cumbersome contracting regime (from 1994/95 to 1999/00, annual payments to the largest 20 of these firms increased by \$135M or almost 500 per cent); and

- Training: increased use of contractors has not been accompanied by sufficient training in contract management.

Each of the above issues is treated in some detail in the body of this report on the current audit. Chief among these is the long-standing — and now pressing — need for improved information so that the inherent risks in service contracting can be monitored and managed at the corporate/departmental level. We also have concerns about the reliability of the contracting expenditure information captured in the departmental financial system. Ultimately, weaknesses in information obscure the view of the composition of the defence workforce. While contractors have been an increasing, and sometimes integral, component of our departmental workforce, there is a very limited corporate-level view of the associated risks and costs.

Our audit did observe specific compliance issues based on examination of a sample of 300 contract expenditures. Although the lack of reliable contracting information frustrated our attempts to better size the extent of non-compliance, we identified eighteen (i.e. six per cent) of these transactions that demonstrated non-compliance with Treasury Board policy and/or the Government Contracting Regulations. The most serious involved delegated authority being exceeded or expenditures made without the benefit of a written contract. In addition, for 39 per cent of the sample, concern arose as to the implications of long-term work arrangements whereby contractors were paid by the day rather than by completed task.

Our audit did observe...compliance issues. ...concern arose as to ...long-term work arrangements whereby contractors were paid by the day rather than by completed task.

In general, we have recommended changes at the departmental level to provide managers with improved tools, training and support in order that they can better manage their resource requirements strategically and in accordance with PS values and principles, with contracting — in all its forms — as one option. In the near term, it will be necessary to innovate in order to exploit existing flexibility with respect to staffing and contracting. Omnibus contracting solutions (for example) and the use of the full range of public service staffing options (e.g. term appointments, casual employment, open competitions and developmental programs) will provide some relief. However, the more promising solutions will necessarily involve changes to the public service HR and, potentially, the contracting frameworks.

...more promising solutions will necessarily involve changes to the public service HR and, potentially, the contracting frameworks.

Key Audit Recommendations

We noted that the recommendations made are consistent with those developed in a State of Texas Audit Report that identified remarkably similar issues. Audit recommendations from our report primarily address the following:

- developing and communicating HR strategies – to guide contracting decisions;
- directly linking expenditure information captured in FMAS to related contracts;

- capturing information (automated) on the fundamental attributes (e.g. delegated authority exercised, competitive award, vendor);
- defining procedures for monitoring of contracting activity;

- evaluating existing long-term on-site contractor activity for possible repatriation or "ASD" solutions, and defining more specific deliverables for contract work which warrants continuation;
- developing and implementing additional contracting guidance and training; and
- monitoring the rationale for, and frequency of use of, professional help brokers.

Finally, we anticipate that putting these recommendations in place may ultimately facilitate additional delegation of contracting authorities.

•••

Issue-related recommendations appear at the end of each finding, and a complete set of recommendations is included for convenience as well, at Annex A.

Summary of Management Responses

There was general agreement with the need for organizational HR strategies and the need for support from ADM(HR-Civ) and ADM(HR-Mil) was noted, especially to determine competency requirements. ADM(HR-Civ) noted that a COS position was recently stood up that will be responsible for analyzing organizational HR plans, in collaboration with HR-Mil. In addition, the COS is developing a HR Accountability Framework which, when implemented, should assist in the analysis of plans and issues.

The ADM(Mat) Group has undertaken a review of their long-term on-site service contracts but requests clarification of departmental establishment controls. With respect to this issue, the Director Force Planning and Program Coordination (DFPPC) has committed to preparing a letter from VCDS to L1s, that outlines the procedures and restrictions on the establishment change process. The Materiel Group is also considering contract monitoring mechanisms interim to the full implementation of MASIS, with assistance from ADM(Fin CS), although COS ADM(Mat) does not agree that the DCAC should have an operational, vice advisory, role in reviewing contracts.

Enhanced training and web-based information related to resourcing options is planned and some improvements have already been implemented by ADM(Mat) and ADM(HR-Civ). In addition, both of these Groups are looking at options to address the timeliness of staffing in the short-term. There is recognition, however, that certain limitations exist that can only be addressed through government-wide reforms.

While not all of the audit recommendations are being aggressively acted upon, we recognize that a practical balance must be struck between controls, their costs and the benefits to be derived. Given that the Material Group accounts for a significant portion of DND's contracting for professional and technical services, certain actions that they plan to address the audit recommendations, such as the review of long-term on-site service contracts within that Group, will be key to improving the Department's management of service contracting overall.

Background

1. An audit of professional and technical service contracting was included in the Chief Review Services (CRS) 1999/2000 Plan approved by the Deputy Minister and the Chief of the Defence Staff. Systemic contracting issues have been raised in a number of internal audits over the years. The last corporate-level internal audit of service contracting, completed in 1995, concluded that there was a need to "re-think the management of the service contracting process at a macro-level, particularly in light of the risks and opportunities being introduced by changes in the departmental and public service environments."¹ While a number of the recommendations put forth in the 1995 report have been addressed, those involving improved contracting information and monitoring remain outstanding. Numerous Office of the Auditor General (OAG) reports have also dealt with the subject of service contracting, the most recent being the November 1999 report, *Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices*.

2. In the early 1990's, the Federal Government began to look at contracting out parts of, or entire systems, programs and processes as a way to refocus government resources on core services and competencies. This is not a uniquely Canadian initiative but has also been undertaken in the public sectors of many other countries, including the U.K., U.S., Australia and New Zealand. At the same time, the focus on reducing the deficit resulted in the reduction of personnel within most government departments. No department endured more rigorous, externally imposed personnel reduction targets than DND.

3. Since 1992 when the first Canadian Forces (CF) reduction program was introduced, the CF has decreased by approximately 26,000 and the civilian DND workforce by approximately 17,000. Since 1994, personnel costs such as military and civilian salaries and benefits have decreased by \$800M. This decrease was achieved despite recent salary and benefit increases.

4. Annual spending on contracts for services has increased significantly over the same time period. From 1994/95 until 1999/00, expenditures identified as professional and special services (Standard Object 04) grew from \$737M to \$1.33B – an 80 per cent increase (or 26 per cent if the expenditures related to the NATO Flight Training Centre (NFTC), the Integrated Relocation Pilot Project (IRPP), and a number of other large engineering contracts are excluded).

Audit Purpose

5. As stated in the CRS Plan for FY 1999/00, our audit objective was to examine the trends in service contracting and to assess the contribution of policies, delegated authorities, information systems, processes and practices to the effective management of these services. This was further refined at the commencement of the audit into the following sub-objectives:

¹ Chief Review Services, *Audit Report on Service Contracting*, 7054-14 (DGA), September 1995, page 6.

- to identify current trends in service contracting;
- to assess whether departmental human resource (HR) and contracting strategies, policies and information systems equip managers to make sound decisions when assigning resources to address requirements;
- to determine whether both the letter and the intent of applicable Treasury Board (TB) policies are followed; and
- to ensure service contracts are effectively controlled and monitored.

Audit Scope and Methodology

6. During the planning phase of the audit, 22 preliminary interviews were conducted with senior department officials and middle managers. All interview subjects had served as either contracting or technical authority on service contracts. The preliminary interviews contributed to the development of the audit criteria as listed in Annex B.

7. As part of the audit conduct we completed:

- a trend analysis using departmental and PWGSC electronic databases;
- five focus group sessions with a cross-section of participants from all groups and commands. Participants included individuals involved in establishing contracts (contracting authorities) and those responsible for end products (technical authorities);
- a review of contract files based on a department-wide sample of over 300 randomly selected expenditures. The detailed methodology for the sample selection and the file examination is provided in Annex C;
- some 20 additional interviews to discuss observations related to the review of contract files; and
- presentations to 30 senior officers and managers from a cross-section of groups and commands to provide results on organization-specific and departmental audit issues and recommendations, and to elicit feedback.

8. For our trend analysis we extracted expenditure transactions, coded to Standard Object (SO) 04 – Professional and Special Services from within the Department's financial systems, and removed transactions against certain types of general ledger accounts. These "scoped-out" transactions included non-professional types of services (e.g. cleaning and kitchen services); payments to other government departments (OGDs); payments for legal and medical services (e.g. x-rays); and payments related to the IRPP. While total expenditures in SO 04 were \$1.33B in FY 1999/00, our adjusted audit scope consisted of approximately \$800M in expenditures.

9. For the purposes of our review of contract files, we made some other adjustments to our audit population, primarily eliminating major engineering contracts, such as those related to the North-Warning Systems, CF-18 Technical Investigation and Engineering Studies (TIES) and the NFTC.

10. We did not eliminate Y2K expenditures from the population. During FY 1998/99, Y2K-related funds in the departmental financial managerial accounting system (FMAS) indicate expenditures of \$33M, while in FY 1999/00 that figure jumped to \$46M. We did not eliminate these expenditures as we appreciate that there would always be large special projects. More recently the Universal Classification System (UCS) and the Financial Implementation Strategy (FIS) projects have consumed many contracted professional-service resources, and implementation of either the Supply Chain or Site Support Services projects could significantly impact expenditures on professional services in the future.

Findings

BETTER INFORMATION

The need for more complete and accurate departmental information on service contracting.

11. Accurate department-wide information on the extent and nature of service contracting does not exist. Indeed, the lack of comprehensive departmental information on contracts and related expenditures complicated our examination. As well, a significant number of expenditures were inappropriately coded within FMAS, limiting the value of this data and raising concerns about inaccurate financial reporting. Given the state of current contracting data, it is extremely difficult to perform effective corporate-level monitoring to ensure compliance with contracting regulations.

Accurate department-wide information on the extent and nature of service contracting does not exist.

Data Completeness

12. Information on departmental contracts is neither complete, coordinated nor available in user-friendly form. DND has no consolidated database of contracts and thus cannot develop a departmental picture of active contracts at any given time. While information on DND service contracts is partially available internally from Assistant Deputy Minister (Materiel) (ADM(Mat))/Director Contracting Policy (DC Pol (formerly DMGCP)) and externally from Public Works and Government Services Canada (PWGSC), Consulting and Audit Canada (CAC) and Defence Construction Canada (DCC), it is difficult to consolidate information from the various sources. Reporting periods, contract values, amendments and even the categories of services are not recorded in a consistent fashion; as well, the organization requesting the work is not always identified.

13. A further limitation relates to the inability to link FMAS expenditures to any related contract; some are tagged within FMAS through a commitment number but most are not. This condition limits management's ability to identify situations of non-compliance with departmental policy and direction. Previous CRS reviews have also documented deficiencies in this area. A September 1995 report on service contracting recommended that a code be implemented in FIS to identify all service contract transactions; that recommendation has not yet been addressed. We recognize that this capability may be difficult to implement, and that OGDs also have this limitation. (Their solutions have yet to be explored.) Nonetheless, associating transactions with the related contracts could significantly enhance current financial management, and further delegation of contracting authorities could not be effectively monitored without this capability. Between Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)), with responsibility for FMAS, and ADM(Mat) with MASIS, a solution to provide this capacity needs to be explored.

Contract Monitoring

14. The lack of a comprehensive, department-wide source of contract information prevents effective risk management in this area. Senior management has an incomplete picture of the growing contractor component of our workforce. It is impossible to determine either the global number of contractors, how long they have been in place, the number of ex-military or former public servants or other important management information.

The lack of a comprehensive, department-wide source of contract information prevents effective risk management in this area.

15. During the detailed review of transactions, we identified several instances of non-compliance with government contracting regulations; but because of concerns regarding data completeness as previously discussed, the full extent of these problems is unknown. As such, the findings we identified represent the minimum number of occurrences of these conditions. In 18 (six per cent) of the transactions sampled, departmental personnel had not complied with TB policy – some transactions violated several policies. A statistical estimate of the value of these types of errors in our population is \$30.6M. They included four instances where personnel had exceeded their contracting authority; the most extreme being a manager with \$5K authority contracting a \$300K requirement. We also found six instances where no contract had been established; in one of these instances payments totalled \$100K. We determined two situations of contract splitting—one involving a series of monthly contracts, each \$25K or less, for the same service. Also included were 14 cases of inappropriate sole-sourcing of contracts. Many of these 18 contracts were not reported to DC Pol, or subsequently to TB as required. Again, we emphasize that our current information systems do not allow senior managers to monitor these cases of non-compliance with TB and departmental contracting policy.

Data Accuracy

16. The accuracy of expenditure data on contracting for services also remains a concern. We noted a significant amount of coding errors within our audit sample. We recognize that many of these errors may be attributed to the inexperience of recently assigned personnel in a newly devolved environment.

17. Our analysis of FMAS expenditure data disclosed errors at both the standard object (SO) and the more detailed reporting object (RO) level. At the SO level, expenditures of approximately \$160M for the IRPP had been coded to SO '04'. The majority of this amount was for reimbursement of relocation expenses and should have been coded within SO '02' — personnel benefits. Assistant Deputy Minister (Human Resources-Military) (ADM(HR-Mil)) has since taken corrective action and we excluded these expenditures from our sample. In total, we identified one per cent of the transactions in our sample as wrongly coded — which can be extrapolated to an estimated \$6.7M of coding errors in our adjusted population. This, combined with the IRPP miscoding, results in a total estimate of \$167M in incorrectly coded transactions — significant enough to affect the accuracy of the information reported by the Department in public accounts.

18. We categorized a transaction as wrongly coded only if it did not belong in SO '04'. While the one per cent identified as incorrectly coded might suggest that the population is slightly overstated, departmental managers more often expressed concern for the risk that the '04' transactions were understated, due to professional service expenditures being incorrectly charged to other standard objects, such as SO '06' (repair and maintenance) and '09' (construction/acquisition of machinery and equipment). This is consistent with concerns raised in previous CRS audits, although identifying and quantifying the extent of any such errors was beyond the scope of this project.

Recommendations to achieve better information

19. Reliable, accurate and timely information is needed to mitigate the inherent risks associated with service contracting and to ensure that policies and delegations are being respected. We recommend that:

- ADM(Mat) coordinate with ADM(Fin CS) to develop a capability to allow expenditures to be identified with the related contract. This link should allow for the identification of basic information such as who is contracting and what type of service is being purchased.
- Further to the above, ADM(Mat), in coordination with ADM(Fin CS) and the Assistant Deputy Ministers (HR) where necessary, develop a capability to monitor high-risk contracts. (For example, this could take the form of a standardized exception report to be reviewed by senior management.) As this process evolves, it should allow identification of items such as:
 - contracts awarded to a sole source;
 - long-term contracts;
 - multiple contracts/amendments with the same vendor for the same service; and
 - situations where no contract is in place or where contracting authority has been exceeded.

Management Response

Chief of Staff Assistant Deputy Minister Materiel (COS ADM(Mat)) will set up a working group to determine if an interim monitoring process can be established pending the implementation of MASIS in Spring 2002. Integral to a meaningful monitoring process would be an identification of key attributes (red flags) of contracts that would be considered indicators of risk and therefore worthy of monitoring. ADM(Fin CS) staff will participate to determine whether the financial system can serve/interface with defined requirements, and/or the solutions identified.

FOLLOWING THE STRATEGY & KNOWING THE OPTIONS

The consultation of HR strategies & being aware of all options before making resourcing decisions.

HR Strategy

20. An organization's short and long-term objectives, as identified in its business plan, provide a basis for determining current and future skill requirements. Individual organizations are not required, however, to document their HR strategies through the business planning process. Most focus group participants noted that they did not have an understanding of their organization's HR strategy — either because one did not exist or because it had not been effectively communicated to managers to support their ongoing resourcing decisions.

"[Strategic HRM]...takes a longer-term view, making judgements based on program and policy trends about the kinds of skills and aptitudes that the department is likely to require several years in the future." - Report of the COSO Subcommittee on the HR Community

21. The climate of recent years as the result of downsizing and the corresponding limited availability in the market of some key competencies, has meant that individual managers often do not have the luxury of long-range HR planning, and when pressured for time, contracting for services is seen as the only viable option. With respect to military staffing strategies at a departmental level, computer-based models assist Level 1 (L1s) in ensuring the appropriateness of the Military Occupational Structure (MOS). Despite this planning, ongoing shortages, particularly affecting certain occupational categories, have resulted from downsizing without sufficient reengineering, as well as from staffing and vacancy management problems: recruiting shortfalls and increased attrition have created many vacant positions; in large numbers private-sector firms have recruited critical, CF-trained resources, such as engineers; and with the military posting cycle, it can take up to 18 months to fill a position. As a result, shortages are often being resolved through long-term contracting.

22. On the civilian side there is no apparent departmental-level HR plan or strategy to address many civilian-staffing shortages. We concluded that strategies for recruiting, developing and retaining particular civilian skill-sets need to be formulated/articulated at the group/unit level and also at the departmental level in the cases where it is more logical to do so (e.g. information management/information technology (IM/IT)).

23. While almost one-half of our sample involved contracts for one-time special projects, almost the same proportion involved on-site long-term contracts — sometimes being used as a stop-gap to ASD or other contracting-out solutions. (Few (eight per cent) of our sampled transactions related to off-site long-term contracts, such as those with major engineering firms².) The lack of a strategy behind contracting for services was particularly evident in those situations

² We might normally expect the percentage of off-site contracts to be larger, if some of the large contracts such as TIES on the F18 and a few other major engineering contracts had not been eliminated from our sample as detailed at the start of this report (see Audit Scope and Methodology).

whereby many on-site contractors are engaged in fulfilling ongoing requirements (ASD arrangements excluded). Many of the areas of concern that we identified throughout our audit relate to these long-term contracting arrangements in particular.

Knowing the Options

24. Even with the benefit of a well-developed HR strategy, managers will still have options to consider in determining the most appropriate approach to their specific resourcing requirements. With the wide range of staffing and contracting options available, managers need criteria to assist in the selection process. Staffing and contracting officers are in separate organizations and too often assume that options have already been properly evaluated when managers ask for their assistance. In fact, managers stated that, in most cases, they end up choosing the path of least resistance — the route that they know will produce results most quickly.

25. During our detailed contract review, we found that even the more significant contracts lacked any evidence that other options had been considered. Some managers stated that options had been evaluated, and thought they might have been documented elsewhere. Some stated that contracting was the intuitive solution. Still others stated that, in response to downsizing, contracting was the only available option.

Focus group participants indicated that, on a case by case basis, option analyses did occur; our detailed contract review did not support this view.

26. Assuming that delaying, postponing, or not completing the work are not possibilities, the options to be considered by managers include: using existing staff, possibly in combination with a re-balancing of workloads; adding additional staff by hiring casual, seasonal, term, or indeterminate employees; and contracting through the use of temp help, standing offers, sole-source, or competitive contracts. A combination of approaches may be necessary if the preferred approach is not immediately feasible; e.g. contracting for specific deliverables to bridge the gap until indeterminate staffing can be completed.

Using Existing Staff

27. To make best use of existing staff, managers need to be aware of staff capabilities and skills, and have the flexibility to reassign staff according to priorities. Training may be required to ensure staff is prepared for the new demands of a changing workplace. Often, in focus groups and interviews, succession planning, future skill requirements and developmental opportunities for employees were identified as significant issues. Departmental managers sometimes choose to hire outside consultants due to a lack of knowledge, or inventory, of internal skill-sets or because of an organizational structure which resists the reassignment of individuals, even on a short-term basis.

28. Some DND work has commenced with respect to the identification of core competencies. HR-Civilian (Civ) is currently coordinating five pilot studies to assess core competencies. When completed, these will be compared to an analysis of existing competencies to identify gaps and to

provide input to an organizational learning plan. There are also Public Service Commission (PSC) initiatives and departmental programs in place to encourage retraining and expanding the skillset of the existing PS. The DND Job Experience Training Program (JET) helps people to gain the new skills needed for future opportunities; Career Connexions is a DND initiative aimed at increasing secondment and deployment opportunities.

Staffing as an option

29. In some resourcing situations, the preferred option may be to staff. This is most suitable when the requirement is on-going, on-site and integral to the work of the unit. Increased staff, either military or civilian, may offer flexibility and continuity not available through a contracted solution. However, focus group participants and interviewees stated that staffing is often not a feasible option, for the reasons noted below:

- ◆ *Staffing restrictions.* Managers commented that despite the operating budget concept, they have little flexibility to move money from operations and maintenance (O&M) to SWE. Many managers stated that there continue to be controls on establishments and headcounts. Opinions varied as to the stringency of these controls. Lack of accommodation was given as a further restriction on staffing.
- ◆ *Budget restrictions on staffing.* Budget transfers become even more problematic when they involve moving money from National Procurement (NP) funds in order to supplement SWE. Some 33 per cent of contracts for professional and special services in the scope of our audit involved NP funds. A large portion of these contracts were for engineering studies and investigations at engineering facilities; however a significant number — not easily quantified — were being used to provide contracted 'staff' to administer the NP function on a long-term basis. Using significant amounts of NP funding to augment staff gives a misleading view of budget usage.
- ◆ *Staffing is not timely.* This is not a new issue and is one that we understand the PS HR Reform/Modernization task force will address as they look at activities such as creating pre-qualified staffing pools and inventories, policy flexibilities, and ultimately legislative reform. A recent report by the OAG stated that for a new position needing classification, staffing through closed competition takes 230 calendar days on average – almost eight months.³ In our focus groups and interviews, examples of staffing actions taking from eight to 18 months were provided — not acceptable in a dynamic workplace where project requirements can often not be planned this far in advance. On the other hand, HR and PSC staff noted that often delays occur when managers do not seek guidance early enough, and/or leave time-consuming considerations such as classification and

³ Report of the Auditor General of Canada to the House of Commons, *Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities*, April 2000, Chapter 9

security too late in the process.

- ◆ *Difficulty filling military vacancies.* Reduced recruiting and broadened civilian opportunities have led to an increase in military vacancies. This, combined with high deployment rates, the long lead-times required of the military posting cycle, and cost-move restrictions make it difficult to fill many military positions. Often military knowledge is required, making the civilian staffing process inappropriate as an alternative. While Reservists could be employed, managers stated that the rules regarding employment of Reservists are not well known, nor how to get assistance in finding qualified candidates.
- ◆ *Staffing may not produce suitable candidates.* In some areas, particularly IM/IT, managers commented that the PS often has difficulties attracting the best candidates. In addition, the tax deductions available to contractors lead many potential candidates to refuse casual or term positions in favour of contract work.
- ◆ *Staffing options are not well promoted or understood.* Many managers avoid staffing because the rules are not well understood, and few user-friendly references are available. They are reluctant to enter into indeterminate arrangements because of uncertainty in the workplace, yet are not clear on the rules guiding casual, seasonal and term employment. Those we spoke to remarked that rather than facilitating the process, staffing officers often served as roadblocks.

30. As a result of these obstacles, perceived or actual, managers stated that contracting is the path of least resistance and is often chosen not because it is the best solution but because it is the easiest solution. Focus group results indicate that staffing would often be the preferred option for longer-term requirements, especially if improved staffing techniques and better information on staffing options were available.

Innovative Staffing Approaches: Developed but not widely used

31. The HR community has recognized the challenges in recruitment and retention. The PSC recently produced "A Manager's Handbook on Staffing and Recruitment." Widely distributed within the department, this document gives a good overview of staffing options. The handbook also identifies other sources for more detailed information, usually Internet websites. As the handbook points out, several recruitment initiatives exist to assist managers in finding candidates for high-demand areas. For example, a database of candidates interested in IM/IT positions has been created to facilitate timely staffing. Managers can access this database through a dedicated website. In addition, PS managers have been encouraged to participate in IT job fairs alongside private industry, and to give on-the-spot job offers.

32. These and similar initiatives may result in increased use of staffing to meet resource requirements, and less reliance on contracted solutions. However, these initiatives need to be well-marketed, and well-supported if they are to help change the opinion that staffing is not a feasible solution.

The Contracting Option

33. Once managers decide that a contracted solution is the best choice, they still have several alternatives. They may find that there are existing standing offers, omnibus contracts, and supply arrangements that can be used. Alternatively, they may find that they require a new contract, either sole-sourced, or competitive.

34. As with staffing, the rules and best application of the various approaches is not well-known and managers stated that there are few readily-available, user-friendly sources of information. Initiating a competitive contract can be nearly as time-consuming as staffing, so managers often look for an easier, more convenient approach.

Innovative Contracting Solutions

35. Omnibus, TEMS, and TIES-type contracts receive high points from managers in terms of convenience. They allow the terms of the contract, including rates, to be negotiated before the manager defines specific details of individual taskings. They can involve one or several contractors with an agreed formula for assigning taskings. This type of contract can be time consuming to establish, but once in place individual requirements can be met quickly by raising requisitions or call-ups.

A majority of focus group participants found that Omnibus or TEMS-type arrangements have improved the contracting process.

36. Supply arrangements (SAs) are somewhat different — both in that companies pre-qualify, and generic terms of the contract are established ahead of time. Individual requirements are then competed among the short-list of companies. Because companies are pre-qualified, the time involved in the competition process is greatly reduced. As only maximum rates are set at the pre-qualifying stage, this second competition can result in lower pricing. During our detailed contract analysis we found that discounts, compared to the full cost of staffing, were most often obtained when a SA had been used.

37. Despite the benefits, some caution should be observed. Because these arrangements facilitate getting someone in place quickly, there may be a temptation to use these contracts for purposes other than what was competed. During the detailed contract review, several examples of inappropriate use of these contracting vehicles were found. E.g., technical contracts being used to procure administrative support at significant price premiums. Omnibus-type arrangements have the additional drawback that the specific requirement is never competed. This means that although the best per diem rate may be obtained, the best solution and the best price overall may not.

38. Another innovative approach we observed was the use of the PSC's Interchange Canada program. Although this may not meet widespread requirements, this program allows the department to "employ" individuals with extensive private-sector knowledge through contracts with their existing company.

Sole-source contracts

39. Managers might be tempted to sole-source contracts in order to expedite the process. However there are strict TB rules regarding the use of sole-sourced contracts because of the possibility of favouritism, and misuse of government funding. In our detailed contract analysis, 15 per cent of the transactions (50 of 323) had been sole-sourced. These included several instances where no written contract had been established. Of these, 14 were cases where sole-sourcing appeared to be inappropriate. Managers should choose this option only when a situation very clearly falls within the TB guidelines.

Cost-effectiveness issues

40. "Research on the subject indicates that while lower cost is often cited as a reason to use contract workers, organizations seldom do any kind of cost-benefit analysis to determine whether contract workers are more or less expensive than regular employees."⁴ Our detailed analysis supports this assertion. Comparing cost is not an easy exercise; done properly, the comparison should not only compare salary and employment benefits to contractor per diem rates, but also should include supervisory costs and contracting and contract management costs. Whether tools and facilities are provided should be considered, as should the relative productivity of contractors and employees, and the availability and benefits of a contracting firm's "corporate" expertise and resources. "Other advantages and disadvantages to using contract workers should also be considered, including training and retraining costs, loyalty to and investment in the organization, and the need for flexibility."⁵

41. During the detailed contract review we compared the annual cost of contract positions with the comparable full cost of an employee. Only those positions which were contracted for over one year (exclusive of ASD arrangements), and where the manager felt there was a PS or military equivalent were included in the analysis. As discussed, it is difficult to arrive at definitive determination as to the relative costs of contracting versus the use of in-house resources, since there are numerous variables and assumptions that come into play. That said, our analysis indicated that it is often the case that long-term professional service contracting, for the provision of on-site capabilities, exceeds the cost of in-house staff. This is likely to occur in any instance where short-term solutions are applied to long-term requirements.

Our analysis indicated that, for long-term contracting situations, contracting can be an economical option, but more often it is a more expensive solution than staffing.

Conclusion

42. Many parallel issues exist between contracting and staffing that are of government-wide concern and that accentuate the need for modernization of both the procurement and staffing regulations. Both of these frameworks were created many years ago when the business

⁴ Lawrence F. Alwin, CPA, *Best Practices and Guidelines for Effectively Using a Contract Workforce*, The State of Texas Auditor's Office No. 99-326. Texas: March 1999, p 3.

⁵ Ibid, p 4.

environment was significantly different. With respect to staffing, a Task Force headed by the Office of the Privy Council is addressing issues such as this under the heading of *Modernization of Human Resources*. In addition, TBS has initiated a procurement reform exercise which will involve reviewing all existing procurement policies and related procedures across the federal government, with a mandate "to modernize procurement to help departments better serve the public, maintaining opportunities for Canadian suppliers and the integrity of the system".⁶ In the meantime, the challenge for the DND/CF will be to optimize the current systems so that both staffing and contracting processes better meet managers' immediate requirements while ensuring that the values promoted by current central agency policies and regulations are met.

43. While it appears that contracting has become a frequent method for addressing personnel shortfalls, a greater awareness of the associated issues and options has meant that some initiatives, to reconsider the resourcing strategies being used, have been undertaken. Several managers stated that they have begun staffing action where it is clear that a previously temporary requirement has become permanent. We noted that large scale staffing efforts have been initiated in some organizations, such as ADM(Fin CS) for FIs and in ADM(Mat) for PGs. Others mentioned changing the nature of contracting, bundling requirements together and giving contractors more flexibility in defining solutions, thereby lowering the cost.

Recommendations

44. To tie resourcing decisions with a broader HR strategy:

- We recommend that departmental strategic HR planning guidance (SHRPG) be used by L1s in the preparation of their own organizational HR strategies. These strategies should evolve to provide a comprehensive overarching approach to HR planning. The primary requirements for L1s will be to document their organizational competency requirements and their proposed strategies for addressing identified gaps — including the strategic use of service contracting.
- We recommend that ADM(HR-Military (Mil)) and ADM(HR-Civ) review these individual plans and identify supporting strategies that can be taken at the departmental level or that need to be elevated to a PS-wide level. In some cases, a senior manager may be required to serve as a champion for a particular horizontal function. E.g. Assistant Deputy Minister (Information Management) (ADM(IM)) for IM/IT personnel.
- In the interim, L1s should identify current long-term, on-site contracts within their organization and develop a plan to transition to other arrangements such as staffing and ASD.
- We also recommend that L1s widely communicate their HR strategies, including any service-contracting component, within their organizations.

⁶ The Summit, *The Business of Public Sector Procurement*, June 2000 page 36

45. To ensure that managers adequately evaluate all options, we recommend that:
- ADM(Mat), ADM(HR-Mil), ADM(HR-Civ) and Director General Reserves and Cadets (DGRC) ensure managers receive better information and increased training so that there is increased awareness of all staffing, reserve and contracting options. Building on the new DC Pol website, we recommend the integration of staffing and contracting criteria (perhaps a decision-tree approach) should be developed to help managers choose the best resourcing options.
 - VCDS and L1s clarify applicable restrictions, such as controls on establishments and headcounts respectively.
 - ADM(HR-Civ) ensure innovative staffing options are further developed, well-marketed and well-supported.
 - Contracting authorities identify the need for documented option analyses in contract files, where it is a reasonable expectation based on the size/type of contracts. The extent of documentation expected will be related to the dollar value and sensitivity of the contract.
 - The Defence Contracting Advisory Committee (DCAC) review the option analyses for contracts over a defined dollar threshold, or of a defined sensitivity.

Management Response

COS ADM(Mat) noted the importance of ADM(HR-Civ) and ADM(HR-Mil) providing strategic HR planning, and for their support in determining organizational competency requirements. The Director Materiel Group Human Resources (DMGHR) will continue to provide guidance and the ADM(Mat) HR Planning guidance within the Materiel Group to support the preparation of Level 2 HR Business Plans. Vacancy Forecasting will continue to be carried out on an annual basis with results shared with ADM(HR-Civ), to allow for forecasting of staffing requirements. In addition, DMGHR will determine whether any adjustments are needed to align the competencies identified under the PG Materiel Acquisition and Support (MA&S) Training Program Framework with the departmental competency dictionary, once completed. Currently, the Materiel Group, in conjunction with ADM(HR-Civ) is trying to determine the feasibility of establishing a Prequalified pool of PG candidates in partnership with PWGSC, to shorten the staffing period for the PG community. DMGHR is also looking at establishing a temporary organization that would be responsible for workplace renewal and the facilitation of competitive staffing processes within the Materiel Group.

The Materiel Group has collected data on the use of contractors within their Group. ADM(Mat) has a specific action underway to convert contractors to public servant positions, where it makes sense to do so. A number of these conversions have already taken place. However, the constraints of SWE budgets, lengthy staffing times and establishment control are seen as limitations to fully exploiting this initiative. Further work will be done to determine if there are areas where other arrangements, such as ASD, would be more appropriate.

The DC Pol website already offers information to assist managers in finding the best cost-effective solution. Work to-date has been aimed at the widest body of contracts in existence. Enhancements focusing on further development of the website to integrate a decision-tree approach and to link to staffing websites are under consideration. The possibility of increasing existing contract delegations to \$25,000 is being examined. Part of the implementation process will be the development of a revised course on contracting for services, which will include a discussion of option analyses. The Materiel Group also reiterated that while Contracting Authorities provide advice and guidance to clients, the accountability for the "make or buy" decision remains with the client.

With respect to the recommendation that the DCAC review specific option analyses, DC Pol noted that this would be inconsistent with the intended advisory role of this committee. They commented that the DCAC was never intended to be an operational body, nor are its constituents members necessarily the best suited to make these day-to-day, albeit important, decisions.

As well, at the managerial level, the DMGHR website provides guidance for doing an "options analysis" when considering staffing arrangements. However, the barriers inherent in achieving some options are part of a larger HR issue requiring resolution between the group and departmental level, in some instances. DMGHR recently developed a tool titled R3- Recruitment, Retention and Rejuvenation. This tool provides HRBMs and managers with links to a variety of governmental and departmental recruitment and developmental programs. Links are provided to references such as the PSC's Manager's Guide to Staffing and Recruitment.

ADM(HR-Civ) agrees with the need to analyze L1 plans. A Chief of Staff (COS) function with responsibility for business planning was stood up in August 2001 and will be enhancing this analytical role. COS will work in collaboration with ADM(HR-Mil). In addition, COS is developing an HR Accountability Framework which, when implemented, should assist in the analysis of plans and issues. ADM(HR-Civ) agrees that HR strategies must be communicated within organizations and also supports cost-effective measures which more effectively address HR organizational concerns, recognizing that contracting for services may be the only viable option for certain types of competencies.

ADM(HR-Civ) noted that part of the Director General Learning and Professional Development's (DGLPD) mandate is to develop departmental learning, training and development curriculum. This group is currently working on three initiatives: a Leadership Development Curriculum; a follow-up to the Future Skills Study; and a Skills Gap Analysis. This work will be followed up with ADM(Mat) to determine how some of the issues mentioned in the report could be addressed

in a corporate learning/training initiative. Staff of the Director General Civilian Human Resources Strategies and Development (DGCHRSD) presently provide comprehensive staffing training, including a discussion of staffing options, to managers and HR practitioners in the field on an on-going basis.

In addition, the ADM(HR-Civ) website already provides significant information regarding staffing options but it is recognized that improvement could be made to make the site more user-friendly. An initiative is underway (NDOL) to convert all websites to a common look and feel which will respond to some of this need. Work continues through a joint HR-Mil and Civ working group to design a HR website that will respond to the spirit of this recommendation. HR-Civ is prepared to discuss with ADM(Mat) and ADM(HR-Mil) regarding the best option of integrating staffing and contracting information.

To ensure innovative staffing options are further developed, well-marketed and well-supported, HR-Civ will involve Public Affairs personnel in the design of a suitable strategy to market the options also taking into consideration the findings of the Government's Task Force on Modernizing HR in the PS.

In the ADM(HR-Mil) response, it was noted that Director Military Human Resource Requirements (DMHRR 2) already has an initiative underway to address reservist staffing.

IMPROVED STATEMENTS OF WORK

The requirement for improved statements of work (SOWs), to help distinguish contractors' tasks from those of employees.

46. A clear and concise statement of work (SOW) is a critical component of a successful contract, ensuring both parties agree on what is to be accomplished, when it is to be accomplished, and the recourse to be taken if its terms are not met. TB contracting policy states "with respect to contracting for services, contracting authorities must ensure that the SOW or the requirements description clearly describes the work to be carried out, the objectives to be attained and the time frame."⁷ Despite this, our detailed contract analysis indicated that many SOWs are vaguely written, with no clear deliverables nor stated milestones. We found that SOW timeframes generally related to funding available, or call-up limitations, rather than the time required for a deliverable. This increases the risk of employee/employer (EE/ER) relationships developing, and makes it difficult to hold contractors accountable.

Weak SOWs that do not clearly distinguish between contractors' tasks and employees' tasks create risk for the Department

47. It is difficult to define deliverables and associated milestones, and to distinguish the work of contractors from employees, when contractors are assigned to react to day-to-day priorities and requirements. Our detailed contract analysis indicated that deliverables and milestones are usually included in the contract SOW for one-time special projects, however they were absent in 88 per cent of SOWs relating to long-term on-site requirements. These SOWs often included wording such as "to assist," "to provide advice," "to liaise with," "including but not limited to" and "to perform other tasks of similar nature."

...deliverables and milestones
...were absent in 88 per cent of
SOWs relating to long-term on-
site requirements.

48. We recognize that in many complex areas, there is often need for some preliminary contract work to allow managers to better define requirements and develop a detailed SOW. However, many managers suggested that SOWs are sometimes purposely vague so that there is flexibility in the tasks that can be assigned to contractors. SOWs of this nature, which do not clearly distinguish between tasks assigned to contractors and employees, create a potential risk of effectively contravening the Public Service Employment Act (PSEA). In our detailed contract analysis, we considered 39 per cent of the sampled contracts to be at risk of developing/involving an EE/ER relationship. Most of these were fulfilling long-term, on-site requirements, and were paid by the day rather than by completed task.

49. Departmental contracting guidance that preceded the newly released departmental accounting orders and directives (DAODs) suggested that managers should complete an EE/ER checklist for all services contracts. This checklist itemizes the risk factors and indicates that if a manager answers 'No' to any of the related questions there is potential for an EE/ER relationship to

⁷ Treasury Board of Canada, *Contracting Policy*, 4.1.9.

develop. During our contract review we found this checklist was often missing from contract files. When present, it was often not answered candidly. When it was answered candidly, and by their responses managers indicated the potential for an employee/employer relationship, the checklist was simply filed, with no record of subsequent action being taken. Focus group results, and interview responses indicate that managers are often aware of the associated risks. However, our observations indicate that this risk may be downplayed in favour of finding a timely method of completing a given task.

50. Many managers believe they have reduced the risk of EE/ER relationship claims by rarely entering into personal-services contracts. Most of the contracts examined were competitive, with companies (often *professional help brokers* as discussed in the next section), not with individuals. While this may not change the nature of the relationship, the risks are not as evident when individual contractors are receiving benefits from the contracted company. Recently, DC Pol released draft guidance aimed at assisting members and employees in properly managing relationships with on-site contractors. This guidance included a list of "do's and don'ts," and was well received by management. While many have already taken action to implement this guidance, our audit observations indicate that continued education and oversight are needed in this area.

51. Focus group participants and interviewees expressed concern that there is a general reluctance to take recourse or hold contractors accountable. However, when SOWs are only vaguely defined it is more difficult to determine whether the desired result was ever achieved, or to take any recourse when expected results are not attained. Contract files examined contained little evidence of monitoring. Few contained any indication of progress or any evaluation of the completed product. In most cases, monitoring consisted solely of verifying timesheets to ensure the hours claimed were reasonable. Even this was sometimes problematic, with managers suspecting that contractors were not devoting the hours claimed to their contract, but having little means of disputing the claim.

Recommendations for writing better Statements of Work:

52. In order to mitigate the risks associated with vague SOWs we recommend that:

- Contracting officers continue to reinforce that SOWs contain clearly defined deliverables and milestones, and where possible, that payment is linked to deliverables. Where it is not possible to define deliverables and milestones, and the requirement is expected to exceed 20 weeks, contracting officers should advise managers to consider staffing options, with perhaps contracting as a bridging mechanism. Alternately ASD solutions may be explored.
- Where the risk of EE/ER is greatest, a strategy should be developed for transitioning away from these contracts. This strategy could involve staffing, or alternatively, might involve a contracted-out solution. The Defence Contracting Advisory committee should take an active role in monitoring these situations.

Management Response

DC Pol contracting officers already strongly encourage clients to clearly define deliverables and milestones in the SOWs and to link payments to deliverables. However, enhanced expertise is needed on a day-to-day basis to quantify the work and easily link the required services to deliverables. Planned enhancements to the website and directed training should improve client expertise in this area.

The monitoring of contracts to determine compliance with the PSEA is another element that can be considered once a meaningful monitoring process is established. If there is a systematic contravention of the PSEA identified, a strategy to address this will be developed. Such a strategy would focus on giving clients better tools, and building incentives into the process to encourage the adoption of legitimate options.

DND/CF LA has also prepared a note with guidance for avoiding situations where a contract for services creates an employment situation. This note will be made available on the DND/CF LA website.

USE OF "PROFESSIONAL HELP BROKERS"***The monitoring of expenditures to firms acting as Professional Help Brokers.***

53. Based on our trend analysis, two quite different types of vendors were identified. The first includes companies with recognized expertise in a professional field such as engineering, construction, computing and finance. These companies have significant facilities and assets that support their area of expertise. The second vendor type, the "professional help brokers," includes companies who provide personnel with expertise in virtually any area, but which themselves have little 'in-house' capability. Existing information systems do not easily allow us to determine how much is spent on brokers. However, analysing by vendor name, we estimate that in FY 1999/00 at least \$220M of expenditures were paid for professional services to the 20 largest of these brokers — representing an almost 500 per cent increase in annual payments to these firms over FY 1994/95.

54. Several factors have contributed to the growth in the use of brokers. As noted previously, personnel reductions over the past several years were not accompanied by a proportionate reduction in activity, nor did the promised efficiencies of technology always materialize. In the short-term, previous employees and well-trained individuals that have left the CF at a relatively early stage in their work life are the most effective remedy for this shortfall. Restrictions on staffing, however, combined with the long-time delays and in some cases non-competitive compensation make it difficult if not impossible to bring these individuals back as employees. With respect to contracting, time limitations (20 weeks) and in some cases monetary restrictions on temp-help and personal-services contracts limit the usefulness of these contracting strategies in many situations. The implications for the former member's/employee's pension also make these vehicles less attractive.

55. Attributes and peculiarities of the contracting regulations have generated practices that conform to laws/regulations, but do not obviously serve the public interest. Business is attuned to the opportunities involved, and the labour market has responded to the need for expertise through firms, which provide experts at arms-length. These firms, referred to in this report as *professional help brokers*, have become the intermediaries in the process, adding cost but often little additional value. While allowing the department to address requirements in an expedient fashion, the use of brokers may not give the desired long-term results and may not be the most cost-effective approach.

56. As noted above, if temp-help or personnel-services contracts were used to meet the types of requirements we observed, the maximum time-frame for the contracts would be 20 weeks. By contracting through brokers, however, this restriction is no longer applied. Instances were found where individuals were engaged through temp-help contracts or personal-services contracts, but when 20 weeks expired (and the requirement had not ended) an existing contract with a broker was used to continue their employment – at a higher rate. Rate premiums approaching 50 per cent were observed.

The intent of the competitive process may not be met

57. Technically, a competitive process takes place when contracts are awarded to *professional help brokers*. However, in substance, these contracts can be a vehicle to avoid direct "personal service" contracting with the individuals engaged, and we question whether the values of fairness and competition are really being achieved. Such circumstances may be more prevalent in DND given the requirement to access specialized skills that can be provided by trained former CF members who will have retired from the organization at a relatively early age. We noted in our analysis that while several companies may bid on a given requirement, there were 26 instances where multiple companies had bid the same individuals — the incumbent contractor or employee. In one instance six separate companies bid the same individual – the incumbent – in response to one Request for Proposal (RFP).

58. During the contract review, several files were examined in which it can be argued the mandatory requirements had been made overly restrictive, limiting competition and potentially resulting in higher prices. While it is understandable that managers with limited time and budgets prefer qualified individuals, the downside of the use of overly restrictive mandatory requirements is that it unduly restricts the field of applicants.

Succession is a concern

59. We observed many situations whereby positions had been eliminated and the work was being performed by former employees/members of the organization, whose services were obtained through contract. Notwithstanding the obvious benefits of contractors that are already over the learning curve, this kind of reliance on past experience can have negative long-term results. The reduced number of trained individuals within the DND/CF, and the fact that most broker companies have no internal ability to train replacement personnel, threaten the department's long-term supply of experts. Situations where bids include currently serving members only compound the problem by filling one vacancy through the creation of another. Relying on past expertise also precludes the fresh perspective that a new team member can bring to a project or work situation.

Recommendations regarding the use of professional help brokers

60. Improvements in this area will be achieved by addressing recommendations raised elsewhere in the report, such as: developing strategic HR plans to determine the long-term approach to obtaining required skillsets; Increased delegation of contracting authorities when combined with educating and holding managers accountable for the achievement of the values of the contracting regime (fairness, competition and transparency); Better information and monitoring to support the accountability structure; more accessible training and advice/information on the resourcing options available; and the examination of central agency regulations related to the procurement of services.

Management Response

The monitoring of the use of professional help brokers, to identify areas where there is considerable use of this contracting avenue, is another element that can be considered once a meaningful monitoring process is established. Monitoring of this by DCAC would be inconsistent with its intended advisory role. DC Pol contracting officers will continue to provide advice and guidance on staffing options. However, as noted previously, the issues in achieving other options are part of a larger HR issue requiring resolution beyond the Group level. For example, without TB contracting policy changes there is limited flexibility available. Contracts with individuals are limited to 20 weeks. This limitation is being examined by PWGSC and TBS, although it is unknown if any change will result.

MORE INFORMED CONTRACT MANAGEMENT

The need for increased training, more accessible resources, and more diligent contract management.

61. As contractors become a larger part of the department's workforce, more guidance is required in preparing and managing contracts. Expenditures on professional and technical service contracts have increased by a significant amount, yet a corresponding increase in the level of training and guidance associated with this activity has not occurred.

62. A 1999 CRS audit titled "Local Procurement and Supply"⁸ observed that "...Currently in DND, people in traditional clerical and technical roles are being assigned the roles of procurement specialists, contract officers and budget managers. The infrastructure does not exist to ensure that all individuals involved in these activities are adequately trained." The report also states that "At each of the bases visited, it was observed that people performing materiel management and procurement functions tended to be unaware of their responsibilities under the contracting manual, Financial Administration Act (FAA), or other policy publications." These comments are relevant to the discussion of service contracting training, especially as expenditures in this area continue to increase. Worthy of note is that DC Pol has recently developed a generic presentation on the basics of service contacting that will be provided to organizations on request; the feedback on this information package has been positive.

52 per cent of the focus group participants felt they had received insufficient training with respect to initiating and managing contracts.

Contract Implementation

63. Greater knowledge of contracting policy and processes is required, yet we noted varying opinions about whether individuals within each organization should gain this knowledge (and then potentially be given increased contracting authority) or whether it is preferable to get assistance from experts at a centralized procurement organization.

64. Managers expect DC Pol and PWGSC to provide prompt, efficient service. Not only is this difficult because these organizations have limited resources but departmental contracting authorities, in particular, tend to focus more on control than the service side of the equation. Consequently, many individuals expressed dissatisfaction with the assistance they received from organizations such as PWGSC, DC Pol or DCPS. This situation is parallel with the service versus control issues that arise with staffing and HR advisors.

65. During our review, it was often suggested to us that delegated signing authority for contracts should be increased from \$5K to \$25K for all financial managers. Several managers believed this would improve the efficiency of the contracting process, since outside DC Pol, only a limited number of positions currently have authority above the \$5K level. However, increasing financial authority to this level may not significantly impact on most organizations since most

⁸ Chief Review Services, *Audit of Local Procurement and Supply*, 7053-48 (CRS), March 1999, page 9 para 16 and page 8 para 15.

already have access (although some may not be aware) to departmental arrangements such as the Supply Arrangements (SA), Standing Offers (SO), and OMNIBUS contracts, most of which have higher limits for many requirements. Moreover, with the issues that we have noted regarding the management of service contracts, we could not support any wholesale increases to financial signing authorities for contracts, until improvements are made to the enablers available to managers, such as training, advice and information, and before more effective monitoring mechanisms are implemented.

Contract Management

66. Notwithstanding that the majority of focus group participants believe that once a contract is in place they are able to manage it in a satisfactory manner, our file review indicates that managers' knowledge of, and compliance with, contracting policy and direction needs improvement. We found examples of compliance errors, inappropriate interactions with contractors and incomplete file documentation in our review of transactions. As well, focus group participants were concerned over how to take recourse when unhappy with contract performance.

... managers' knowledge of, and compliance with, contracting policy needs improvement.

Sources of Information

67. Definitive information on initiating a contract can be difficult to find. In some cases there are multiple and conflicting sources of information, making it difficult to know which takes precedence. During our audit we identified two websites that contained conflicting information concerning financial signing authorities (since resolved). We also noted that some Level 1 organizations are issuing their own contract policy and directions. In our opinion, this creates unnecessary duplication, adds complexity to existing central departmental policy and can ultimately lead to non-compliance with TB and Departmental policy if these directives are not maintained on a timely basis or if the interpretations are incorrect.

68. In addition to lacking contracting policy information, most staff have little knowledge of existing contract arrangements. At the departmental level, information is not commonly available regarding the SAs, SOs, Omnibus contracts etc. that exist, and how to make use of them. As a result managers may not obtain the required services as quickly as possible, at the most competitive rate.

69. All focus group participants agreed that the sharing of service contracting information within the department does not normally occur. No process exists between departmental organizations to share contract information, such as the type of service requested, the quality of services received, and the nature of, and satisfaction with, the deliverable(s). Sharing of this type of information would help minimize duplication of contracted services and assist in efficiently obtaining required skills, but we recognize that there exist practical limitations to its implementation.

Recommendations for Better Contract Management

70. Managers need clear, accessible information on contracting options, policies and guidelines, with training accessible and tailored to the end-user within the DND. Consistent with these principles, we recommend that ADM(Mat)/(DC Pol) build on existing training, reference materials and web-based information so as to provide enablers to managers such as:

- intranet, online, ready access to contracting information and policies;
- identification of offices of primary interest (OPIs) to provide timely expertise to personnel;
- information/links to information and training on contracting, and alternatives to contracting, such as staffing options and programs;
- business-case training to support managers' choice of resources;
- support for, and training in, developing RFPs/SOWs and evaluation criteria; (e.g. pro-forma SOWs on the DC Pol website);
- information on available training courses and a mechanism to solicit suggestions for future courses (topics not currently addressed);
- an up-to-date and easily accessible listing of the various contract arrangements, e.g. Supply Arrangements, Standing Offers, OMNIBUS, etc.; and
- direction on the contents of a complete contract file. (DCPS may be used as a best practice organization.)

Management Response

The enhancements planned for the DC Pol website should address many of these recommendations. As well, depending on workload and resources, DC Pol will consider the following: providing links on the website to those organizations that offer training; providing links to the PWGSC Standing Offer Index website; looking at MASIS as contributing to a solution; centralizing a repository for departmental-unique Standing Offers. It is not feasible for DC Pol to provide business-case training because it is a fundamental practice that is not unique to contracting, but if there are generic tools/practices available, DC Pol's website could provide a link.

Concluding Remarks

71. Demographic studies indicate that a shortage of skilled labour will exist well into the next decade. As a result, managers will be challenged to obtain sufficient resources, regardless of whether staff or contracted employees are employed. A comprehensive HR strategy, which acknowledges this limiting factor, will become increasingly important. Overall, the use of contracted professional and technical services within DND is likely to continue to increase. The challenge for the Department is, and will be, to ensure the effective and efficient delivery of contracted services, consistent with the values and principles of the public service, while at the same time maintaining a flexible and viable workforce.

Summary of Recommendations

Recommendations to achieve better information

ADM(Mat) coordinate with ADM(Fin CS) to develop a capability to allow expenditures to be identified with the related contract.

ADM(Mat) coordinate with ADM(Fin CS), ADM(HR-Civ) and ADM(HR-Mil), if necessary, to develop an ability to monitor high-risk contracts. As this process evolves, it should allow identification of items such as:

- ◆ contracts awarded by sole source;
- ◆ long-term contracts (especially those with former public servants or CF members);
- ◆ multiple contracts/amendments with the same vendor for the same service;
- ◆ the organization receiving the services; and
- ◆ situations where no contract is in place or where contracting authority has been exceeded.

Recommendations to tie resourcing decisions with a broader HR strategy

- ◆ Departmental Strategic HR Planning Guidance (SHRPG) be used by L1s in the preparation of their own organizational HR strategies. These strategies should evolve to provide a comprehensive overarching approach to HR planning. The primary requirements for L1s will be to document their organizational competency requirements and their proposed strategies for addressing identified gaps — including the strategic use of service contracting.
- ◆ ADM(HR-Mil) and ADM(HR-Civ) review these individual organizational plans and identify supporting strategies that can be taken at the departmental level or need to be elevated to a PS-wide level. In many cases, a senior manager will be required to serve as a champion for a particular horizontal function. E.g. ADM(IM) for IM/IT personnel.
- ◆ In the interim, L1s identify current long-term, on-site contracts within their organization and develop a plan to transition to other arrangements such as staffing and ASD.
- ◆ L1s widely communicate their HR strategies, including any service contracting component, within their organization.

Annex A**Recommendations for knowing and evaluating the options**

- ◆ ADM(Mat), ADM(HR-Mil), ADM(HR-Civ) and DGRC ensure managers receive better information and increased training so that there is greater awareness of all staffing and contracting options. Building on the new DC Pol website, we recommend the integration of staffing and contracting criteria (perhaps a decision-tree approach) should be developed to help managers choose the best resourcing options.
- ◆ VCDS and L1s clarify applicable restrictions, such as controls on establishments and headcounts.
- ◆ ADM(HR-Civ) ensure innovative staffing options are further developed, well-marketed and well-supported.
- ◆ Contracting authorities ensure contract files contain a documented option analysis, where it is a reasonable expectation based on the size/type of contract. The extent of documentation expected will be related to the dollar value and sensitivity of the contract.
- ◆ The Defence Contracting Advisory Committee review the option analysis for contracts over a defined dollar threshold, or of particular sensitivity.

Recommendations to Improve Statements of Work

- ◆ Contracting officers continue to reinforce that SOWs contain clearly defined deliverables and milestones, and where possible, that payment is linked to deliverables. Where it is not possible to define deliverables and milestones, and the requirement is expected to exceed 20 weeks, contracting officers should advise managers to consider staffing options, with perhaps contracting being used as a bridging mechanism. Alternately ASD solutions may be explored.
- ◆ Where the risk of EE-ER is greatest, a strategy should be developed for transitioning away from these contracts. This strategy could involve staffing, or alternatively, might involve a contracted-out solution. The Defence Contracting Advisory Committee should take an active role in monitoring these situations.

Annex A**Recommendations regarding the use of Professional Help Brokers**

Improvements in this area will be achieved by addressing recommendations raised in other sections, such as: developing strategic HR plans to determine the long-term approach to obtaining required skillsets; increased delegation of contracting authorities when combined with educating and holding managers accountable for the achievement of the values of the contracting regime (fairness, competition and transparency); better information and monitoring to support the accountability structure; more accessible training and advice/information on the resourcing options available; and the examination of central agency regulations related to the procurement of services.

Recommendations for More Informed Contract Management

ADM(Mat)/(DC Pol) build on existing training, reference materials and web-based information, so as to provide enablers to managers, such as:

- ◆ intranet, online, ready access to contracting reference and policies;
- ◆ identification of OPIs to provide timely expertise to personnel;
- ◆ information/links to information and training on contracting, and alternatives to contracting such as staffing options and programs;
- ◆ business-case training to support managers' choice of resources;
- ◆ support for, and training in, developing RFPs/SOWs and evaluation criteria; (e.g. pro-forma SOWs on the DC Pol website).
- ◆ information on available training, and mechanism to solicit suggestions for future courses;
- ◆ an up-to-date and easily accessible listing of the various contract arrangements, e.g. SAs, SOs, OMNIBUS contracts , etc.; and
- ◆ direction on the contents of a complete contract file. (DCPS may be used as a best practice organization).

Summary of Management Responses

Chief of Staff, ADM(Mat) (COS ADM(Mat)) will set up a working group to determine the key contracting attributes (red flags) that would be considered risk indicators, and to determine whether an interim monitoring process can be established pending the implementation of MASIS in Spring 2002. Monitoring of compliance with the PSEA and monitoring of the use of professional help brokers are two of the elements that could be considered once a meaningful monitoring process is established.

In response to recommendations aimed at tying resourcing decision with a broader HR strategy, COS ADM(Mat) noted that the ADMs (HR-Mil and Civ) need to liaise with all L1s to provide clear HR strategies and support in determining organization competency requirements. ADM(Mat) Group has already incorporated competencies into the PG (procurement) Materiel, Acquisition and Support (MA&S) Training Program Framework. Upon completion of the Departmental Competency dictionary, the Director Materiel Group Human Resources (DMGHR) will determine if modifications are required to bring the framework in line with the competencies that are being established by ADM(HR-Civ).

The DMGHR will continue to provide guidance and preparation of the ADM(Mat) HR Planning guidance for the Materiel Group. Vacancy Forecasting will continue to be carried out on an annual basis with the results being shared with ADM(HR-Civ). Currently, the Materiel Group, in conjunction with ADM(HR-Civ) is trying to determine the feasibility of establishing a pre-qualified pool of PG candidates in partnership with PWGSC, to shorten the staffing period for the PG community. DMGHR is also looking at establishing a temporary organization that would be responsible for the workplace renewal of people to fill forecasted vacancies in the Materiel Group and for facilitating a more expedient competitive staffing process.

The Materiel Group has recently collected data on the use of contractors within their group and has a specific action underway to convert contractors to public servant positions where it makes sense to do so. Further work will be done to determine if there are areas where other arrangements, such as ASD would be more appropriate. However, the Mat Group notes that the constraints of SWE budgets, lengthy staffing time and establishment control limit the opportunities to fully exploit alternatives, and that current restrictions on the entry of establishment changes do not allow PeopleSoft to be used as an effective HR planning tool in this area.

To improve staffing on a case-by-case basis within the Mat Group, COS ADM(Mat) notes that consultation with DMGHR would be a supportive step in the "decision tree" approach to considering staffing options. At the managerial level, the DMGHR website provides guidance in this area. DMGHR has also developed an electronic tool to link HRBMs and managers to a variety of governmental and departmental recruitment and developmental programs and information.

Also relevant to the discussion of the evaluation of options, COS ADM(Mat) notes that the DC Pol website already offers information to assist managers in finding the best cost-effective solution. Work to-date has been aimed at the widest body of contracts. However,

Annex B

enhancements are being considered to further develop the website to integrate a decision-tree approach and to incorporate links to staffing websites. Depending on the availability of resources, DC Pol will also consider the following enhancements to their website: providing links to those organizations that offer training; providing links to the PWGSC Standing Offer Index website; looking at MASIS as contributing to a solution; and centralizing a repository for departmental-unique Standing Offers. It is not feasible for DC Pol to provide business-case training because it is a fundamental practice not unique to contracting, but if there are generic tools/practices available, DC Pol's website could provide a link.

COS ADM(Mat) notes that Contracting Authorities provide a service, in advice and guidance to clients, and that they strongly encourage clients to clearly define deliverables and milestones in their SOWS, to link payments to deliverables and to consider staffing options. Ultimately, however, their response notes that accountability remains with the clients. Contracting authorities can ensure that managers receive information and training to increase awareness in these areas and of all staffing and contracting options. The possibility of increasing existing contract delegations to \$25K is being examined, and part of the implementation process will be the development of a revised course on contracting for services, including the topic of option analyses. COS ADM(Mat) does not agree that the DCAC should have an operational role in reviewing contracts.

ADM(HR-Civ) agrees with the need for organizational HR strategies and notes that the Defence Plan (DP) outlines common HR responsibilities applicable to each L1 and further describes the recommendations of various PS subcommittees, and the need for departmental managers to carry out solid HR planning. ADM(HR-Civ) remains available to HRBMs to provide assistance in developing HR strategies. All L1 plans were analyzed last year and HR-Civ agreed with the need for such a review. A Chief of Staff (COS) function with responsibility for business planning was stood up in August 2001 and will be enhancing this analytical role, working in collaboration with HR-Mil. In addition, the COS is developing a HR Accountability Framework which, when implemented, should assist in the analysis of plans and issues. With respect to identifying current long-term, on-site contracts with a view to transitioning away from these, HR-Civ supports cost-effective measures that address HR organizational concerns, recognizing that contracting for services may be the only viable option for certain types of competencies. They also agree that HR strategies must be communicated within organizations and the strategic HR guidance in DP01 exhorts senior managers to do so.

Part of the Director General Learning and Professional Development's (DGLPD) mandate is to develop departmental learning, training and development curriculum. Some of the current work being performed in this division will be followed up with ADM(Mat) to determine how some of the issues mentioned in the report could be addressed in a corporate learning/training initiative. Staff of the Director General Civilian Human Resource Strategies and Development (DGCHRSD) presently provides comprehensive staffing training, including consideration of staffing options, to managers and HR practitioners in the field on an on-going basis. The ADM(HR-Civ) website already provides significant information regarding staffing options but it is recognized that improvements could be made to make the site more user-friendly. An initiative is underway in line with NDOL to convert all websites to a common look and fell which will respond to some of this need. Work continues, through a joint HR-Mil and Civ working group to design a HR website that will respond to the spirit of this recommendation.

Annex B

ADM(HR-Civ) is prepared to discuss with ADM(Mat) and ADM(HR-Mil) regarding the best option of integrating staffing and contracting information. In addition, HR-Civ will involve DGPA in the design of a suitable strategy to market staffing options.

VCDS/DGSP supported the use of departmental standard procedures to identify contract-related expenditures but expressed concern about whether sufficient resources exist within the DC Pol organization to monitor contracts as recommended. VCDS noted that the identification of core competencies and an inventory of internal skill sets, in conjunction with other current HR initiatives, such as recruitment and apprenticeship programs, should assist in addressing identified gaps. In the interim, bridging approaches may need to be employed. With respect to staffing, there is a requirement for enhancing the direction provided to managers since a lack of training and information given to those with authority impacts directly on resources and accountability. The proposed development, marketing and support of innovative staffing options would undoubtedly circumvent the need for contracting in many instances. Managers would also benefit from a database that outlines alternative mechanisms that exist for contracting. The same concerns are expressed however, over what resources are available to put this information into place. The Director Force Planning and Program Coordination (DFPPC) will review current establishment policies and then VCDS staff will work with ADM(HR-Mil) and ADM(HR-Civ) staff to provide an updated letter for VCDS signature that outlines the current and pertinent policies with regards to procedures and restrictions on the establishment change process, for distribution to all L1s.

ADM(Fin CS) commented with respect to improving contracting information, that the FMAS has a very limited capability to serve as a means to manage contract expenditures. Further the financial system was not selected nor configured to function as such. Consequently, it does not, nor should it, contain the data fields specific to contracts. The use of commitments within FMAS, which is the limited manner in which contract expenditures could be tracked, is optional to users of the financial system, i.e. it is not a mandatory requirement for users to use this data element. Thus, the system is not able to ascertain whether or not a transaction is associated with a contract. Given this, ADM(Fin CS) suggested that the lead for establishing departmental user requirements and solutions therein is ADM(Mat) as the OPI for departmental contractual matters. The ADM(Mat) system under development, MASIS, is expected to provide for the tracking of expenditures against a contract. ADM(Fin CS) staff should participate to determine whether the financial system can serve/interface with defined requirements, and/or the solutions identified therein.

ADM(HR-Mil) supports the requirement for improved contract management and is implementing a Performance Management System to ensure value for money. In addition, the Group will work with ADM(HR-Civ) to develop a common website with linkages to ADM(Mat) contracting and ADM(Fin CS) delegation of financial authorities websites. The Group also intends to continue to work with ADM(HR-Civ) and DC Pol to ensure that ADM(HR-Mil) contracting and staffing requirements are addressed. ADM(HR-Mil) noted that the rationale for the increased use of contractors is often due to the lack of skill sets within the Department. The current recruiting programs, together with the retention project initiatives will address the issues, but will take some time. ADM(HR-Mil) intends to work more closely with ADM(HR-Civ) to identify civilian PY shortfalls within the Group in order to develop a better HR strategy to staff their vacant positions.

Audit Criteria

The audit criteria have been identified below against each of the audit objectives.

A. To identify the trends in professional service contracting.

Over last three years, to the extent possible using available information systems, consider:

- Competitive vs. non-competitive;
- Local vs. national procurement;
- Type of professional service;
- Contracting with former DND employees/CF members;
- Organizations engaging the professional services;
- Contracting firm characteristics;
- Contracting Authority: (PWGSC, DGMCBM, Individual Manager, CAC) and then by competitive vs. non-competitive;
- Of Competitive: percentage on MERX; and then percentage on ACAN;
- Process for contracting: (Omnibus, TEMS/TIES, Standing Offers, Supply Arrangement, Individual Contracts) and then by \$ value; and
- Of Non-Competitive: Exception cited; (i.e., one supplier, emergency <\$25K, not in public interest).

B. To ensure departmental strategies, policies and information systems equip managers to make the best decisions when assigning resources to address requirements.

- The objectives of service contracting, including how these fit within the departmental HR strategy, have been established and communicated.
- A long-term plan to acquire key competencies exists.
- Policies have been designed to support the objectives of service contracting and have been clearly communicated.

Annex C

- The overall risks and benefits of service contracting have been identified and assessed, and are reassessed on a case by case basis.
- Managers have means of identifying those individuals with the skills that their organization requires.
- Managers have the necessary knowledge, skills and tools to support the achievement of the service contracting objectives.

C. To determine whether letter and intent of the applicable TB and departmental policies are being followed.

- Sole-source contracts meet one of the TB exceptions to the requirement for a competitive process.
- Repeat commissioning of a firm or individual without competition is avoided.
- Employer/Employee relationships are avoided.
- Contracts with former public servants comply with TB regulations.
- Contract files contain substantiation of the appropriateness of the fees paid and of the need to contract instead of using the staffing process.
- Contracting with former public servants in receipt of a pension or lump sum payment are closely scrutinized and adhere to TB regulations.
- Conflict of Interest situations are avoided.
- Contract splitting is avoided.
- Ethical values that come into play with service contracting have been communicated and are practised.

D. To ensure service contracts are effectively controlled and monitored.

- Requirements are well-defined according to TB guidance.
- It is clear who the contracting authorities are in an organization.
- Contracting and technical authorities' duties are segregated.
- Contracting authorities always approve the contract or procurement instrument.

Annex C

- Measurable performance targets and indicators have been developed for service contracting and performance is regularly measured against these.
- Sufficient monitoring takes place so as to ensure that contracting regulations, guidelines and practices evolve appropriately in response to changes in the internal and external environment.

Methodology for Review of Contracts

Scope and Approach

Samples of contract files were reviewed for compliance with contract regulations. The file selection was based on a statistical sample of FMAS transactions within a pre-determined scope of Standard Object '04' — Professional and Special Services transactions — for FY 1999/2000. This scope was reached with two steps. First we established the scope to be used for our trend analysis by eliminating transactions for:

- pre-defined services (e.g. medical services, legal service, public affairs and educational services). In these situations DND does not define the tasks or the time frames, but pay for services currently existing, as needed;
- transfers to other government departments; and
- payments associated with moves, Military Family Support Program, disposal, and translation.

This reduced our scope from \$1.33B to \$800M. For the purposes of our review of contracts, we made some other adjustments to our audit population, primarily eliminating major engineering contracts, such as those related to the NATO Flight Training Center, CF-18 Technical Investigation and Engineering Studies, and the North-Warning System.

This reduced the population for statistical sampling purposes from \$800M to \$539M. Random samples were then chosen for each Level 1 organization, based on the ratios of the organizations' expenditures to the total \$539M. Over 300 transactions were selected, and the corresponding contract files were examined.

Significant effort was required to track down the needed contracts. As FMAS does not require a transaction to be related to a specific contract, it was necessary to first locate the original invoice (from the person who entered the transaction) which allowed us to identify the contract and then determine which office was holding the contract.

In all ten Level 1 organizations, we reviewed the contract files in light of our reviewing criteria (see below). We clarified and confirmed our findings by interviewing procurement and/or technical authorities. We visited most of the offices holding the files of our sample. For the locations that we could not visit cost-effectively, we asked that the contract files be forwarded to our office. For the high majority of the cases, we were able to audit all stages of a contract and identify areas of concern that should be addressed.

Reviewing Criteria

General

- Was the contract for off-site engineering, a one-time, a standalone special report or for an on-site day-to-day project?
- What labour type was contracted (engineer, draftsman, HR consultant)?
- What, if any, was their per diem rate?
- What is the comparable employee cost?
- What was the defined time period of the contract, and/or the defined option periods?
- What was the actual time period of the contract?
- What was the defined vs actual cost of the contract?
- Who has the contracting authority (PWGSC, DMGCP or Local)?
- Who had procurement authority?
- Who had technical authority?

Contract Planning/Strategy

- Does the file have evidence that an assessment of alternatives to contracting was done?
- Does the file have a cost comparison of the alternatives?
- If CAC arranged the contract, does the file have justification for using CAC?
- Is the contract for a new task, and if not, what was the previous method of completion?
- Is the contract for specialized skills, not readily found in DND?
- Does the contracting firm have corporate expertise in the field contracted?
- Was a threshold cost set?

Procurement Process/Contract Preparation

- Does the statement of work contain clear deliverables rather than daily procedures?
- Were milestones defined?
- Was the contract let competitively?
- If yes,
 - What was the competition type (Standing Offer, Omnibus, MERX, other)?
 - How many bids were received?
 - Was a reasonable time allowed for bids to be placed?
 - Were the various bids unique?
 - Did the incumbent continue to do work as part of the winning bid?
 - Do the mandatory requirements allow for other than previous DND employees?
 - Is there evidence of fair evaluation against the requirements?
- If no,
 - Were the requirements of sole sourcing met?
 - Is there evidence that the best price was obtained?
 - Was the person doing the work of the contract previously a DND employee or CF member?
 - Is there potential for a employee-employer relationship?
 - Do any of the invoices pre-date the contract award date?
 - Does the contract contain any off-ramps or penalties for not completing work as agreed to?

Contract Monitoring

- Was the completed work consistent with the contract's Statement of Work?
- Did the individuals the contracting firm bid perform the work?
- Were progress reports completed?
- Is there clear evidence that the milestones and deliverables were met?
- Were periodic evaluations completed?
- Was the payment based on milestones and deliverables?
- Is there evidence that the deliverables are satisfactory?