



Follow-up Audit of Contracting and Procurement

Office of Audit and Ethics
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Executive Summary

Background

Contracting and procurement activities are essential to support the CNSC in achieving its objectives, and are also subject to a high level of public scrutiny across the federal government. A key challenge throughout the federal government is to establish contracting and procurement policies and practices that are flexible enough to meet organizational needs while ensuring fairness, openness and transparency. Periodic and ongoing independent oversight of contracting activities is a sound management practice that is strongly recommended by Treasury Board (TB) *Contracting Policy*.

The CNSC's Contracting and Administration Division (CAD), which is under the responsibility of the Corporate Services Branch, manages the CNSC's contracting and procurement activities. Its responsibilities include contracting strategies; development of tools, such as training and guidelines for program managers; and the management and processing of all CNSC contracts and purchase orders.

Contracting is inherently a financial activity of higher risk and is subject to ongoing reporting to and scrutiny by Parliament, the media and the public. In light of this, a follow-up audit of contracting and procurement was deemed necessary. It was included in the CNSC's 2011–12 Risk-Based Audit Plan, which was reviewed by the Audit Committee and approved by the CNSC President in May 2011.

Objectives and scope

The audit's objectives were to determine if management had implemented management action plans (MAPs), and if desired results were achieved with respect to the 2009 Audit of Contracting and Procurement.

The scope of the follow-up audit included a review of the five MAPs resulting from the 2009 Audit of Contracting and Procurement. The follow-up audit focused on contracting and procurement activities for the period from September 1, 2010 to August 31, 2011.

Approach

The audit included the following activities:

- a review of relevant CNSC procedures governing the administration of contracting activities
- interviews with various CNSC employees involved in contracting activities

- testing of a sample of contracting files issued from September 1, 2010 to August 31, 2011

Conclusion

The audit concluded that the CNSC has implemented all elements of the MAPs that addressed recommendations of the 2009 Audit of Contracting and Procurement. Several processes, procedures and improvement initiatives have been put in place. Together, these are expected to strengthen management controls that govern contracting activities.

1. Introduction

1.1. Background

Contracting and procurement activities are essential to support the CNSC in achieving its objectives, but are also subject to a high level of public scrutiny across the federal government. A key challenge throughout the federal government is to establish contracting and procurement policies and practices that are flexible enough to meet organizational needs while ensuring fairness, openness and transparency. Periodic and ongoing independent oversight of contracting activities is a sound management practice that is strongly recommended by the TB *Contracting Policy*. This policy also requires formal contract review mechanisms, which are considered sound management practice.

The CNSC's Contracting and Administration Division (CAD), which falls under the Corporate Services Branch, manages the CNSC's contracting and procurement activities. CAD responsibilities include contracting strategies; development of tools, such as training and guidelines for program managers; and the management and processing of all CNSC contracts and purchase orders.

In 2009–10, the Office of Audit and Ethics (OAE) conducted an audit of contracting and procurement. The audit concluded that management controls had been effective in ensuring compliance with legislative requirements for contracting activities. It also identified opportunities for improvement and made five resulting audit recommendations. A management action plan (MAP) was developed to address each recommendation. The OAE has monitored the implementation of the MAPs and reported their status to the Audit Committee on a quarterly basis.

Every year, the OAE conducts a review of past audits to determine if a follow-up audit is warranted. Contracting is inherently a financial activity of higher risk and is subject to ongoing reporting and scrutiny by Parliament, the media and the public; therefore, a follow-up audit in this area was deemed necessary. A follow-up audit was included in the CNSC's 2011–12 Risk-Based Audit Plan, which was reviewed by the Audit Committee and approved by the CNSC President.

1.2. Objectives and scope

The objectives of the audit were to determine if management had implemented the MAPs and whether desired results were achieved. The first objective was with respect to the follow-up audit of the 2009 Audit of Contracting and Procurement.

The scope of the follow-up audit included a review of the five MAPs resulting from the 2009 Audit of Contracting and Procurement. The follow-up audit focused on contracting and procurement activities for the period from September 1, 2010 to August 31, 2011.

1.3. Analysis of risks

Based on our risk assessment during the planning phase, we identified several potential risks of the contracting process:

- risk of inconsistent practices and/ or inefficiencies because of the absence of clear justification for sole-source contracts
- risk of procurement via a series of smaller contract amounts with one vendor, in order to avoid threshold limitations (contract splitting)
- risk of creating conflicts of interest, where managers may make contracting decisions for their own personal interest

These risks were identified based on the requirements of the *TB Contracting Policy* and the *CNSC Policy on Contracting and Procurement*.

1.4. Audit criteria

The criteria for the follow-up portion of the audit consisted of the five MAPs developed by the CAD in response to the 2009 audit.

1.5. Approach and methodology

The audit approach consisted of the following activities:

- a review of relevant CNSC procedures that govern the administration of contracting activities
- interviews with various CNSC employees involved in contracting activities

The methodology for the follow-up audit of the MAP from the 2009 Audit of Contracting and Procurement included:

- gathering of evidence to ensure that the management action plans are implemented
- interviews with selected individuals from the Corporate Services Branch
- reviews of updated contracting and procurement processes, policies and standards, along with reviews of newly implemented procedures and limited testing of contract files
- assessment of the adequacy of processes and internal controls in place and whether the reported situations have improved

The audit was conducted within the established parameters of the TB *Policy on Internal Audit* and the Auditing Standards for the Government of Canada.

1.6. Statement of assurance

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria that were agreed upon with management. The findings and conclusion apply only to the entity examined and to the scope and time period covered by the audit.

Observations and Recommendations

2. Recommendations and Management Action Plans From the Follow-up Audit of the 2009 Audit of Contracting and Procurement

The follow-up audit expected to find that management has implemented the MAPs that resulted from the 2009–10 Audit of Contracting and Procurement, and that the desired results were achieved.

2.1. 2009 audit recommendation 1: Monitoring and reporting

Contracting Division should ensure that effective quality control mechanisms are implemented to ensure that contract files are processed in accord with policies and procedures and that actions and decisions are adequately documented. This should include specifying information to be included in contract files, and regular quality control reviews of files using a risk-based approach.

2009 management action plan:

- a) Implementation of a revised contract signing authority delegation instrument. Central to this new delegation instrument is the introduction of increased senior level oversight, review and approval based on the increase complexity and dollar value of the contract.
- b) All contracting and purchasing processes are now fully documented in the Contracting Division process manual. This manual had been provided to all Contracting Division staff as a reference guide and contains detailed descriptions of the steps to be taken when processing contracts and purchase orders. Each process is accompanied by flow charts and checklist.
- c) In July 2008 an additional senior contracting officer was obtained through an Interchange agreement with another department. One of the tasks assigned to this senior officer is to assist the Chief of contracting in monitoring and improving the quality control of contract files based on the recommendations of previous internal and external audits of the Contracting Division.
- d) The Contract Review Committee (CRC) Terms of Reference (TOR) are currently under review. A revised benchmarking exercise is being

undertaken to ensure that the CNSC Contract Review Committee can model itself bases on best practices of comparable organizations.

Audit observation:

The audit found that a revised instrument for delegation of financial and contracting signing authority, dated July 2011, has been approved and is in place. The CAD process manual document has been developed (effective July 2008) and fully documents all contracting and purchasing processes.

The audit also found that the TOR for the CRC have been developed, approved and implemented. The CAD conducted benchmarking research to align the TOR with other government departments and agencies, before the TOR were approved by Management Committee.

The audit did not find any evidence of regular quality-control reviews of contract files. The audit team discussed this issue with the contracting managers; as a result, the CAD has implemented a mechanism to address this.

Lastly, the audit tested a sample of 25 contract files to further examine processes for contracting monitoring and reporting. These 25 files were based on the categories associated with contracting activities: standing offer, non-competitive, competitive, local purchase order, and temporary help. The audit testing revealed that contract files are processed in accordance with policies and procedures, and that actions and decisions were adequately documented in 24 of 25 files tested. One non-competitive contract had an amendment without adequate justification documented in the file. This lack of proper documentation could lead to improper spending practices.

Conclusion:

The audit concludes that risk-based quality-control mechanisms are in place (i.e., CRC, delegation instruments, process manuals, risk management framework) and that the CAD has established regular quality-control reviews of contract files.

Status: Completed

2.2. 2009 audit recommendation 2: Performance measurement

A formal, documented performance measurement framework should be developed to enable assessments of the efficiency and effectiveness of the contracting function, provide reliable information on contracting activities, and

support management decision-making processes. The framework should include identifiable business objectives and outcomes; sufficient, adequate performance indicators; methods for collecting performance data; and mechanisms for monitoring and reporting performance information.

2009 management action plan:

- a) The CNSC will update its financial systems in the spring of 2010, and the CNSC intends to maximize procurement functionality (under Freebalance v6.2) to improve its business practices and reporting capabilities where applicable.
- b) One of the main goals of the Procurement and Contract Management System is to collect data on the activities and to facilitate the analysis of the performance management of the section. Information regarding turn around times for contractual transaction, business volume and client satisfaction will be accumulated and analyzed to provide management with performance data related to the CNSC contracting function.
- c) The Contracting Division is working on a revised set of service standards, based on the section's current reporting capability, which would allow certain initial performance measurement data to be tracked.

Audit observation:

The audit found that the process to collect performance data related to the contracting function is ongoing, while the Contracting Division continues to work with the Information Management Technology Division on an upgrade solution.

This MAP, which proposed establishing a performance management framework, is considered by management as no longer valid since the CAD has strengthened its practices to address any previous deficiencies.

The CAD has developed service standards that are linked to the Corporate Services Branch's Service Charter. It uses a spreadsheet/log to capture contract requests and turn-around times for service levels as a means of performance evaluation.

Conclusion:

The audit team agrees with management that service standards are a reasonable substitute for a performance measurement framework. Therefore, this MAP that deals with the implementation of performance measures has been substituted with service standards, which are more appropriate for the CAD.

Status: Completed

2.3. 2009 audit recommendation 3: Contract Review Committee and post-contract evaluation

The CNSC should implement the proposed Contract Review Committee (CRC) to fulfill the TB policy recommendation of a formal review mechanism and to ensure effective oversight of contracting activities.

The CNSC should implement a formal post-contract evaluation process in line with the recommendation of the TB Contracting Policy to ensure best value in contracts. This could be addressed in the mandate for the CRC.

2009 management action plan:

- a) As stated in the response of recommendation 1, the TOR of the CRC is currently under review, with a goal of re-activating a review process that would meet the CNSC's.
- b) The Contracting Division will conduct a review of other similar organization's post contract review processes. The results of this review will be used to establish a proposed post contract review system that could be established to suit the needs of the CNSC.

Audit observation:

The audit found that the CRC has been established. The oversight activities of the CRC are performed through quarterly meetings and as required to deal with special or urgent matters.

The audit also found that post-contracting evaluation reporting included detailed reports, trends, analysis and exception reports that are provided to CRC members and CNSC senior management. The CAD also conducted a review of other similar organization's post contract review processes.

Conclusion:

The audit concludes that the CRC has been established and is functioning.

Status: Completed

2.4. 2009 audit recommendation 4: Risk management

The CNSC should implement a formal, documented risk management framework for high-risk contracting activities. Management should ensure that the proposed risk-based approach includes sufficient procedures to identify, assess, mitigate, monitor and report risks.

Management action plan:

The Contracting Division has developed a risk assessment framework for the issuance of CNSC contracts. This framework is currently in draft format and is currently under review within the Finance and Administration Directorate (FAD). The framework provides guidance on the interpretation of contract risks, guidelines for peer review of contract files, and requirements for increased senior-level oversight based on complexity and risk of the contracting activity. This new framework will also outline criteria for the review of contracting actions by the CRC.

Audit observation:

The audit found that the risk management framework in place has sufficient procedures to identify, assess, mitigate, monitor and report on risks related to contracting activities. The audit team has reviewed the framework and noted the major risks are identified with respect to contracting activities. CAD management and staff indicated that the framework is used in the planning and administration of contracting activities.

Conclusion:

The audit concludes that the recommendation for a risk management framework is addressed and the MAP has been implemented.

Status: Completed

2.5. 2009 audit recommendation 5: Management fundamentals training

The Corporate Services Branch should ensure that a module on contracting that adequately addresses procurement planning, requirements definition and contract management is included in the management fundamentals training program.

2009 management action plan:

The Contracting Division and the Strategies, Programs and Learning Division (SPLD) are currently working on the development of a contracting module for the management fundamentals training program. This module will provide managers with guidance on contracting issues such as procurement planning, requirements definition as well as post-award contract management.

Audit observation:

The audit found that the contracting module for the management fundamentals training program addressed key elements of contracting such as procurement planning and requirements definition, as well as the post-award contract process. During the audit, we analyzed the training manual and noted that the manual comprehensively addresses all the elements identified in the associate recommendation.

Conclusion:

The audit concludes that the recommendation for management fundamentals training is addressed and the MAP has been implemented.

Status: Completed

3. Overall Conclusion

Significant effort has been made in implementing the MAPs that address the recommendations of the 2009–10 Audit of Contracting and Procurement. Several processes, procedures and improvement initiatives have been put in place. Together, these are expected to strengthen management controls that govern contracting activities.

This follow-up audit concludes that all MAPs resulting from the 2009–10 Audit of Contracting and Procurement have been addressed. Appendix 1 presents a global overview of the status of these action plans.

Note: This document is considered as phase 1 of the follow-up audit. Phase 2, entitled “Audit of Contracting Processes”, will be tabled at the Audit Committee meeting in November 2012.

Appendix 1: Status of Management Action Plans

2009 audit recommendation	2009 management action plan	Status
<p>Monitoring and reporting:</p> <p>Contracting Division should ensure that effective quality control mechanisms are implemented to ensure that contract files are processed in accord with policies and procedures and those actions and decisions are adequately documented. This should include specifying information to be included in contract files, and regular quality control reviews of files using a risk-based approach.</p>	Implemented	Completed
<p>Performance measurement:</p> <p>A formal, documented performance measurement framework should be developed to enable assessments of the efficiency and effectiveness of the contracting function, provide reliable information on contracting activities, and support management decision-making processes. The framework should include identifiable business objectives and outcomes; sufficient, adequate performance indicators; methods for collecting performance data; and mechanisms for monitoring and reporting performance information.</p>	Implemented	Completed

2009 audit recommendation	2009 management action plan	Status
<p>Contract Review Committee and post -contract evaluation:</p> <p>The CNSC should implement the proposed Contract Review Committee (CRC) to fulfill the TB policy recommendation of a formal review mechanism and to ensure effective oversight of contracting activities.</p> <p>CNSC should implement a formal post-contract evaluation process in line with the recommendation of the TB <i>Contracting Policy</i> to ensure best value in contracts. This could be addressed in the mandate for the CRC</p>	Implemented	Completed
<p>Risk management:</p> <p>CNSC should implement a formal, documented risk management framework for high- risk contracting activities. Management should ensure that the proposed risk-based approach includes sufficient procedures to identify, assess, mitigate, monitor and report risks.</p>	Implemented	Completed
<p>Management fundamentals training:</p> <p>The Corporate Services Branch should ensure that a module on contracting that adequately addresses procurement planning, requirements definition and contract management is included in the management fundamentals training program.</p>	Implemented	Completed