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Chief Review Services Chef - Service d'examen

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RISK ANALYSIS OF DND SERVICE CONTRACTS

January 2005

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Canada

NOTICE OF CAVEAT TO THE READER

This risk assessment was conducted as a special project and was not included in the annual Chief Review Services Work Plan. The conclusions do not have the weight of an internal audit. While sufficient to enable the development of recommendations for consideration by management, the assessments provided and conclusions rendered, are not based on the rigorous inquiry or evidence required of an audit. Accordingly, they are not represented as such.

It should also be noted that the work and resulting report are not intended to assess the performance of contractors; rather they consider processes and practices within the DND/CF. Contractors have not been interviewed or otherwise asked to provide comment or feedback.

SYNOPSIS

This report presents the results of a risk analysis of service contracting within the Department of National Defence (DND). It is emphasized that this is a risk analysis, not an audit, and the results should not be taken as evidence of contracting irregularities. Rather, as follow-on to a preliminary risk analysis of contracting, as well as recommendations for systemic improvements, this report isolates specific contracts which, based on a defined set of risk attributes, would appear to warrant additional audit and/or management attention. This analysis also identified some exemplary risk mitigation strategies which can be looked at for broader application.

Management Action Plans: *Coincident with DM direction that CRS cast a broad net to review all of the Department's contracting, it was further directed that there be a revitalization of Modern Comptrollership initiatives. Accordingly, the Finance and Corporate Services Group has spearheaded an aggressive campaign to strengthen Comptrollership. This has been captured in a Comptrollership Action Plan. DND has also established a Departmental Oversight Committee on Contracting, co-chaired at the ADM level, and has undertaken a review of its delegated authorities. Among other things, the Oversight Committee will make use of the results of the CRS analyses.*

In August 2003, the Deputy Minister (DM) directed Chief Review Services (CRS) to undertake an analysis to identify DND contracts exhibiting attributes associated with higher-risk. In addition to providing management with techniques and information, this analysis was intended to guide more detailed audit attention to specific contracts. The methodology was published in a report, entitled, Preliminary Risk Analysis of Contracts – this document was distributed, in draft, in October 2003, and a copy was provided to Public Works and Government Services Canada (PWGSC). A summary of the preliminary report is presented at Annex A. The initial DM direction resulted from concerns about escalating costs for certain large service contracts, as well as particular issues associated with contracting for maintenance of computer technology. As such, the work is being undertaken as a responsible, and progressive, measure to better ensure that the Department has early warning of any emerging issues affecting its contracting activity.

The original analysis applied global electronic filters and a scoring system, leading to the development of a list of 25 contracts identified as being at relatively higher-risk. A further 13 contracts were added to this list based solely on their high-value (i.e., over $50M). These 38 contracts, having a total value of $3.5B are listed at Annexes B and C. Subsequently, departmental contract *management staffs were engaged to assist in the completion of information templates for these contracts. The templates (at Annexes D and E) probed for information such as: the contractor selection process; the number of amendments required; cost escalation; whether the deliverables were within the contract scope; the involvement of subcontractors; and, whether performance incentives were included in the contract.*

Based on the results of this analysis, five contracts were targeted, valued at a total of $712M. In addition, three contracts amounting to a total value of $14M, were identified for more detailed review. The seven contracts are listed in the tables which follow.

Contracts recommended for audit

Type of Service	*Current Contract Value (Cost Escalation)*	*Contract Manager*
………………………….	………………………	ADM(Mat)/DGAEPM
……………………………………….	……………………..	ADM(Mat)/DGMEPM
………………………….	…………………….	ADM(Mat)/DGAEPM
………………………….	…………………….	ADM(Mat)/DGAEPM
………………………………	…………………………….	ADM(Mat)/DGLEPM

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Contracts recommended for further review

Type of Service	*Current Contract Value (Cost Escalation)*	*Contract Manager*
………………………………………………………	……………………	ADM(Mat)/DGMEPM
……………………………………………………………………………	……………….	ADM(IM)/DGIMO
………………………………………………………………………..	……………………..	ADM(Mat)/DGLEPM

In addition to identifying higher-risk service contracts, warranting audit/review, CRS noted the following:

- *The 25 higher-risk contracts experienced an average 31 per cent cost escalation, compared to the relatively lower-risk contracts which experienced a cost escalation of 11 per cent;*

- *The main contract cost escalation drivers reported by contract managers included: operational tempo; ageing equipment; expenditure tracking challenges; costly contract option years; and, a high proportion of sole-source contracts (48 per cent). We found only a limited number of contracts (4) which included cost mitigation incentives based on shared cost saving arrangements with the contractor; and*

- *The concentration of contract managers in certain directorates, is not proportional to the number of contracts that require monitoring. This introduces risks associated with imbalances in workload.*

The CRS report, Preliminary Risk Analysis of Contracts, called for a follow-on analysis of Standing Offer Agreements (SOA) and associated commitment accounting. In this respect, it was immediately apparent that improved systems are required to monitor SOAs, in terms of ceiling value escalations or spending. Given the streamlined approval provisions for Standing Offer call-ups, and the lack of monitoring, there is high potential for procurement of goods and services that are outside the intended scope of the SOA.

Regarding commitment accounting, the ADM(Fin CS) action plans are expected to address our concerns.

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Recommendations: *It is recommended that:*

- *The five contracts identified in this report …………………………………………………………………………………… ……………………………………………… be subject to more detailed audit attention – i.e., reflected in the next iteration of the CRS Review Plan;*

- *Three contracts identified in this report …………………………………………………………………………………………… ………………………………………………………………………….……be subject to further review by respective L1 Comptrollers (CRS to follow-up);*

- *ADM(Mat) undertake a review of the distribution of contract management staff relative to the number/complexity of contracts;*

- *ADM(Mat) liaise with PWGSC to ensure that contracting terms and strategies make greater use of cost-saving arrangements and vendor performance metrics in order to mitigate cost escalation and overdue deliverables;*

- *ADM(Mat) as the lead Level 1 for contract management, utilize the PWGSC database to identify and examine those National Individual and Regional Individual Standing Offers that have experienced significant escalation beyond their initial ceilings; and*

- *ADM(Fin CS) refine the commitment monitoring system to address the observations in this report on the numbers and types of payments without commitments.*

Specific Management Action Plans: *More detailed management action plans are provided on page 5 of this report;*

- *ADM(Mat) and ADM(IM) comptrollers will complete a review of the three maintenance contracts by November 2004;*
- *Distribution of contract management staff will be reviewed by COS(Mat) or incorporated in the ADM(Fin CS) Comptrollership Capacity Check;*
- *In consultation with PWGSC, ADM(Mat) will propose new contracting strategies and practices to improve risk mitigation; and*
- *ADM(Mat) will identify standing offer agreements experiencing escalation pressure and take necessary corrective action by April 2005.*

Improvements in the Financial Management Accounting System will be made by ADM(Fin CS) by November 2004 to provide better capability to monitor contractual commitments and expenditures.

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RESULTS IN BRIEF

INTRODUCTION & BACKGROUND

A number of CRS audit reports have raised warning flags regarding the sufficiency of management information available for the management of risks associated with service contracting. Issues have also been cited regarding delegated authorities and fundamental financial controls. It has been further emphasized that the Department must accelerate the transition to technology-intensive *Smart Controls*. There is a requirement for sound guidance, enablers and monitoring (GEM). The obstacles which we have encountered in accumulating and analyzing departmental contracting, are illustrative of a requirement for systemic improvements.

In 2003, CRS examined certain high-value contracts – this audit/review work was driven by DM direction and ultimately extended to a broad-based risk analysis of contracting. By October 2003, CRS had developed an automated methodology to identify potentially higher-risk contracts. The CRS report, *Preliminary Risk Analysis of Contracts*, issued in draft in October 2003, detailed the methodology. A summary is available in this report at Annex A and a brief outline is as follows:

- Global filters were applied to a PWGSC database of 12,000 contracts valued at $9.8B. The first filtering resulted in the isolation of 258 active service contracts, managed by NDHQ, with contract values greater than $1M – having a total value of $4.4B;

- Nine automated risk criteria were then applied to the 258 service contracts, resulting in a "Top 25" list of higher-risk contracts – having a total contract value of $1.2B (see Annex B);

- At the same time, contracts greater than $50M were deemed to be at relatively high-risk, due simply to their materiality (see listing at Annex C); and

- Nine of the contracts greater than $50M were already on the "Top 25" higher-risk list. The remaining 13 high-value contracts were added to the "Top 25" to reach a final list of 38 higher-risk/high-value contracts. The total value of these 38 service contracts was $3.5B, which provided 80 per cent coverage of all service contracts managed by NDHQ.

The next step was to request that Level 1 contract managers complete risk assessment templates designed by CRS. The templates (at Annexes D and E) sought detailed information about each of the 38 contracts. They specifically included 15 judgmental criteria concerning such things as: the number of contracts managed by the contract manager; the process used to select the contractor; the number of amendments required; the degree of contract escalation; whether the deliverables were within the contract scope; whether the work was performed by the prime contractor or by sub-contractors; whether or not the contract was part of an alternate service delivery initiative; and/or whether performance incentives were included in the contract. An assessment of this information then allowed judgmental conclusions on the contracts' attributes: the extent to which the contract ceiling was exceeded; the use of commitment accounting practices; the terms of payment, the availability of supporting documentation to document receipt of deliverables; the linkage of payments to deliverables; and, the degree to which the contract clearly defined the deliverables. The final results of judgmental risk criteria are summarized in Annexes F and G.

OVERALL ASSESSMENT

The application of judgmental risk criteria resulted in the identification of the five contracts listed below that warrant audit and management attention. It is important to note that, although some contracts had high judgmental risk scores, they were not necessarily selected for audit if there was no apparent cost escalation, or if the contracts were/would be subject to review by other planned or on-going audits.

Contracts recommended for detailed internal audit

Type of Service	Current Contract Value (Cost Escalation)	Contract Manager
………………………	……………..	ADM(Mat)/DGAEPM
………………………………	……………..	ADM(Mat)/DGMEPM
………………………	……………..	ADM(Mat)/DGAEPM
………………………	…………….	ADM(Mat)/DGAEPM
………………………	…………………	ADM(Mat)/DGLEPM

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In addition, although the total value is a relatively small, $14M in total, the extent of cost escalation for the following three contracts, suggests that further review by Level 1s is also warranted – we recognize that legitimate explanations may well be identified.

Contracts recommended for further L1 review

Type of Service	Current Contract Value (Cost Escalation)	Contract Manager
…………………………………………	…………….	ADM(Mat)/DGMEPM
…………………………………………………………..	…………..	ADM(IM)/DGIMO
………………………………………………..	………………	ADM(Mat)/DGLEPM

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While conducting the more detailed review of the 38 contracts, CRS noted the following broader contract management issues:

Cost Escalation. We observed that the 25 higher-risk contracts listed in Annex F experienced an average 31 per cent cost escalation, compared to average/*normal* service contract escalation of 11 per cent. The main cost escalation drivers identified by L1s were: operational tempo; ageing equipment; and, expenditure tracking challenges. Cost drivers identified by CRS were: more expensive contract option years; and, a high proportion of sole-source contracts.

Risk Mitigation. Approximately one third of the L1 contract managers reported the use of such proactive risk mitigation strategies as: holding back fees until all deliverables were produced or complete; the use of DND quality assurance representatives; and, the application of performance incentives. It is our view that the common measures such as vendor reports, vendor meetings, and Financial Management and Accounting System (FMAS) reports that were frequently reported as risk mitigation approaches, are useful primarily in assisting in the identification of risk – not necessarily mitigating the risk.

We observed that four aircraft maintenance contracts included cost saving/sharing arrangements. This practice should be encouraged as an effective means to mitigate the likelihood of cost escalation.

We noted the ratio of contracts to contract managers was high for some directorates. While contracts differ in complexity, our initial view is one of concern with the uneven distribution of contract managers relative to the number of contracts that require monitoring. This situation introduces contract management risks due to uneven workload.

Standing Offers. At present, systems are not in place to monitor expenditures/consumption for standing offer arrangements. We also observed significant escalation of standing offer ceiling values. Given the streamlined approval of call-ups for these arrangements, there is the potential for contracting services or goods that are outside the scope of work. The Materiel Acquisition and Support Information System (MASIS) does provide a potential solution for monitoring standing offers. However, there are few users of MASIS at present and when it is fully rolled out, there will still be contract managers that do not have access to this information system. In addition to MASIS, a seldom-used materiel management module within the FMAS may also provide a solution for monitoring of standing offers.

Payments Without Commitments. The initial CRS report, *Preliminary Risk Analysis of Contracts*, noted that $1.6B in vendor payments were made for 2002/03 without a commitment having been established in FMAS. Our follow-up assessment examined five cost centers that had each made total payments exceeding $10M with average individual payments greater than $100K – a total of $189M in payments. For example, for military moves and operational movements, payments were charged to a centrally-managed contract/cost centre without a commitment. Other payments without commitments were for medical clinic services, foreign military publication sales, and the Canadian Forces Personnel Support Program (CFPSP). The ADM(Fin CS) action plan outlined in *Preliminary Risk Analysis of Contracts* included monitoring measures to improve commitment accounting.

RECOMMENDATIONS

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It is recommended that:

- The five contracts identified in this report ………………………………………………………………………………… …………………………………………. be scheduled for audit in the next iteration of the CRS Review Plan;
- Three contracts identified in this report ……………………………………………………………………………………….. ………………………………………………………………….. be further reviewed by the appropriate L1 Comptrollers;
- ADM(Mat) review the distribution of contract management staff relative to the number/complexity of contracts;
- ADM(Mat) liaise with PWGSC to pursue contracting terms and strategies providing for increased use of incentive-based performance metrics – particularly cost savings/sharing arrangements and timely product delivery;
- ADM(Mat) as the lead L1 for contract management, utilize the PWGSC database to identify and examine those National Individual and Regional Individual Standing Offers that have experienced significant escalation beyond their initial ceiling values; and
- ADM(Fin CS) refine the commitment monitoring system to address the observations in this report on the numbers and types of payments without commitments.

MANAGEMENT ACTION PLAN

Ser	CRS Recommendation	OPI	Management Action
1	Three contracts identified in this report ………………………………………… ………………………………………… ………………………………………… …………………….. be further reviewed by the appropriate L1 Comptrollers. AIA Section 20(1)c) Third Party Information	ADM(Mat)/ DGMEPM Compt ADM(IM)/ IM Gp Compt ADM(Mat)/ DGLEPM Compt	By November 2004, the respective Level 1 comptrollers will determine the causes of the contract cost escalations and the number of contract amendments. An assessment will be made regarding the applicable certifications pursuant to Section 34 of the Financial Administration Act (FAA).
2	ADM(Mat) review the distribution of contract management staff relative to the number/complexity of contracts.	ADM(Mat)/ DMG Compt	A review of workload distribution for contracting for each Materiel Group division would be beneficial. It will be requested that the Comptrollership Capacity Check to be undertaken by the Finance and Corporate Services Group include contract management gaps as a specific task. Otherwise the review will be undertaken by COS ADM(Mat).

Ser	CRS Recommendation	OPI	Management Action
3	ADM(Mat) liaise with PWGSC to pursue contracting terms and strategies providing for increased use of incentive-based performance metrics – particularly cost savings/sharing arrangements and timely product delivery.	ADM(Mat)/ DMASP 4	As the second phase of the action plan proposed in the CRS report *Preliminary Risk Analysis of Contracts,* ADM(Mat) will establish the High Risk Contract Framework action plan with the implementation of a database and templates to identify, manage and report the status on high risk contracts by end November 2004. By May 2005, within DND, ADM(Mat) will: identify/validate successful risk mitigation strategies and contracting practises to better mange vendor performance; address overdue deliverable issues; and mitigate cost escalation. In June 2005 ADM(Mat) will meet with PWGSC to: discuss proposed strategies/practices; make necessary changes as required; adopt standard clauses, terms and conditions in both Departments; and promulgate strategies/practises as standards in both Departments via a Communication Plan.
4	ADM(Mat) utilize the PWGSC database to identify and examine those National Individual and Regional Individual Standing Offers that have experienced significant escalation beyond their initial ceiling values.	ADM(Mat)/ DC Pol	By January 2005 a download of the PWGSC database of NISOs and RISOs will be analysed to identify specific standing offer agreements that have significant escalation. Reasons for escalation will be determined and necessary corrective action will be taken by April 2005.

Ser	CRS Recommendation	OPI	Management Action
5	ADM(Fin CS) refine the commitment monitoring system to address the observations in this report on the numbers and types of payments without commitments.	ADM(Fin CS)/ DGFA	By November 2004 a new release of the Financial Management Accounting System (FMAS) will support entry of contract numbers for commitments greater than $5,000 that are input directly into the system. This will help link expenditures greater than $5,000 to a commitment.
		ADM(Fin CS)/ DFPP	Since April 2004 a contract number is required to be placed in the commitment header field in order to link contracts, commitments and payments as an interim process. A FMAS commitment consumption report will show all payments made against that commitment (and therefore the contract). Standardized commitment recording linkages between expenditures and corresponding contracts will be developed by DGFA by November 2004 and disseminated by April 2005 by DFPP.
		ADM(Fin CS)	Monitoring of contracts, their recording within commitment documents, and associated expenditures will be reviewed through FMAS reports and the through the DOCC.

OBJECTIVES, SCOPE & METHODOLOGY

OBJECTIVES

This risk analysis and assessment of service contracts was directed by the DM. The objective was to identify, from a list of 38 higher-risk/high-value service contracts, those that demonstrated warning signs indicating that a requirement for additional audit and management attention.

SCOPE

The scope of the risk assessment was limited to service contracts in the Department. In view of recent CRS reviews/audits of Operations and Maintenance (O&M) contracts, service contracts were considered to involve relatively higher-risk than those for goods acquired as part of the capital acquisition program. Risks associated with service contracts have been identified in the following recent CRS reports:

- *Audit of Contracting for Advertising and Related Services* (March 2003);
- *Audit of Contracting for Professional and Technical Services* (November 2001);
- *Quick-Time Review of Contracting for Professional Medical Services* (2003); and
- *Audit of the Management of Local Funds* (draft as at August 2003).

This report is the second of a series of CRS reports on risk analysis of contracts. The first, *Preliminary Risk Analysis of Contracts,* described in detail the CRS risk methodology for the automated selection of contracts with higher-risk attributes (Annex A contains a summary of this methodology). This methodology was applied to active PWGSC-tendered DND service contracts and resulted in the identification of 38 higher-risk/high-value contracts for further analysis. This report includes the results of the application of judgmental risk criteria to information provided by Level 1 contract managers in order to select those contracts that require more comprehensive audit. The scope of work in this report also includes the risk analysis of:

- High-value O&M payments made in fiscal year 2002/03 without commitments; and
- The management of standing offers to ensure that ceilings are not exceeded.

METHODOLOGY

The assessment of higher-risk contracts commenced in mid August 2003. The high-level seven-step methodology is outlined below:

- Step 1 – Development of selection criteria (high-risk) in consultation with PWGSC/Consulting Audit Canada;
- Step 2 – Application of nine, automated risk criteria to information contained in contract data bases and to FMAS contract expenditure history;
- Step 3 – Interviews with DND contract managers to confirm a directed sample of contracts identified through data analysis;
- Step 4 – Development of a list of 38 service contracts demonstrating risk, based on steps 1 to 3;
- Step 5 – Development of two, risk assessment templates with 15 judgmental criteria;
- Step 6 – Completion of 38 risk assessment templates by L1 contract managers; and
- Step 7 – CRS application of judgmental risk criteria to completed risk assessment templates to determine contracts in need of more comprehensive audit or review.

This report focuses on steps five to seven. The results of steps one to four were presented in the first report, *Preliminary Risk Analysis of Contracts*, issued in draft in October 2003. The first four steps are also contained in summary in Annex A of this report.

The two risk assessment templates developed by CRS to collect information from L1 contract managers (Step 5) may be found at Annexes D and E.

Fifteen judgmental risk criteria were applied to the sample of 38 contracts:

1. Contract managers workload was reasonable. The average number of contracts per manager was 14.
2. A competitive process was the basis for the contract award.
3. Less than four contract amendments were necessary.
4. Contract escalation was less than 30 per cent – not including option years.
5. The deliverables were within the contract scope of work.
6. Most of the work was performed by the prime contractor.
7. The contracted services were provided to one or two locations.
8. The contracted services were not a new alternate service delivery initiative.
9. Performance incentives related to the base amount of the contract.
10. The contract expenditures were within the ceiling price of the contract.
11. Commitment accounting practices were in place.
12. Terms of payment did not include a cost plus arrangement.
13. There was sufficient supporting documentation to verify the receipt of goods and services.
14. The contract provided for linkage of payments to deliverables.
15. The contract statement of work clearly defined the deliverable.

The maximum risk score possible for the judgmental criteria was 15 – one point for each criteria that was not met.

The 38 templates and the associated contract documentation were reviewed manually by the CRS team. The review was supplemented by telephone interviews with contract managers to clarify the information provided. Expenditure tracking for each contract was followed up by the review team analysis of the FMAS entries.

OBSERVATIONS AND FINDINGS

The application of the judgmental risk criteria resulted in the identification of the five contracts listed in Table 1 – these warrant audit. Although some contracts had high-risk scores, they were not necessarily selected for audit if there was no apparent cost escalation or if the contracts were already subject to review by other planned/on-going audits.

Table 1 – Service Contracts Selected for Comprehensive Audit – Total $712M

Type of Service	Current Contract Value (Cost Escalation)	Contract Manager
………………………	………………	ADM(Mat)/DGAEPM
………………………………..	………………	ADM(Mat)/DGMEPM
………………………	………………	ADM(Mat)/DGAEPM
………………………	………………	ADM(Mat)/DGAEPM
………………………	…………………..	ADM(Mat)/DGLEPM

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In addition, although the value is relatively small, $14M in total, the extent of cost escalation for the following three contracts in Table 2, suggests that further review is also warranted:

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Table 2 – Low Dollar Value Service Contracts Selected for Further Review

Type of Service	Current Contract Value (Cost Escalation)	Contract Manager
…………………………………………...	………………	ADM(Mat)/DGMEPM
…………………………………………………………..	………….	ADM(IM)/DGIMO
……………………………………………………...	………………	ADM(Mat)/DGLEPM

Recommendations

The five contracts identified in this report …………………………………………………..………………………………………… ..……………………………………..….. be scheduled in the next CRS work plan for audit; and

Three contracts identified in this ………………………………………………………………………………………………...………… ……………………………………………..…… be further reviewed by the appropriate L1 Comptrollers.

Risk Template Observations

Table 3 shows that the 25 higher-risk contracts listed in Annex F experienced 31 per cent cost escalation compared to 11 per cent for overall/normal service contract escalation of 11 per cent. We observed three main contributing factors that:

- A slightly higher proportion of service contracts (48 per cent) were non-competitive – 44 per cent was the norm for NDHQ-managed service contracts greater than $1M in value;
- Long-term contractual relationships existed with vendors, partly due to exclusive rights – over seven years on average prior to the current term of the contract. In some cases, DND is the sole customer of the vendor; and
- Four option years on average were included in contract terms. We found option years to be 44 per cent more costly than the original contract periods. Compounded escalation rates over five years could only account for an increase of 4 per cent.

Table 3 – Summary Of Completed Contract Summary Templates

(Note: discrepancy in PWGSC database contract values due to contracts prior to year 2000 e.g., NFTC $2.6B)

Assessment Criteria	Higher-Risk Contracts	High-Value Contracts	Total Contracts
Number of Contracts	25	13	38
Current Contract Value (M$)	$1,400	$4,750	$6,150
PWGSC Database Current Value (M$)	$1,207	$2,206	$3,413
% Non- Competitive	48%	46%	47%
Average Years With Vendor	6	11	7.71
Average Number of Option Years	2.1	3.6	2.61
Average Max Length of Contract	4.7	10.3	6.62
Average % Cost Escalation	31%	13%	25%

KEY RISKS AND MITIGATION STRATEGIES

Key Risks. As summarized in Table 4, the primary risk reported in the L1 risk assessment templates was cost escalation – 55 per cent of all contracts, but 60 per cent of the 25 higher-risk contracts. The primary reasons reported for risk of cost escalation were:

- Increase in operational tempo;
- Aging of weapons and equipment; and
- Expenditure tracking difficulty.

Risk of schedule delay, due to long lead-times for procurement of spares was often reported by L1s as a major concern. Technical challenges were reported as the frequent primary cause of performance risk. Our analysis of the verification of deliverables process reported in the Level 1 risk templates found that payments for 26 per cent of the contracts were based on reports from the vendor rather than a DND representative. For these contracts, more resources will be necessary too verify the receipt of goods prior to payment.

Table 4 – Analysis of Contract Summary Templates Key Risks

Risk Summary	Higher-Risk Contracts	Percent of 25 Contracts	High-Value Contracts	Percent of 13 Contracts	Total Contracts	Percent of 38 Contracts
Cost	15	60%	6	46%	21	55%
Performance	3	12%	6	46%	9	24%
Schedule	6	24%	5	38%	11	29%
Verification	6	24%	4	31%	10	26%

We observed a significant difference between the number of contract managers available within Directorates, in proportion to the number of contracts each Directorate was required to monitor. Table 5 portrays that the number of contracts per contract manager could range from 1 to 122. Although the complexity of some contracts requires greater resources to monitor, our concern is that a significantly high workload for contract managers introduces additional risk.

Table 5 – Summary of Level 1 Reported Contract Managers/Contracts

Ser	Directorate/ Division	Number of Contract Managers	Number of Contracts	Contracts per Contract Manager
1	DPDMIS	108	1,000	9
2	PMO MASIS	2	3	2
3	DLBM	12	33	3
4	PMO CATP	2	2	1
5	DMMS	70	1,913	27
6	DAEPM(FT)	28	258	9
7	DAEPM(M)	5	609	122
8	DAEPM(R&CS)	3	12	4
9	DAEPM(TH)	9	51	6
10	DAVPM	11	500	45
11	DMSDP	20	10	1
12	DTSES	2	100	50
13	DCPS	113	1,000	9
14	DMCM	9	11	1
	Total	374	4,591	14

Recommendation

ADM(Mat) review the distribution of contract management staff relative to the number/complexity of contracts.

Risk Mitigation

The most common risk mitigation strategies reported by L1s included information gathering from vendor meetings/reports or Enterprise Resource Planning (ERP) systems such as FMAS, Canadian Forces Supply System (CFSS), or MASIS as portrayed in Table 6. It is our view that this information simply identifies the risk, but does not represent proactive mitigation. However, we did observe that there was some mitigation practices in place that should be utilized Department-wide. For example:

- About one third of the 38 service contracts utilized DND quality assurance representatives on-site and holdback of payments to mitigate non-performance by the contractor.

- One third of the 25 higher-risk contracts linked payments/incentives to performance standards.

  - Performance fees ranged up to eight percent additional profit.
  - Only four contracts had a cost saving sharing arrangement – all of them were DGAEPM contracts.
  - Three military move contracts had vendor work sharing arrangements based on performance.

Table 6 – Summary of Level 1 Reported Mitigation Strategies for Service Contracts

Mitigation Summary	Higher-Risk Contracts	Percent of 25 Contracts	High-Value Contracts	Percent of 13 Contracts	Total Contracts	Percent of 38 Contracts
Vendor Meetings	12	48%	10	77%	22	58%
Vendor Reports	9	36%	9	69%	18	47%
ERPs	10	40%	6	46%	16	42%
Indiv Tasks	5	20%	6	46%	11	29%
Quality Assurance	8	32%	6	46%	14	37%
Incentives/metrics	8	32%	6	46%	14	37%
Holdbacks	11	44%	7	54%	18	47%

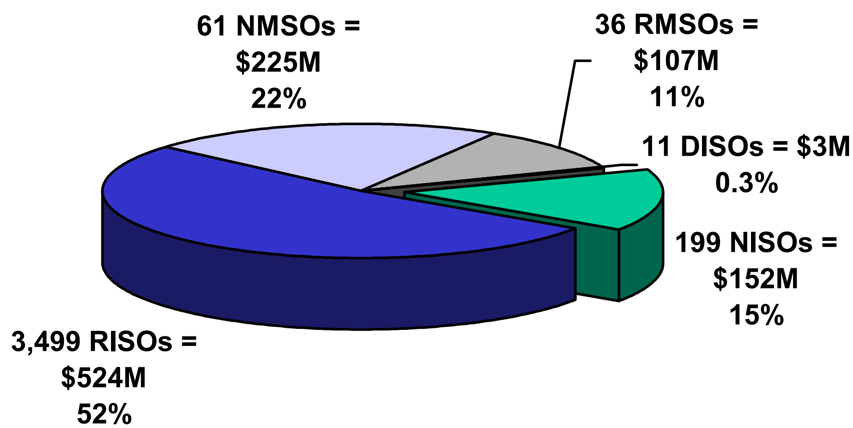
Recommendation

ADM(Mat) liaise with PWGSC to discuss contracting strategies/terms which include incentives-based performance metrics, including cost saving/sharing arrangements and incentives for timely delivery.

STANDING OFFER RISK ANALYSIS

Our primary concern regarding standing offers is the potential for contracting for goods and services outside the defined scope of work. The streamlined process for raising call-ups enables less scrutiny to ensure goods and services are included in the statement of work. We focused on two indicators that suggest work which was out-of-scope. The first was significant escalation of the value of standing offer ceilings. The second was the adequacy of the control framework to ensure that the accumulation of call-ups for services or goods did not exceed the standing offer value ceiling – the authorized expenditure limitation. Outlined in Figure 1 below, are the 3,806 active standing offers utilized by DND in the PWGSC database – over $1B in value.

Figure 1 – Active Standing Offers in PWGSC Database



Regional Individual Standing Offers (RISOs). Although a significant total dollar value of $524M, the unit value of these RISOs amounts to only $150K on average. Local contracting authorities on CF bases across Canada manage the RISOs. This type of standing offer was considered to have less risk impact.

National Master Standing Offers (NMSOs)/Regional Master Standing Offers (RMSOs). These standing offers are utilized by all government departments and do not represent a unique DND commitment. Direct risk exposure to DND is less likely as PWGSC has the responsibility to monitor the standing offer NMSO/RMSO ceilings. However, overall risk to the Crown may remain.

Departmental Individual Standing Offers (DISOs). Each call-up against a DISO must be submitted to PWGSC for approval. Given the small dollar value and external controls on the DISOs, they were excluded from the risk analysis.

National Individual Standing Offers (NISOs). These standing offers are managed by NDHQ and represent a relatively high unit dollar value – $760K on average. Therefore, our standing offer risk analysis focused on NISOs. Table 7 provides the a breakout of the type of NISOs and stratifies them by dollar value. Over half of the NISOs are goods related and represent 90 per cent of the dollar value. Our directed sample of 35 NISOs amounted to $123M in value.

Table 7 – Active NISOs in PWGSC Database

		Total NISOs	By Good or Service		By NISO Ceiling Value			
			Goods	Services	< $1M	>= $1M < $5M	>= $5M < $10M	>= $10M
# of Agreements	**#**	**199**	**113**	**86**	**166**	**25**	**2**	**6**
	%	*100.0%*	*56.8%*	*43.2%*	*83.4%*	*12.6%*	*1.0%*	*3.0%*
NISO Value	**$M**	**$152.3**	**$136.6**	**$15.6**	**$26.9**	**$47.1**	**$11.4**	**$66.9**
	%	*100.0%*	*89.7%*	*10.3%*	*17.7%*	*30.9%*	*7.5%*	*43.9%*

Observations. We examined the standing offer information in three different databases and found severe limitations with respect to monitoring the consumption of standing offer ceiling values. For example:

- The Materiel Acquisition and Support Information System (MASIS) will measure the consumption of NISOs. However, until fully implemented, only ADM(Mat) users will be able to monitor 54 per cent of the NISOs. Currently the DGMEPM/Navy staff have started to input contract information as they are the first primary user of MASIS;

- Although the PWGSC database includes very few call-ups against standing offers to measure consumption, we found it to be a useful tool to measure the escalation of the value of standing offer ceilings as demonstrated in Table 8 below;

- Only 805 call-ups worth $120M against all types of standing offers were found in the PWGSC data. Of these only 8 call-ups worth $2.3M could be matched to 3 standing offers;

- 199 NISOs had escalated from $134M to $152M in value (14%) – see Table 8 –
  - 14 of the NISOs worth $8M in total had more than doubled in value (120%), and
  - 8 other NISOs worth $13M in total had escalated to $20M in value (54%);

- 390 RISOs worth $32M in value have more than doubled in value to $81M (153%);

Table 8 – PWGSC Database NISO Value Escalation

Ser	No. of NISOs	Original NISO Value	Amended NISO Value	Increase In NISO Value	NISO Value Escalation %
1	15	$669,908	$55,481	($614,427)	-91.7%
2	103	$109,127,753	$109,127,753	$0	0.0%
3	17	$2,909,165	$3,344,670	$435,505	15.0%
4	8	$12,852,991	$19,841,752	$6,988,761	54.4%
5	14	$8,160,230	$17,987,584	$9,827,354	120.4%
6	4	$0	$0	$0	No Contract Value
7	38	$0	$1,931,420	$1,931,420	Amend Value
	199	$133,720,047	$152,288,660	$18,568,613	13.9%

- Consumption of standing offers in FMAS could not be measured;

- Standing offer call-ups could not consistently be identified as commitments as commitments are not a mandatory field in FMAS;

- The seldom used materiel management module in FMAS has potential to track NISO consumption; and

- Three of 35 NISO directed sample ($2.3M in call-ups) were found to use a best practice of assigning pre-commitment numbers that matched NISO numbers and commitment numbers as call-ups in order to monitor consumption.

Recommendation

ADM(Mat), as the lead L1 for contract management, utilize the PWGSC database to identify and examine those National Individual and Regional Individual Standing Offers that have experienced significant escalation beyond their initial ceiling values.

FOLLOW-UP ON EXPENDITURES WITHOUT COMMITMENTS

The report, *Preliminary Risk Analysis of Contracts,* noted that $1.6B in vendor payments were made for 2002/03 without a commitment having been established in FMAS. Annex H includes 23 cost centers that had made payments in 2002/03 exceeding $10M without establishing commitments. High-value payments without commitments do not comply with the 30 March 2002 Director General Finance policy that required the entry of commitments in FMAS starting in fiscal year 2002/03. The DG Fin commitment accounting criteria are summarized in Annex I. To address our concerns, the ADM(Fin CS) action plan included monitoring measures to improve commitment accounting.

Our follow-up included those five cost centers listed in Table 9 that made average payments that exceeded $100K – at a total of $189M in payments. We recognize that it is not practicable in some cases to set up low- dollar -value commitments, particularly for thousands of minor call-ups on standing offers for base maintenance services, goods or stationary. However, the DG Fin policy is very clear on the dollar value thresholds that require use of commitments in FMAS.

Table 9 – Cost Centers Average Payments Greater than $100K With No Commitments in 2002/03

Ser	Cost Centre	Cost Centre Description	No. of Payments	Payments Value	Average Value of Payment
1	3398AP	DGMC FINANCIAL MANAGEMENT SERVICES	366	$101,110,111	$276,257
2	0150UN	CC4A-DCDS DEPLOYED OPS UNITS	166	$ 28,725,097	$173,043
3	2203AA	CHIEF HEALTH SERVICES (CHS)	217	$ 23,611,380	$108,808
4	0153FF	MAT GROUP TRANSLATION	129	$ 18,908,756	$146,580
5	0149AA	ASSISTANT DEPUTY MINISTER PERSONNEL	94	$ 16,710,788	$177,774
		Total	**981**	**$189,066,132**	

Observations. There are no system-generated edits in FMAS that require the setting-up of commitments prior to a payment. The accuracy of Departmental Quarterly Forecasts will continue to be affected if commitment accounting is not adhered to. For each serial in Table 9, we observed the following:

- Military move contracts are administered at the base level, charged to an ADM(HR-Mil)/DGMC account but with no commitment set up (Serial 1);

- Deployed operation movement of personnel and equipment are done on an urgent basis with immediate contract awards and payments without the set-up of commitments (Serial 2). Although payments are charged to the DCDS account, the requisition and payment for movement services is performed by ADM(Mat)/J4 Move;

- Similar to military moves, contracted medical services at the base level are charged to a Chief Health Services account with no commitment set up (Serial 3);

- Foreign Military Sales (FMS) payments for publications are made by ADM(Mat) without commitments (Serial 4). As well, we found $4M in target towing charges in this account that were procured through a RISO with no commitments; and

- The cost center in Serial 5 made payments to the Canadian Forces Personnel Support Program without commitments.

Recommendation

ADM(Fin CS) refine the commitment monitoring system to address the CRS observations in this report on the numbers and types of payments without commitments.

SUMMARY OF RECOMMENDATIONS

AIA Section 20(1)c)
Third Party
Information

It is recommended that:

- The five contracts identified in this report ……………………………………………………………………………………… ……………………………………….. be included for audit in the next iteration of the Review Services Plan;

- Three contracts identified in this report ……………………………………………………………………………………… ……………………………………………………………………….. be further reviewed by the appropriate L1 Comptrollers (CRS will follow up);

- ADM(Mat) undertake a review the distribution of contract management staff relative to the number/complexity of contracts;

- ADM(Mat) ensure that greater use is made of cost-savings arrangements by implementing vendor performance metrics in order to mitigate cost escalation and overdue deliverables;

- ADM(Mat), as the lead L1 for contract management, utilize the PWGSC database to identify and examine those National Individual and Regional Individual Standing Offers that have experienced significant escalation beyond their initial ceiling values; and

- ADM(Fin CS) refine the commitment monitoring system to address the CRS observations in this report on the numbers and types of payments without commitments.

ANNEX A – CRS CONTRACT RISK ANALYSIS METHODOLOGY SUMMARY

GLOBAL CONTRACT FILTERS

In order to isolate higher-risk service contracts, global filters, summarized in Table 10, were applied to the PWGSC database to reduce the population to 258 contracts. A schematic diagram on page A-2 of this report provides a visual portrayal of the rationale and the caveats for each of the global filters listed below:

- Active DND contracts;
- Contracts with significant materiel value; and
- Service contracts.

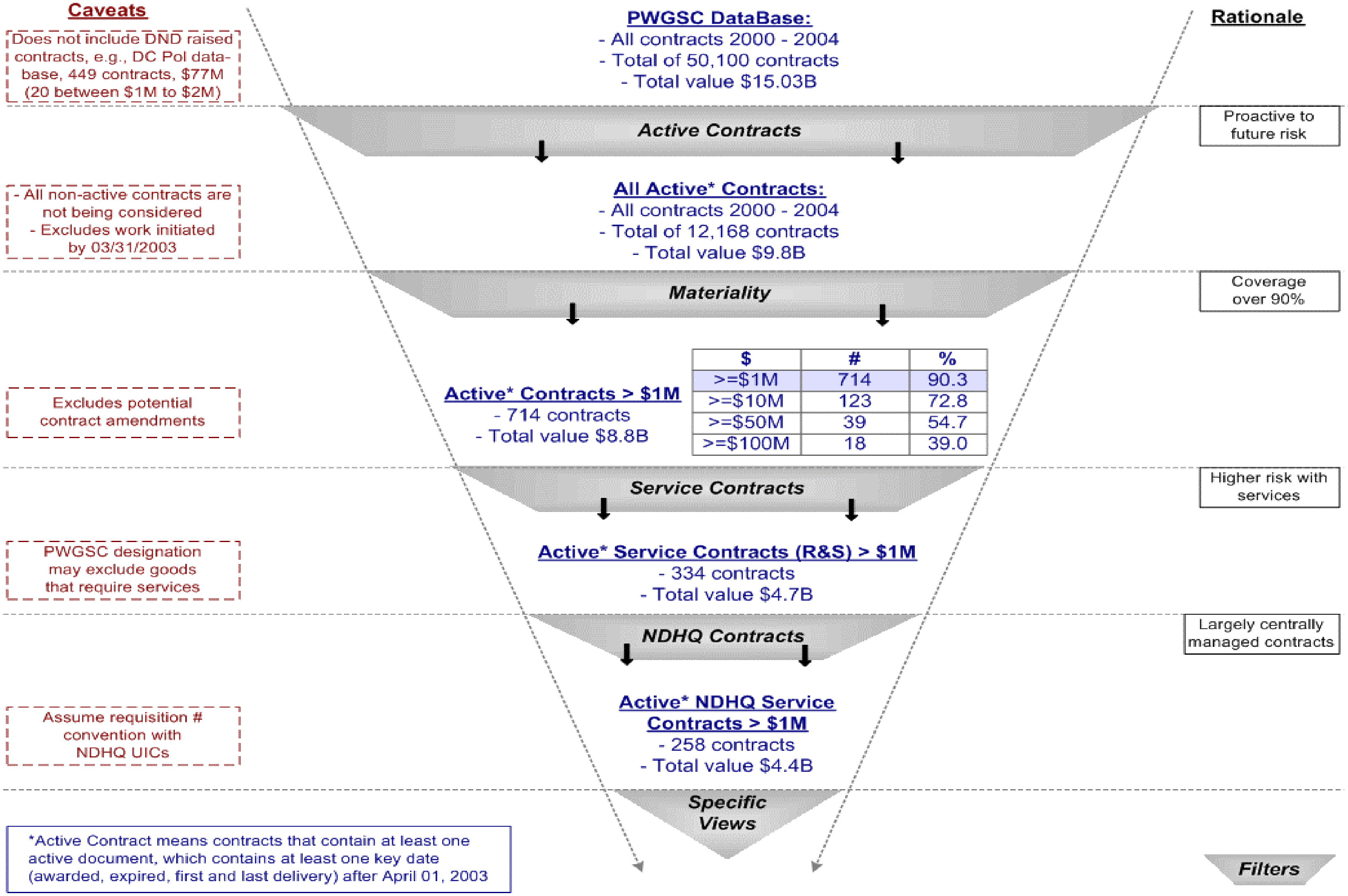
Table 10 – Higher-Risk Global Contract Filters

	Type of Filter			
	Active Contracts	Materiality >$1M	Service Contracts	NDHQ Contracts
No of Contracts	12,168	714	334	258
Value of Contracts	$9.8B	$8.8B	$4.7B	$4.4B

Materiality: It was decided that a conservative filter would be a $1M threshold – reducing the population to 714 contracts. This first filter eliminates 11,454 contracts (93 per cent) but retains 90 per cent of the dollar value of the total contract population.

Service Contracts: To date, there has been less risk associated with contracts for goods. We have observed that the scope of work for service contracts can be underestimated and the verification of services rendered can be more difficult, particularly for maintenance contracts. By eliminating goods contracts with the second filter, the population of contracts greater than $1M in value was reduced from 714 to 334 contracts. The value of these service contracts amounts to $4.7B. A risk assessment of goods contracts will be the subject of a separate third report on contract risk analysis.

ANNEX A



$	#	%
>=$1M	714	90.3
>=$10M	123	72.8
>=$50M	39	54.7
>=$100M	18	39.0

Figure 2 Global Contract Filter

ANNEX A

NDHQ-Managed Contracts: Those contracts that provide services for defence establishments across the country, but are managed centrally by NDHQ, have proven to be more difficult to manage. The third global contract filter isolated those service contracts greater than $1M that were initiated by NDHQ organizations and resulted in 258 contracts that amount to $4.4B.

Once the three global filters were applied, the 258 NDHQ-managed contracts were stratified by dollar value. As portrayed in Table 11, 81 per cent of the total contract dollar value is represented by the 45 contracts that are greater than $10M. Annex C lists those 22 contracts greater than $50M. This filter methodology resulted in the selection of all three service contracts that have raised concerns with senior management (Serial 8, 10 , 18 in Annex A).

Table 11 – Dollar Value of NDHQ Managed Service Contracts

Range ($M)	Contracts	Value ($M)	Percent
>=$100M	13	$ 2,529	57.9%
$50M to $100M	9	696	15.9%
$20M to $50M	9	305	7.0%
$10M to $20M	14	196	4.5%
$1M to $10M	213	$ 641	14.7%
Total	**258**	**$ 4,367**	**100.0%**

OTHER RISK-BASED SELECTION CRITERIA

Automated Criteria: To determine which of the 258 centrally managed service contracts greater than $1M in value were at highest risk, the nine automated criteria listed below were applied with weighted scores outlined in Table 12. Most of this information was available on the PWGSC ABE database. As portrayed in Table 12, the highest possible risk score was 8.25. The top 25 contracts with the highest risk score are listed in Annex B and were subjected to a manual review by CRS. Note that nine of the high-value contracts in Annex C also appear on the list of 25 high-risk contracts in Annex B.

- **Materiality:** Risks associated with higher-value contracts were assessed to have a greater impact. The amended contract value was taken from the PWGSC ABE database.

- **Contract Amendments:** An amendment greater than 30 per cent of the contract value was considered significant particularly if the amended value of the contract was greater than the original requisition amount. For the 258 NDHQ managed service contracts, the average increase in contract value was 11.4 per cent, not including the exercise of option years.

ANNEX A

- **Tender Process:** Although contracts can still be poorly managed if they were awarded through the competitive process, there is an element of risk if the Department has limited the contract award to a single contractor. Of the 258 NDHQ-managed O&M contracts, we found that 115 contracts (44 per cent) were sole-sourced – a total contract value of $2.2B (50 per cent). Normally 23 per cent of all DND contracts tendered by PWGSC are sole sourced mainly due to exclusive rights of the vendor.

- **Type of Commodity:** Certain contracted services such as information system maintenance, medical services, advertising and repair and overhaul, were scored as higher-risk. Only 56 of the 258 NDHQ-managed contracts were not in the high-risk category. The most significant commodity was the 113 repair and overhaul contracts.

- **Method of Payment:** The most common methods of payment are milestone payments, payment upon delivery, and progress claims. However 16 per cent of the NDHQ-managed O&M contracts have a 'multiple' method of payment. The 'multiple payment' method was scored as a higher-risk given the difficulties experienced with two large service contracts with the same method of payment.

- **Higher-Risk Organizations:** There are some Level 1 organizations that may be relatively less experienced in managing contracts and have only recently explored contracted services as alternate means of service delivery. As well, we rated organizations that initiate common-user contracts as higher-risk due to the decentralized nature of contracted services. Higher-risk organizations were considered to be ADM(HR-Mil)/CFMG, ADM(IM), ADM(Mat)/DCPS, ADM(S&T) and OCIPEP (no longer part of DND).

- **Consulting Audit Canada (CAC):** A database of 131 CAC cost audits was made available to CRS. We were able to identify some vendors that required significant adjustments to claims and profit. Vendors for which CAC commented on the adequacy of cost records were also given a higher-risk score.

- **Higher-Risk Payments to Vendors.** A series of expenditure analysis tests were done to examine the source, frequency, concentration, dispersion, patterns and size of payments/commitments to determine vendors that have received higher-risk payments.

- **Over-consumption:** From our FMAS data analysis, we were able to identify some contracts for which the ceiling price was exceeded or individual commitments were exceeded. In the absence of standard commitment numbering conventions, only 130 FMAS commitments could be matched to the 258 O&M contract numbers.

ANNEX A

Table 12 – Automated Risk Criteria Scoring For Service Contracts – Maximum Score 8.25

Contract/ Criteria	Dollar Value	Over-spent/ Amdts	Tender Process	Commodity	Method of Pay	CAC Problem/Vendor	Over-spent	High-Risk Organization
Score Weight	1.0>$100M .75 >$75M .20 >$20M .10>$10M 0.<=$10M	1.0>30% 0.0<=30%	0.5 if sole sourced 0.0 if completed	0.75 if R&O, prof svcs or IM/IT maint	1.0 if multiple payments	1.0>10% adjusted. 1.0 if high risk in vendor payment analysis	1.0 if payments exceeds commitment	1.0 if High Risk Organization

ANNEX B – 25 HIGHER-RISK SERVICE CONTRACTS – AUTOMATED RISK CRITERIA

AIA Section 20(1)c)
Third Party Information

Ser	Contract Number	Vendor Name	PWGSC Contract Value	Total Score	Type of Service	OPI
1	…………………………..	…………………………………..	……………..	……	…………………………	ADM(Mat)/DCPS
2	…………………………..	……………………………………	……………	……	……………………..	ADM(Mat)/DGMEPM
3	……………………………	…………………………………	……………	……	………………………..	ADM(Mat)/DGAEPM
4	…………………………..	…………………………………	……………..	……	……………………..	ADM(Mat)/DGMEPM
5	…………………………..	………………	……………..	……	………………………	ADM(Mat)/DGMEPM
6	…………………………….	………………………	……………	……	………………………..	ADM(Mat)/DGLEPM
7	……………………………	……………..	………………..	……	……………..	ADM(Mat)/DGAEPM
8	…………………………..	……………………………..	……………..	……	…………	ADM(Mat)/DGMEPM
9	…………………………..	…………………	……………..	……	………………	ADM(Mat)/DCPS
10	……………………………	……………………………….	……………..	……	……………………..	ADM(HR-Mil)/CFMG
11	…………………………..	……………………………..	……………..	……	………….	ADM(Mat)/DGMEPM
12	……………………………	…………………………………..	……………..	……	……………………..	VCDS/CFPM
13	……………………………	……………………	……………	……	……………………	ADM(Mat)/DCPS
14	…………………………….	………………………	……………..	……	…………………………	ADM(Mat)/DGLEPM
15	…………………………..	……………………	………………..	……	………………	ADM(IM)/PMO MASIS
16	…………………………..	………………………………	………………..	……	………………………..	ADM(Mat)/DGLEPM
17	…………………………..	…………………………………..	………………..	……	………………………..	ADM(Mat)/DGLEPM
18	…………………………..	…………………...	……………..	……	……………………..	ADM(IM)
19	……………………………	…………………………………	……………..	……	………………………..	ADM(Mat)/DGLEPM
20	…………………………..	………………………………………..	…………..	……	…………………….	ADM(S&T)
21	…………………………..	…………………………………	……………..	……	……………………..	ADM(Mat)/DGMEPM
22	…………………………..	………………………………..	……………..	……	……………………..	ADM(Mat)/DGMEPM
23	…………………………….	…………………………………	……………..	……	………………..	ADM(Mat)
24	……………………………...	………………………………………..	……………..	……	………………………	ADM(Mat)/DGAEPM
25	…………………………..	………………	…………..	……	……………	ADM(IM)/CFSSU
		Total	**$1,206,598,216**			

The highlighted contract is one included in the CAC audit program. Twenty-eight of the 258 NDHQ managed contracts will be audited by CAC. The maximum total score risk score was 8.25.

ANNEX C – NDHQ – MANAGED SERVICE CONTRACTS GREATER THAN $50M

AIA Section 20(1)c)
Third Party Information

Ser	Contract Number	Vendor Name	PWGSC Contract Value	Type of Service	OPI
1	………………………..	…………………………………	……………	………………………………………	ADM(Mat)/DMSDP
2	………………………..	……………………	……………	……………………………	ADM(Mat)/DGAEPM
3	………………………..	………………	……………	……………………………	ADM(Mat)/DGAEPM
4	………………………..	……………………………	……………	………………………………………	ADM(Mat)/DGAEPM
5	………………………..	………………………………………	……………	…………………………………	ADM(Mat)/DGAEPM
6	………………………..	……………………	……………	………………………………	ADM(Mat)/DGAEPM
7	………………………..	……………………………	……………	……………………	ADM(Mat)/J4-DGLOG
8	………………………..	……………………………	……………	………………………………	ADM(Mat)/DGMEPM
9	………………………..	…………………………………	……………	……………………	ADM(Mat)/J4-DGLOG
10	………………………..	……………………………	……………	………………………………	ADM(HR)/CFMG
11	………………………..	………………	……………	………………………………	ADM(IM)/PMO MASIS
12	………………………..	…………………………………	……………	………………………………………	ADM(Mat)/DGLEPM
13	………………………..	…………	……………	………………………………	ADM(Mat)/DGAEPM
14	………………………..	………………	……………	………………………………	ADM(IM)
15	………………………..	……………………	……………	………………………………………	ADM(Mat)/DGAEPM
16	………………………..	………………………………	……………	……………………	ADM(Mat)/J4-DGLOG
17	………………………..	………………………………………	……………	…………………………………	ADM(Mat)/DGMEPM
18	………………………..	………………………………	……………	………………………………………	ADM(Mat)/DCPS
19	………………………..	………………………………………	……………	…………………………………	ADM(Mat)/DGMEPM
20	………………………..	………………………………	……………	…………………………………	ADM(Mat)/DGMEPM
21	………………………..	……………………………	……………	…………………	ADM(Mat)/DGLEPM
22	………………………..	………………………………………	……………	………………………………………	ADM(Mat)/DGAEPM
		Total	**$3,224,795,886**		

Note that the contracts shaded in grey also were indicated to be in the top 25 higher-risk contracts after the application of automated criteria.

ANNEX D – CONTRACT SUMMARY TEMPLATE

Contract Summary Template		
Ser	**Contract Information Requested**	**Management Response**
1	Vendor Name:	
2	Contract Number:	
3	Nature/Category of Service Provided:	
4	Award: Competitive / Non-Competitive:	
5	Duration of Vendor Continuous history providing this specific service to DND:	
6	Principal DND Officer Acting as Technical Authority:	
7	Original Contract Value/Ceiling:	
8	Key Option Provisions: Contract Extensions Available/ Contract Off-ramps:	
9	Original Contract Term/Duration:	
10	Current Contract Value/Ceiling:	
11	Current Contract Term/Duration:	
12	Current Total Expenditures:	
13	Current Total Expenditures and Commitments:	
14	Current Forecast Total Expenditures:	
15	Advance payments made/required: details	

ANNEX D

Contract Summary Template		
Ser	**Contract Information Requested**	**Management Response**
16	Per cent completion of work and per cent of contract ceiling utilized:	
17	Number of Substantive Contract Amendments:	
18	Key Risks Facing Contract: Schedule / Cost / Performance / Other:	
19	Key Risk Mitigation Strategies: Schedule / Cost / Performance / Other:	
20	Key Internal Management Reports capturing information on the contract:	
21	Other systems/measures which will provide early-warning of problems:	

ANNEX D

ANNEX E – DETAILED CONTRACT MANAGEMENT RISK ASSESSMENT

Detailed Contract Management Risk Assessment Template	
Contract Number___________________ Vendor Name________________Technical Authority <u>**(Name, Appointment, Ph #)**</u>	
General	**Management Response**
G1. Within your directorate, how many contract managers/technical authorities are there, and how many contracts are active?	
G2. What are the five most common goods and services for which your organization contracts? (e.g., IT/IM maintenance, repair and overhaul, medical services)	
G3. What overall reporting and early-warning strategies are employed to monitor contracts?	
Specific Contract Questions	**Management Response**
S1. Does the Statement of Work (SOW) define the deliverables? Please provide a copy of the SOW, or an abbreviated version if the SOW is lengthy.	

ANNEX E

Detailed Contract Management Risk Assessment Template	
Contract Number___________________ Vendor Name________________Technical Authority (Name, Appointment, Ph #)	
Specific Contract Questions	**Management Response**
S2. What evidence is provided to the technical authority to determine if goods or services have been received in accordance with the contract? What supporting documentation does the Section 34 signing authority have that the goods and services were received? (e.g., packing slips, timesheets, etc.) Did the technical authority sign all such supporting documents? Please provide an example of supporting documentation.	
S3. Who is signing for Section 34 of the FAA to certify that performance and price is in accordance with contract? Please provide name, organization and phone number.	
S4. What was the original contract period and contract value? How many option years were provided for in the contract. What is the current cumulative value of contract amendments and the length of time that the contract has been extended. Please summarize the contract value/date of the contract award and each amendment?	

ANNEX E

Detailed Contract Management Risk Assessment Template	
Contract Number___________________ **Vendor Name**________________**Technical Authority** <u>**(Name, Appointment, Ph #)**</u>	
Specific Contract Questions	**Management Response**
S5. What are the terms of payment for the contract (e.g., Firm price, a unit cost or a target price)? Are payments calculated by cost to contractor, plus a mark-up? Are advance payments made? Please attach the request for authority to make such payments. Any specific mark-up provisions for work by subcontractors?	
S6. Are terms of payment linked to deliverables? (Reasonableness of work performed compared to statement of work/deliverables in contract.)	
S7. Are there performance incentives/penalties/holdbacks in the contract? Please specify or attach copies of the relative terms of the contract.	
S8. Were the services in this contract recently (within the last 3 years) performed by DND?	

ANNEX E

Detailed Contract Management Risk Assessment Template	
Contract Number__________________ Vendor Name_______________Technical Authority (Name, Appointment, Ph #)	
Specific Contract Questions	**Management Response**
S9. Was this contract sole-sourced? What is the substantiation for sole-source? Was an ACAN posted? If so, was the ACAN ever challenged by other potential suppliers? Please provide the documents pertaining to the challenge and our response.	
S10. Are there subcontractors associated with this contract? If so, how many and what portion of the work is being performed by them vis-à- vis the prime contractor.	
S11. Are the services of this contract provided to several DND locations across Canada? How many cost centres (approximate, if necessary) are charged for the use the goods or services of this contract? Please provide a list of the cost centres.	
S12. How are the expenditures against the contract tracked? FMAS commitments, MASIS, separate spreadsheet, etc. Please provide a list of the FMAS commitment numbers, and a copy of any other expenditure-tracking tools.	

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ANNEX F – 25 HIGHER-RISK SERVICE CONTRACTS – JUDGMENTAL CRITERIA SCORE

Ser	Contract Number	Vendor Name	Current Contract Value $M	% Cost Esc	Judgement Risk Score Max 15	Type of Service	Reason Not Selected for Further Audit
1	……………..……………..	…………………..………………..	…….	…….	…	……………………..	CAC planned audit
2	……………..……………..	…………………..………………..	…	…….	…	…………………	
3	……………..…………….	……………..……	…….	…….	…	……………………..	Current CRS audit
4	……………..…………….	…………………..………………..	…….	…….	…	…………………	
5	……………..…………….	…………………..………………..	…	…….	…	…………	Cost de-escalation
6	……………..…………….	……………..……	…….	…..	…	………	Current CRS audit
7	……………..……………..	…………….	…….	…….	…	………………	…………………
8	……………..…………….	……………..……………	…	…….	…	…………………	Combined contracts
9	……………..…………….	……………..……………	…….	…….	…	…………………	Cost de-escalation
10	……………..……………..	……………..……	…	…….	…	……………………	
11	……………..…………….	…………….	…	…..	…	…………………	No cost escalation
12	……………..……………..	…………..………..	…	…….	…	…………………	
13	……………..………………	……………..……	…….	…….	…	……………………	Not a contract
14	……………..…………….	……………..……………	…	…….	…	………………..	Cost de-escalation
15	……………..…………….	……………..……………	…….	…….	…	……………………..	CAC planned audit
16	……………..…………….	…………..………..	…	…….	…	………………	Low dollar value
17	……………..……………	…………..……….	…….	…….	…	…………………	Low cost escalation
18	……………..…………….	……………..	…….	…….	…	………………	Low cost escalation
19	……………..……………	……………..…	…….	…..	…	………………	Current CRS audit
20	……………..……………	…………..……….	…….	…..	…	………………	Current CRS audit
21	……………..……………	……………..……………	…….	…..	…	………………	Current CRS audit
22	……………..…………….	…………………..………………..	…….	…..	…	………	Current CRS audit
23	……………..……………	…………..……….	…….	…..	…	………………	Current CRS audit
24	……………..……………	……………..………………	…….	…….	…	…………………	Cost de-escalation
25	……………..……………	……………..…	…….	…….	…	……………………..	Requirement Grew
		Total	$1,325				

Note: Those contracts highlighted in yellow were selected for further audit/review. ……………………………………………………………
………...
……..

AIA Section 20(1)c) Third Party Information

ANNEX G – 13 HIGH-VALUE SERVICE CONTRACTS – JUDGMENTAL CRITERIA SCORE

Ser	Contract Number	Vendor Name	Current Value $M	% Cost Esc	Judgement Risk Score Max 15	Type of Service	Reason Not Selected for Further Audit
1	……………………………...	…………………………….………	……	……	…	………………………..	
2	……………………………...	……………………………….……………	……	……	…	…………….…	
3	……………………………...	……………………………….…………	…….	…	…	…………………	No Cost Escalation
4	……………………………..	…………	…….	……	…	…………….…	
5	……………………………...	……………………	…….	…	…	…………………	No Cost Escalation
6	……………………………...	………………………….………	…….	……	…	……………………	CRS Review
7	……………………………...	……………………….……..	…….	…	…	…………………	CRS Review
8	……………………………...	……………………….………...	…….	…	…	…………………….	No Cost Escalation
9	……………………………...	……………………	…….	…	…	…………………………	No Cost Escalation
10	……………………………..…	…………………………….…………...	…….	…	…	……………………	Current CRS Audit
11	……………………………..	………………………...	……	…	…	…………………………..	No Cost Escalation
12	……………………………..	…………………	………	……	…	………	Recent OAG Audit
13	……………………………...	…………………………….…………...	……	…	…	…………..	No Cost Escalation
		Total	**$5,174**				

Note: Those three contracts highlighted in yellow are selected for further audit. ………………………………………………………………
……...
……...

ANNEX H – 23 COST CENTRES PAYMENTS > $10M NO COMMITMENT IN FMAS

Ser	Cost Centre	Cost Centre Description	No of Payments	Payments Value	Avg Value of Payment
1	3398AP	DGMC FINANCIAL MANAGEMENT SERVICES	366	$101,110,111	$276,257
2	3650AA	CC STAFF – CCIBH – NATIONAL COMMAND ELEMENT	2,083	$47,061,522	$22,593
3	0123CE	WCE CONTRACTS-5WG	838	$37,082,750	$44,251
4	0134XX	FINANCIAL OPERATIONS – 4 WING	1,794	$30,177,704	$16,821
5	0150UN	CC4A-DCDS DEPLOYED OPS UNITS	166	$28,725,097	$173,043
6	3703AA	CFHA CHILLIWACK	147,111	$26,290,143	$179
7	0100GY	PRODUCTION	7,116	$24,690,738	$3,470
8	2203AA	CHIEF HEALTH SERVICES (CHS)	217	$23,611,380	$108,808
9	0105LW	CE BR – CDL – CFB GAGETOWN	20,840	$21,651,396	$1,039
10	0153FF	MAT GROUP TRANSLATION	129	$18,908,756	$146,580
11	3398BD	COST MOVES – AIR FORCE	4,436	$17,384,595	$3,919
12	3398BQ	COST MOVES – SUPPORT	5,187	$17,166,200	$3,309
13	0149AA	ASSISTANT DEPUTY MINISTER PERSONNEL (CC6)	94	$16,710,788	$177,774
14	3371BY	MARITIME STAFF COMPTROLLER	551	$16,655,683	$30,228
15	43648A	0127 ASU EDMONTON WKS COY	2,613	$15,044,510	$5,758
16	0114DS	ESS CONSTRUCTION ENG ASU KINGSTON	8,053	$13,578,816	$1,686
17	4877AD	LOGISTICS – CANADIAN FLEET PACIFIC	335	$13,063,615	$38,996
18	0103NV	MAINTENANCE – CFB ESQUIMALT	3,495	$12,984,299	$3,715
19	3398BH	COST MOVES – ENGR	3,351	$11,807,919	$3,524
20	3371AN	DIRECTOR MARITIME FORCE EMPLOYMENT (DMFE)	564	$11,782,580	$20,891
21	3398AZ	COST MOVES – ARMY	3,669	$11,633,585	$3,171
22	0107EX	CONSTRUCTION ENGINEERING CFB PETAWAWA	7,721	$11,419,471	$1,479
23	3078BV	N3 ACOS P&O – SURFACE OPS	180	$10,321,893	$57,344
		Total	**223,117**	**$538,863,551**	$2,635

It may only be practicable for those cost centres with a significantly high-value per payment to set up commitments.

The five cost centers shaded in grey were the CRS follow-up focus given the average payment without a commitment exceeded $100K.

ANNEX I – DIRECTOR GENERAL FINANCE COMMITMENT ACCOUNTING CRITERIA

- A commitment must be recorded once an obligation is created. It is recommended that recording begin as soon as an intent involving the expenditure of public funds is initiated.
- Commitment accounting should be focused on those transactions that have the greatest impact on budgets.
- Those transactions that exceed $5K should be committed.
- FMAS commitments may not be necessary when the expenditure is paid within the same month that the formal commitment is established.
- For those Level Ones who commit 'en masse' Salary Wage Envelope (SWE), it will be necessary to manually reduce the commitment after each pay period because SWE expenditures do not reference commitments.
- Care must be taken to ensure that commitments originating in systems that interface with FMAS are not erroneously duplicated (i.e., Canadian Forces Supply System Upgrade, American Express).

Note: Source of commitment criteria is 7000-1 (DG Fin) Memorandum 30 March 2002.