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*Review of Contracting for Professional Services
within the Information Management Group*

September 2005

7053-30-11 (CRS)



NOTICE OF CAVEAT TO THE READER

This review was conducted as a special project and was not included in the annual Chief Review Services Work Plan. The review conclusions do not have the weight of an 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 do not provide a high level of assurance and are not represented as such.

It should also be noted that the review is not intended to assess the performance of the contractors; rather, it is an internal review of processes and practices within the DND/CF. The contractors have not been interviewed or otherwise asked to provide comment or feedback.



SYNOPSIS

This report presents the results of an independent review of contracting for professional services within the Information Management (IM) Group. The review was conducted at the direction of the Deputy Minister as follow-on to issues regarding contracting for information management and technology (IM/IT) maintenance services. It had become apparent in 2003/04 that the Department had been affected by a major alleged criminal fraud. The purpose of this review was to assess indications that internal control issues affecting professional services were not necessarily confined to those dealing with maintenance. Recorded operations and maintenance (O&M) expenditures for professional services for the IM Group amounted to \$27M for fiscal year 2002/03.

The review conclusions are based on a sample of contractors that were active in June 2003, and associated expenditures occurring in Fiscal Year 2002/03, supplemented by a directed sample and analysis extending into 2004. Serious compliance issues were found involving contravention of the Government Contracting Regulations and having value-for-money implications.

Largely in the interests of expediency and to cope with factors affecting the availability of in-house resources and expertise, some managers within the IM Group had progressively pushed the boundaries in terms of observing compliance requirements for service contracting. Over time, this tended to foster a culture, at least within pockets of the organization, which appeared relatively accepting of inappropriate contracting practices.

Internal audit has devoted much attention and reporting relative to issues extending from a control breakdown centred in contracting for IM/IT maintenance services. A summary of work appears on the CRS internet site. <http://www.crs-csex.forces.gc.ca/index-eng.aspx> The results conveyed in this current report are now somewhat dated. However, the recommendations remain very much relevant. Notwithstanding relatively recent improvements brought to the management of contracting, we are recommending additional initiatives to ensure that pertinent processes and practices within the IM Group are sound and compliant with applicable policy and regulations. Work by the Comptroller within the IM Group (reported in June 2005) as well as anecdotal evidence acquired by the CRS Director of Special Examinations and Inquiries, suggest that, in some measure, inappropriate practices and risks persist.

Management Action: *At the corporate level, the Department has taken many positive steps to strengthen pertinent controls. These include, but are not limited to, the creation of a Departmental Oversight Committee on Contracting – co-chaired at the Assistant Deputy Minister level – as well as a web-based electronic training and testing program administered to over 16,000 people as a pre-condition for retaining their delegated financial signing authorities. The Finance and Corporate Services Group has also established a payment-monitoring cell that provides detailed feedback on weaknesses in fundamental financial controls. However, the availability of robust management information on contracting remains a challenge.*



With respect to the IM Group, we have suggested that corrective action can be substantially driven through the auspices of the IM Group Comptroller. In this, the Comptroller will require clear and sustained support. Taken in total, the management action plans provided by the IM Group demonstrate constructive attention to the recommendations made in this report. Senior management in the IM Group is demonstrably committed to bringing important improvements. Their approach to achieving significant and sustainable improvements is forthright and somewhat reassuring. In fact, they have encouraged that CRS conduct follow-up on what they expect to be marked improvements “in very short order”. Additionally, both the Department and the IM Group have recognized the need to progressively reduce reliance on contracted resources that essentially work on-site, often as an integral part of the organization.

Key recommendations and corresponding management action plans are presented in matrix format at the front of the report – a more detailed presentation appears at Annex F.



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RESULTS IN BRIEF

INTRODUCTION

Over an extended period beginning in Summer 2003, DND internal audit and review work gave much attention to contracting irregularities dealing with computer hardware and software maintenance. As one element of follow-up on these difficulties, the Chief Review Services (CRS) performed an independent review of professional services contracting within the Information Management (IM) Group. The objective of this review was to determine the extent and possible causes of deviations from applicable policy and regulations. As is stated in the caveat at the front end of this report, the work performed took the form of a review, as opposed to an audit. The procedures were similar to that of an audit, but without the same rigour of application.

PROFILE

The Comptroller within the IM Group identified 591 service contractors in June 2003; with \$27M recorded in the Financial Management and Accounting System (FMAS) as operations and maintenance (O&M) expenditures, and \$86M as capital projects for fiscal year (FY) 2002/03. Contractors represented approximately one-third of the workforce in the National Defence Headquarters Information Management (NDHQ IM) organizations.

REVIEW SCOPE

The scope of the review included the contract preparation and procurement stage for the \$27M recorded as O&M professional services expenditures within the IM Group. 126 contractors for which contract amounts exceeded \$100K were identified for a general sample with corresponding expenditures totalling \$19M in FY 2002/03, or 71 per cent of total O&M expenditures for professional and technical services. An additional 42 contractors were included in the review, as these were considered high-risk due to such factors as: inappropriate contractor responsibilities; payrolling (i.e., specific individual requested); contract splitting; and inappropriate contracting vehicle/instrument.



OVERALL ASSESSMENT

We are unable to give assurance that the contracting controls within the IM Group are sufficient to ensure that contracting practices are sound and compliant with applicable policy and regulations.

Reducing the Number of Contracted Personnel: The Minister's Advisory Committee on Administrative Efficiency (August 2003) noted the economic advantages of converting professional service contracting dollars to public service positions. A CRS audit report had commented on this in 2001, stressing the importance of human resource planning to rationalize the elements of the DND workforce, including public servants, contracting for expert services and contracting out entire functions. The control and resource management recommendations of that audit report continue to have much relevance to the IM Group. Various impediments, particularly limits on salary/wage envelopes, have slowed progress. In FY 2003/04, about 33 per cent of the ADM (IM) workforce in NDHQ consisted of contracted personnel.

Difficulties Persist: Many of the issues pertaining to service contracting have their roots in difficulties to which the Department has given much attention. These issues extended from a control breakdown centred in contracting for information management and technology (IM/IT) maintenance services. The IM Group initiated a number of improvement initiatives in 2004. However, work by the Comptroller within the IM Group, and anecdotal evidence acquired by the CRS Director of Special Examinations and Inquiries (DSEI), suggest that, in some measure, difficulties and risks identified by our review persist. The examination performed by the Comptroller was reported in June 2005 and concentrated on one division within the IM Group. Our review found evidence of ill-defined, fluid statements of work; contract splitting; contracting outside of the scope of standing offer agreements; inappropriate selection methods; administrative tasks being performed by *expert* consultants; and long-term, on-site contractor presence. Undoubtedly, at least some of the arrangements that would seem to be at risk, at least in perception, could be justified. However, taken together, the patterns were not healthy and certainly not indicative of compliance with the Government Contracting Regulations.

Positive Steps: The Department has taken many steps to strengthen controls associated with service contracting. These include, but are not limited to, the creation of a Contracting Oversight Committee – chaired at the ADM level – as well as an electronic training and testing program administered to over 16,000 people as a pre-condition to retaining their delegated financial signing authorities. The Finance and Corporate Services (Fin CS) Group has also established a payment monitoring cell that provides detailed feedback on weaknesses in fundamental financial controls.



RECOMMENDATIONS & MANAGEMENT ACTION PLANS

The IM Group has provided comment on this review report, as well as describing a number of positive steps taken to date. These include, but are not limited to: revitalization of the comptrollership and contracting functions (establishment of 20 additional finance and contracting specialists within the Group); mandatory training sessions; internal financial management reviews; and, co-location of procurement staffs with applicable IM Group staffs. At the same time, the Group has observed that: *...more still needs to be done. Some of the changes required, which concern organization, process and capacity issues, can be addressed through a specific and concerted action plan. However...the IM Group's workplace culture, which reflects the values and attitudes of its personnel, must be addressed. Changes in this regard will be a slower process, however...the Group's senior management team is committed to achieving significant and sustainable improvements in all of these domains.*

SUMMARY RECOMMENDATIONS AND MANAGEMENT ACTION PLANS

CRS Recommendation	OPI	Management Action
Short Term		
Comptrollership Capacity Check. ADM(IM) to request the conduct of a Comptrollership Capacity Check by ADM(Fin CS), and involving a multi-disciplinary team.	ADM(IM)/ COS ADM(IM)	A formal request to ADM(Fin CS) will be submitted in the Spring 2006 timeframe, at which time the respective organizations should be better positioned to undertake the work.
Co-signing of Contracts. The IM Group Comptroller to co-sign contracts/amendments within defined thresholds, to assure quality/compliance.	ADM(IM)/ IM Group Comptroller	The IM Group will establish a Senior Contract Management Officer position (PG-06) at the IM Group HQ level to whom contract management positions within the divisions will be accountable/responsible. These resources will perform quality/compliance control, including more formal, focused reviews of high-dollar/risk contracts and amendments.
Contract Repository. Ensure an electronic repository of contracts/amendments.	ADM(IM)/ IM Group Comptroller ADM(Mat)/ COS ADM(Mat)	The Material Acquisition and Support Information Management System (MASIS) will be the long-term solution for this. In the interim, ADM(IM) is looking at internal solutions to electronically track contracts and amendments, post contract-award.



CRS Recommendation	OPI	Management Action
Short Term		
Reporting of Trends. The IM Group Comptroller to prepare monthly reporting to the COS ADM(IM) on trends and on the quality of contracting as a basis for confirming/limiting delegated authorities or otherwise modifying direction – ADM(IM) should table a quarterly report at the Departmental Oversight Committee on Contracting (DOCC).	ADM(IM)/ IM Group Comptroller	A process is being initiated for monthly contract reporting on trends as well as high-risk areas and delegation issues for follow-on review/action. ADM(IM) would be prepared to provide an initial report to the DOCC in the Spring 2006 timeframe.
Training. The ADM(Mat)/DC Pol provide regular training seminars to IM staff, preferably to be supplemented by electronic training and self-testing.	ADM(Mat)/DC Pol	The IM Group has developed and delivered a financial management and procurement training session for each of the past two years. The next sessions will be held during the period 19-26 September 2005. Participation in these training sessions is mandatory for IM Group personnel with delegated financial/contracting authorities. DC Pol has agreed to assess the procurement/contracting training package and an actual training session. DC Pol has developed on-line tools and is developing on-line training.
Longer-Term		
HR Planning. The ADM(IM) to ensure that Human Resource (HR) Plans define specific strategies and milestones, to address the dependence/reliance on contracted resources working as an integral part of the workforce.	ADM(IM)/ COS ADM(IM)	The IM Group is committed to reducing its overall reliance on contracted resources, which exceeded 600 in August 2005. An initial plan will see more than 170 contractors replaced by civilian employees over the next 3 years. Commencing with the FY 2006/07 business planning, a civilian-staffing plan is being incorporated into the process.



REVIEW OBJECTIVE, SCOPE & METHODOLOGY

OBJECTIVE

The CRS review was initiated to determine the extent and possible causes for deviations occurring in professional services contracting within the ADM(IM) organization, and to offer recommendations for improvement.

SCOPE

The review examined professional services contracting totalling \$27M in O&M professional services expenditures within ADM(IM) for FY 2002/03. The focus was on the contract preparation and procurement, that is, the front-end of the contracting process.

126 contractors with contract amounts greater than \$100K were identified for a general review sample totalling approximately \$19M – representing 71 per cent of total O&M professional services expenditures in FY 2002/03. An additional 42 contractors were included in the review, as these were considered relatively high-risk due to such indicators as: inappropriate contractor responsibilities; payrolling (i.e., specific individual requested); contract splitting; and/or inappropriate use of contracting vehicle/instrument.

METHODOLOGY

- ▶ A view was obtained from data trend analyses performed, including information obtained from previous audit work, and from statistics gathered through examination of contracts. This showed growth in contracting volume and value, the main users, the main suppliers and the main purposes/uses for these services. Pertinent information and statistics are provided at Annex A.
- ▶ Selection criteria were applied – using a risk-based analysis – to professional services contracting information provided by the IM Group Comptroller. The general sample selection is detailed at Annex B.



- ▶ Additional contracts exhibiting specific concerns were also identified during the conduct phase – these became part of a directed sample.
- ▶ Contracts in both the general and directed samples were assessed against thirteen risks, listed in Annex C.
- ▶ Interviews were held with key personnel involved in the contracting process for professional services within the IM and Materiel Groups.
- ▶ The recommendations made in the November 2001 CRS audit¹ were reviewed, including the actions taken to address them. These recommendations are summarized in Annex E.

¹ Audit of Contracting for Professional and Technical Services, November 2001, 7050-9-4-2 (CRS). The report is available on the CRS Internet site (<http://www.dnd.ca/crs/>).



REVIEW OBSERVATIONS AND FINDINGS

GENERAL SAMPLE – COMPLIANCE

The CRS review confirmed that within ADM(IM), there was a consistent pattern of non-compliance/deficiencies regarding contracting for the \$27M recorded as O&M professional services in 2002/03. At a minimum, contracting activities by six organizations warranted careful monitoring and oversight. The review noted weaknesses in the following areas:

- *Evaluation/option analysis for contracting as an alternative to other resourcing strategies;*
- *Proper authorization to contract – including circumvention through contract splitting;*
- *Compliant use of contracting vehicles/instruments;*
- *Appropriate contractor selection process – including prevention of payrolling²;*
- *Avoidance of employer-employee relationships³; and*
- *Clear statements of work and defined deliverables.*

² A practice by which firms are instructed by a government department or agency to employ specified individuals who are then assigned to provide services to that department or agency under contract. This practice is prohibited.

³ A contractor is not an employee and therefore, establishing an employer-employee relationship with a contractor would be in conflict with the Public Service Employment Act or the Public Service Staff Relations Act.



Details and Discussion

- 126 contractors, with contract amounts greater than \$100K, were identified for a general sample, which represented \$19M for FY 2002/03 – 71 per cent of O&M professional services within ADM(IM). Table 1 shows the breakdown by organization.

Table 1 – General Sample: Breakdown by ADM(IM) Organization

Organization	#	Per cent of Sample	Per cent of Total O&M Contractors
DGIMT	99	79%	63%
DGIMPD	8	6%	8%
IMGIS	8	6%	7%
DGEAS	7	6%	10%
ADM(IM)	3	2%	1%
DGKMI	1	1%	8%
DGIMSD	0	0%	3%
Total	126	100%	100%

- Table 2 highlights significant results of the general sample. The complete list of potential risks is found at Annex C. The errors or deviations refer to either contractors or contracts, depending on the nature of the identified risk. For the 126 contractors in the general sample, there were a total of 130 contracts reviewed. In certain instances, contractors had many contracts within the fiscal year reviewed; in others, a number of contractors were linked to a single contract.



Table 2 – General Sample Summary Results For 2002/03

Potential Risk		# of instances	%
R1	Improper authorization obtained for contract	45	35%
R3	Contract splitting occurred	46	35%
R4	Improper bidding process used (e.g., unjustified sole-sourcing)/Unfair use of contracting tool	73	56%
R5	Type of work performed is not compliant with contracting tool applied	73	56%
R6	Deliverables or milestones are not defined or vague/unclear	85	65%
R7	Employer/employee relationship exists or perceived	112	89%
R8	Responsibilities/authorities delegated to contractor are inappropriate	3	2%
R10	Contracted personnel on-site for significant periods of time (i.e., long term or ongoing project/assignment period(s) with no clear end date)	125	99%
R11	Type of work being performed is mostly of an administrative nature	44	34%
R12	Contractor(s) was(were) not objectively chosen (i.e., payrolling)	40	31%

- The results from the review of the general sample were initially compiled and presented to senior management using a bird's-eye view or scorecard approach for all organizations. This allowed the auditors to provide a snapshot of findings in terms of potential risks identified. Three indicators were defined to highlight that: no significant problem/error was detected (green); caution was warranted (yellow); or, a systemic problem was detected/perceived (red). This was a simple but effective way to focus on the overall results without overwhelming the presentation with too many numbers and statistics. Examples were provided to support the findings discussed during the briefings. The scorecard highlights that six organizations required better monitoring and oversight.




Six Organizations


- Table 3 provides an excerpt of the scorecard results compiled for six organizations where significant risks were identified, including the number of deviations identified for these organizations. They include Director General Enterprise Application Services (DGEAS), Director General Information Management Project Delivery (DGIMPD), Information Management Group Information Services (IMGIS) and three areas within Director General Information Management Technology (DGIMT)⁴ – Director Information Management Engineering and Integration 2 (DIMEI 2)⁵, Director Information Management Technology Support (DIMTS)⁶ and Director Information Management Technologies, Products and Services (DIMTPS)⁷.


Table 3 – Scorecard Highlights for Six Organizations

Organization # of contractors/contracts	Risk											
	R1	R3	R4	R5	R6	R7	R8	R10	R11	R12		
DGEAS 7 / 36	36	36	36	36	24	0	0	7	7	1		
DGIMPD 8 / 6	2	3	1	1	2	5	0	8	8	1		
IMGIS 8 / 13	0	1	6	7	11	8	N/A	8	2	2		
DGIMT/DIMEI 2 44 / 7	4	4	2	3	5	44	0	44	16	31		
DGIMT/DIMTS 4 / 9	0	0	9	9	8	4	3	4	4	1		
DGIMT/DIMTPS 8 / 8	0	0	8	8	4	8	N/A	8	5	0		

Legend

 **Problem**
Systemic problem is detected/perceived; risk is not properly managed

 **Cautionary**
Caution is warranted; risk is managed somewhat

 **Acceptable**
No significant problem/error detected; risk is properly managed

N/A Not applicable

⁴ Organization formerly known as Director General Information Management Operations (DGIMO).

⁵ Organization formerly known as Director Distributed Computing Engineering and Integration 2 (DDCEI 2).

⁶ Organization formerly known as Director Information Management Operations Support (DIMOS).

⁷ Organization formerly known as Director Telecommunications and Spectrum Engineering and Support (DTSES).



Examples

- ▶ Thirty-six call-ups were issued in a 15-month period for seven contractors. Much of the work that was required was not within the scope of the standing offers or supply arrangements that were used. There was no proof that appropriate signing authority was obtained for the majority of the call-ups. Justification provided for sole-sourcing did not meet criteria defined by policy. Contract splitting occurred.
- ▶ None of the four contracts reviewed in one organization met the Technical, Engineering and Maintenance Services (TEMS) contracting criteria because the work was more administrative in nature. For example, one contract identified “writing job descriptions” and “creation and maintenance of a transitional plan for re-organizational initiatives” when, in fact, those items were explicitly ineligible under TEMS. Another replaced someone on maternity leave, which should have been processed through temporary help services. A third contract was for work of a financial nature with some procurement and was clearly filling a vacancy.
- ▶ In another organization, eight contracts examined were authorized on the same day, 25 September 2001; seven of the eight began 1 October 2001. Signing all contracts on the same date is a strong indicator of contract splitting and/or contract rolling. The requirement for the eight individuals was for an ongoing project, which should have originally been requested under one contract; the funds for the applicable supply arrangement with these individual contractors had run out. The TEMS contracting vehicle involved the same vendor and work starting on October 1st was the soonest they could begin to remain in compliance with the TEMS option date. Five of the eight had terms to the end of March 2003; the date the TEMS contract expired. All eight were for Information Technology (IT) related jobs; TEMS was not intended for this work type. It was mentioned that five contractors conduct tasks as requested, including administrative responsibilities, rather than specific projects. These services were requested until staffing action could be completed.

Other Observations

- ▶ 96 per cent of the contracts reviewed had at least one amendment. Contract amendments can provide a useful point of reference for monitoring contracting activity.
- ▶ The period covered by the contracting vehicles reviewed ranged from 31 days to six years but many were at least one-year in length. Extended contract periods for professional services provide a reasonable indicator of the risk of high-cost resources as well as employer-employee relationships.



- ▶ The scope of this review did not include calculating the impact of misuse of contracting for professional services, but the examples provided in Annex D and other studies have shown that the cost of contractors can be significantly higher than the use of in-house personnel. For three examples listed in Annex D, the conversion would have resulted in an estimated annual cost reduction of \$1.7M.

Potential Causes

- ▶ The primary reasons observed for contracting difficulties respecting professional services included:
 - Opting for reactive, short-term and convenient solutions. Managers perceived the public service staffing process lengthy – in time and effort – compared to the contracting process. This issue was recognized in the November 2001 CRS audit. These convenient solutions can have long-term consequences such as loss of internal expertise, potential liability to the Department due to development of employer-employee relationships, and increased risk associated with a culture of accepting misuse of contracting.
 - Lack of full-fund management authority and accountability. Prior to FY 2003/04, a portion of the O&M contracting budget was in ADM(Mat) but the salary wage envelope was in ADM(IM). Therefore, conversion of O&M dollars to obtain additional staff was more difficult to accomplish.
 - Imposed personnel reductions from the mid 1990's. In the November 2001 CRS audit, it was observed that from FY 1994/95 to FY 1999/2000, DND personnel costs (including military and civilian salaries and benefits) decreased by 13 per cent; however, expenditures on professional services increased by 26 per cent.
 - Previous freeze/cap on salary budgets limited the potential to convert contract resources to in-house capacity.



DIRECTED SAMPLE

The general sample was supplemented by a directed sample of 42 contractors considered to be relatively high-risk – these included contracts below \$100K. Concerns included:

- A specific initiative identified in March 04 – Classified Realm Coordination Office (CRCO) – exhibiting various contracting irregularities;
- Temporary help services and Interchange Canada program; and
- Other particular contracts identified during the conduct phase exhibiting risk of inappropriate contractor responsibilities, payrolling, contract splitting and inappropriate use of contracting vehicle.

The following are the main observations relative to the directed sample:

SPECIFIC INITIATIVE

Many contracting irregularities were found during the transition of the Classified Realm Coordination Office (CRCO) initiative from one organization to another.

Details and Discussion

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Nine contractors (i.e., individuals) and ten suppliers (i.e., companies) were identified with multiple contracts within a fiscal year and five contractors were associated with more than one supplier. These are indicators of possible contract splitting and payrolling.



A file review was completed within ADM(IM) and ADM(Mat) organizations in February 2004 and many discrepancies were found, including payrolling, contract splitting, improper signing authorities and inappropriate extensions to contracts. Contracted work was often out of scope of the supply arrangement or standing agreement that was used as the contracting vehicle.



- ▶ Of concern, one of the suppliers linked with the CRCO initiative had significantly increased its professional services contracting with ADM(IM) by 42 per cent in FY 2003/04 over that in FY 2002/03. A contractor employed by this supplier, who was providing contracting expertise to DND during this time, may have had an opportunity to influence some of the contracting decisions that resulted in this increase.
- ▶ Table 4 provides a breakdown of costs incurred by contracting vehicle used for this particular initiative during two fiscal years.

Table 4 – CRCO Contract Costs

FY 2002/03 to FY 2003/04	
Temporary Help Services	\$817K
Supply Arrangement 1	\$746K
Supply Arrangement 2	\$253K
Supply Arrangement 3	\$185K
Supply Arrangement 4	\$149K
Supply Arrangement 5	\$100K
Supply Arrangement 6	\$100K
Informatics Professional Services	\$ 84K
Standing Offer	\$ 59K
Total	\$2.5M

- ▶ A team consisting of members from ADM(IM)/DGIMPD and ADM(Mat)/Director Common Procurement Supply (DCPS) and Director Contracting Policy (DC Pol) conducted further analysis of the situation and prepared a report for the Departmental Oversight Committee on Contracting (DOCC). It is expected that corrective measures will be implemented to prevent a recurrence of a similar situation and improve acquisition support provided to ADM(IM).
- ▶ Most of the contracts have since been closed. A new arrangement was negotiated through the Information Technology Professional Services (ITPS) contracting vehicle. Although the ITPS contract was considered competitive, the two different personnel services companies who were awarded the contracts submitted the exact same nine contractors as candidates. This new contracting arrangement could be perceived as unfair, since ultimately not much has changed.



TEMPORARY HELP SERVICES AND INTERCHANGE CANADA PROGRAM

Both temporary help services and Interchange Canada have been misused repeatedly.

Details and Discussion

- ▶ TB policy describes temporary help services (THS) as “traditionally used against vacancies during staffing action, when a public servant is absent for a short period, or when there is a temporary work load increase for which insufficient staff is available.”
- ▶ THS costs more than doubled from \$719K in FY 2002/03 to \$1.9M in FY 2003/04. This was considered a high-risk area, as no controls existed over access to the database and TB regulations were routinely being ignored.
- ▶ Contrary to the TB policy, very few of the THS contracts reviewed had accepted the lowest cost; payrolling⁸ and contract splitting were common practice. A THS contract was often obtained for ongoing work as opposed to short-term requirements.
- ▶ The THS mechanism was believed to be a screening process for individual contractors, as other contracting vehicles such as TEMS and Interchange Canada program were then selected once the THS contracting vehicle was no longer an option.
- ▶ A new draft IM THS policy was prepared in February 2004 by the IM Group in order to clarify procedures and restrict those having authority to approve the acquisition of THS.
- ▶ The Interchange Canada program was applied like a long-term THS contract since many candidates had been with ADM(IM) through multiple THS contracts prior to becoming part of the Interchange Canada program. Some were also being brokered through employment agencies, which was never the intent of this program. According to TB policy “As Interchange Canada is a program to facilitate exchanges between organizations, participants must clearly demonstrate attachment to their home organization, have the support of their home organization, and remain an employee of that organization.” In two examples, the Interchange Canada program was used as a vehicle to obtain the services of specific candidates that did not meet the policy requirements.

⁸ As defined in the Defence Administrative Orders and Directives 3004-2 (DAOD 3004-2), “Payrolling is the practice by which firms are instructed by a government department or agency to employ specified individuals who are then assigned to provide services to that department or agency under contract. This practice is prohibited.”



CONTRACTOR RESPONSIBILITIES

Contractors were positioned to provide expert advice on contracting for professional services – the advice provided was sometimes incorrect.

Details and Discussion

- ▶ Three contractors – located in DGEAS, DGIMPD and DGIMT – were providing contracting expertise and/or involved with contract administration. Advice provided to DGEAS and DGIMPD personnel resulted in payrolling, contract splitting and improper use of contracting vehicles.
- ▶ Contractors had access to the temporary help services database, which is not permitted.
- ▶ One contractor was providing financial and administrative services under the TEMS arrangement, which was an inappropriate contracting vehicle to access under the circumstances. This contract had been active for a very long period of time. DCPS did challenge the legitimacy of the contract but no action was taken.
- ▶ As noted in the «Specific Initiative» section, one of the contractors was employed by a supplier who had significantly increased its professional services contracting with ADM(IM) in FY 2003/04 compared to FY 2002/03.
- ▶ All three contractors no longer provide services for ADM(IM) – the contracts for these services were not renewed, in part due to the findings from this review.



RECOMMENDATIONS

At the time of the review, it was noted that the IM Group had already recognized several of the issues and taken many steps to address them accordingly. Actions taken included:

- Drafting of an IM temporary help services policy to restrict authority in February 2004;
- Preparation of reference guides for contracting authorities in March 2004;
- ADM(IM) and ADM(Mat) representatives performing a separate analysis of the specific initiative identified in March 2004 – Classified Realm Coordination Office (CRCO) – in order to implement corrective measures;
- Training and guidance provided to all IM staff in April 2004; and,
- COS ADM(IM) contracted for two management reviews, which started in June 2004. One was to assess the ADM(IM)'s current management framework and the other was to prepare a profile on all of their professional services contracting, including capital projects, to identify major compliance issues.

In spite of the above steps, there is reason for more specific actions to take place respecting the IM Group. These actions should include:

In the shorter term:

- a. ADM(IM) to request a Comptrollership Capacity Check, led by ADM(Fin CS) and involving a multi-disciplinary team;
- b. The IM Group Comptroller to co-sign contracts/amendments respecting professional and technical services within defined thresholds – the Comptroller's responsibility would be limited to quality control regarding the statement of work, assuring proper authorization, and ensuring compliance with the Government Contracting Regulations;
- c. The IM Group Comptroller, in collaboration with the Mat Group, to ensure that there is an electronic repository of contracts and amendments for review by the Comptroller and other staffs, as appropriate;
- d. The IM Group Comptroller to prepare monthly reporting to the COS ADM(IM) on contracting trends and on the quality of contracting as a basis for confirming/further limiting delegated authorities or otherwise modifying applicable direction – ADM(IM) to table a quarterly report at the DOCC; and,



- e. The ADM(Mat)/DC Pol provide regular training seminars to IM staff, preferably to be supplemented by electronic training and self-testing.

In the longer term:

- f. The ADM(IM) to ensure that Human Resource Plans define specific strategies and milestones, to overcome or better target the dependence/reliance on contracted resources working on-site as an integral part of the workforce.

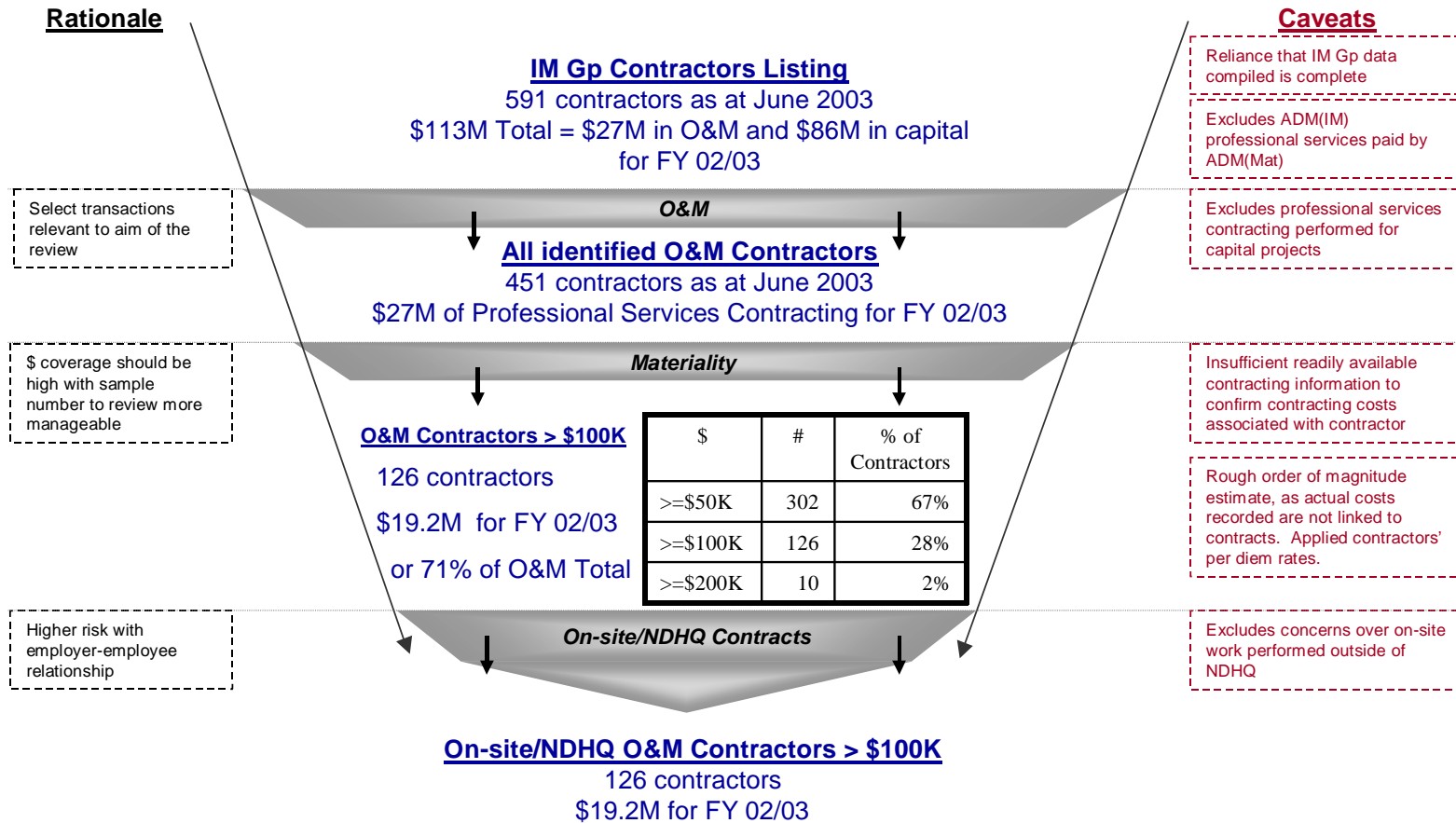


ANNEX A – PROFILE WITHIN ADM(IM)

- Professional services contracting costs have increased substantially over time; ADM(IM) recorded a 28 per cent increase over four years – from FY 1998/99 to FY 2002/03.
- In FY 2002/03, \$27M in O&M and \$86M in capital projects were recorded as professional services expenditures. There were 591 individual contractors identified in June 2003, which represents about one third of the workforce in NDHQ IM organizations.
- DGIMT and DGIMPD were the main users of professional services in FY 2002/03 based on the number of contractors and costs recorded.
- The top five suppliers for ADM(IM) represent 45 per cent of professional services costs for FY 2002/03 and FY 2003/04.
- The main purposes/uses for these services in FY 2002/03 were grouped in one of three categories:
 - technical/engineering (53 per cent);
 - project management/administration (35 per cent); and
 - software development/design (12 per cent).



ANNEX B – GENERAL SAMPLE SELECTION/RISK-BASED ANALYSIS



ANNEX C – POTENTIAL RISKS

- R1 Improper authorization obtained for contract.
- R2 Unauthorized payments made.
- R3 Contract splitting occurred.
- R4 Improper bidding process used (e.g., unjustified sole-sourcing)/unfair use of contracting tool.
- R5 Type of work performed is not compliant with contracting tool applied.
- R6 Deliverables or milestones are unclear (i.e., not defined or vague).
- R7 Employer-employee relationship exists or perceived.
- R8 Responsibilities/authorities delegated to contractor are inappropriate.
- R9 Contracting with former DND employees/CF members not in compliance with TB regulations.
- R10 Contracted personnel on-site for significant periods of time (i.e., > 1 year).
- R11 Type of work being performed is mostly of an administrative nature.
- R12 Contractor was not objectively chosen (i.e., payrolling).
- R13 Inappropriate security level/clearance was obtained.

- Due to time constraints, the «unauthorized payments made» risk (R2) was restricted to observing that either the contract period did not start prior to the contract authorization date or the contract costs were not in excess of the contract terms.
- Two risks (R10 and R11) were considered to be indicators for additional follow-up; as there could be implications of long-term contracting or the work could have been obtained in an inappropriate manner and value-for-money could be questionable.
- The last two risks refined the results that were included in another risk (e.g., R12 specifically identifies one concern that is also grouped under R4).



ANNEX D – VALUE-FOR-MONEY

An opportunity for significant annual savings or, at least, reallocation and better use of funds appears to exist with the conversion of certain contracted services to civilian positions:

- During the administrative efficiency study exercise, the IM Group identified a preliminary number of 181 contractors (i.e., 32 per cent of ADM(IM) contractors) having the potential for conversion. The number was adjusted down to 80 contractors with likelihood for conversion. At the time of our review, no action had been taken on these positions because of the freeze/cap on salary budgets.
- Contractors represented one third of the NDHQ IM organizations' workforce.
- Significant savings could be achieved, and the funds used for other purposes. For example, an estimated reduction in annual costs of approximately \$1.5M was calculated for 28 positions identified within IMGIS should this conversion take place. An IMGIS organization chart provided position classifications and levels for the work performed by contractors. Contractors represented 50 per cent of the IMGIS workforce in FY 2002/03. The \$1.5M calculation compared the contract costs to salaries and benefits for full-time positions based on FY 2002/03 standard costs found in the DND cost factors manual.
- An estimated reduction in annual costs of approximately \$224K for 46 positions was calculated from documents provided by 76 Communication Group with regard to their transition and conversion to full-time positions.
- Using an extremely conservative approach, our calculations demonstrate that it is more economical to hire a full-time civilian at an FI-3 or AS-6 level than to continue contracting for financial and administrative services within an organization. The additional costs were approximately \$100K over four years when comparing the contract to maximum pay rates and standard full-costs.

The scope of this review did not include calculating the impact of misuse of contracting for professional services but the examples above and other studies have shown that the cost of contractors can be significantly higher than the use of in-house personnel.



ANNEX E – PREVIOUS CRS AUDIT RECOMMENDATIONS⁹

- Developing & communicating Human Resources (HR) strategies – to guide contracting decisions.
- Directly linking FMAS expenditure information 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 “Alternative Service Delivery (ASD)” solutions.
- Developing and implementing additional contracting guidance and training.
- Monitoring the rationale for, and frequency of use of, professional help brokers.

⁹ Audit of Contracting for Professional and Technical Services, November 2001, 7050-9-4-2 (CRS). The report is available on the CRS Internet site (<http://www.dnd.ca/crs/>).



ANNEX F – RECOMMENDATIONS AND MANAGEMENT ACTION PLANS

CRS Recommendation	OPI	Management Action
Short Term		
ADM(IM) to request the conduct of a Comptrollership Capacity Check by ADM(Fin CS), and involving a multi-disciplinary team.	ADM(IM)/ COS ADM(IM)	Following a discussion between DG Financial Management/Acting/ADM(IM) in August 2005, it is proposed that a Comptrollership Capacity Check be delayed until the Summer/Fall 2006 timeframe, at which time both organizations are expected to have more resources to devote to this important activity. A formal request to ADM(Fin CS) will be submitted in the Spring 2006 timeframe.
The IM Group Comptroller to co-sign contracts/ amendments respecting professional and technical services within defined thresholds – the Comptroller's responsibility would be limited to quality control regarding the statement of work, assuring proper authorization, and ensuring compliance with the Government Contracting Regulations.	ADM(IM)/ IM Group Comptroller	The IM Group will significantly enhance its contract management oversight through the establishment and staffing of a Purchasing and Supply occupational group position – PG-06, to be referred to as the Senior (Sr) Contract Management Officer, at the IM Group HQ level. In addition, contract management positions currently within the divisions will be accountable/ responsible to the Sr Contract Management Officer. Collectively, these resources will perform the quality control work regarding statements of work, authorities/authorizations, and compliance with regulations. This initiative will be accompanied by more formal focused reviews of high-profile/high-dollar contracts and contract amendments, where risk factors are highest.



ANNEX F

CRS Recommendation	OPI	Management Action
Short Term		
The IM Group Comptroller, in collaboration with the Mat Group, to ensure that there is an electronic repository of contracts and amendments for review by the Comptroller and other staffs, as appropriate.	ADM(IM)/ IM Group Comptroller ADM(Mat)/ COS ADM(Mat)	The Material Acquisition and Support Information Management System (MASIS) will be the long-term solution to having an electronic repository of contracts and amendments; such a capability may not be available for some time. In the interim, ADM(IM) is looking at internal solutions to electronically track contracts and amendments, post contract-award.
The IM Group Comptroller to prepare monthly reporting to the COS ADM(IM) on trends and on the quality of contracting as a basis for confirming/limiting delegated authorities or otherwise modifying direction – ADM(IM) should table a quarterly report at the Departmental Oversight Committee on Contracting (DOCC).	ADM(IM)/ IM Group Comptroller	<p>The IM Group is in the process of initiating a monthly contract reporting procedure, which will provide the basis for the IM Group Comptroller/Sr Contract Management Officer to: report on contracting trends; highlight high-risk contracting areas for follow-on review/action; and identify delegation of authority issues for further review.</p> <p>ADM(IM) would be prepared to provide an initial report to the DOCC in the Spring 2006 timeframe.</p>



ANNEX F

CRS Recommendation	OPI	Management Action
Short Term		
<p>The ADM(Mat)/DC Pol provide regular training seminars to IM staff, preferably to be supplemented by electronic training and self-testing.</p>	<p>ADM(Mat)/DC Pol</p>	<p>The IM Group has developed and delivered a financial management and procurement training session for each of the past two years. The next sessions will be held during the period 19-26 September 2005. Participation in these training sessions is mandatory for IM Group personnel with delegated financial/contracting authorities. The latest training package has been developed in-house, with assistance from DCPS staff. DC Pol has agreed to assess the procurement/contracting training package and an actual training session. Any shortfalls identified by DC Pol will be addressed through additional training/instruction, as appropriate. For future FYs, DC Pol will be an integral part of the training program from the outset. DC Pol has developed on-line tools for tracking and processing and is beginning the phase of developing on-line training. The on-line tools went live in May 2005. Initial training aides are targeted for last quarter 2005/first quarter 2006.</p>



ANNEX F

CRS Recommendation	OPI	Management Action
Long Term		
The ADM(IM) to ensure that Human Resource Plans define specific strategies and milestones, to overcome or better target the dependence/reliance on contracted resources working on-site as an integral part of the workforce.	ADM(IM)/ COS ADM(IM)	The IM Group is committed to reducing its overall reliance on contracted resources, which exceeded 600 in August 2005. To that end, the IM Group has produced an initial plan, which will see more than 170 contractors replaced by civilian employees over the next 3 years. An additional level of review/challenge has been imposed on all temporary help services requests to ensure that this vehicle is used appropriately. Also, commencing with the FY 2006/07 business planning process, a civilian-staffing plan is being incorporated within the IM Group's overall business planning framework to provide a basis for prioritizing resources and efforts.



ANNEX G – SUMMARY OF ACRONYMS

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)	DIMOS	Director Information Management Operations Support
ADM(IM)	Assistant Deputy Minister (Information Management)	DIMTPS	Director Information Management Technologies, Products and Services (formerly DTSES)
ADM(Mat)	Assistant Deputy Minister (Materiel)	DIMTS	Director Information Management Technology Support (formerly DIMOS)
ASD	Alternative Service Delivery	DM	Deputy Minister
COS ADM(IM)	Chief of Staff Assistant Deputy Minister (Information Management)	DND	Department of National Defence
COS ADM(Mat)	Chief of Staff Assistant Deputy Minister (Materiel)	DND/CF	Department of National Defence/ Canadian Forces
CRCO	Classified Realm Coordination Office	DOCC	Departmental Oversight Committee on Contracting
CRS	Chief Review Services	DTSES	Director Telecommunications and Spectrum Engineering and Support
DAOD	Defence Administrative Orders and Directives	FMAS	Financial Management and Accounting System
DC Pol	Director Contracting Policy	FY	Fiscal Year
DCPS	Director Common Procurement Supply	HR	Human Resources
DDCEI	Director Distributed Computing Engineering and Integration	IM	Information Management
DGEAS	Director General Enterprise Application Services	IMGIS	Information Management Group Information Services
DGIMO	Director General Information Management Operations	IM/IT	Information Management/Information Technology
DGIMT	Director General Information Management Technology (formerly DGIMO)	ITPS	Information Technology Professional Services
DGIMPD	Director General Information Management Project Delivery	MASIS	Material Acquisition and Support Information Management System
DGIMSD	Director General Information Management Strategic Direction	NDHQ IM	National Defence Headquarters Information Management
DGKMI	Director General Knowledge Management Innovations	O&M	Operations and Maintenance
DIMEI	Director Information Management Engineering and Integration (formerly DDCEI)	TB	Treasury Board
		THS	Temporary Help Services
		TEMS	Technical, Engineering and Maintenance Services

