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Chief Review Services Chef - Service d'examen

CRS  CS Ex

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Internal Audit: CF188 Hornet System
Engineering Support Contract (SESC)

August 2007

7053-30 (CRS)



Canada 

CAVEAT

This audit is not intended to assess the performance of contractors; rather, it is an internal assessment of processes and practices within Assistant Deputy Minister (Materiel) (ADM(Mat)). Contractors have not been interviewed or otherwise asked to provide comment or feedback.

This audit represents a high level of assurance.



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LIST OF ACRONYMS

AAS	Accountable Advance Spares	FAA	<i>Financial Administration Act</i>
ADM(Mat)	Assistant Deputy Minister (Materiel)	FMAS	Financial Managerial Accounting System
AMSE	Aircraft Maintenance Support Equipment	FY	Fiscal year
ASC	Audit Services Canada	GFE	Government Furnished Equipment
BIR	Budget Increase Request	GFOS	Government Furnished Overhaul Spares
CA	Contracting Authority	GL	General ledger
CBR	Center Barrel Replacement	IFD	Information for decision making
CFSS	Canadian Forces Supply System	LCMM	Life Cycle Materiel Manager
CIS	Contractor Issue Spares	LEP	Life Extension Program
CRPA	Contractor Repair Parts Account	LMP	Logistic Management Plan
CRS	Chief Review Services	MCF	Management Control Framework
CSS	Contractor Supplied Spares	MPMR	Monthly Performance Monitoring Report
DAP	Director Aerospace Procurement	NDQAR	National Defence Quality Assurance Representative
DAEPMFT	Director Aerospace Equipment Program Management (Fighters and Trainers)	OWSS	Optimized Weapon System Support
DGAEPM	Director General Aerospace Equipment Program Management	PAV	Primary Air Vehicle
DGMSSC	Director General Materiel Systems and Supply Chain	PWGSC	Public Works and Government Services Canada
DID	Data Item Description	R&O	Repair and Overhaul
DMPAP	Director Military Pay and Accounts Processing	RA	Requisitioning Authority
DMS	Data Management System	RMA	Repairable Materiel Account
DND	Department of National Defence	RMF	Risk Management Framework
DQA	Director Quality Assurance	RMP	Risk Management Plan
DRED	Defect Report Engineering Disposition	RSA	Repair Shop Account
ERDIMS	Electronic Recorded Data Integrated Management System	SESC	System Engineering Support Contract
		SNAPS	Selection Notice and Priority Summary
		TA	Technical Authority
		VCDS	Vice Chief of the Defence Staff



RESULTS IN BRIEF

In 2004, Chief Review Services (CRS) developed a contract risk analysis methodology that identified higher-risk contracts that warranted audit. An analysis of 334 service contracts worth \$4.7 billion determined that the System Engineering Support Contract (SESC) was one of five contracts that warranted an audit. As the results of this audit represent only one of these higher-risk contracts, it cannot be concluded that the results of this audit are representative of the Department of National Defence (DND)'s overall contract management practices. The audit objective was to provide assurance that adequate information for decision making, risk and control management frameworks are in place to administer the CF188 SESC.

The \$351-million SESC for the CF188 Hornet fighter aircraft¹ expired in June 2004. Therefore, the follow-on contracts worth \$426 million were also included as part of the audit. The current four-year SESC expires in March 2008

Overall Assessment

This audit cannot provide assurance that the Crown is receiving value for money, that payments are in accordance with the *Financial Administration Act* (FAA), that adequate reporting strategies are in place, and that risks are appropriately managed.

Escalation of recurring production costs and weakness in task management does not assure value for money. Economies up to \$7.7 million per year may be achieved with the new SESC project office, elimination of core tasks, a Logistics Management Plan (LMP) for the Repair and Overhaul (R&O) line, and turnaround time incentives.

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Findings and Recommendations

Cost Escalation. In spite of a growth in the volume of work, which should have resulted in better rates, recurring production escalation and rate increases have occurred. This has resulted in additional costs of \$2.4 million to \$4.0 million annually. Inaccurate component R&O priorities could result in expenditures of \$2.0 million that could be deferred for two years.

It is recommended that SESC management improve cost controls with an aging index benchmark and implement measures to ensure R&O component priorities reflect operational requirements, and that DND participate in annual rate negotiations.

¹ All contract values and expenditures in this report exclude taxes.



Task Management.
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..... For some tasks the vendor
was permitted to go over budget by 10 percent without submitting a formal Budget Increase
Request (BIR) as stipulated in the contract.
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It is recommended that duplication of work be avoided in task management and fixed or target
prices for tasks be introduced with holdbacks or incentives.

Material Management.
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It is recommended that stocktaking independence be rationalized, location of National Defence
Quality Assurance Representative (NDQAR) supply technicians be optimized,
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Payment Certification. Verification processes were not in
place and supporting documentation was not available to
support FAA Section 34 and Section 33 certification for
payments
..... In addition, there was inadequate segregation of
duties to ensure DND received value for money for charges
totaling \$117 million.

It is recommended that payment verification be improved
through risk-based sampling, labour charge breakdown by
task, and segregation of duties.
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Best Practices

- LMP for R&O components
- SESC project office
- Improved turnaround times with in-plant aircraft limitation
- Authorized task cost control
- Risk quantification of limited life items



Financial Management. Significant errors in financial coding and R&O control weakness have resulted in inaccurate financial statement balances and forecast variances. For SESC, \$111.7 million in payments were coded to the wrong general ledger (GL) over a six-year period. The book value of the CF188 fleet is under-stated on the financial statements by \$98.5 million because betterments were expensed prior to FY 2004/05. Weak R&O controls caused the \$1.0 million R&O component repair budget to be exceeded by \$0.75 million in FY 2005/06 without proper authorization.

It is recommended that improvements be made to financial coding, retroactive betterment cost capturing prior to FY 2004/05, and R&O component line budget controls.

Risk Management. With the exception of airworthiness, DND did not exercise risk management best practices. DND did not develop risk management plans (RMP) that specified risk identification, ranking, mitigation, quantification, and reporting processes.

It is recommended that a DND RMP be developed and implemented for the SESC that incorporates standard risk management practices for all SESC tasks.

Vendor Reporting. As for the current contract,.....

It is recommended that the

Note: For a more detailed list of CRS recommendations and management response please refer to [Annex A](#)—Management Action Plan.



INTRODUCTION

Background

A 2005 CRS report entitled *Risk Analysis of Service Contracts* determined that only five of 334 service contracts, each with a value greater than \$1.0 million, contained sufficient risk attributes to merit an audit. One of these contracts was the five-year \$351-million SESC expired contract (June 2004), which provided for engineering services, R&O, publications, data management support and software maintenance to the 115 CF188 Hornet fighter aircraft. The SESC was flagged for audit for the following reasons:

- Supporting documentation was not attached to the claims but available on site for audit;
- The initial contract was sole-sourced;
- No performance incentives;
- No segregation of duties for some of the work authorization and approval;
- Time and material reimbursable terms of payment;
- Significant use of subcontractors—..... of work in FY 2005/06;
- More than one customer; and
- A Vice Chief of the Defence Staff (VCDS) request for audit due to material value.

As the initial contract expired in June 2004, the follow-on contracts worth \$426 million were also included as part of the audit. The annual contract cash flow of the SESC is shown in Figure 1.

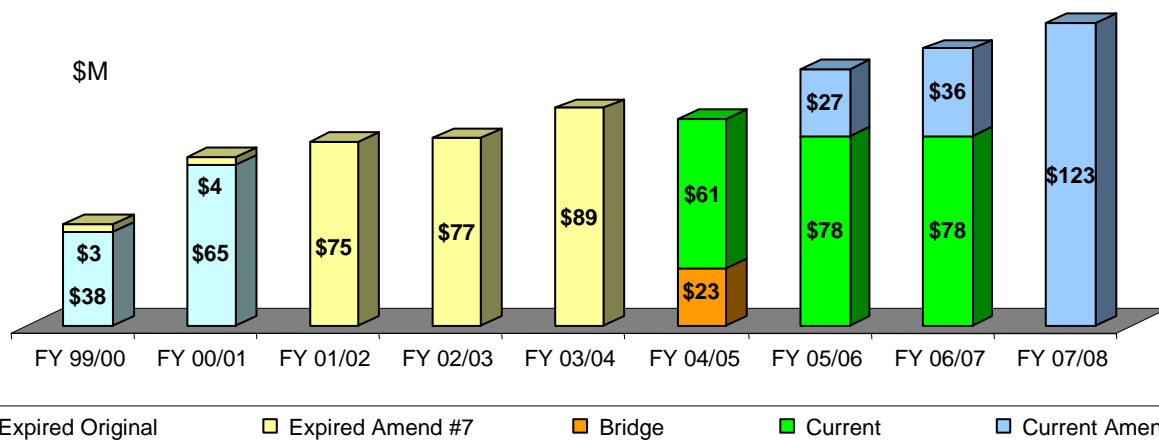


Figure 1. Annual Contract Cash Flow. Main reasons for contract amendments were due to delays in the Optimized Weapon System Management Contract and unforeseen CF188 modernization and testing.



Objective

The objective of this audit was to provide assurance that adequate information for decision making, risk and control management frameworks are in place to administer the CF188 SESC. The audit determined whether:

- The payments are made in accordance with the FAA, policies and regulations;
- Appropriate monitoring and reporting strategies are in place;
- Risks are understood and appropriately managed; and
- The Crown is receiving value for money.

Scope

The audit scope covered issues related to expenditures and task management.

- Expenditures from FY 2001/02 to FY 2005/06 totaled \$531.3 million.
- The audit of the prime contractor and subcontractors was not included (an ASC role).

Methodology

- Data analysis from DND information systems: Financial Managerial Accounting System (FMAS), Canadian Forces Supply System (CFSS), Data Management System (DMS) and Electronic Recorded Data Integrated Management System (ERDIMS);
- Site visits: end-user 4 Wing Cold Lake and NDQAR Montreal;
- Contract documentation review including task directives, progress claims, and vendor reports;
- Interviews with key staff at Director Aerospace Equipment Program Management (Fighters and Trainers) (DAEPMFT), Director Quality Assurance (DQA), and Director Military Pay and Accounts Processing (DMPAP);
- Benchmark with US F/A18 maintenance information;
- Sample of payments verification, 166 payments—\$304.7 million (57 percent coverage of the total \$531.3 million) from FY 2000/01 to FY 2005/06; and
- Sample for task verification, 29 high-value tasks—\$81 million (71 percent coverage of the total \$114.1 million) based on FY 2005/06 level of effort.

Criteria

[Annex B](#) provides a list of criteria for each audit objective with a corresponding scorecard assessment.



FINDINGS AND RECOMMENDATIONS

Escalating production costs for recurring tasks and higher rates contributed to in excess costs per year. There is also an opportunity for a one-time component R&O line deferral of for two years.

Cost Escalation

Production Cost Escalation. As shown in Figure 2, SESC annual average recurring production effort between FY 2000/01 and FY 2006/07 rose by 15.2 percent (green trend line). The SESC annual production was compared to two benchmarks:

- A Congress budget office report on *The Effects of Aging on the Costs of Operating and Maintaining Military Equipment*² found the US F/A 18 fighter maintenance over 10 years increased annually by 7.7 percent.
- Rand Corporation *Aging Index Studies*³ determined that 20-year-old fighter aircraft on-equipment workload increased 2.1 percent per year.
- Based on \$27.3 million FY 2006/07 estimated recurring production costs, the SESC is costing in excess of to annually over and above the respective benchmarked costs.

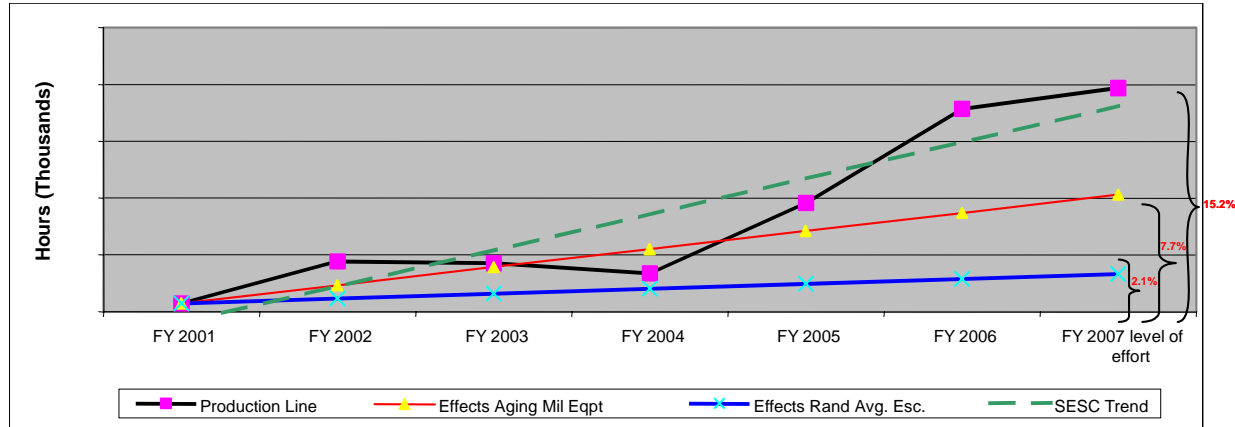


Figure 2. Production Benchmark. SESC annual average production level of effort has been increasing by 15.2 percent per year. When compared to benchmark rates for similar type/age aircraft of 7.7 percent and 2.1 percent, excess costs range from annually.

² *The Effects of Aging on the Costs of Operating and Maintaining Military Equipment*, US Congress Budget Office, August 2000. The maintenance effort history was for the same F-18 models employed by the Canadian Forces.

³ *Aging Index Studies*, USAF Rand Project Air Force, 2003.



Rate Negotiation. As the vendors’ total volume of work (including non-DND work) increases, the Crown should receive better rates as a result of annual PWGSC rate negotiations.

- Vendor volume of work has increased at an average annual compounded rate of 2.6 percent per year in 2005 and 2006. However, the average annual compounded core wage rate has risen at a rate of 1.6 percent in those two years.
- This average increase in wage rate has contributed costs each year of to the production cost escalation.
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 Currently, the Assistant Deputy Minister (Materiel) (ADM(Mat))/PWGSC responsibility matrix does not include DND in the annual rate negotiation for sole-source contracts.⁴

Repair and Overhaul Component Management. Analysis of the SESC component R&O line determined that one-time R&O costs of \$2 million could be deferred for two fiscal years.

- CRS found that 38 of 96 Selection Notice and Priority Summary (SNAPS) items have more than 24 months of stock. In this case unserviceable spares should be sent to the DND supply depot as repairable reserve rather than repaired at a cost of \$2 million over the next two fiscal years.
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Best Practice
 The recently developed DND LMP tool will improve decision making for R&O component line management.

Recommendation

OPI	RECOMMENDATION
ADM(Mat)/DGAEPM	Monitor and increase oversight of recurring production costs by comparing with aging index benchmarks, amend the PWGSC/DND responsibility matrix in the PWGSC manual to include DND participation in annual rate negotiations, and revise the SESC SNAPS to realign R&O component repair priorities.

⁴ PWGSC Supply Manual, Chapter 3, Annex A.

⁵ CRS internal audit report *Wheeled Light Armoured Vehicle Life Cycle Support Contracts*, June 2006.



Task Management

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 *Cost*
overruns and schedule slippage have also resulted due to poor task estimates

Task Duplication.

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Task Estimates. Poor estimates impair management's ability to plan and budget the necessary funds for the fiscal year.

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- The SESC managers approved the vendor estimates prior to each fiscal year.

Sample Cost Overrun. An in-depth analysis was done on Life Extension Program (LEP) and Center Barrel Replacement (CBR) production tasks that were initiated in FY 2005/06 and FY 2006/07 totaling

- Results of the task analysis are depicted in Figure 3. The twelve tasks had a labour overrun that ranged from
- The average overrun was resulting in an of additional costs.



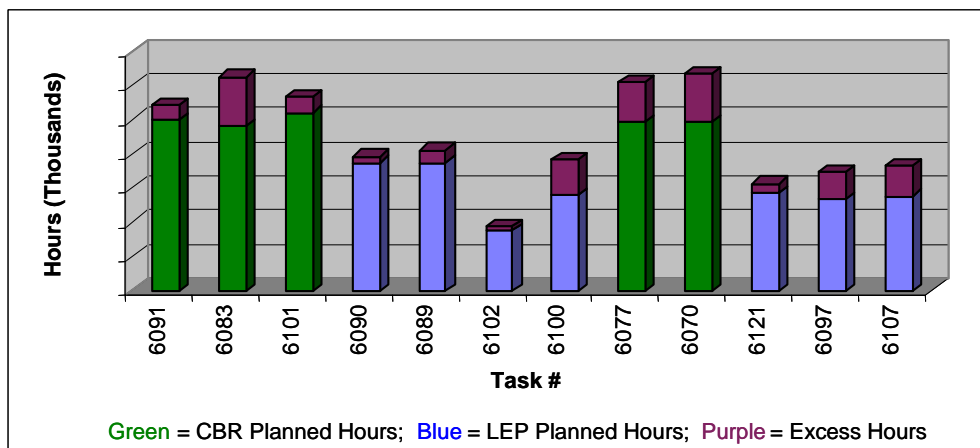


Figure 3. Audit Task Sample. *Labour hour overruns for some tasks were as high as hours—a 23 percent increase.*

Budget Increase Requests.

- These eight tasks worth \$12.6 million included additional work of \$1.3 million (10.3 percent).
- Four of these production tasks also included a provision for the vendor to go over budget by as much as 10 percent before a formal BIR was submitted. The vendor reported the over-expenditure via the weekly production report's task estimate at completion.

Best Practices

..... In addition, a SESC project office has been established to improve contract management.

Schedule Slippage. The same 12 tasks were also analyzed to determine the extent of schedule reliability. Schedule delays significantly limited the operational capability of the air force. For example,

- 11 of the 12 aircraft were delivered to the onsite NDQAR after their expected delivery date;
- The aircraft delivery ranged from 99 days late to 5 days early; and
- On average, the 12 aircraft were 35.1 calendar days late, equating to a 10.2 percent schedule delay.

Recommendation

OPI	RECOMMENDATION
ADM(Mat)/DGAEPM	Ensure no duplication of tasks exists and introduce fixed or target price tasks with holdbacks or incentives.



Material Management

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Vendor Stock Adjustment.

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..... R&O policy requires vendors to “pass all adjustment transactions to the NDQAR for review and approval or rejection prior to processing.”⁶

- As shown in Table 1,
 FY 2003/04 to FY 2005/06.

Fiscal Year	Downward (\$)	Upward (\$)	Absolute Value (\$)	Net Value (\$)
2003/04
2004/05
2005/06
Total

Table 1. Stock Adjustments to Two Supply Accounts.

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Accuracy of Vendor-Held DND Inventory.

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⁶ DND Special Instructions for Repair and Overhaul Contractors, A-LM-184-001/JS-001, Chapter 6, October 2004.



..... The vendor is obligated to conduct a 100-percent stocktaking every two years.⁷

June 2007 Inventory Type (\$000)	Vendor Opening Book Value (\$000)	Vendor Stocktake at June 2007 (\$000) (1)	Vendor Net Adjustment (\$000)	CFSS Download June 2007 Book Value (\$000) (2)	Difference Between CFSS/June 2007 Stocktake (\$000) (2-1)
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Table 2. Vendor-Held DND Inventory Stocktaking (\$000).

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- stocktaking policy⁸ requires the report of both deficiencies and surpluses on the CF152 Report of Write-off, The delegated authority for the write-off is ADM(Mat).
- DND Special Instructions for Repair and Overhaul Contractors* presumes stocktaking independence is achieved by providing an up-to-date CFSS inventory list to the vendor without the quantities of holdings. The vendor's count of holdings is to be compared to the CFSS record. However, the vendor already has access to the CFSS to determine the quantity of holdings before the count, making the independence of the stocktaking highly questionable.

Government Furnished Equipment (GFE).

⁷ *DND Special Instructions for Repair and Overhaul Contractors*, A-LM-184-001/JS-001, Chapter 6, October 2004.
⁸ *DND Special Instructions for Repair and Overhaul Contractors*, A-LM-184-001/JS-001, Chapter 6, October 2004.



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GFE Stocktaking Result	Value (\$000)
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Table 3. GFE Stocktaking

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Recommendation

OPI	RECOMMENDATION
ADM(Mat)/ DGMSSC	Optimize the location of NDQAR supply technicians based on materiality of contractor-held DND assets; rationalize stocktaking independence; revise <i>DND Special Instructions for Repair and Overhaul Contractors</i> to include stocktaking and write-off requirements for GFE.



Payment Certification

More rigour in FAA Section 34 and 33 payment certification, better segregation of duties, core work reconciliation with sufficient data, and pre-verification of payments rather than reliance on post-verification by PWGSC/ASC

Potential Recovery. Due to insufficient resources to perform FAA Section 34 payment certification and a lack of FAA Section 33 certification scrutiny,

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Overcharge type	Amount
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FY	March	Monthly Average	March Excess	Avg Rate	Year-end Spending
2001	\$1,056,258.54
2002	\$1,755,350.51
2003	\$626,530.30
2004	\$2,076,280.35
2005	\$660,938.54
2006	\$542,171.27
Average	\$6,717,529.51

Table 5. Excess March Spending. *The vendor-reported monthly hours equate to an average of hours per month; however, the month of March average is hours.*

Year-end Core Reconciliation. Insufficient visibility exists to determine if the amount of core work value is reasonable. Adjustments of a result of year-end core reconciliation for additional work to the annual negotiated core work level. However,
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Best Practice

The transition from core tasks to authorized tasks prevents the unauthorized transfer of budgets between tasks.

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- The PWGSC Contracting Authority (CA) did not validate year-end core reconciliations at the time of approval but relied on post verification by ASC. To date, ASC has not performed cost audits on these contracts.
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Segregation of Duties. For 28.2 percent of the contract work, there was no segregation of duties between the RA and TA. Over the last six years, the same person initiated, approved and paid for tasks worth \$117 million. These tasks included Fly-in Repair, Material Management Services, Accountable Advance Spares (AAS) and Contractor Supplied Spares (CSS) tasks.

Recommendations

OPI	RECOMMENDATIONS
ADM(Mat)/DGAEPM ADM(Fin CS)/DG Fin Ops	Improve payment certification with risk-based sampling approved by DMPAP, labour breakdown by tasks for reconciliation, and segregation of duties.
ADM(Mat)/DGAEPM	..... .....



Financial Management

Improvements to financial coding is required to minimize forecasting errors and improve the accuracy of financial statement balances. Weaknesses in commitment accounting and R&O component controls complicate the tracking of expenditures.

Inaccurate Financial Coding

- In both expired and current contracts, expenditures were coded to the wrong GL.
 - From FY 2000/01 to FY 2005/06, production task charges worth \$117 million were inaccurately coded to GL04201 (Engineer Services)—37 percent of all payments.
 - These tasks were related to R&O and production activities and should have been charged to GL06228 (Repair, Overhaul and Modification of Airframes).
- Prior to FY 2004/05, the SESC managers did not capture all betterment costs resulting in the CF188 Hornet fleet value being under-stated by \$98.5 million on financial statements.

Commitment Accounting. To accommodate cost capturing for some tasks, more than 27 commitments were used in FMAS for the expired and current contract, making it difficult to link expenditures to the contract. It is a best practice that one FMAS commitment number be used for one contract with separate lines for each commitment to ensure expenditures do not exceed the contract ceiling.

Component R&O Control Weakness. No controls were in place within DND to ensure that the vendor notified DND prior to proceeding with the component repairs.

Recommendation

OPI	RECOMMENDATION
ADM(Mat)/DGAEPM	Improve financial coding of payments, simplify commitment accounting, ensure proper authorization of component R&O, and capture cost of betterments prior to FY 2004/05.



Risk Management

With the exception of airworthiness, risk management best practices were not exercised by DND

Risk Management Planning. Although prescribed as a best practice on the ADM(Mat) KNet intranet site, a RMP was not developed by the SESC managers.

- A RMP defines in detail the risk identification, ranking, mitigation and reporting processes.
- The RMP should include the five ADM(Mat) risk impact thresholds⁹ with criteria for each threshold.
- Since 2005 a risk register has been developed for the CF188 fleet, but not with the benefit of a RMP framework. The risks are not ranked or quantified and only three impact thresholds are included rather than the five prescribed by ADM(Mat) KNet.

Best Practice

Detailed risk quantification of limited life items by the vendor considered costed options for preventative maintenance and service by inspection.

Vendor Risk Management. The vendor was not required to deliver a RMP. Some contract risks were identified in the vendor's annual WBS report.

- Availability and accuracy of CFSS data was incomplete, with missing data;
- DND priority changes during implementation;
- Incomplete maintenance data in the DMS for operations; and
- The level of effort for Control Point 2 life extension package using historical values was underestimated.

As for the vendor's technical risks for each of the tasks reported in the FY 2005/06 WBS:

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Recommendation

OPI	RECOMMENDATION
ADM(Mat)/DGAEPM	Ensure DND and RMPs are developed for the SESC that incorporate standard risk management practices for all tasks.

⁹ ADM(Mat) KNet website <http://dgmssc.ottawa-hull.mil.ca/matknet/english/default.htm>.



Vendor Reporting

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Sufficient information was not requested from the vendor for the current contract.

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 • No DIDs exist in the current contract to specify report type, frequency and format.

Format of Core Task Proposals. Representing 50 percent of SESC work, each core task proposal did not summarize the labour category or department in a format to assess the reasonableness of the cost or to enable reconciliation of payments at year-end.

Recommendation

OPI	RECOMMENDATION
ADM(Mat)/DGAEPM



ANNEX A—MANAGEMENT ACTION PLAN

Ser	CRS Recommendation	OPI	Management Action	Target Completion Date
Cost Escalation				
1.	Monitor and increase oversight of recurring production costs by comparing with aging index benchmarks, amend the PWGSC/DND responsibility matrix in the PWGSC manual to include DND participation in annual rate negotiations, and revise the SESC SNAPS to realign R&O component repair priorities.	ADM(Mat)/ DGAEPM	In regard to comparing our costs to benchmark aging indices, we are not aware of other countries in the CF188 community that maintain their fleets with the same methodology as the CF. Auditor's Note. <i>Although maintenance methodology may differ with allies, a comparison of annual escalation for recurring work for the same aircraft model provides a reference point to validate R&O forecasts by the vendor.</i>	Closed
		ADM(Mat)/ DGMSSC/ DMPP	PWGSC will be requested to amend the responsibilities matrix in Chapter 3 of the PWGSC manual to include rate negotiations. The DND Procurement Administration Manual (PAM), PAM Chapter 1.3, para 1.3.1 c, which describes the roles and responsibilities of the DND Procurement Authority will be amended to read: "Participate in contract negotiations, including annual rate negotiations of R&O contracts". In the CF188 group, DND is now being invited to rate negotiations at the Prime Contractors.	March 2008 October 2007
		ADM(Mat)/ DGAEPM	In regard to re-aligning the SNAPS, a sparing analysis and requirements review has been incorporated into the LMP tool to ensure that we only repair what is necessary for the planning horizon.	Closed
Task Management				
2.	Ensure no duplication of tasks exists and introduce fixed or target price tasks with holdbacks or incentives.	ADM(Mat)/ DGAEPM	With the implementation of the PMO construct, more effective cost tracking/control is in place with industry standard project management practices. As part of this PMO, DGAEPM also established a military position in the contractor's facility as a WSM representative to perform a quality assurance and audit function.	Closed



ANNEX A

Ser	CRS Recommendation	OPI	Management Action	Target Completion Date
Task Management (cont'd)				
			DGAEPM now uses fixed price or a time and material target price basis of payments and has the ability to establish incentives/holdbacks.	
Material Management				
3.	Optimize the location of NDQAR supply technicians based on materiality of contractor-held DND assets; rationalize stocktaking independence;..... <i>revise DND Special Instructions for Repair and Overhaul Contractors</i> to include stocktaking and write-off requirements for GFE.	ADM(Mat)/ DGMSSC/ DMPP	..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... ..... Regarding stocktaking, other options, such as the use of Standing Offers will be examined. The R&O contracting section of the PAM will be amended to identify the responsibilities of the NDQAR or designated representative in the contract SOW and inspection clauses. A standard R&O Log SOW format, linked to the <i>DND Special Instructions for Repair and Overhaul Contractors</i> and the PAM, will clearly identify the responsibilities of the designated TA and NDQAR, and will include verification of vendor compliance at the contractor site, as well as the requirement to identify the specific contractor responsibilities in respect to inventory control.	Completed March 2008 December 2007 December 2007

ANNEX A

Ser	CRS Recommendation	OPI	Management Action	Target Completion Date
Material Management (cont'd)				
			..... ..... ..... ..... ..... .....	Closed
Payment Certification FAA Section 34				
4a.	Improve payment certification with risk-based sampling approved by DMPAP, labour breakdown by tasks for reconciliation, and segregation of duties.	ADM(Mat)/ DGAEPM ADM(Fin CS)/ DG Fin Ops	To provide the necessary resources to accomplish the improved payment certification with risk-based sampling, DAP has requested an NP to SWE conversion of the in-house contractor to be converted to a PG-02. This will provide the necessary resource required to accomplish this objective. In regard to the segregation of duties, all present and future claims will have the approval of the TA and the RA.	Closed
4b.	DAEPMFT pursue	ADM(Mat)/ DGAEPM	Core hours are no longer being used as a basis of payment in the existing SESC contract.	October 2007
Financial Management				
5.	Improve financial coding of payments, simplify commitment accounting, ensure proper authorization of component R&O, and capture cost of betterments prior to FY 2004/05.	ADM(Mat)/ DGAEPM	DAP 5 staff will ensure the correct general ledger number is used for future transactions. Commitment accounting for this complex contract with multiple capital and National Procurement funded projects will be difficult to simplify. DAP 5 will examine merging multiple commitments as multiple lines within a single commitment. The introduction of the PMO and the LMP tool ensures better control of R&O activities and that they are pre-authorized. DAP 5 staff will pursue the capture of the betterments prior to FY 2004/05.	Effective Immediately October 2007 Closed November 2007



ANNEX A

Ser	CRS Recommendation	OPI	Management Action	Target Completion Date
Risk Management				
6.	Ensure DND RMPs are developed for the SESC that incorporate standard risk management practices for all tasks.	ADM(Mat)/ DGAEPM	DAP/DAEPMFT has developed a requirement for a RMP within the SESC contract and will carry this methodology over into the OWSS contract.	Closed
Vendor Reporting				
7.	..... ..... ..... ..... .....	ADM(Mat)/ DGAEPM	DAP/DAEPMFT has introduced processes that enable us to link payments to the quality and value of the reports received. We will incorporate CDRL and DIDs in the OWSS contract and ensure payment is linked to the quality of the reports received.	Closed



ANNEX B—AUDIT CRITERIA SCORECARD

Objective	Criteria	Score	Justification
MCF	Financial management is in accordance with the FAA, TB and DND regulations/directives.		..... core payment reconciliation not reconciled at year-end.
MCF	Terms and conditions flow down to subcontractors.		No copy of subcontract held by the CA. *
MCF	Contract includes clauses to minimize risk to the Crown.		Warranty claim weakness in Defect Report Engineering Disposition (DRED) reconciliation. *
MCF	Roles, responsibilities and training of contract management staff are adequate.		NDQAR/TA responsibility overlap. RA/TA same person for over five years.
MCF	Vendor-managed DND assets are safeguarded, accounted for and managed efficiently.		..... ..... .....
IFD	Information for decision making is reliable and useful reporting strategies are in place.		..... ..... .....
MCF	Optimum basis of payment has been chosen for the contract.		No performance metrics. * Fixed-price tasks are seldom used.
MCF	Contract statement of work meet operational requirements.		Individual task statement of work lacking detail. Production schedule slippage 10 percent.
MCF	Appropriate management oversight exists to adequately monitor value for money.		Recurring production cost escalation—15 percent per year.
MCF	Balance of controls with risk.		Over-reliance on post verification by ASC, FAA Section 33 relies on Section 34. *
RMF	Risks are identified and appropriately managed.		No overall program RMP by DND

Satisfactory

Needs minor improvement

Needs moderate improvement

Needs significant improvement

Unsatisfactory

* Indicates the issue was briefed separately to SESC managers but was not included in this report.



ANNEX C—VENDOR REPORT – DELIVERABLES

Report Description	Observations	Received	Compliant
CF188 Logistics Management Plan*	Cancelled	.....
CF188 Annual Operating Plan*	WBS in lieu	.....	.....
CF188 PAV Program Management Plan*		.....
CF188 Configuration Management Plan*		.....
CF188 Quality Assurance Plan*		.....
Monthly Progress Monitoring Report**	.....	.....	.....
Activity Resource Listing for Core**		.....	.....
GFE Assets List**		.....	.....
Monthly Material Status Report**	<i>DND Special Instructions for Repair and Overhaul Contractors</i>	.....
T&L Approvals**		.....	.....
CF18 Production Weekly Status Report*		.....	.....
Copies of Stock Adjustment Transaction**	<i>DND Special Instructions for Repair and Overhaul Contractors</i>	.....
Copies of Stocktaking Report**	<i>DND Special Instructions for Repair and Overhaul Contractors</i>	.....

*In new contract

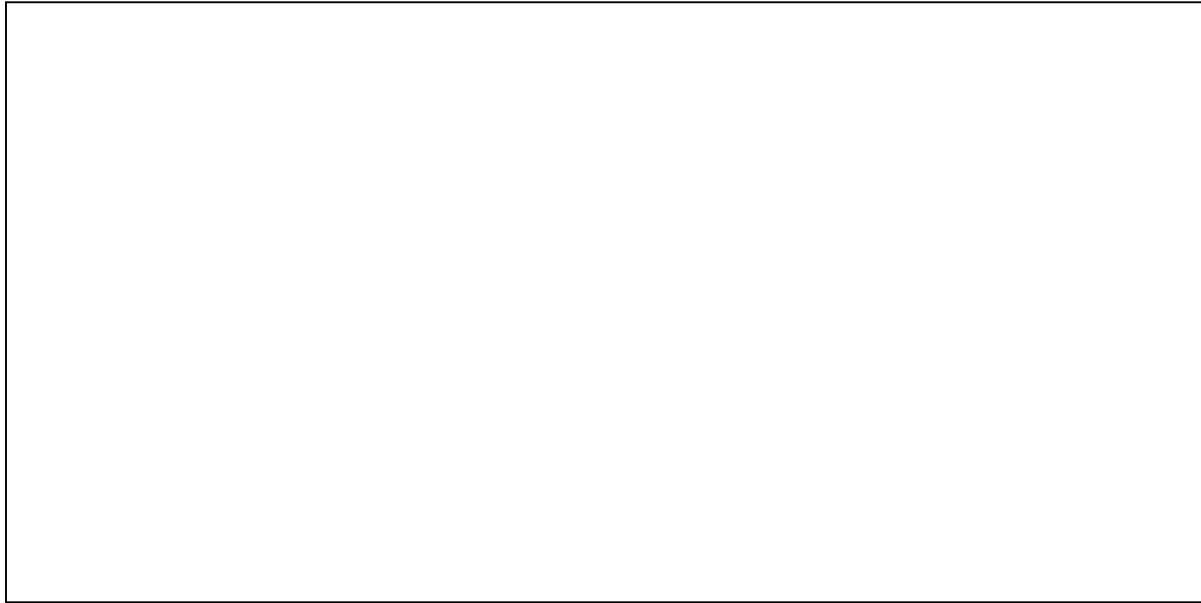
**In both contracts

Green indicates compliance with contract

Red indicates non-compliance with contract



ANNEX D—.....



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