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Follow-up on Internal Audit: Wheeled Light Armoured Vehicle Life Cycle Support Contracts

August 2008

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Canada 

CAVEAT

The result of this work does not constitute an audit of Wheeled Light Armoured Vehicle (WLAV) Life Cycle Support Contracts. Rather, this report was prepared to follow up on the progress in implementing the Management Action Plan that resulted from the June 2006 WLAV audit.

Inventory values in this report are the reported value from the Canadian Forces Supply System and may not represent the actual value of the inventory.



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Acronyms and Abbreviations

202 WD	202 Workshop Depot
AAS	Accountable Advance Spares
ADM(Mat)	Assistant Deputy Minister (Materiel)
AERMS	Audit and Evaluation Recommendation Management System
CF	Canadian Forces
CFSS	Canadian Forces Supply System
CIS	Contract Issue Spares
CRS	Chief Review Services
DAVPM	Director Armoured Vehicle Program Management
DGLEPM	Director General Land Equipment Program Management
DND	Department of National Defence
GFOS	Government Furnished Overhaul Spares
MAP	Management Action Plan
MERX	Mercantile Exchange
MRC	Maximum Repair Cost
NDHQ	National Defence Headquarters
NDQAR	National Defence Quality Assurance Representative
OWSS	Optimized Weapon System Support
PMWG	Project Management Working Group
PWGSC	Public Works and Government Services Canada
QA	Quality Assurance
R&O	Repair and Overhaul
RPC	Repair Priority Code
TB	Treasury Board
WLAV	Wheeled Light Armoured Vehicle



Introduction

In keeping with the Treasury Board (TB) Policy on Internal Audit¹ which must be fully implemented across government by 1 April 2009, Chief Review Services (CRS) is required to undertake audit follow-ups to assess the implementation status of management action plans (MAP) developed in response to previous CRS audit recommendations.

CRS conducted an audit of Wheeled Light Armoured Vehicle (WLAV) Life Cycle Support contracts in June 2006.² The scope included an audit of the WLAV Interim Contract Support—a six-year \$67.9-million contract. As this contract expired in March 2004, the follow-on \$313-million WLAV Phase I Optimized Weapon System Support (OWSS) five-year contract³ was also included as part of that audit.

Methodology

This follow-up is not a subsequent audit of the same issues. Rather, it is a review of evidence that demonstrates that the MAPs have been implemented. The following methods were used to verify the progress of the MAPs:

- Interviewed Director General Land Equipment Program Management (DGLEPM) contract management staff and other National Defence Headquarters (NDHQ) staff;
- Examined contract documentation and vendor reports; and
- Analyzed databases—Canadian Forces Supply System (CFSS) and Audit and Evaluation Recommendation Management System (AERMS).

Overall Assessment

Reasonable progress has been made to improve the Department of National Defence (DND)'s ability to ensure better value for money and realize potential economies. Adequate measures have been put in place to better control the cost of spare parts and optimize the mix of DND/Canadian Forces (CF) versus contracted resources.

Even though fleet inventory reports were not created as planned, a tool is currently being rolled out that will allow the Department to generate reports to provide oversight of fleet-wide inventory.

¹ *Policy on Internal Audit* http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/ia-vi/ia-vi_e.asp.

² *Internal Audit: Wheeled Light Armoured Vehicle (WLAV) Life Cycle Support Contracts*.

³ OWSS for WLAV Contract #W8476-02XA87/001/BL – Amendment 6. Three-year contract with two option years.



MAP Implementation Progress

Certification of Payments

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DND has yet to assume the lead role in the payment verification and certification process. However, efforts are being made in this regard, and the Director Materiel Group Comptrollership expects to have the issue resolved by December 2008.

A review of repair and overhaul (R&O) invoices confirmed that some additional details are being provided. This enables the Department to better assess if what is being charged is consistent with the terms and conditions of the contract.

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Information for Contract Management

To improve the Department's ability to manage the contract and better support decision making, it was recommended that adjustments be made to the maximum repair cost (MRC) and repair priority code (RPC) for R&O items, and to the re-order levels for the fleet inventory.

To date, less than half of the line items that required adjustments to the MRC have been properly adjusted. For example, instances were noted where the MRC continues to exceed the replacement cost or the MRC is only a fraction of the replacement cost. This increases the risk of poor procurement and/or repair decisions. At the time of audit, 122 line items were identified where repairs should be delayed by altering the RPC given that over three years of serviceable stock was on-hand. The RPC for nearly 75 percent of these items has not been adjusted; this increases the risk of items being sent for repair sooner than required. While increased usage has changed the stock on-hand situation for many of these items, assigning a proper RPC to some items which continue to have inappropriate settings could defer nearly \$2.4 million in repair cost to future years.



As for the quality assurance (QA) inspection codes that were incorrect or corrupted, a significant portion have since been set to blank and will be re-adjusted prior to new purchases. Accurate QA inspection codes are critical for the National Defence Quality Assurance Representatives (NDQAR) to conduct risk-based inspections of large quantities of inventory.

Limited progress was made setting re-order levels. The fleet inventory reports have not yet been developed as planned, but with the recent roll-out of the Distribution Resource Planning tool, such reports are expected to be made available in the near future. Accurate re-order levels minimize the risk of stock-outs. Director Armoured Vehicle Program Management (DAVPM) will review the line items that still require MRC, RPC and Re-Order Point setting adjustments by October 2008.

Potential Economies

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Considerable progress has been made in optimizing the mix of DND/CF versus contracted resources; 202 Workshop Depot (202 WD) is doing more of the Light Armoured Vehicle III/ Coyote maintenance work, reducing reliance on contractor personnel.

Materiel Management

Significant DND-owned materiel resources are held at the contractor (and sub-contractor) facilities with limited DND oversight or visibility. This includes spare parts (Contract Issue Spares (CIS), Accountable Advance Spares (AAS) and Government Furnished Overhaul Spares (GFOS)) and repair equipment (Government Furnished Equipment).

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Risk Management

As recommended, ADM(Mat) successfully developed a five-level risk impact threshold with specific criteria that has been placed on the ADM(Mat) Knowledge Network.

While the WLAV OWSS contract managers intended to adopt a standard risk quantification formula to be developed by ADM(Mat), a formula has yet to be developed. In November 2007, the Program Management Board directed the Project Management Working Group (PMWG) to address this issue. The PMWG target date for defining risk quantification requirements is April 2009.

