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**Follow-up on Internal Audit: CF188 Hornet
System Engineering Support Contract
(SESC)**

September 2009

7053-30-13-2 (CRS)



Canada 

Caveat

The result of this work does not constitute an audit of the CF188 Hornet System Engineering Support Contract (SESC). Rather, this report was prepared to follow up on the progress in implementing the Management Action Plan that resulted from the August 2007 CF188 Hornet SESC audit.

The reported inventory values in this project may not represent the actual value of inventory.



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Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
ADM(Mat)	Assistant Deputy Minister (Materiel)
AERMS	Audit and Evaluation Recommendation Management System
AOP	Annual Operating Plan
CA	Contracting Authority
CDRL	Contract Data Requirements List
CF	Canadian Forces
CFSS	Canadian Forces Supply System
CRS	Chief Review Services
DAEPMFT	Director Aerospace Equipment Program Management (Fighters and Trainers)
DAP	Director Aerospace Procurement
DGAEPM	Director General Aerospace Equipment Program Management
DG Fin Ops	Director General Financial Operations
DGMSSC	Director General Materiel Systems and Supply Chain
DID	Data Item Description
DMPAP	Director Military Pay and Accounts Processing
DMPP	Director Materiel Policy and Procedures
DQA	Director Quality Assurance
DND	Department of National Defence
FY	Fiscal Year
GFE	Government-Furnished Equipment
GL	General Ledger
LMPT	Logistical Management Planning Tool
LOE	Level of Effort
MAP	Management Action Plan
MSS	Management Support Services
NDQAR	National Defence Quality Assurance Representative
OSS	Off-Site Services
OWSS	Optimized Weapon System Support



PAM	Procurement Administration Manual
PMO	Project Management Office
QAR	Quality Assurance Representative
R&O	Repair and Overhaul
RA	Requisition Authority
RMP	Risk Management Plan
SESC	System Engineering Support Contract
SNAPS	Selection Notice and Priority Setting
SOR	Statement of Requirement
SOW	Statement of Work
SWE	Salary Wage Envelope
TA	Technical Authority
WSM	Weapon System Manager



Introduction

In keeping with the Treasury Board Policy on Internal Audit,¹ 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 the CF188 Hornet SESC and issued the report in August 2007.² The audit included two SESC as follows:

- A five-year \$351-million SESC for the CF188 Hornet fighter aircraft that expired in June 2004; and
- A four-year follow-on SESC with the exercised option years out to March 2010 worth \$620 million.

The four-year follow-on SESC is expected to be further extended to 2017 and to include three more option years.

Methodology

This follow-up is not another audit of the same issues, but rather it is a review of documentation and evidence to assess the progress made in implementing the MAP. The following methods were used:

- Interviews with Department of National Defence (DND) contract management staff (Technical Authority (TA), Requisitioning Authority (RA), National Defence Quality Assurance Representatives (NDQAR) and other headquarters staff);
- Interview with Contracting Authority (CA);
- Review of contract documentation that pertained to the MAP; and
- Analysis of data from Audit and Evaluation Recommendation Management System (AERMS),³ Financial Managerial Accounting System, and the Canadian Forces Supply System (CFSS).

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

² Internal Audit: CF188 Hornet System Engineering Support Contract.

³ AERMS is a system that tracks the progress of the MAP items.



Overall Assessment

There has been progress in the areas of task and financial management. Processes have been implemented to reduce annual cost escalation for recurring tasks by \$2.7 million per year and deliver aircraft modifications ahead of schedule. Specific measures are in place to forecast and pre-authorize component Repair and Overhaul (R&O).

At the time of follow-up, there were 10 main MAP items designated as completed in AERMS. Upon further examination, four out of 10 MAP items require additional measures to fully address the issue. Those MAPs that addressed the most significant areas of risk to the Department have been satisfactorily addressed. As for those MAPs that have yet to be fully addressed at the time of the follow-up, it appears that the majority will be implemented in the near future. An implementation status of the MAP items can be found in [Annex A](#) and the original MAP from the August 2007 CF188 SESC audit report is included in [Annex B](#).

Best Practices

NDQAR Quebec region developed Standard Operating Procedures with relevant information from existing DND inventory management policies and procedures in order to improve the vendor employees' understanding of the correct CFSS procedures.



MAP Implementation Progress

Payment Certification

To increase rigor in the payment certification process, the Director General Aerospace Equipment Program Management (DGAEPM) contract managers have implemented a process that allows for segregation of duties. They will require the vendor to provide additional supporting documentation to increase DND visibility of services provided and will follow up with the CA on the \$4.6 million potential excess charges identified in the August 2007 audit.

Payment Certification Process. There has been progress in strengthening the controls in the payment certification process, but DND still requires more visibility of some services provided prior to authorizing payments. As recommended, segregation of duties now exists as both the TA and the RA are certifying the monthly progress claims. DGAEPM contract managers have been conducting random sampling on each monthly progress claim. This process ensures that correct contractual rates are applied, travel and living expense rates are adhered to, and actual expenditures are within the approved task funding level.

However, the contract did not require the vendor to provide progress reports to substantiate the payments under the off-site services (OSS) task, a firm fixed-price task based on a level of effort (LOE). The OSS task is a recurring task that required 33 vendor employees⁴ to provide on-going support at three DND locations. In fiscal year (FY) 2008/09, DND made 12 equal monthly payments totaling \$5.6 million for a fixed LOE of 54,882 hours.

- The deliverables of each vendor employee under the task has not been specified, making it difficult to justify a firm price based on deliverables. Furthermore, in FY 2008/09 DND received a credit of \$272,520 as the vendor OSS positions were vacant for 3,332 hours; and
- The OSS task was identified as high risk in the August 2007 audit report where \$2.6 million of potential excess charges were paid for vacant positions.

It is difficult to determine, without evidence of actual hours worked, whether the Crown received the services negotiated. Through the CA, it is suggested that DND clarify the OSS task basis of payment as a fixed-time rate for an estimated LOE.

To address these concerns, Director Aerospace Procurement (DAP) has agreed to request through the CA a vendor OSS monthly progress report to substantiate payments starting in FY 2009/10. The SOR is also being revised by DND to include credits for positions that have been vacant more than 30 days. To ensure the most appropriate basis of payment, the CA, on behalf of DND, has requested the vendor to provide OSS actual hours worked in FY 2008/09.

⁴ The LOE of the OSS task in FY 2008/09 was estimated based on 30 full-time and three part-time vendor employees.



Potential Excess Charges. DGAEPM staff asked the CA to request an audit of potential excess charges in October 2008. As a starting point, the audit was to focus on FY 2006/07 core task payments. However, the audit had not yet begun at the time of the audit follow-up. The August 2007 audit report identified a total of \$4.6 million in potential excess charges as follows:

- \$1.4 million was related to the core task payments;
- \$2.6 million was related to the vacant positions paid under the OSS task; and
- \$0.6 million was attributable to subcontract rates and potential errors.

In order to initiate the third-party audit,⁵ the Director Aerospace Equipment Program Management (Fighters and Trainers) (DAEPMFT) and DAP have recently requested the CA to make this audit a priority and have agreed to assist in funding the audit. The CA has informed the TA and the RA that a third-party audit will be initiated but no timeline has been provided to date. DAP will attempt to recover a credit of up to \$2.6 million based on the evidence of vacant positions provided by CRS.

Materiel Management

To improve oversight of vendor-held DND assets with a recorded value of \$197 million,⁶ it was recommended that Assistant Deputy Minister (Materiel) (ADM(Mat)) optimize the location of NDQAR supply technicians based on materiality of vendor-held DND assets; rationalize stocktaking independence; and enforce vendor compliance with contract requirements regarding adjustments and write-offs.

Inventory Adjustment Control. A resident NDQAR supply technician overseeing the vendor-held DND assets has been working at the contractor facility since July 2007 as planned. However, DND control of inventory level adjustments by the vendor still requires improvement.

- In a sample of 15 adjustments, all were approved by DND after the vendor entered the transaction in the CFSS. Such practice was not compliant with DND policy.⁷ Five of the 15 adjustments were approved between 60 and 135 days later. The sample of adjustments represented 80 percent of the total value of downward adjustments in FY 2007/08 and FY 2008/09.
- Of the 15 vendor adjustments, five did not have the proper reason codes.
- As shown in Tables 1 to 4, the adjustment volume decreased by nearly 85 percent, to 179 line items in FY 2008/09. As well, the volume of the adjustments decreased from 43 percent to 21 percent of the recorded dollar value of the vendor-held DND inventories. There has been improvement with respect to the volume of vendor adjustments, but there still remains some uncertainty in the value of inventory holdings.

⁵ CRS does not have the mandate to audit vendors.

⁶ As identified in the August 2007 audit report, the vendor was managing contractor-issued spares with a recorded value of \$142 million and government-furnished equipment (GFE) of \$55 million.

⁷ R&O Guidelines, Chapter 6, page 6A-2.



Supply Account	% Value Adjusted	Total Quantity Adjusted	Total Quantity Held	% Quantity Adjusted
CRPAFAW1	50.17%	148,247	954,563	15.53%
RMAXAW1	40.37%	244	1,251	19.50%
Total	42.92%	148,491	955,814	15.54%

Table 1. FY 2007/08 Vendor Holding Adjustment. A large volume of adjustments occurred for two DND supply accounts (CRPAFAW1 and RMAXAW1) in terms of value and quantity.

Supply Account	Total Line Items Adjusted	Total Line Items Held	% Line Items Adjusted	Median % Quantities Adjusted per Line Item
CRPAFAW1	894	15,867	5.63%	
RMAXAW1	274	14,312	1.91%	
Total	1,168	30,179	3.87%	29%

Table 2. FY 2007/08 Average Value Adjustment. The average quantities adjusted per line item for the two DND supply accounts are 29 percent.

Supply Account	% Value Adjusted	Total Quantity Adjusted	Total Quantity Held	% Quantity Adjusted
CRPAFAW1	38.39%	7,315	888,884	0.82%
RMAXAW1	17.03%	111	179	62.01%
Total	20.87%	7,426	889,063	0.84%

Table 3. FY 2008/09 Vendor Holding Adjustment. The adjustment volume for the same two DND supply accounts decreased in FY 2008/09 when comparing to the previous fiscal year.

Supply Account	Total Line Items Adjusted	Total Line Items Held	% Line Items Adjusted	Median % Quantities Adjusted per Line Item
CRPAFAW1	124	16,315	0.76%	
RMAXAW1	55	14,403	0.38%	
Total	179	30,718	0.58%	100.00%

Table 4. FY 2008/09 Average Value Adjustment. The average quantities adjusted per line item are higher than for the previous fiscal year.

- The plan to monitor regional adjustments at the Director Quality Assurance (DQA) level on a monthly basis will be fully implemented in October 2009.

To address the inventory adjustment concerns, the NDQAR supply technician was directed in June 2009 to authorize adjustments before the vendor enters the transaction in the CFSS. DQA will also examine the option of restricting the electronic adjustment approvals in the CFSS to only DQA personnel by September 2009. In addition, DAEPMT will define a process for TA review of all adjustments and approval of write-offs.

Stocktaking Oversight. DND oversight on stocktaking of vendor-held DND inventory requires improvement. The vendor conducted 100-percent stocktaking in 2007. Although DND did not assist this stocktaking, the vendor count sheets were provided to the NDQAR at the time of the audit follow-up. Director Supply Chain Operations recently developed a contract Statement of Work (SOW) that will allow DND to hire third parties to conduct stocktaking at the base warehouses and the defence contractor facilities. This initiative is strongly supported by DGAEPM. The original target date to have the contract in place by March 2008 was delayed and is now dependent on the tendering process.

Standard R&O Logistics SOW. The plan for Director Materiel Policy and Procedures (DMPP) to develop a standard R&O logistics SOW to clarify materiel management roles and responsibilities has been delayed from December 2007 to December 2009.

Risk Management

To improve the Department's ability to anticipate risks, it was recommended that ADM(Mat) and DGAEPM ensure DND and vendor Risk Management Plans (RMP) be developed for the SESC, incorporating standard risk management practices for all risks.

Risk Management Plans. Some progress has been made to improve risk management practices at the contract task level, but an overall risk management plan for the SESC still needs to be put in place.

- DND has included requirements for vendor risk management in each task Statement of Requirement (SOR); and
- Vendor has identified management and technical risks for each task Annual Operating Plan (AOP).

However, DND should require the vendor task-level risk management practices to comply with the best practices in the Project Management Body of Knowledge and the ADM(Mat) Knet risk management guidance,⁸ i.e., ranking higher-risk tasks by assigning numerical scores to risk impact and probability.

The DAEPMT Weapon System Manager and Optimized Weapon System Management office have recently met to launch the development of an overall risk management plan for the CF188 Hornet SESC by December 2009 which meets DND risk management guidance requirements.

⁸ ADM(Mat) Knet>Project Management>Method> Risk Information Analysis.



Vendor Reporting

To improve quality and timeliness of vendor reports, it was recommended that ADM(Mat) implement processes to link the report deliverables to payments.

Measures for Quality of Reports. The plan to link vendor report deliverables to payments has been delayed until 2010. The current contract structure does not allow the use of performance metrics and award fees.

Task Management

To control task costs and schedules, it was recommended that DGAEPM avoid task duplication and introduce fixed- or target-price tasks with holdbacks or incentives.

Task Duplication. DGAEPM has implemented the following measures to eliminate task duplication and improve the visibility of costs:

- Poorly defined core tasks and management support services (MSS) tasks⁹ were removed from the contract. They were replaced by smaller tasks with a clear description of scope.
- There is better costing information for each task. Since FY 2008/09, the vendor was required to provide an AOP containing a Work Breakdown Structure by labor hour for all tasks since FY 2008/09. The vendor's estimated efforts provide a baseline to compare actual work throughout the year.
- As recommended, the vendor was required to pay for the loaned DND Aircraft Maintenance Support Equipment preventive maintenance in accordance with the contract.

Firm Fixed-Price Tasks. Fixed-price tasks were introduced in FY 2008/09 to manage the recurring modification packages for the CF188 fleet. Based on a historical cost baseline of 30 CF188 aircraft that have undergone modification packages since FY 2005/06, DGAEPM was able to establish a baseline and set a fixed price. Since the implementation of this audit recommendation in 2008, all aircraft have been delivered early starting in 2008 as shown in Table 5. This improvement from the 10.2 percent average schedule delay in the August 2007 audit report has provided the Air Force more operational fighter aircrafts.

⁹ Core tasks (bundled recurring tasks at a firm monthly rate based on LOE estimate reconciled annually) and MSS tasks (fixed-price tasks) had included duplicate non-recurring work as identified in the August 2007 audit report.



Schedule	2007	2008	2009*
Delivered	14	11	4
Early	8	11	4
On time	4	0	0
Delayed	2	0	0

Table 5. Delivery Schedule of CF188 Aircraft to DND. Since 2007, all aircraft modifications have been delivered ahead of schedule. * 2009 data calculated only up to May, rather than for the full calendar year.

Cost Escalation

To control cost escalation, it was recommended that DGAEPM increase oversight of recurring production costs and amend the CA/DND responsibility matrix in the Supply Manual to include DND participation in annual rate negotiations.

Production Cost Escalation. The average escalation of annual production hours for recurring modification packages between FY 2006/07 and FY 2008/09 has fallen to 5.5 percent. This is significantly lower than the annual production hours escalation of 15.2 percent between FY 2000/01 and FY 2006/07, identified in the August 2007 audit report. Successful implementation of this recommendation has led to economies of \$2.7 million per year.

Rate Negotiation. As recommended, DND contract managers have participated in the rate negotiation meetings between the vendor and the Crown for the CF188 Hornet SESC. DND has amended the internal guidance document—Procurement Administration Manual (PAM)—to include DND participation in annual rate negotiations as a general practice. However, the responsibility matrix in the Supply Manual has not been amended to include rate negotiations. DND and the CA have mutually agreed that the Supply Manual addresses procurement responsibility at the generic level and therefore did not need to be amended. The shared DND/CA “contract negotiation”¹⁰ activity could be interpreted to include annual rate negotiation.

Financial Management

Specific measures have been implemented to improve financial management activities. DGAEPM has implemented processes to provide the accurate forecast, and pre-authorization of component R&O ensured the use of correct financial coding for contract payments, simplified commitment accounting, and capitalized betterments prior to FY 2004/05.

¹⁰ Government of Canada Supply Manual, Chapter 1, Annex 1.1.



Control of R&O Activities. DAEPMFT implemented processes to forecast and ensure pre-authorized component R&O activities:

- A Logistical Management Planning Tool (LMPT) draws component usage history from aircraft maintenance databases as well as the CFSS. The data from LMPT has facilitated the CF188 Life Cycle Management Managers in annually forecasting only the necessary repair items.
- The AOP of component R&O tasks provided pre-authorization to the vendor at the beginning of the year. The TA staff has approved the individual vendor cost proposal for each additional repair requirement throughout the year.

Financial Coding of Payments. DAP ensured that the correct general ledgers (GL) have been used for payments since FY 2007/08.

Expenditure Tracking. DAP merged multiple commitments into a single commitment with multiple lines to manage contract expenditures. In FY 2008/09, more than 98 percent of actual expenditures have been captured in one commitment. In the past, 27 different commitments were used to capture the contract expenditures.

Cost Capture of Betterments. Director Aerospace Equipment Business Management staff have since implemented measures to capture all betterment expenditures under the CF188 Hornet SESC.



Annex A—MAP Items Implementation Status Scorecard

Ser	MAP Ser in August 2007 Audit Report	MAP Items	OPI	AERMS Status	Audit Follow-up Status
1	2.2, 4.1	Risk-based payment certification in place	DAP	Complete	Improvements still required though stated complete—OSS task needs additional backup
2	4.2	3 rd party audit on potential \$4.6M excess charges completed	DAP/ DAEPMT	Complete	Complete and on schedule—DND requested 3 rd party for audit but audit has not yet started
3	2.1, 4.3	Process implemented to control task cost and schedule	DAEPMT	Complete	Complete and on schedule
4	2.2	Firm fixed price introduced to manage some tasks	DAEPMT	Complete	Complete and on schedule
5	1.1	Contract production hours escalation under control	DAEPMT	Complete	Complete and on schedule
6	3.1	Monitoring of vendor-made adjustments to DND inventory	DQA	Complete	Improvements still required though stated complete—adjustment approval in some areas requires improvement
7	3.3, 3.5	Monthly central review of regional adjustment reports	DQA	Complete	Improvements still required though stated complete—position not filled due to sickness
8	3.2	Contract vehicle in place to allow independent stocktaking	DQA	Delayed	Delayed from the original target date—the new target depends on tendering process
9	5.3	Pre-authorization for component R&O	DAP/ DAEPMT	Complete	Complete and on schedule
10	1.3	Process in place to forecast necessary component repairs	DAP/ DAEPMT	Complete	Complete and on schedule
11	6.1	DND RMP in place	DAEPMT	Complete	Improvements still required though stated complete—DND RMP needs to be in place
12	7.1	Process introduced to link payments to quality of vendor reports	DAEPMT	Complete	Improvements still required though stated complete—new target delayed to 2010



ANNEX A

Ser	MAP Ser in August 2007 Audit Report	MAP Items	OPI	AERMS Status	Audit Follow-up Status
13	1.2	Policy amended to allow DND in rate negotiations	DMPP	Complete	Complete and on schedule
14	3.3, 3.4	R&O Logistics SOW developed	DMPP	Delayed	Delayed from the original target date— from December 2007 to December 2009
15	5.1	Correct use of GL	DAP	Complete	Complete and on schedule
16	5.2	Simplify number of commitments	DAP	Complete	Complete and on schedule
17	5.3	Cost capturing of CF188 Hornet SESC betterments	DAP	Complete	Complete and on schedule

Table 6. MAP Items Implementation Status Scorecard. Note that MAP items are ranked in order of importance, with the first 11 MAP items being the most significant.

Complete and on schedule	Delayed from the original target date	Improvements still required though stated complete
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Annex B—MAP from August 2007 CF188 SESC Audit Report

Cost Escalation

CRS Recommendation

1. Monitor and increase oversight of recurring production costs by comparing with aging index benchmarks, amend the CA/DND responsibility matrix in the Supply Manual to include DND participation in annual rate negotiations, and revise the SESC Selection Notice and Priority Setting (SNAPS) to realign R&O component repair priorities.

Management Action

- 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.

OPI: ADM(Mat)/DGAEPM

Target Date: Closed

Auditor's Note. 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.

- The CA will be requested to amend the responsibilities matrix in Chapter 3 of the Supply Manual to include rate negotiations.

OPI: ADM(Mat)/(DGMSSC)/DMPP

Target Date: March 2008

- The DND 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 Contractor's.

OPI: ADM(Mat)/DGMSSC/DMPP

Target Date: October 2007

- In regard to re-aligning the SNAPS, a sparing analysis and requirements review has been incorporated into the LMPT to ensure that we only repair what is necessary for the planning horizon.

OPI: ADM(Mat)/DGAEPM

Target Date: Closed



ANNEX B

Task Management

CRS Recommendation

2. Ensure no duplication of tasks exists and introduce fixed- or target-price tasks with holdbacks or incentives.

Management Action

- With the implementation of the Project Management Office (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.

DGAEPM now uses fixed-price or a time-and-material target price basis of payments and has the ability to establish incentives/holdbacks.

OPI: ADM(Mat)/DGAEPM

Target Date: Closed

Material Management

CRS Recommendation

3. Optimize the location of NDQAR supply technicians based on materiality of contractor-held DND assets; rationalize stocktaking independence; enforce vendor compliance with contract requirements regarding adjustments, stocktaking, write-offs, and local procurement; and revise *DND Special Instructions for Repair and Overhaul Contractors* to include stocktaking and write-off requirements for GFE.

Management Action

- A Supply Quality Assurance Representative (QAR) was hired as a resident at the Prime Contractor's facility and controls were established to ensure more effective oversight of the stocktaking process. The Contractor must now seek prior approval from the QAR before performing the stock adjustment within the CFSS. The adjustment is then validated by the resident QAR. The Contractor is fully aware that access and authority to perform system adjustments will be rescinded if adjustments are performed without prior approval.

OPI: ADM(Mat)/DGMSSC/DMPP

Target Date: Completed

- Regarding stocktaking, other options, such as the use of Standing Offers, will be examined.

OPI: ADM(Mat)/DGMSSC/DMPP

Target Date: March 2008



ANNEX B

- 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 DND Special Instructions for Repair and Overhaul Contractors 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.

In order to ensure that contractors only perform authorized adjustment transactions, a monthly review of approved versus performed adjustments is conducted by NDQAR staff. These reports are used to validate reported write-offs.

OPI: ADM(Mat)/DGMSSC/DMPP

Target Date: December 2007

Payment Certification FAA Section 34

CRS Recommendation

- a. Improve payment certification with risk-based sampling approved by Director Military Pay and Accounts Processing (DMPAP), labour breakdown by tasks for reconciliation, and segregation of duties.

Management Action

- To provide the necessary resources to accomplish the improved payment certification with risk-based sampling, DAP has requested a National Procurement to Salary Wage Envelope (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.

OPI: ADM(Mat)/DGAEPM/
ADM(Fin CS)/DG Fin Ops

Target Date: Closed

CRS Recommendation

- b. DAEPMT pursue potential recoveries and core year-end reconciliation validation with assistance from a third-party audit.

Management Action

- Core hours are no longer being used as a basis of payment in the existing SESC contract. However, DAP/DAEPMT will submit a letter to the CA requesting an audit of these legacy issues.

OPI: ADM(Mat)/DGAEPM

Target Date: October 2007



ANNEX B

Financial Management

CRS Recommendation

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.

Management Action

- DAP 5 staff will ensure the correct GL 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.
OPI: ADM(Mat)/DGAEPM **Target Date:** Effective Immediately
 - DAP 5 will examine merging multiple commitments as multiple lines within a single commitment.
OPI: ADM(Mat)/DGAEPM **Target Date:** October 2007
 - The introduction of the PMO and the LMPT ensures better control of R&O activities and that they are pre-authorized.
OPI: ADM(Mat)/DGAEPM **Target Date:** Closed
 - DAP 5 staff will pursue the capture of the betterments prior to FY 2004/05.
OPI: ADM(Mat)/DGAEPM **Target Date:** November 2007
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Risk Management

CRS Recommendation

6. Ensure DND and vendor RMPs are developed for the SESC that incorporate standard risk management practices for all tasks.

Management Action

- DAP/DAEPMFT has developed a requirement for an RMP within the SESC contract and will carry this methodology over into the Optimized Weapon System Support (OWSS) contract.
OPI: ADM(Mat)/DGAEPM **Target Date:** Closed
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Vendor Reporting

CRS Recommendation

7. Request the CA to amend the current contract to specify formats for reports/task proposals and to link the quality of reports to payments.

Management Action

- DAP/DAEPMFT has introduced processes that enable us to link payments to the quality and value of the reports received. We will incorporate Contract Data Requirements List (CDRL) and Data Item Descriptions (DIDs) in the OWSS contract and ensure payment is linked to the quality of the reports received.

OPI: ADM(Mat)/DGAEPM

Target Date: Closed

