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Follow-up on Internal Audit:
CP140 Aurora Data Management System
(DMS) Contract

March 2011

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Canada 

Caveat

The result of this work does not constitute an audit of the CP140 Aurora Data Management System Contract. Rather, this report was prepared to follow-up on the progress in implementing the Management Action Plan that resulted from the August 2007 Internal Audit of the CP140 Aurora Data Management System Contract.



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Acronyms and Abbreviations

AERMS	Audit and Evaluation Recommendation Management System
CFSS	Canadian Forces Supply System
CRS	Chief Review Services
DMS	Data Management System
DND	Department of National Defence
DSAL	Disposals, Sales, Artefacts and Loans
GFE	Government-Furnished Equipment
HST	Harmonized Sales Tax
MAP	Management Action Plan
PMB	Program Management Board
PMO	Project Management Office
PWGSC	Public Works and Government Services Canada
RMP	Risk Management Plan
SRB	Senior Review Board
VCDS	Vice Chief of the Defence Staff



Introduction

In keeping with the Treasury Board Policy on Internal Audit, 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 CP140 Aurora Data Management System (DMS) Contract in August 2007.¹ The initial seven-year \$197.6-million (harmonized sales tax (HST) excluded) contract was awarded in May 2002 to design and integrate an upgraded flight computer and sensors to 18 Aurora maritime patrol aircraft. The incremental nature of the Aurora modernization project resulted in the full scope of the project being defined in June 2005. Therefore, several amendments worth \$172.1 million (HST excluded) in total have been added to the scope of the contract, and the completion date was extended from May 2009 to January 2011 to accommodate the additional work. The contract was amended in July 2009 to increase the contract value to \$369.7 million (HST excluded).

Methodology

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

- Interviews with Department of National Defence (DND) contract management staff (technical authority, requisitioning authority, and other headquarters staff);
- Interview with the contracting authority;
- Review of contract documentation that pertained to the MAP; and
- Analysis of data from Audit and Evaluation Recommendation Management System (AERMS).²

CRS policy is to perform follow-up on the most significant recommendations that are seen to be the most critical in ensuring that the contract is executed effectively and efficiently. Impact on decision making, significance, and continued relevance were also considered in determining which recommendations warranted follow-up review.

¹ Internal Audit: CP140 Aurora Data Management System Contract, August 2007 (<http://www.crs-csex.forces.gc.ca/reports-rapports/2007/121P0729-eng.asp>).

² AERMS is a CRS system that tracks the progress of the MAP items.



Overall Assessment

There has been progress in the area of payment certification. Measures were taken to obtain subcontractor invoices to ensure proper foreign exchange rate adjustments were made. Recent progress has been made in Materiel Management as the project office is reconciling vendor-loaned equipment reports to project office and Canadian Forces Supply System (CFSS) records.

Elements of the terms of payment and vendor risk reporting still require improvement; the terms of payment in the contract has not been amended in accordance with the original CRS audit and the contractor is not reporting risk in accordance with the Risk Management Plan (RMP).

Management Action Plan Progress

Terms of Payment

Measures were needed to improve the contract terms of payment. To allow the Crown to manage the contract more effectively, it was recommended that the DND project office request that Public Works and Government Services Canada (PWGSC) amend the contract to align expenditure limitations with an updated payment schedule.

To protect the Crown “in the event of schedule delays and unsatisfactory progress of work,”³ included in contracts are limitation of expenditure clauses; normally, these are aligned with the contract payment schedule. There has been limited progress in aligning the contract expenditure limitations with the contract payment schedule. Even though the DND project office informally agreed with PWGSC that the expenditure limitations had likely been set too low in the original contract, there was no change to the expenditure limitations. Since one of the four project milestones—Prototype Acceptance—still needs to be completed in the current contract, the expenditure limitation continues to be misaligned with the payment schedule, which limits the protection to the Crown.

Best Practices

There has been improvement in the management of taskings; additional taskings for technical investigation and engineering support contracts are now subject to a ceiling price and the contractor provides a breakdown of time and material.

³ Section 50.0 Milestones/Progress Payments – Requirements and Limitations, W8485-01NA22/001AIM.



Value for Money

Measures were needed to ensure that oversight exists to monitor value for money for sole-source amendments. Accordingly, it was recommended that the Department request that PWGSC conduct a profit audit of the Radar and Procedure Crew Trainer sole-source amendments in addition to the ongoing cost audit.

As recommended, the Department requested a profit audit of the sole-source amendments. However, Audit Services Canada indicated that a profit audit cannot be conducted currently due to the long-term nature of the contract and the difficulty in assessing profit until completion of the project. The profit audit is planned to be conducted once the Department has taken delivery of all the aircraft. The project office should monitor the status of the planned audit.

Vendor Reporting Framework

Vendor Reporting

To enable the Crown to monitor costs and assess the progress of work, the contract required that reports with key financial and schedule information be provided by the vendor. To ensure all such reports were completed in accordance with the requirements of the contract, it was recommended that the Department request PWGSC to amend the contract to link payments to the reports. This recommendation has not been supported by PWGSC.

To determine if there was improvement in the delivery of contractually required reports, reports including the monthly progress report, Integrated Master Schedule, and Cost Performance were reviewed. The audit follow-up found that DND contract managers have not been receiving monthly progress reports as required by the contract; the last report provided by the vendor was over a year ago. Unfortunately, these reports provided a historical view of the project and were normally received a month late in accordance with the contract and often did not meet the needs of the Project Management Office (PMO). Also, the Integrated Master Schedule, which is a monthly requirement, has been received for only 16 out of the last 26 months. ||| As well, they are satisfied that the Crown has the necessary data to continue to provide the oversight of the contract. The PMO also indicated that the detail provided at the quarterly project report meetings to the Project Manager and his team has been increased, and the presentations form an accurate record of progress. The formal minutes provide amplifying details to questions raised by the team and the associated action items track progress on issues to closure. These measures, along with weekly meetings and phone calls between the DND manager and the vendor, ensure that DND has a complete and accurate picture of progress.



Material Management

To improve oversight of government-furnished equipment (GFE), it was recommended that the DND project office ensure that the vendor GFE reports are completed in accordance with the contract and are reconciled with DND records.

Vendor GFE Reporting

Considerable progress has been made in this area. The DND project office is receiving GFE reports from the vendor on a quarterly basis and the DND GFE records are reconciled with the vendor records. Any discrepancies are noted and the vendor is made aware of the issues and adjustments are made in the subsequent vendor GFE report.

GFE Reconciliation

The Disposal, Sales, Artefacts and Loans (DSAL) section is responsible for managing the issues and receipts of GFE and ensuring the vendor loan records are reconciled with the Department's records. As recommended, DSAL is reconciling its records with the vendor records. At the time of the audit, DSAL had received a vendor GFE report from the DND project office and is currently in the process of conducting a reconciliation of the vendor loan account against DND records. The DND project office should ensure that the loan balances can be reconciled by continuing to forward the quarterly vendor GFE reports to DSAL on a regular basis.

