

Chief Review Services Chef - Service d'examen

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

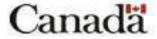
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#### Caveat

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. 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).<sup>2</sup>

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.

<sup>&</sup>lt;sup>2</sup> AERMS is a CRS system that tracks the progress of the MAP items.



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

#### **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," 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

#### **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.

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.

<sup>&</sup>lt;sup>3</sup> Section 50.0 Milestones/Progress Payments – Requirements and Limitations, W8485-01NA22/001AIM.



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#### **Value for Money**

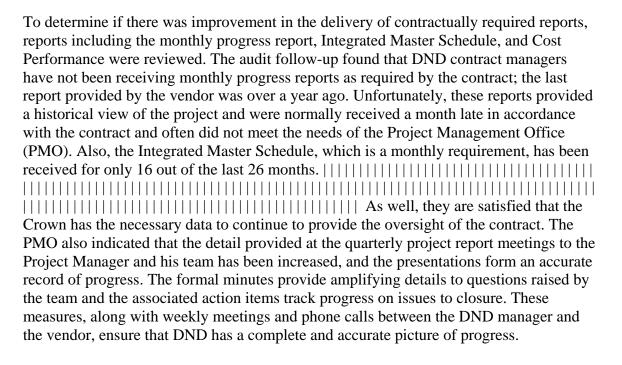
Measures were needed to ensure that oversight exists to monitor value for money for sole-source amendments. Accordingly, it was recommended that the Department request that PWGSC conduct a profit audit of the Radar and Procedure Crew Trainer sole-source amendments in addition to the ongoing cost audit.

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.



## **Risk Management Framework**

## **DND Risk Management**

To improve on the Department's ability to anticipate cost and scheduling risks, it was recommended that the Vice Chief of the Defence Staff (VCDS) require Level 1 project leads to aggregate all project risks and report the cost and scheduling impact of mitigation and contingency plans to the Senior Review Board (SRB) and Project Management Board (PMB).

Although an update to the risk management sections of the Project Approval Guide to incorporate tools and methodologies for assessing risk and the potential for risk quantification was planned for July 2008, this is still in progress and is expected to be completed by the fall of 2011. VCDS will also provide support to the Assistant Deputy Minister (Materiel) Project Management Working Group in standardizing the presentation of project and program risks to PMB and SRB, which will also include aggregated project risks and risk quantification to show the impact on cost, schedule and scope.

#### Vendor Risk Management

To ensure that the vendor complies with risk management processes outlined in the																																	
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# **Certification of Payment**

At the time of the initial audit, the prime contractor provided cancelled cheques as evidence of payment to the subcontractor. However it was not possible to validate that the foreign exchange rate was correctly charged based on the cheques supplied. Therefore, it was recommended that more detailed documentation should be obtained to verify that correct foreign exchange rate adjustments were made.

There has been significant improvement in this area. To increase rigour in the payment certification process, the Director General Aerospace Equipment Program Management contract manager has obtained subcontract invoices and ensured that proper foreign exchange rate adjustments are made by the prime contractor for the radar integration prototype, which is a good practice that other contracts may benefit from. While the vendor has provided the subcontract documentation requested, the process could be enhanced by improving the timeliness of these adjustments.

#### **Materiel 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.