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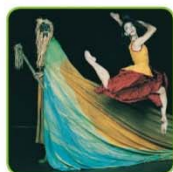
Canada



Procurement and Contracting Operations Audit

Office of the Chief Audit Executive

February 2016



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List of Acronyms

CMMD	Contracting and Material Management Directorate
DM	Deputy Minister
EXCOM	Executive Committee
PCH	Department of Canadian Heritage
PWGSC	Public Works and Government Services Canada
QART	Quality Assurance Review Team
RMDs	Resource Management Directorates

Executive Summary

Procurement and contracting in the public sector can be challenging, given the complexity of the policies and regulations established by central agencies, as can the scrutiny of multiple audiences who include the public, potential suppliers, the media, oversight tribunals, and Parliament. As a consequence, this audit sought to provide assurance that a management framework for procurement and contracting is in place and that contracts are being processed in compliance with relevant legislation, policies and guidelines.

The Department of Canadian Heritage (PCH, or the Department) uses a variety of procurement and contracting mechanisms, including competitive contracts, call ups and task authorizations against standing offers, non-competitive contracts, professional services contracts, temporary help services, and purchase orders for goods and services. To provide expert assistance and to manage procurement and contracting activities, in accordance with a suite of Treasury Board Policy instruments and government-wide procurement initiatives, the Department relies on the Contracting and Material Management Directorate (CMMD), within the Financial Management Branch. At PCH, a number of stakeholders may be involved in the procurement process as some authority has been delegated to various positions within the different branches. One of these stakeholders, the Resource Management Directorates (RMDs) provides support in procurement to the sectors and direct reports. The RMDs are delegated transaction contracting authority for goods and services under \$10K unless available through a standing offer or a service agreement which are managed by CCMD.

On an annual basis, the Department procures between \$30M and \$70M of goods and services, depending on the occurrence of special, non-recurring events (e.g. Royal visits, Olympics and Paralympics). As reported by CMMD, for the period extending from April 2014 to March 2015, 1,710 contracts have been awarded for a total of \$34.03 million.

The objective of this audit was to evaluate the effectiveness of the governance framework, risk management practices, and internal control framework over the awarding and administration of contracts and procurement. The scope of the audit covered the period from April 1, 2014 to July 31, 2015 and reflected practices in place up to the completion of the audit fieldwork in September 2015.

The audit team observed several examples of effective controls and project management practices within existing procurement processes including the following:

- Compliance and Alignment with Federal Policies: PCH has adopted and is in compliance with Treasury Board and Public Works and Government Services Canada policies and directives to govern its procurement and contracting activities.
- Transparency, Effectiveness and Efficiency of the Process: Guidelines and reference documents are accessible and communicated. In addition, delegations of authority are clearly defined. A formal challenge and oversight is performed on all contractual proposals over \$10K by the Quality Assurance Review Team.
- Risk Management: Higher risk procurement activities (based on a dollar threshold or the contracting mechanism used) must go through the Quality Assurance Review Team (for additional challenge and oversight).
- Monitoring: On a monthly basis, monitoring of procurement transactions is completed by CMMD, while Accounting Operations monitors the financial coding used. Required corrections are communicated to stakeholders.

The audit team identified opportunities for improvement to specific management practices and processes and these are addressed through the recommendations found in the body of the report.

Audit Opinion and Conclusion

In my opinion, the Department's procurement and contracting operations have effective governance and risk management processes in place to support effective management controls and practices. Some improvements were noted including putting into place performance measures, mandatory training and a procurement and contracting manual for employees.

Statement of Conformance

In my professional judgment as Chief Audit Executive, this audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. Sufficient and appropriate audit procedures were conducted, and evidence gathered, to support the accuracy of the findings and conclusion in this report. The findings and conclusion are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed with management and are only applicable to the entity examined and for the scope and time period covered by the audit.

Original signed by

Natalie M. Lalonde

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With the assistance of external resources

1. Background

The authority for this audit is derived from the *Multi-Year Risk-Based Audit Plan 2015-2016 to 2017-2018* which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2015.

The objective of government procurement contracting is to acquire goods and services in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people. Procurement and contracting in the public sector can be challenging, given the complexity of the policies and regulations established by central agencies, as can the scrutiny of multiple audiences who include the public, potential suppliers, the media, oversight tribunals, and Parliament. Government goods and services procurement is governed by several federal policies, statutes and regulations, including the *Competition Act*, the *Department of Public Works and Government Services Act*, the *Financial Administration Act*, *Treasury Board Contracting Policy*, the *Government Contracts Regulations*, the *Code of Conduct for Procurement* and the *Values and Ethics Code for the Public Service*.

The Department of Canadian Heritage (PCH, or the Department) uses a variety of procurement and contracting mechanisms, including competitive contracts, call ups and task authorizations against standing offers, non-competitive contracts, professional services contracts, temporary help services, and purchase orders for goods and services. To provide expert assistance and to manage procurement and contracting activities in accordance with a suite of Treasury Board Policy instruments and government-wide procurement initiatives, the Department relies on the Contracting and Material Management Directorate (CMMD), located in the Financial Management Branch.

Under CMMD, the Procurement and Contracting Operations group is responsible for ensuring that the Department maintains the integrity of the procurement process. Some of the activities performed by this group include:

- providing expert assistance at each stage of the supply cycle and offering procurement tools;
- assisting in identifying procurement requirements;
- selecting the most effective procurement approach;
- developing solicitation documents;
- evaluating bids;
- supporting debriefs to unsuccessful bidders; and
- awarding and administering contracts.

The Resource Management Directorates (RMDs) provide integrated support in administrative, procurement, financial and human resources services to sectors and direct reports. These RMDs are tasked with directing and overseeing operational resource planning and practices for procurement activities and act on corporate business matters related to contracting and resourcing issues. The RMDs have been delegated transaction contracting authority for goods and services under \$10K, unless available through a standing offer or a service agreement which are managed by CMMD.

The procurement process within PCH is a common business process which starts with identifying a procurement need and finishes with a finalized payment being issued. On an annual basis, the Department procures between \$30M and \$70M of goods and services, depending on the occurrence of special, non-recurring events (e.g. Royal visits, Olympics and Paralympics).

As reported by CMMD, for the period extending from April 2014 to March 2015, a total 1,710 contracts have been awarded for a total of \$34.03 million. The majority of procurement transactions are of low value. Based on the data provided, of the 1,710 contracts, 79.5% were for an amount of less than \$10K. The average individual value of those transactions was of \$2,700.

The following table provides a breakdown of the nature of PCH's procurement over fiscal year 2014-2015.

		Temporary Help	Professional Services > 10K	Professional Services < 10K	Call up Against Standing Offer	Purchase Order	PWGSC Purchase Order	Total
FY 14-15	Number of contracts	12	143	588	357	505	105	1,710
	Dollar Value	\$0.19 M	\$5.07M	\$1.93M	\$3.13 M	\$1.92 M	\$21.79 M	\$34.03 M

The audit team's review of contracting data for fiscal year 2014-2015 identified 701 transactions that were processed by CMMD and was comprised of the following: Public Works and Government Services Canada (PWGSC) Purchase Orders (POs) (106), call-ups against standing offers (367), POs (72), Professional Services over \$10K (144) and Temporary Help Services (THS) (12). The remainder of transactions (1,009) were processed by the RMDs.

2. Objective

The objective of this audit was to evaluate the effectiveness of the governance framework, risk management practices, and internal control framework over the awarding and administration of procurement and contracting.

Specifically, the audit assessed whether:

1. PCH has policies, systems, and procedures in place to enable transparent, efficient and effective procurement activities that are reflective of relevant federal legislation and policies.
2. Mechanisms are in place to help ensure compliance with PCH procurement policies and practices.
3. Processes to identify and mitigate procurement and contracting management business risks are in place and operating effectively.
4. Effective monitoring and reporting mechanisms are in place to provide management with accurate, relevant, and reliable information for decision-making.

3. Scope

The scope of this audit covered the transactions during the period of the fiscal year 2014-15 to the substantial completion of the audit work in September 2015. The audit examined CMMD activities, as well as management activities related to contract management and procurement practices of RMDs.

4. Approach and Methodology

The audit methodology included, but was not limited to the following:

- A review of documentation related to the CMMD guidelines and procedures, terms of reference, policies, and relevant legislation;
- A collection of data through interviews and observations with CMMD;
- Interviews with RMD personnel and selected stakeholders within the Department; and
- A review of a sample procurement transactions processed by CMMD and the RMDs was based on a selection of transactions that had a tendency to be of a higher risk, such as value just under the delegated thresholds; repeated amendments; and multiple contracts to the same vendor.

5. Findings and Recommendations

This section presents detailed findings and related recommendations for the audit. The findings are based on a combination of the evidence gathered through the examination of documentation, analysis, and interviews conducted for each audit criterion. Appendix A provides a summary of all findings and conclusions for each criterion assessed by the audit team.

5.1 Governance

The results of the audit identified that effective governance structures were established for oversight of the procurement and contracting practices at PCH.

At PCH, the procurement governance and oversight structure consists of the CMMD and the Quality Assurance Review Team (QART). The terms of reference for the QART describes the responsibility as reviewing contracting requirements and serving as a challenge mechanism for procurement and contracting transactions. The membership of this team includes the Director and Deputy Director of CMMD and a senior contracting and procurement officer, who meet on a weekly basis to discuss contracts that require the team's approval.

The QART terms of reference includes reviewing the following requirements:

Requirement	Electronic Bidding (\$000)	Traditional Competitive (\$000)	Non-Competitive (\$000)
Services	All	All	>10K
Goods (including printing)	>10K	>10K	>10K
Supply Arrangements (SA)	>50K		>10K
Call-ups against Standing Offers	>50K		>10K
Advance Contract Award Notices (ACANS)	All		
Former Public Servant in Receipt of a pension	All		
Vendors' Complaints	All		
Requisition processed by PWGSC (9200)	Based on nature of requirement		

The audit team's review of a sample of QART agendas and records of decision demonstrated evidence of discussions, questioning, and challenging of contracts and alignment with the TB *Contracting Policy*.

In addition to the CMMD challenge function, all transactions greater than \$25,000 must be reported on the weekly *Look Ahead Report* which is reviewed and recommended for approval by the Assistant Deputy Minister of Strategic Policy, Planning and Corporate Affairs and approved by the Deputy Minister (DM). This report is also a communication mechanism with regards to transparency and proactive disclosure.

Performance Measurement and Reporting

There are no formal performance measures and service standards in place and no regular consolidated reporting is provided to senior management on the results of procurement and contracting activities or key trends.

Performance Measurement

Service standards are an important element of service management excellence that allow for the clarification of expectations, enabling performance management, and supporting client satisfaction. They support the overall effectiveness and efficiency of procurement processes in meeting needs and facilitates the ability to plan and initiate their procurement activities.

The audit team observed that a performance measurement strategy had not been developed, nor were defined service standards nor performance indicators in place for procurement activities.

Reporting

A formal, regular, and consolidated reporting on the procurement and contracting activities enables management to monitor and respond to emerging and systemic issues in a proactive manner. Best practice entities incorporate reporting on contracting activities into their regular management reporting to reinforce the importance of good contracting practices, due diligence, effective stewardship of public fund and allows management to readily identify and respond to areas of priority to optimize the allocation of its resources and effort.

The audit team noted that there was no evidence to support consolidated reporting to management against pre-defined performance indicators on the progress, trends and results of the Department's procurement and contracting activities. The lack of consolidated reporting is in part due to the limited tools in place to record the procurement data. Currently, the procurement module of the departmental financial system does not provide sufficient details to offer CMMD with meaningful performance measures.

Recommendation

1. The Chief Financial Officer should develop a set of service standards and performance indicators to measure the results procurement activities.
2. The Chief Financial Officer should develop and implement mechanisms and processes to regularly monitor and report on actual performance against the indicators and standards to senior management.

5.2 Risk Management

The audit confirmed that effective mechanisms are in place to identify, assess, and mitigate risks related to procurement and contracting management.

Processes and controls are in place to ensure that procurement activities are transparent and in compliance with legislation, regulations, policies and directives. As noted previously, higher risk contracting transactions are reviewed by the QART and transactions greater than \$25K are reported on the *Look Ahead Report*. Proactive disclosure of awarded contracts over \$10K are posted on the Department's website every three months.

RMDs are limited to process transactions for goods or services for amounts lower than \$10K. All other types of procurement transactions must be completed by CMMD. These include amendments to contracts where the revised total contract amount exceeds the \$10K threshold. Transactions for PWGSC procurement tools, such as Standing Offers, Supply Arrangements or Temporary Help Services must be processed through CMMD. Analysis of the contracting data for the period in scope confirmed that these mechanisms were in place and operating effectively.

At the directorate level, CMMD identified, assessed, and mitigated risks that are operational in nature. These risks are stored in a documented risk inventory and feed into the departmental risk profile through the Financial Management Branch input. On an annual basis, as part of the integrated business planning process that takes place across the Department, CMMD identifies and assesses risks and develops the respective mitigation strategies.

5.3 Internal Controls

The results of the audit indicate that controls regarding communication, information sharing, monitoring were in place ensuring compliance with PCH procurement policies and practices.

Communication and Information Sharing

As most of the Departments' procurement and contracting activities are of low dollar value (under \$10K), the RMDs are responsible for close to 80% of the total procurement and contracting activities in the Department. A number of tools, processes and procedures have been developed by CMMD (the departmental contracting specialists) to support RMDs and line managers. These tools, processes and procedures are in place to ensure compliance with PCH procurement policies and practices and to define roles and responsibilities of

stakeholders. Process summaries, workflow diagrams as well as checklists were also developed by CMMD and are published on the PCH intranet. These documents provide guidance to the procurement vehicles available, as well as information and authorities required for procurement and contracting transactions.

These documents, amongst others, include:

- 1) Contracting for Services less than 10K;
- 2) Contracting for Goods less than \$10K;
- 3) Contracting Process Flow Diagram; and
- 4) Professional Services Procurement Tools Reference Guide.

On-going communication is maintained between CMMD and RMDs via bi-weekly meetings as well as through communiqués which included notification from PWGSC as to new rules and updates, communication and transmittal of checklists and reminders of documentation required for procurement and contracting transactions. Information sessions are provided by CMMD on a regular basis which include presentations on the procurement and contracting processes as well as Managing at PCH.

Monitoring

Oversight activities of transactions is completed by a Procurement and Contracting Officer (under CMMD) on a monthly basis. Results and required corrections are communicated to RMDs. Anomalies are classified in three categories;

- 1.) area for improvement (green),
- 2.) errors to be corrected if possible (yellow) and
- 3.) immediate correction is required (red).

In the audit team's review of three months of oversight reports for RMDs, it was noted that of a total of 465 transactions performed, 30 transactions (6%) noted green, one transaction was yellow and one transaction was red.

In addition to standard templates for the various contracting vehicles, evaluation guidelines have been established for bid/proposal evaluators who must sign their understanding and acceptance of the guidelines. These guidelines are to ensure the bid evaluation process is done in an objective and fair manner designed to provide the Department with the best value. Identified by the Office of the Procurement Ombudsman as a better practice for departments to have in place and to be compliance with the *Contracting Policy*, CMMD has required the documented understanding and acceptance of bid/proposal evaluations as a standard operating procedure.

Documented Procurement and Contracting Manual

A documented procurement and contracting manual providing details on all types of procurement mechanisms, their related requirements and performance expectations is not currently in place.

As noted previously in this report, CMMD has created a number of reference documents, flowchart and checklists. However, the audit team noted that a procurement and contract manual containing guidelines and documentation that provide detailed information with respect to the requirements, responsibilities and expected timelines by procurement vehicle for procurement and contracting is not in place. This manual would serve as a comprehensive reference, explain roles and responsibilities, and describe performance expectations of users and CCMD based on the type of procurement. Having a procurement and contracting manual in place is considered a best practice.

Based on several interviews with various officials across the Department, it was noted that delays may have occurred due to a lack of appropriate understanding of the procurement and contracting requirements by the RMDs. Specifically, it was noted that some RMDs selected the wrong procurement mechanism which in turn, caused overall delays in the process.

Recommendation

3. The Chief financial Officer should develop, communicate, and implement a procurement and contracting guide or manual to help ensure consistency in understanding of procurement vehicles, requirements, and related timelines.

Employee Training

There is no formal mandatory training for employees with procurement responsibilities outside of CMMD.

Non-compliance with legislative requirements can result from insufficient understanding of procurement and contracting requirements as well as a lack of training to all personnel with procurement and contracting responsibilities.

A procurement and contracting training course was offered in conjunction with the Canada School of Public Service. The course presented an overview of contracting, statements of work and contract management. Managers were required to complete this course within two years in order to maintain their contracting delegation. However, the Canada School of Public Service no longer offers this course and no new course offering has been developed. As a result, new managers have not received formal training related to procurement and contracting.

The audit team noted that with regards to RMD led files, overall supporting documentation varied considerably. Examples consisted of lack of a final contract/statement of work, multiple copies of contracts and different supporting documentation to support approval of FAA section 32. The procurement files should include enough information, based on the level of risk, materiality and significance, in order to support accountability and transparency. These inconsistencies can be linked to the lack of procurement training available in the Department.

Recommendation

4. The Chief Financial Officer should identify, source and/or develop formal mandatory training programs for all staff assigned procurement duties and responsibilities.

Overall Conclusion

The main purpose of this audit was to evaluate the effectiveness of the governance framework, risk management practices, and internal control framework over the awarding and administration of procurement and contracting. Based on the audit findings, our opinion is that the Department's procurement and contracting operations have effective governance and risk management processes in place to support effective management controls and practices. However, improvements should be made to put into place performance measures and service standards as well as consolidated reporting on the results of procurement and contracting activities and identified trends. Mandatory training and a procurement and contracting manual for employees with procurement responsibilities outside of CMMD should be developed, established and communicated.

Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> well managed, no material weaknesses noted and effective.
2	Controlled	<ul style="list-style-type: none"> well managed and effective, but minor improvements are needed.
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> control weaknesses, but exposure is limited because likelihood of risk occurring is not high; control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> financial adjustments material to line item or area or to the department; or control deficiencies represent serious exposure; or major deficiencies in overall control structure. <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAE and the subjects matter’s Director General or higher level for corrective action.</p>

Audit Sub-Objective 1: PCH has policies, systems, and procedures in place to enable transparent, efficient and effective procurement activities that are reflective of relevant federal legislations and policies.		
Criteria #	Audit Criteria	Conclusion
1.1	PCH procurement policies and procedures are designed to be consistent with relevant federal and departmental requirements.	1
1.2	Procurement policies and procedures are communicated to key stakeholders in a timely manner.	1
1.3	Monitoring mechanisms are in place to help ensure review and compliance with financial management and procurement laws, policies and authorities.	2
1.4	Requirements are clearly articulated and defined and expenditure initiation is approved appropriately [Individuals responsible for initiation of (FAA section 32 - commitment) and/or approval for payment for (FAA section 34) transactions must not be the same individual responsible for payment (FAA section 33 – requisition).	1
Audit Sub-Objective 2: Mechanisms are in place to help ensure compliance with PCH procurement policies and practices.		
Criteria #	Audit Criteria	Conclusion
2.1	The oversight bodies meet regularly (i.e. four times per year at a minimum) and receive key information to allow for effective monitoring of management's objectives, strategies and results.	2
2.2	Adequate governance/ oversight exists over contract and procurement related activities	2
2.3	Authority responsibilities and performance expectations to which managers and supervisors are held accountable are formally defined and clearly communicated. Job descriptions and/or performance agreements should exist for this purpose and be up-to-date.	2
2.4	Authority is formally delegated and delegated authority is aligned with individual's responsibilities.	1
Audit Sub-Objective 3: Processes to identify and mitigate procurement and contracting management business risks are in place and operating effectively.		
Criteria #	Audit Criteria	Conclusion
3.1	The procurement function identifies and analyzes risks to the achievement of the procurement objectives on a periodic basis to determine how the risks should be managed.	2
3.2	Action plans are put in place to manage the identified risks.	2
3.3	Human resource planning is conducted to help ensure that sufficient qualified resources are in place to meet PCH's procurement objectives.	2
3.4	Processes exist to provide employees with the necessary training, tools, and resources to discharge their responsibilities.	3
3.5	Mechanisms and controls are in place to efficiently and effectively manage risks related to procurement and contracting.	2

Audit Sub-Objective 4: Effective monitoring and reporting mechanisms are in place to provide management with accurate, relevant, and reliable information for decision-making.		
Criteria #	Audit Criteria	Conclusion
4.1	Operating objectives and priorities exist for all key activities related to procurement, are documented, and linked to strategic objectives and priorities.	2
4.2	Relevant and reliable information on contracting/ procurement activities is developed and reported to stakeholders in a timely manner. There is ongoing and transparent communication between the oversight body/ bodies, and management.	2
4.3	Procurement planning activities adequately establish the needs and requirements of the Department and results in a long term procurement plan.	1
4.4	A formal process is in place to consider feedback and impact on both short and long term objectives.	2
4.5	Reporting is reviewed for completeness, accuracy, relevance, timeliness, appropriateness, and reasonableness.	2
4.6	Effective monitoring and reporting mechanisms are in place to provide management with accurate, relevant, and reliable information for decision making and comply with policies and laws (i.e. proactive disclosure).	2
4.7	Performance measures are in place to identify and implement continuous improvements to the procurement process. Performance measures are reviewed on a periodic basis, are updated as required, and are linked to planned results.	3
4.8	Responsibility for monitoring and updating performance measures is clear and communicated. Results of performance measurement are documented, are reported to the appropriate levels, and are factored into decision-making.	3

Appendix B – Management Action Plan

Recommendation	Actions	Responsibility	Target Date
1. The Chief Financial Officer should develop a set of service standards and performance indicators to measure the results procurement activities.	Agree Performance indicators will be developed and results will be measured based on the research of service standard and performance indicators implemented in other departments. Implementation will be in-line with Central Agencies.	Director, CMMD	March 31 st , 2017
2. The Chief Financial Officer should develop and implement mechanisms and processes to regularly monitor and report on actual performance against the indicators and standards to senior management.	Agree A framework and approach for monitoring of performance indicators and reporting will be developed.	Director, CMMD	March 31 st , 2017
3. The Chief Financial Officer should develop, communicate, and implement a procurement and contracting guide or manual to help ensure consistency in understanding of procurement vehicles, requirements, and related timelines.	Agree A contracting guide or manual will be established to allow for a better understanding of PCH's contracting universe by RMDs and clients. Roles and responsibilities and timelines will be developed in order to assist with procurement planning process.	Director, CMMD	October 31 st , 2017
4. The Chief Financial Officer should identify, source and/or develop formal mandatory training programs for all staff assigned procurement duties and responsibilities.	Agree The mandatory training program for all PCH personnel involved in the procurement process will be renewed and updated.	Director, CMMD	October 31 st , 2017