



**2008-711**

**Final Report**

**Audit of Information About the Utilization of Standing Offers**

**Office of Audit and Evaluation**

**January 28, 2010**



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## **MAIN POINTS**

### **What we examined**

- i. PWGSC as a common service provider offers national leadership in the development and implementation of methods of supply, such as standing offers, to meet the acquisition requirements and expectations of government departments, agencies and boards. Throughout the report, 'federal organizations' will be used to represent federal government departments, agencies and boards, and the term "Acquisitions Branch" will be used generically to include all regional offices and headquarters.
- ii. Standing offers have existed since the early 1960's and were developed to reduce the number of solicitations and contract negotiations for repetitively ordered goods and services. They provide an administrative agreement with suppliers at pre-arranged prices or pricing methods, with set terms and conditions for a specified period of time. Each supplier who receives a standing offer is identified as a 'holder'. The terms and conditions of standing offers permit federal organizations to place a call-up (order) against a standing offer. The standing offers include a financial limitation for the call-up, as well as a restriction to the goods and services that were identified in the standing offer. Federal organizations access and search for active standing offers on the Internet web-based PWGSC Standing Offer Index. The terms and conditions also include a requirement for reporting of usage by federal organizations and/or suppliers, as well as monitoring of standing offers by Acquisitions Branch.
- iii. PWGSC is responsible for monitoring standing offer's terms and conditions. They are responsible for the establishment of the standing offers, its administration and its revision, if applicable. In managing standing offers Procurement Officers establish contracting limits, monitor usage and deal with issues pertaining to non-compliance. This practice used by the Procurement Officer in managing standing offers provides the department with leveraging power to generate savings, save time and capture new knowledge.

### **Why it is important**

- iv. Annually, PWGSC awards standing offers as administrative agreements to an average of 6,000 standing offer holders. The total business volume generated by the federal government in 2006 from call-up activity for goods and services was more than \$1 billion.
- v. One of PWGSC's key commitments in procurement transformation is to deliver services smarter, faster and at reduced cost. Standing offers provide the opportunity to improve contracting efficiency by reducing the number of solicitations and contract negotiations for repetitively ordered goods and services, especially in those situations where actual demand is not known in advance. The advantages include lower administrative costs and less inventory being carried by federal organizations. The mandatory use of standing

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offers by all federal organizations for ten commodity groups provides leverage of the Government's purchasing power and contributes to the realization of procurement savings.

- vi. The contractual terms and conditions for reporting usage by federal organizations and suppliers to the Department, as well as the monitoring of standing offer utilization through trend analysis by Acquisitions Branch, provides information to determine the need to renew or extend an agreement; or in the case of a new standing offer, to determine the estimated volume and call-up limitation. Commodity Managers provide expertise and advice in developing and implementing strategies, identify spend analysis and trends for both PWGSC and other federal organizations. Monitoring these agreements will result in more complete and accurate information, and will assist Acquisitions Branch in making critical decisions, in detecting and correcting deficiencies or limitations, and in generating new knowledge and future directions for this method of supply.

## **What we found**

- vii. One means of monitoring that Acquisitions Branch has incorporated as part of the terms and conditions of standing offers, is the mandatory requirement for suppliers to submit usage reports. Acquisitions Branch has clearly documented the roles and responsibilities that describe expectations in terms of monitoring and reporting requirements. However, usage reports were not consistently collected, tracked or analyzed.
- viii. Analyzing data to identify trends is an essential part of monitoring. Information on call-ups issued by federal organizations is captured in government-wide spending data compiled in the systems of the Spend Cube and the DataCap. There are however, limitations with this information that constrain Acquisitions Branch's ability to analyze trends in standing offers and their respective call-ups. Acquisitions Branch is working with other federal organizations to standardize and improve purchasing data across the multiple financial systems, which may eliminate the need for manually reporting annual purchasing activities.
- ix. Reporting the results of monitoring activities allows the information to be integrated into planning, decision-making, and action. There are limited formal mechanisms to support the dissemination and integration of the results of monitoring.
- x. Overall, we found that Acquisitions Branch does not have sufficient monitoring controls to manage standing offers and to ensure that an effective method of supply has been established.

## **Management Response**

Management accepts the findings of the Report as being fair and accurate representation of the information about the utilization of standing offers during the audit period.

## **Recommendations and Management Action Plan**

**Recommendation 1:** The Assistant Deputy Minister of the Acquisitions Branch should reconsider the appropriateness of its approach to monitoring standing offer utilization through the manual submission and analysis of usage reports. If they are determined to be a valuable tool, then steps should be taken to ensure that the process for collecting and analyzing usage reports is understood and carried out.

**Management Action Plan 1.1:** Acquisitions Branch will review existing usage reports for standing offers on a commodity-by-commodity basis. Where such usage reports provide value, the data will be used as part of analysis supporting Commodity Management, which will be applied in a manner consistent with improving value and decision-making capabilities. This action will be implemented by March 2014.

**Management Action Plan 1.2:** PWGSC is also working with Treasury Board Secretariat to implement an enhanced standing offer reporting collection system from client departments. This will enable a consistent process for data collection as well as provide an alternative source to replace some supplier based usage reports, where possible. This action will be implemented by March 2012.

**Recommendation 2:** The Assistant Deputy Minister of the Acquisitions Branch should continue to enhance the value of government-wide purchasing data being collected within the Spend Cube and DataCap and determine the most appropriate method to analyze trends related to Standing Offers so that this information can be used to monitor standing offer utilization.

**Management Action Plan 2.1:** Acquisitions Branch will review the existing data sources available for supporting enhanced analysis for trends related to standing offers. This action will be implemented by March 2012.

**Management Action Plan 2.2:** PWGSC is working with Treasury Board Secretariat to implement an enhanced Standing Offer reporting collection system from client departments. This will enhance the value of government-wide purchasing data to be analyzed in support of planning, decision-making, and action. This action will be implemented by March 2012.

**Recommendation 3:** The Assistant Deputy Minister of the Acquisitions Branch should establish mechanisms to support the dissemination and integration of the results of monitoring of standing offer utilization to potential users of the information.

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**Management Action Plan 3.1:** As government-wide standing offer usage data becomes available, and following the Commodity Management Policy and enhanced analysis and monitoring included therein, Acquisitions Branch will implement supplemental and routine standing offer usage to key PWGSC decision-makers. This action will be initiated by March 2012.

## **INTRODUCTION**

### **Standing offers as a method of supply**

1. As a common service provider, PWGSC offers national leadership in the development and implementation of methods of supply, such as standing offers, to meet the acquisition requirements and expectations of government departments, agencies and boards. Throughout the report, 'federal organizations' will be used to represent government departments, agencies and boards, and the term "Acquisitions Branch" will be used generically to include all PWGSC regional offices and headquarters.
2. As defined in the PWGSC Supply Manual: "A standing offer is not a contract. It is an offer made by a supplier or a provider for the provision of certain goods and/or services to clients at prearranged prices or on a prearranged pricing basis, under set terms and conditions, that is open for acceptance by one or more authorized user(s) on behalf of Canada during a specified period of time. A separate contract is created each time a call-up for the provision of goods and/or services is made against a standing offer."
3. Standing offers have existed since the early 1960's and were developed to reduce the number of solicitations and contract negotiations for repetitively ordered goods and services, and in those situations where actual demand is not known in advance. Typically, standing offers are used for such items as pharmaceutical supplies, plumbing supplies, spare parts, tires and tubes, paper supplies, office equipment, professional services, and data processing supplies and service. Each supplier who receives a standing offer is identified as a 'standing offer holder'. Annually, PWGSC awards standing offers as administrative agreements with an average of 6,000 standing offer holders. The total business volume generated by the federal government in 2006 from call-up activity against standing offers for goods and services was more than \$1 billion.
4. The advantages of standing offers as a method of supply, as stated in the PWGSC Customer Manual are: direct access to a supplier; better prices through consolidation of requirements and increased competition among suppliers; reduction of administrative costs; reduction in lead-time; assurance of approved product/service quality and standards; and increased Government's purchasing power and achievement of procurement savings.
5. The five types of standing offers, that PWGSC's Acquisitions Branch initiates are:
  - National Master Standing Offer, available to any or specified departments across the country;
  - National Individual Standing Offer, for the use of an individual department across the country;
  - Regional Master Standing Offer, available to any or specified departments within a prescribed geographical area;
  - Regional Individual Standing Offer, for the use of an individual department within a prescribed geographical area; and

- Departmental Individual Standing Offer, available to a department.
6. Acquisitions Branch has been gradually increasing the number of national master standing offers as this approach permits a government-wide focus that allows a greater number of federal organizations to access and benefit from the goods or services being offered, and reduces the administrative burden of multiple individual standing offers.
  7. Furthermore, to leverage the Government's purchasing power and contribute to the realization of procurement savings, the Treasury Board's *Contracting Policy* identifies the mandatory use by all federal organizations of standing offers for ten commodity groups. The commodities are:
    - ground effect vehicles, motor vehicles, trailers, and cycles;
    - telecommunications equipment and accessories;
    - general purpose automatic data processing equipment, software, and support equipment;
    - furniture;
    - office machines, text processing systems and visible recording equipment;
    - office supplies and devices;
    - clothing, accessories and insignia;
    - fuels, lubricants, oils and waxes;
    - information processing and related telecom services; and
    - professional, administrative and management support services.

### **Roles and responsibilities in establishing and using standing offers**

8. The roles and responsibilities of PWGSC, federal organizations and standing offer holders are outlined in the Supply Manual and in Acquisitions Branch Policy Notifications. More specifically, Policy Notification PN72R provides clear direction to procurement authorities on establishing standing offers; and procedures on posting standing offers on the Standing Offer Index website. Further, roles and responsibilities are defined in the standing offer document and the call-up. Individual standing offers may further clarify responsibilities related to usage.
9. PWGSC is responsible for establishing standing offers. The creation, renewal or extension of any standing offer requires advance review by either the designated Commodity Team Leader or Regional Reviewer. Should a Commodity Team Leader or Regional Reviewer not exist, the Director, Commodity Management will designate a reviewer or be responsible to perform the review. Once standing offers are established, PWGSC is responsible for posting standing offers on the Standing Offer Index website.
10. Federal organizations have full contracting authority to issue call-ups against standing offers established by PWGSC up to the maximum indicated in the administrative agreement. Federal organizations access and search for active standing offers on the web-based PWGSC Standing Offer Index. The Index's search engine identifies standing offers



by type of commodity, geographic area, goods or services, department, suppliers, and standing offer number.

### **Roles and responsibilities in monitoring of standing offers**

11. To help ensure that standing offers continue to respect the rules of contracting, provide the Crown with best value, and are an efficient and effective method of supply, it is important that their use is monitored and that the results of this monitoring is considered in decisions made related to standing offers. PN72R also includes guidance on reporting requirements related to standing offers. As well, the standing offer document, the call-up, and individual standing offers may further clarify responsibilities related to monitoring and reporting of use.
12. Analysis of usage reports is currently the primary monitoring tool used by PWGSC. Federal departments and standing offer holders are required to report on usage to Procurement Officers, as well as the Performance and Spend Management Office.
13. The focus of Procurement Officers regarding standing offers is both backward looking and forward looking. For example, monitoring provides opportunities to: compare and evaluate procurement methodologies; generate new knowledge; maximize savings; ensure that the standing offer limits are not exceeded; and that terms and conditions in awarding call-ups are respected. The monitoring of usage reports will allow Procurement Officers to determine the need for the renewal and/or extension of standing offers; to assess how value was determined in the case of new requirements; and lastly, whether the standing offer is an effective method of supply.
14. The Performance and Spend Management Office in Acquisitions Branch is the authoritative source for reporting on contracting in the Government of Canada. Its primary sources for reporting are the Spend Cube and DataCap.
15. The Performance and Spend Management Office maintains spend data through the Spend Cube, which was established by PWGSC. This Office obtains and verifies the spending information of major federal organizations on a quarterly basis by downloading data from the financial systems of these federal organizations. The primary purpose of the Spend Cube is to store and integrate government procurement information by comparing the performance against targets for PWGSC and client departments by performing up-to-date analyses on spending in Government. These analyses can include comparing prices and commodities, and monitoring expenditures, to reduce the reporting requirements of departments.
16. The DataCap is a reporting system, managed by PWGSC on behalf of federal organizations, that collects annual purchasing activity. The primary purpose of the DataCap is to support the preparation of the annual purchasing activity report required by Treasury Board Secretariat. The Performance and Spend Management Office analyzes

the information in DataCap by mapping purchases made under standing offers to a PWGSC standing offer number.

17. The Performance and Spend Management Office has the opportunity to conduct trend analysis of the data in the Spend Cube and DataCap, as a secondary tool to support the monitoring of standing offers. Although, it is PWGSC that collects the spending information of federal organizations through the Spend Cube and the DataCap, the information contained in the system is input by other federal organizations.
18. Although the primary purpose of the Spend Cube and DataCap is not related to the monitoring of standing offers – because spending on standing offers and the related call-ups can be isolated within this data – these systems are valuable for monitoring. To take advantage of this information for monitoring, PWGSC has recently launched a number of initiatives to improve the integrity of the data to allow for the monitoring of standing offers. These initiatives include the creation of the Interdepartmental Reporting Working Group, which is comprised of members from over 30 departments and agencies. Through this initiative a pilot project is being undertaken with the volunteer departments to explore opportunities for enhanced data and analysis, as well as improved reporting tool utilization, that would allow for better reporting on standing offers.

#### **Incorporating of monitoring results into decision-making**

19. The primary users of the results of monitoring of standing offers to support decision-making include PWGSC Commodity Management Teams, Commodity Managers, Procurement Officers, and the Performance and Spend Management Office.
20. Commodity Management Teams were created to allow the Department to take a commodity approach to managing government purchasing. This approach supports a better understanding of marketplace demand and supply. Commodity Management Teams exist for the ten commodities that must be procured through a standing offer. There are also other Commodity Management Teams that cover non-mandatory standing offers.
21. Commodity Management Teams are inter-departmental committees with Director-level membership, led by a PWGSC director. Other core members of the commodity teams include representatives from the high volume spend departments for the specific commodity as well as representatives from one small and one medium department. PWGSC technical and contracting authorities provide support to the Commodity Management Teams. Commodity Management Teams also consult with technical, legal, financial, policy, socio-economic program, and industry association representatives. These teams use procurement knowledge, spending information, and monitoring results to support the development of plans for methods of supply and future purchases.
22. More specifically, the scope of the Commodity Management Team's activities involves:

- obtaining the spend analysis, business requirements and market intelligence for a commodity;
  - understanding commodity objectives and priorities, and their impact on sourcing and supply decisions;
  - recommending adjustments to commodity objectives and priorities;
  - analysing, challenging and defining levels of demand;
  - challenging and rationalising demand specifications and standards;
  - analysing supply markets and suppliers;
  - understanding the demand, supply and usage processes;
  - evaluating and recommending strategic and tactical sourcing options;
  - ensuring compliance with relevant procurement policies and practices such as the Government of Canada *Green Procurement Policy*;
  - achieving value and socio-economic objectives, and other programs, as determined by their commodity council; and
  - monitoring, tracking and adjusting commodity plan and related contracts through to contract management activity.
23. For those commodities not covered by mandatory standing offer use, responsible Commodity Managers play an important role in supporting the development of standing offers. For example, before a Procurement Officer can put in place a standing offer similar to an existing standing offer, he/she must obtain the written approval of the responsible Commodity Manager. For the non-mandatory standing offers, Commodity Managers play the same role as the Commodity Management Teams and receive data from the same sources.
24. As previously noted, Procurement Officers analyze usage reports to determine the need for the renewal and/or extension; or to assess how value was determined in the case of new requirements. The Performance and Spend Management Office is more focused on the procurement strategy or decision-making used in establishing the standing offer method of supply. As part of their monitoring activities, Procurement Officers provide the rationale to the Commodity Management Teams or Commodity Managers to validate the standing offer method of supply. For example, when approval is being sought to establish or renew a standing offer, the Procurement Officer must indicate whether or not the standing offer duplicates an existing standing offer, if it is open for use by all Government of Canada departments at the national or regional level, and finally whether the standing offer will help achieve departmental savings.

## **FOCUS OF THE AUDIT**

25. The objective of this audit was to determine whether PWGSC has adequate and sufficient processes to support the monitoring of utilization of standing offers to ensure that an effective procurement tool has been established.
26. We examined the processes within PWGSC for monitoring standing offer utilization, including the collection and analysis of usage reports, and trend analysis conducted on spending information. We also examined the mechanisms for disseminating and integrating the results of monitoring standing offer utilization information into planning, decision-making, and action. Finally, we examined a judgmental sample of 50 standing offers and related call-up information from the acquisitions services in the Commercial Acquisitions and Supply Management Sector (29) and the Western Region (21).
27. More information on the objectives, scope, approach and criteria can be found in the 'About the Audit' section at the end of this report.

## **STATEMENT OF ASSURANCE**

28. This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
29. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The findings and conclusion are only applicable to the entity examined and for the scope and time period covered by the audit.

## **OBSERVATIONS**

### **MONITORING OF STANDING OFFERS**

30. Monitoring is the ongoing and recurring review and analysis by a manager responsible for activities and operations. The intent is to determine at regular intervals (i.e. weekly, monthly, quarterly) the level and quality of performance and, when required, to take corrective action. A sound monitoring process is a critical component of the overall procurement process as it allows for an assessment of whether the activities are being performed or functioning as intended and producing the desired results.

### **Process for monitoring of usage reports not always followed**

31. We expected that the Acquisitions Branch would have a monitoring process in place to collect, track and report on standing offers and their respective call-ups (usage).
32. We reviewed several authoritative documents and policy notifications issued by Acquisitions Branch in which roles and responsibilities related to monitoring and reporting usage had been communicated and the expectations had been described. We also examined the activities of Procurement Officers to determine if they were adequately discharging these responsibilities.
33. We found that roles and responsibilities are clear, documented, and communicated. Procurement Officers are expected to monitor the usage activity resulting from the standing offers by receiving usage reports from suppliers and/or client departments. Through this monitoring they can identify actual or potential non-compliance in the use of standing offers. Procurement Officers are then expected to follow-up with client departments where non-compliance has been identified.
34. Standing offer holders are required to submit usage reports on a monthly or quarterly basis, as part of the terms and conditions of standing offers. Even if goods or services are not provided during a given period, the holder must still provide a 'nil' report. The use of this reporting clause is only mandatory in master standing offers. We found, however, that such a reporting requirement was included in all of the standing offers we examined, regardless of the type.
35. We found that Procurement Officers did not consistently collect usage reports. The majority of files we examined did not have usage reports. In the remaining files, the usage information was either submitted irregularly by the suppliers or usage information was obtained through a telephone conversation with the department that prepared a call-up against a specific standing offer. Regardless of the method used to gather usage information, the accuracy and quality of such reports were limited.
36. We also found that Procurement Officers did not always track the submission of usage reports or follow up with holders who did not submit reports. We noted that some Procurement Officers tracked some of the standing offers by using a 'bring-forward' feature within the Automated Buyer Environment milestone-reporting function. However, the effort was not supported by documentation on file. We observed that there were no warning letters issued to holders when usage reports were not provided, and that call-ups for the suppliers continued to be awarded by federal organizations. Although remedial actions were outlined in the terms and conditions of the standing offer, no action was taken towards suppliers who failed to meet the reporting requirements.

37. Finally, we found that Procurement Officers did not generally conduct any analysis on the usage reports they received. Because Procurement Officers were not requesting or enforcing the submission of the usage reports they could not accurately estimate the total estimated cost of the standing offer. Although the standing offer specifies that holders should be sending usage reports to the standing offer authority, there were no standard procedures outlining what should be done with these reports or how they should be analyzed.
38. We identified two master standing offers for which the specified limitation of expenditure was significantly exceeded in the 2007 calendar year. Both standing offers were established for a period of five years expiring in 2010. Collection and analysis of usage reports would have identified that limitations were exceeded and would have provided an opportunity for Procurement Officers to take corrective actions.
39. We observed that one office within the Western Region had created an in-house tracking system that is manual and resource intensive. In the Winnipeg office, several Procurement Officers contact holders to obtain their usage reports on a quarterly basis. All usage reports are kept on a shared drive for access during the planning and approval phases of future standing offers.
40. It was also determined that usage reports were not being collected, tracked or analyzed by the Performance and Spend Management Office (formerly the Value Management Office). The requirement that usage reports be submitted to this Office is currently under review and the elimination of the requirement is being considered.

#### **Limited trend analysis conducted**

41. Trend analysis is an essential part of monitoring. By analyzing trends in spending information, PWGSC can obtain useful information to help determine if the method of supply is effective and generating cost savings. As well, it can provide future potential bidders with accurate business volumes that promote better pricing and increase the fairness and transparency of the procurement process.
42. We expected that the roles and responsibilities related to providing spending information would be clear, documented, and communicated. We also expected that PWGSC would conduct trend analysis on the comprehensive spending information it collects.
43. We examined the roles and responsibilities related to the Spend Cube and DataCap. We found that roles and responsibilities are clear, documented, and communicated. However, it is important to recognize that the primary purpose for which the spending information is collected is not the monitoring of standing offers. In terms of monitoring, it is the responsibility of the Performance and Spend Management Office to conduct trend analysis using this data to support commodity management initiatives.

44. We examined the standing offer data within the spending information of the Spend Cube and DataCap and considered its usefulness for monitoring. We found that the Performance and Spend Management Office does not consistently conduct trend analysis on spending information and as a result does not take full advantage of the information to which it has access.
45. The Spend Cube contains data on suppliers, pricing, brands and models. The information captured is analyzed in an effort to:
- Improve knowledge of what the federal government buys, how much, when, and from whom;
  - Compare prices and commodities;
  - Achieve significant savings through volume buys and increased efficiency;
  - Increase the accuracy of purchasing data and reduce reporting requirements; and
  - Make better purchasing decisions.
46. Although the Spend Cube is effective in consolidating and reporting on spending activities for the major federal organizations, in its current form, its value is limited in terms of monitoring standing offers because the way the data is collected limits PWGSC's ability to cross-reference purchases to specific standing offers. For example, a field exists to indicate that a standing offer was the method of supply used; however, the field for identifying which specific standing offer was used is often left blank, as its completion is not mandatory. As well, when a standing offer's basis of payment authorizes the use of acquisition cards to pay for a call-up of goods or services, the data does not make any reference to a standing offer.
47. The DataCap is a reporting system managed by Acquisitions Branch, on behalf of federal departments, which contains procurement data including information on standing offers and call-ups. This data is used to prepare the annual purchasing report required by the Treasury Board Secretariat, who uses the information to publish, on the Internet, statistics on procurement contracts awarded by departments and agencies. Unlike the Spend Cube that gathers information through an automated extract, procurement usage information in the DataCap is generated in an electronic format by federal organizations and provided to Acquisitions Branch to consolidate manually. The Performance and Spend Management Office indicated that it was not able to match approximately 34% of the call-ups to a specific individual standing offer. As a result, in its current form, it too is limited in terms of usefulness for monitoring of standing offers.
48. Given the limitations in the Spend Cube and DataCap regarding call-ups or usage of standing offers, it is difficult to take advantage of the information contained within these systems. Despite these current limitations, we conducted some trend analysis for the standing offers in our sample to assess impact of monitoring on a standing offer. We observed one standing offer that included an expenditure limit of \$25,000 that had a total usage of over \$700,000 in the first of a two-year term.

49. Acquisitions Branch is working with other federal organizations to standardize and improve purchasing data across the multiple financial systems and to design interfaces that improve the integrity of data for both the Spend Cube and the DataCap. If the above noted limitations can be addressed, the Spend Cube and DataCap would provide valuable data in a format that would allow for efficient and effective analysis to support the monitoring of standing offers.
50. It is believed that trend analysis, if well done with quality data, could eliminate the need for the labour intensive collection and analysis of usage reports. This would support more efficient and effective monitoring.

## **INFORMATION FOR DECISION MAKING**

51. The results of monitoring standing offers can be used to facilitate planning, support decision-making, promote this method of supply to suppliers and buyers, analyze the impact of external changes and developments, maximize savings for the government, and generate new knowledge and future direction related to procurement strategy.
52. It also provides the knowledge required to improve the efficiency and effectiveness of standing offers. Such knowledge may be used to:
  - Leverage and negotiate volume discounts and savings based on new volumes;
  - Ensure that the actual usage volumes respect the trade agreements and approvals applied during the solicitation;
  - Ensure that suppliers who bid in good faith based on the estimated volumes are receiving a fair distribution of the call-up activity; and
  - Validate that the agreed-upon ranking order is being observed.

### **Formal processes for the integration of monitoring results are lacking**

53. As previously noted, the primary users of the results of monitoring standing offers include Commodity Management Teams, Commodity Managers, Procurement Officers, and the Performance and Spend Management Office. The results of monitoring would also provide valuable information to federal organizations and standing offer holders.
54. We expected that PWGSC would have a formal mechanism for reporting the results of the monitoring of standing offers to potential users of this information so that they may be integrated into planning, decision-making, and action.
55. While the commodity management process, which includes Commodity Management Teams and Commodity Managers, is a formal government-wide approach to reviewing and planning for the acquisitions of goods and services through standing offers, we found that no formal mechanisms exist for the dissemination or integration of the results of monitoring standing offers into reviewing, planning or decision-making. However, there



are a number of informal means through which Commodity Management Teams and Commodity Managers gather business intelligence that informs the decision making process. For example, through the creation of commodity plans they must consider how much is spent by department, region, and type of contracting vehicle; how the group of products or services meets or could eventually meet operational requirements; and the potential impact/risk to the supply market. Also, through their participation in industry association meetings and trade fairs, information about the commodity for which they are responsible can be gathered.

56. Procurement Officers also use informal practices to gathering intelligence related to standing offers. For example, they may liaise with stakeholders about potential sourcing and procurement strategies, analyze historical data on past procurement trends to help forecast future procurement or sourcing trends, request reports from the Acquisition Information Service (AIS) database to review historical data on price, and solicit industry feedback on operational requirements or market trends. As well, to assist in the sharing of business intelligence for a particular commodity, Procurement Officers must obtain approval from the Commodity Management Teams for that commodity to establish, extend or re-new a Standing Offer. Although this process does not endeavour to obtain business volume reports or address how quantities have been established, it allows the Procurement Officers to address how the proposed standing offer will achieve reductions in price, time savings and process savings.
57. The Performance and Spend Management Office is not a user of the results of monitoring of standing offers, however it has the opportunity to play an important role in the integration of the results into decision-making, as it is a key source of spend data. We found that there are no formal mechanisms for the integration of its analyses into the commodity management process. At present, its role is limited to providing leadership, support, and coordination of commodity management initiatives within the federal government by implementing consolidated contracting vehicles for specific commodities. However, as noted it has undertaken a number of initiatives related to improving the integrity of the spending data it collects such that it will be able to play a greater role in the monitoring of standing offers in the future.

## **CONCLUSIONS**

58. We concluded that Acquisitions Branch does not have sufficient controls to monitor standing offers, or mechanisms to disseminate and integrate that information to ensure that an effective method of supply has been established. More specifically, we concluded that:
- Roles and responsibilities that describe expectations in terms of monitoring and reporting requirements related to usage reports and spending information are clear and documented.
  - Processes to collect and analyze usage reports are not always followed.

- Trend analysis on the spending information collected through the Spend Cube and DataCap is limited due to limitations in the data collected.
  - Formal mechanisms to disseminate and integrate the results of monitoring of standing offers into planning, decision-making, and action are lacking.
59. Further, we determined that the labour intensive approach to collecting and analyzing usage reports could be eliminated if PWGSC is able to address the data limitation issues within the Spend Cube and DataCap, and conduct trend analysis on this data. This trend analysis represents a more efficient and effective means to access similar information.
60. Without a coordinated departmental approach, and collaboration by all stakeholders, the impact of standing offers as a beneficial method of supply remains unknown. The lack of integrated and meaningful information on standing offers, and a mechanism to share this information, means that it cannot be used to support planning, decision-making, and action, or demonstrate the achievement of the Government's shared objective of buying smarter, faster and at a reduced cost.

## **MANAGEMENT RESPONSE**

### **Management Response**

Management accepts the findings of the Report as being fair and accurate representation of the information about the utilization of standing offers during the audit period.

## **RECOMMENDATIONS AND MANAGEMENT ACTION PLAN**

**Recommendation 1:** The Assistant Deputy Minister of the Acquisitions Branch should reconsider the appropriateness of its approach to monitoring standing offer utilization through the manual submission and analysis of usage reports. If they are determined to be a valuable tool, then steps should be taken to ensure that the process for collecting and analyzing usage reports is understood and carried out.

**Management Action Plan 1.1:** Acquisitions Branch will review existing usage reports for standings offers on a commodity-by-commodity basis. Where such usage reports provide value, the data will be used as part of analysis supporting Commodity Management, which will be applied in a manner consistent with improving value and decision-making capabilities. This action will be implemented by March 2014.

**Management Action Plan 1.2:** PWGSC is also working with Treasury Board Secretariat to implement an enhanced standing offer reporting collection system from client departments. This will enable a consistent process for data collection as well as provide an alternative source to replace some supplier based usage reports, where possible. This action will be implemented by March 2012.

**Recommendation 2:** The Assistant Deputy Minister of the Acquisitions Branch should continue to enhance the value of government-wide purchasing data being collected within the Spend Cube and DataCap and determine the most appropriate method to analyze trends related to Standing Offers so that this information can be used to monitor standing offer utilization.

**Management Action Plan 2.1:** Acquisitions Branch will review the existing data sources available for supporting enhanced analysis for trends related to standing offers. This action will be implemented by March 2012.

**Management Action Plan 2.2:** PWGSC is working with Treasury Board Secretariat to implement an enhanced standing offer reporting collection system from client departments. This will enhance the value of government-wide purchasing data to be analyzed in support of planning, decision-making, and action. This action will be implemented by March 2012.

**Recommendation 3:** The Assistant Deputy Minister of the Acquisitions Branch should establish mechanisms to support the dissemination and integration of the results of monitoring of standing offer utilization to potential users of the information.

**Management Action Plan 3.1:** As government-wide standing offer usage data becomes available, and following the Commodity Management Policy and enhanced analysis and monitoring included therein, Acquisitions Branch will implement supplemental and routine standing offer usage to key PWGSC decision-makers. This action will be initiated by March 2012.

## **ABOUT THE AUDIT**

### **Authority**

This audit was approved by the Audit and Evaluation Committee of Public Works and Government Services Canada as part of the 2008-2009 to 2011-2012 Risk-Based Audit and Evaluation Plan.

### **Objective**

The objective of this audit was to determine whether PWGSC has adequate and sufficient processes to support the monitoring of utilization of standing offers to ensure that an effective procurement tool has been established.

### **Scope and Approach**

The audit was conducted in accordance with Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The fieldwork was conducted from November 2008 to January 2009. A population of standing offers awarded during the time period of April 01, 2005 to March 31, 2007 was extracted from the Acquisition Information Service database.

We examined key documents, such as the supply manual and policy notifications. In addition, we examined the spending information contained in the Spend Cube and the DataCap. Finally, we conducted interviews with approximately 19 key personnel.

We also examined a judgemental sample of 50 standing offers for goods and services and related call-up information, from two acquisitions services groups: the Commercial Acquisitions and Supply Management Sector (29) and the Western Region (21). The approach for the judgemental sample was based on a variety of criteria and the cumulative contract knowledge and experience of the audit team. Criteria included empirical indicators such as number of standing offers per annum, overall value of standing offers, stratification of standing offers values, and variety of standing offers types. A review of the data for the acquisitions services in PWGSC's regions and sectors indicated that the Commercial Acquisitions and Supply Management Sector and the Western Region had a high overall volume and variety of standing offers.

We ensured that the sample covered all types of standing offers, goods and services, and both mandatory and non-mandatory commodities. The audit scope excluded standing offers for fuel and vehicles as they were under review by the Office of the Procurement Ombudsman. It also excluded Real Property Services Departmental Individual Standing Offers, and Risk Management National Master Standing Offers, as they were part of the pilot for the Office of the Chief Risk Officer's sampling program.

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The population of all call-ups related to the sampled standing offers was drawn from the contractual data from the Treasury Board Secretariat's Annual Purchasing Activity Report for the calendar year 2007.

On average, PWGSC awards administrative arrangements to approximately 6,000 standing offer holders annually for all Sectors/Regions and all commodities. Each supplier who receives a standing offer is identified as a 'holder'. A standing offer must have a minimum of one holder but there may be several hundred holders for a single standing offer if the market of suppliers exists. For example, the standing offer for hotel services has over 2000 holders.

For the two acquisitions services groups we reviewed, Commercial Acquisitions and Supply Management Sector and Western Region: 246 holders were awarded standing offers in the time period reviewed, for only those commodities included in scope, and the majority with approximately 3 call-ups in 2007. Of those 246 holders there were 112 standing offers and we examined 50.

Exhibit 1: Population of standing offers and holders

	SO Holders	SO	Sample of SO
Commercial Acquisitions and Supply Management Sector (CASMS)	178	65	29
Western Region	68	47	21
Total	246	112	50

Based on the analysis of the information and evidence collected, the audit team prepared findings and conclusions, which were validated with the appropriate managers. The Draft Final Report will be tabled at the PWGSC Audit and Evaluation Committee for their recommendation for approval by the Deputy Minister.

## **Criteria**

The criteria used to assess Acquisitions Branch's monitoring controls over standing offers were based primarily on the Treasury Board's contracting policy and the PWGSC Supply Manual, and Policy Notification #72R on standing offers.

- Roles and responsibilities for identifying and implementing monitoring controls are clear and documented;
- Systems, processes, and practices are in place to enable the organization to effectively monitor standing offer agreements; and
- Results of monitoring activities over standing offers are properly tracked and reported to senior management for decision-making purposes, and appropriate actions and follow-ups are undertaken.

## **Audit Work Completed**

Audit fieldwork for this audit was substantially completed on January 5, 2009.

## **Audit Team**

The audit was conducted by members of the Office of Audit and Evaluation, overseen by the Director, Procurement Audit and under the overall direction of the Deputy Chief Oversight Officer, Office of Audit and Evaluation.

The audit was reviewed by the quality assessment function of the Office of Audit and Evaluation.