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1.0 INTRODUCTION

Contracting and Procurement

1. Canadians expect the federal government, its departments and agencies, to be well managed and to be accountable for the prudent stewardship of public funds, the safeguarding of public assets, and the effective, efficient and economical use of public resources. It is the responsibility of the contracting and procurement function of federal departments to ensure that contracting and procurement activities are undertaken in a way that is consistent with these expectations.
2. Procurement is defined by the Treasury Board (TB) as the function of obtaining goods and services and carrying out construction and leasing through contractual arrangements.¹ Contracting is an agreement between a contracting authority and a person or firm to provide a good, perform a service, construct a work, or to lease real property for appropriate consideration.²
3. The TB Contracting Policy (2014)³ is the principle authoritative reference for government contracting activities. It outlines general policy and procedural requirements, rules for bidding and selection, contract award requirements, reporting requirements, references (applicable statutes, regulations and policies), and definitions. The objective of the Policy is to acquire goods and services and/or carry out construction 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. Further, this policy states that contracting shall be conducted in a manner that will: stand the test of public scrutiny, ensure the pre-eminence of operational requirements, support long-term development, and comply with the *North American Free Trade Agreement*, the *World Trade Organization – Agreement on Government Procurement* and the *Canadian Free Trade Agreement*.⁴

Contracting and Procurement at the Canada Border Services Agency (CBSA)

4. The objective of contracting and procurement (C&P) at the Canada Border Services Agency (CBSA) is to acquire goods and services in a manner that enhances access, competition and fairness, and results in the best value or, if appropriate, the optimal balance of overall benefits to the Agency and Canadian taxpayers. It is the policy of the Agency to encourage transparency in contracting activities and to comply with the Government Contracts Regulations and the Treasury Board Contracting Policy, as well as with the government's obligations under the Trade Agreements.
5. The CBSA employs a variety of contracting and procurement mechanisms, including, but not limited to, competitive contracts, call ups against standing offers, non-competitive contracts, professional and temporary help service contracts, and purchase orders for goods. Contract requirements exceeding the CBSA's authority are sent to Public Services and Procurement

¹ Definition from the government contracting policy: <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494>

² Definition from the government contracting policy: <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494>

³ TBS Contracting Policy: <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494>

⁴ TBS Contracting Policy, Section 2: Policy Statement: <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494>



Canada (PSPC) or Shared Services Canada (SSC) both within the National Capital Region and with each of the regional offices.

6. The Strategic Procurement and Material Management Division (SPMMD), Comptrollership Branch has overall functional authority as the Contracting Authority on behalf of the Agency.⁵ It provides procurement operations and advice, strategic procurement planning, quality assurance, and reporting for all Agency branches across Headquarters and in the regions. Prior to 2015, the SPMMD faced numerous challenges including staffing, governance and increasing procurement volumes. Since then, management has worked towards stabilizing the function and establishing a more comprehensive management control framework.
7. The SPMMD is composed of three teams:
 1. Business Practices and Strategic Procurement;
 2. Contracting and Procurement Operations (IT and Non-IT Procurement Teams); and
 3. Materiel Management Policy and Operations.
8. The CBSA has a total of 46 procurement officers⁶ (PG classification) working on contracting and procurement, employed in both Headquarters (HQ) and the regions. Procurement officers occupy various levels at the CBSA ranging from PG-01 to PG-06. Each level has its own limits of delegated financial signing authority which increase as the levels progress. Of these 46 employees, 42 of them work in procurement operations and are responsible for the administration of contracts with 62% of the officers working at HQ in the SPMMD and the remaining 38% employed in the regions.
9. The Agency's contracting and procurement function processes thousands of contracts per year for various amounts. From April 1, 2014 to December 31, 2016, the CBSA issued a total of 4,275 contracts totaling \$556,854,934. More than half of the contracts issued were valued between \$5,000 and \$25,000.

⁵ CBSA - Material Management Volume - Chapter 1 Material Management Framework

⁶ As of April 5, 2017.



Contracting and Procurement Volumes and Value by Fiscal Year

FY / Period	Less than \$5,000		Between \$5,000 and \$25,000		More than \$25,000		Total	
	Contracts	Value	Contracts	Value	Contracts	Value	Contracts	Value
April 1, 2014 to March 31, 2015	447	\$ 16,269,481	826	\$ 88,714,516	316	\$ 147,684,009	1,589	\$ 252,668,006
April 1, 2015 to March 31, 2016	467	\$ 30,427,457	807	\$ 21,346,693	373	\$ 139,334,810	1,647	\$ 191,108,960
April 1, 2016 to December 31, 2016	210	\$ 6,118,580	633	\$ 40,251,299	196	\$ 66,708,089	1,039	\$ 113,077,968
Total	1,124	\$ 52,815,518	2,266	\$ 150,312,508	885	\$ 353,726,908	4,275	\$ 556,854,934

Source: The table above has been compiled by the IAD based on CAS data provided from the SPMMD. This data has not been verified and/or validated by the IAD against CAS.

2.0 SIGNIFICANCE OF THE AUDIT

10. This audit is of interest to management due to the necessity of a well-designed contracting and procurement function to deliver on the Agency's mandate while ensuring the proper management and disbursement of public funds. Contracting and procurement is also subject to extensive policy requirements and inherent risks requiring sound governance and oversight of its activities. It is important that the function has the appropriate capacity and maturity to ensure that the Agency is well positioned to address the changing environment and the expected shift towards strategic sourcing, including alternate service delivery and partnership opportunities.
11. The audit objective was to provide assurance that an adequate and effective management control framework is in place to ensure that procurement operations are undertaken in compliance with contracting policies and directives, including the Treasury Board's principle-based contracting policy framework (2014).
12. The scope of the audit focused on the management control framework in place for the contracting and procurement process as well as compliance with policies and procedures across the Agency. The audit included the acquisition of goods and services for all contracts under the CBSA's delegation of authority that were issued from April 2014 to December 2016. Compliance with the TB bidding process and updates to the CBSA policy suite and guidance were excluded as these areas were addressed in the procurement practice review conducted by the Office of the Procurement Ombudsman (OPO) completed in October 2016, for which a CBSA management action plan was developed.
13. The detailed audit scope and criteria can be found in Appendix A.



3.0 STATEMENT OF CONFORMANCE

14. The audit conforms to the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program. The audit approach and methodology followed the *International Standards for the Professional Practice of Internal Auditing* as defined by the Institute of Internal Auditors and the *Internal Auditing Standards for the Government of Canada*, as required by the Treasury Board's *Policy on Internal Audit*.

4.0 AUDIT OPINION

15. The Agency has implemented new processes and systems for the administration of CBSA contracting and procurement activities, which have enhanced the function's execution, delivery and resource management. However, opportunities to strengthen the risk assessment, monitoring and reporting processes exist to ensure compliance with key governance and policy requirements and an effective contracting and procurement function.

5.0 KEY FINDINGS

16. The CBSA has many elements of a governance and accountability structure in place. An oversight committee has been formed with the responsibility for providing strategic review and direction on select procurement requests. The roles and responsibilities of procurement officers have been established and communicated across the Agency. The development and implementation of a suite of standardized tools and guidance would further strengthen the procurement process by ensuring quality and consistency in the delivery of contracting activities.
17. The Comptrollership Branch has identified risks as part of the Integrated Business Plan, however, the risk management process for the contracting and procurement function is informal. Conducting a risk assessment process and developing a risk register would enable the contracting and procurement function to identify, mitigate and monitor risks more effectively.
18. As per TB policy requirements and established CBSA processes, the Agency's contracting and procurement activities are awarded and administered with consideration for Sections 32, 33, and 34 of the FAA, and proactive disclosure of contracts. Opportunities exist to further improve the Agency's processes to meet policy requirements. Specifically the process for proactive disclosure of contracts should be improved to ensure full compliance. Overall, adequate documentation was found to be on file to support contracting activities.
19. The CBSA has recently taken measures to improve the monitoring and reporting of contracting activities, including the implementation of a quality assurance database, and a workload management tool. By further developing monitoring and reporting through a risk-based quality assurance process, leveraging the performance measurement data collected, and expanding reporting activities to include strategic analysis of the information, the contracting and procurement function would be able to improve decision making and program management.



6.0 SUMMARY OF RECOMMENDATIONS

20. The audit makes four recommendations relating to:

- Developing and disseminating the necessary tools and guidance to assist PG officers in performing their duties;
- Conducting and developing a formal risk management process for the function, including the risk of fraud;
- Expanding the monitoring and reporting process to include a risk-based quality assurance process and tracking of required training and after-the-fact contracting; and
- Revising the process for the proactive disclosure of contracts to ensure full compliance with government policy.

7.0 MANAGEMENT RESPONSE

The SPMMD remains committed to overseeing contracting and procurement at the CBSA in accordance with Central Agency expectations and legislations. As such, the Vice-President of the Comptrollership Branch agrees with the audit report and accepts all four recommendations. The SPMMD will continue its endeavours to improve the delivery of a sound contracting and procurement function. Several initiatives have already been implemented to start addressing the audit recommendations.



8.0 AUDIT FINDINGS

8.1 Governance and Accountability

Audit Criteria:

- *Oversight committees are designed to effectively oversee the C&P program.*
- *Roles, responsibilities, and accountabilities are established⁷ to support the delivery of C&P activities across the Agency (HQ and the regions).*
- *Employees are provided with the necessary training, guidance and tools to execute their procurement responsibilities.*

Oversight committees

21. Oversight committees provide the basis for carrying out governance responsibilities across the organization. The Contract Review Committee (CRC) is a standing committee that was implemented in May 2016. The purpose of the CRC is to consider and provide direction on procurement requests on behalf of the CBSA, with a view to implement stronger procurement planning practices and a more integrated planning process across the Agency. It is a DG-level committee, chaired by the VP Comptrollership Branch and includes representation from all CBSA branches as well as regional representation. Roles, responsibilities and membership of the CRC have been clearly defined in its Terms of Reference (TOR) and a formal process for the submission of files to the CRC has been outlined.
22. As the committee is newly established, it is premature to conclude if the CRC is effectively overseeing CBSA's Contracting and Procurement function. At the time of the audit's examination phase, only two CRC meetings had taken place, making it difficult to assess the adequacy of the attendance, agenda items, and decisions made. A review of the records of decision for the two meetings identified that the attendance requirements had been met and the items discussed were aligned with the objective of the committee. Although many of the key design elements were in place, small opportunities for improvement to solidify processes were identified with regards to ensuring the frequency of meetings as outlined in the TOR, and addressing initiatives identified for follow-up in meeting minutes at the following meeting.
23. As the CBSA's overall governance structure is being re-designed, it will be important to clarify to which senior management committee the CRC will be reporting, so that the CRC can effectively carry out its governance responsibilities.

⁷ Roles, responsibilities, and accountabilities are established i.e. defined, documented, and communicated.



Roles and responsibilities

24. Clear roles and responsibilities are important for the successful delivery of the Agency's C&P function. This includes the definition and establishment of the organizational structure and the assignment of authority and responsibility to support the delivery of program activities. Clear and appropriate reporting lines enable accountability and the flow of information to manage contracting and procurement activities.
25. The delivery of C&P activities across the Agency (HQ and the regions) is supported by established roles, responsibilities, and accountabilities for all the staff. Reporting lines are clearly defined and communicated within the SPMMD and supported by an organizational chart which outlines the reporting structure within CBSA Headquarters. The SPMMD has developed job descriptions and a work allocation guide for all levels of procurement officers (from PG1 to PG6). Overall, roles and responsibilities for the CBSA's C&P activities are defined and documented and staff at HQ and the regions are aware of their respective responsibilities.

Training, guidance, and tools

26. In order to deliver on organisational needs and activities and to properly perform related responsibilities, training needs, guidance, and tools should be identified and provided to requisite personnel. Sufficient training for procurement officers contributes to the CBSA's ability to provide services, ensure compliance, and deliver a well-designed program.
27. Mandatory courses⁸ for employees working in the procurement function are outlined and determined by the Treasury Board policy. The average rate of completion for CBSA procurement officers working in C&P operations at the time of the audit was 72% with equal distribution across HQ and the regions. The completion rates were lower for Course 2 – Overview of Materiel Management (60%) and Course 3 – Overview of Real Property Management (57%). Employees at the PG5 and PG6 levels had 100% completion of the mandatory courses, and completion at the lower levels ranged from 63-77%.

⁸ Treasury Board Secretariat – Required Training for the PMMRP Community – B.2.38



28. The detailed completion rate for each required course is provided below:

	Course 1	Course 2	Course 3	Course 4	Course 5
CSPS Course Code	M718	C233	C234	M714	M716
Number of CBSA PGs in C&P Operations	42	42	42	42	42
Number of PGs who completed the training	38	25	24	33	31
Completion Rate	90%	60%	57%	79%	74%

1. *Fundamentals 1: Introduction to Procurement* (3 days) **CSPS M-718**
2. *Fundamentals 1: Overview of Materiel Management* (online) **CSPS-C233**
3. *Fundamentals 1: Overview of Real Property Management* (online) **CSPS-C234**
4. *Fundamentals 2: Legal and Policy Environment for PMMRP* (2 days plus e-learning tool) **CSPS-M714**
5. *Fundamentals 3: Life-Cycle Asset Management in the Government of Canada* (3 days) **CSPS-M716**

29. Procurement officers work with Cost Centre Managers (managers) throughout the contracting and procurement process. It is important for managers to have a clear understanding of the contracting process and related requirements. The Canada School of Public Service (CSPS) offers a course on Contract Management (M720) which is available to managers, however it is not a mandatory requirement for managers to take any procurement training. Insufficient knowledge regarding their roles and responsibilities can lead to errors, including after the fact contracting, non-compliance with legislative requirements (ex. FAA sec. 34), and increased dependence on procurement officers. For these reasons, the SPMMD has organized presentations and awareness sessions for managers on an ad-hoc basis. These included presentations on Integrity in Contracting and Employee/Employer Relationships. The SPMMD is planning to develop in-house training and educational products for procurement officers and managers, as outlined in the management response to the OPO report. This work is planned to be undertaken during FY 2017-2018.
30. On tools and guidance, interviews with procurement officers working in C&P operations identified a need for a standardized suite of tools and templates to help facilitate work and ensure consistency across the CBSA. These included a CBSA standardized manual, templates, checklists, process flow diagrams/maps and risk assessment tools. Until guidance and tools are in place, CBSA procurement officers are predominantly using policies and tools available from TBS and PSPC as well as self-generated tools carried over from their legacy departments. A suite of commonly adopted tools, templates and guidance for procurement officers would help decrease the likelihood of errors, processing delays, non-compliance with policy, and client dissatisfaction.

31. In summary, governance and accountability structures have been established and communicated. However, procurement processes would be strengthened if standardized tools and guidance were adopted to assist procurement officers with their work.
32. A recommendation related to training has been included as part of Recommendation 3 in this report.

Recommendation 1: *The Vice-President of the Comptrollership Branch should provide the necessary tools and guidance to assist procurement officers in performing their activities in a consistent manner.*

MANAGEMENT RESPONSE	COMPLETION DATE
The Vice-President of the Comptrollership Branch agrees with this recommendation and will continue to work towards the development of tools and guidance for procurement officers, both at Headquarters and in the regions. Building on existing processes of procure-to-pay and working closely with all internal stakeholders, the SPMMD will build tools to streamline the work of officers and allow for more consistent products. The SPMMD will leverage Apollo to ensure procurement officers can easily access a repository of standardized and up to date tools and guidance documents.	August 2018

8.2 Risk Management

Audit Criteria:

- *Management has established a risk-based approach and process to manage the C&P activity that identifies, measures, mitigates, and monitors key challenges and risks, including the risk of fraud.*

33. Risk management is the process for identifying and analyzing risks, determining how risks should be managed, and the consideration of possible changes in the external and internal environment. Risks should be considered to avoid impediments from achieving objectives.⁹ All risks, including the risk of fraud, should be considered as part of a thorough risk management process. Risk management processes should be established at multiple levels, including for the C&P function and the contracting and procurement activities conducted by procurement officers.

⁹ COSO Internal Control – Integrated Framework Principles 6-9

34. While the Comptrollership Branch identifies risks as part of the Integrated Business Plan (IBP), branch risk assessments are too high level to guide risk management within the SPMMD unit and cannot be considered as a compensating process for a formal internal risk process specific to the contracting and procurement function. Throughout the audit, the SPMMD identified risks to the C&P function such as the established reporting relationships in the regions and issues with procurement planning. A formal risk assessment process at the functional level will allow C&P management to address and monitor identified risks.
35. At the procurement operations activity level, procurement officers are aware of some risks related to the processing of files. They attributed their knowledge of risks to career experience and training. Currently, there are no formal internal processes or tools which can be used by procurement officers to identify, measure, mitigate and monitor key challenges and risks.
36. While some controls have been established to manage contracting risks (such as the Delegated Financial Signing Authority matrix, the Contract Review Committee, monitoring, and quality assurance processes), a formal risk assessment process would help ensure the identification and mitigation of risks that could result in adverse effects to the CBSA including, but not limited to, increased errors, non-compliance with policy, reputational damage, loss of money and increased opportunity for fraud.

Recommendation 2: *The VP of the Comptrollership Branch should conduct a risk assessment process and develop a formal risk register for the C&P function that identifies how key risks to the C&P processes and function, including the risk of fraud, are mitigated and monitored.*

MANAGEMENT RESPONSE	COMPLETION DATE
The Vice-President of the Comptrollership Branch agrees with this recommendation and will leverage work done by other contracting units from across the Federal Public Service to develop a formal risk management process.	August 2018

8.3 Compliance with Policies and Procedures

Audit Criteria:

- *Contracts are awarded and administered in compliance with CBSA processes and TB policy requirements, including FAA Sec.32, 33, 34 and proactive disclosure.*
- *C&P files are adequately documented in accordance with legislation and policies, and demonstrate decisions made and actions taken.*



37. The *Financial Administration Act* (FAA), the TBS Contracting Policy, and the Agency's Comptrollership Manual provide the legal framework and guidance for the administration of CBSA's contracting and procurement activities. The audit examined the CBSA's Delegation of Financial Signing Authorities (DFSA) Matrix, processes for applying Section 32, 33 and 34 of the FAA, proactive disclosure of contracts as well as contract management and supporting documentation. Multiple samples of contracts and related invoices were assessed for compliance with those requirements.

The CBSA Delegation of Financial Signing Authorities (DFSA) Matrix

38. The CBSA DFSA Matrix outlines the financial signing authorities delegated to CBSA managers and designated subordinates. The current version of the CBSA's DFSA Matrix was signed on January 12, 2016 and clearly outlines the financial contracting authority for procurement officers (from PG1 to PG5) and management at the Agency. The delegated authority limits are provided in Appendix C of this report.

Section 32 of FAA

39. Section 32 of the FAA outlines the requirement for a designated individual with appropriate authority to confirm that there is sufficient funding available prior to entering into a contract. The audit reviewed a random statistical sample of 38 contracts¹⁰ from a population of 800 contracts from the Corporate Administrative System (CAS) awarded between January and December 2016 for compliance with Section 32 of the FAA. Approval of Section 32 for contracting purposes can either be done electronically through CAS or with a signature on a paper copy of the purchase requisition. A signed delegated financial authority (DFA) card is necessary to validate the approver's signature.
40. Audit testing identified that 32/38 (84%) of the contracts sampled had verifiable Section 32 authorization whereby the approver could be identified and had delegated authority in CAS. While all identified approvers had delegated authority recorded in CAS, signed DFA cards were not on file in CAS for 15/32 (47%) of the contracts with verifiable Section 32 approvers. While signature card specimens may be on file at the CBSA National Financial Transaction Centre (NFTC), not all of them are available to be viewed in CAS. This can impede signature validation when conducting monitoring or audit activities as well as when procurement officers are establishing contracts. The Section 32 approver could not be identified due to either a lack of signature or an illegible signature for 6/38 (16%) of the contracts in the sample. Without the ability to identify the approver, the audit could not validate that the employee had the proper delegated signing authority.

¹⁰ Statistical random sample parameters: 90% confidence interval, 10% expected error rate, 1% precision.



Section 33 of FAA

41. Section 33 of the FAA outlines the requirement that the payment of government funds must be authorized by the appropriate designated individual before they are released. All of the invoices related to the sampled contracts¹¹ were approved by automatic batch processing and were identified in CAS as such. Batch approval of Section 33 is an efficient means of processing numerous low-medium risk transactions. It relies on the controls in place for the proper application of Section 34 and account verification.
42. In the account verification process, contract invoices are categorized as low-medium risk transactions. As a result, they are sampled as part of the process by the NFTC that results in testing of approximately 5% of all low-medium risk invoices each year. During fiscal year 2015-2016, the account verification for low-medium transactions was not conducted as NFTC resources were focused on different priorities such as the implementation of the Procure to Pay (P2P) initiative. The process resumed in fiscal year 2016-2017. It is important that account verification for contract invoices is occurring to reduce errors and ensure compliance with policy requirements.

Section 34 of FAA

43. Pursuant to Section 34 of the FAA, no payment can be made for any contract-related invoice unless an authorized individual certifies the goods or services were received and the price was billed as outlined in the contract. The FAA and other contracting policy and guidance outline the requirement for documentation to be on file, which supports that goods or services have been received prior to issuing payment.
44. The audit examined a random judgmental sample of 63 invoices related to the above-mentioned sample of contracts for compliance with Section 34 of FAA, awarded between January and December 2016. All invoices reviewed were issued for the correct amount, within the contract limit, by the correct vendor, and exercised with appropriate and valid delegated authority. In order to action Section 34 in CAS, a goods or services receipt record needs to be created electronically. However, for 8/63 invoices (13%), documentation to support the electronic confirmation of the receipt of goods or services was not available, either in CAS or retained by the cost centre. These eight invoices relate to 7/38 (18%) of the contracts sampled. Documenting goods or services receipt, such as a signed timesheet or a packing slip, is required to establish a proper audit trail and compliance with Section 34 of the FAA.

Contracts with Start Dates Preceding Award Dates

45. CBSA guidance defines after the fact (ATF) contracting as a situation where goods or services are provided without a legally binding contractual document, or when the start date of the

¹¹ The audit examined a random statistical sample of 38 contracts from a population of 800 contracts from January to December 2016 for compliance of associated invoices with Section 33 of the FAA. Statistical random sample parameters: 90% confidence interval, 10% expected error rate, 1% precision.



services is before the award date of the contract.¹² In the time between the start date and the award date, the CBSA is exposed and can become liable for actions such as lawsuits that can result from accidents, or damages to third parties. According to the After the Fact Directive in the CBSA's Materiel Management Volume, it is mandatory to have a contract in place before goods or services can be provided, unless an exception applies.¹³ All ATF situations are required to be justified and documented on an ATF form. Interviews with procurement officers identified ATF contracting as an area of risk related to their work that could be improved through better planning practices and increased training and understanding of the procurement process by managers.

46. During the scope of the audit, from April 2014 to December 2016, there were 140 contracts out of a total of 2,417 which had a start date prior to the award date in CAS which represents approximately 5.8%. A random statistical sample of contracts¹⁴ having a start date preceding the award date was examined to determine whether a rationale was on file to justify the occurrence as required by CBSA policy and procedures. Of the 34 contracts sampled, 7/34 (21%) had a delay of three to six months between the start date of the contract and the award date in CAS and 5/34 (15%) had a delay between six months and a year. Justification or rationale was on file for 27/34 (79%) of the sampled contracts, usually as an ATF form, however, for the remaining 7/34 contracts (21%), there was no justification or rationale on file. There is an opportunity to improve and monitor the documentation requirements to ensure instances of ATF contracting are recorded.

Contracts with Multiple Cost Centres

47. Contracts are typically established by one or a few related cost centres within a unit. In some cases, one contract is established and subsequently used by multiple non-related cost centres. The use of multiple cost centres in such a way was identified as a potential area of risk by SPMMD management. The risks include attempts by managers to circumvent the procurement process to use the contracts for unrelated procurement. To determine the extent of the risk, the audit examined a sample of contracts with multiple cost centres.
48. There were 1,374¹⁵ contracts¹⁶ with multiple associated cost centres in CAS, awarded between April 2014 and December 2016. The audit examined a random statistical sample of 36 contracts¹⁷ from this population to determine the rationale for the use of contracts by multiple

¹² Materiel Management Volume, Chapter 3: Acquisition, Section 4 : After the Fact Directive http://atlas/cb-dgc/pol/cm-mc/cas-asa/c3s4_directive_eng.asp

¹³ Materiel Management Volume, Chapter 3: Acquisition, Section 4 : After the Fact Directive http://atlas/cb-dgc/pol/cm-mc/cas-asa/c3s4_directive_eng.asp

¹⁴ Statistical random sample parameters: 90% confidence interval, 10% expected error rate, 1% precision.

¹⁵ In order to identify all contracts with multiple cost centres, the audit selected contracts that have multiple cost centers or no cost centers associated with the related invoices. The resulting population was 1,374 contracts.

¹⁶ There are 1, 817 invoices related to the 1,374 contracts in this population.

¹⁷ Statistical random sample parameters: 90% confidence interval, 10% expected error rate, 1% precision.



cost centres. The audit found that in all instances sampled, all 36 contracts had a reasonable rationale to be used by multiple cost centers.

Contract Management and Documentation

49. C&P files are required to be adequately documented in accordance with legislation and policies, and demonstrate decisions made and actions taken. In reviewing the random statistical sample of 38 contracts¹⁸, the audit confirmed that, overall, the contract management and documentation related to C&P files occurred as expected. Key documents were on file including copies of the signed contract by individuals with delegated authority, security forms, amendments and all supporting documents, as applicable, except where specifically noted in this report.
50. In summary, the sampled contracts were awarded, administered and documented in accordance with government policies and requirements. Opportunities for improvement exist to further enhance the controls and processes in place to ensure full compliance with Sections 32, 33 and 34 of the FAA.
51. The finding related to after the fact contracting has been addressed as part of Recommendation 3.

8.4 Monitoring and Reporting

Audit Criteria:

- *C&P activities are subject to risk-based monitoring including corrective action if required.*
- *C&P performance measures and indicators are established and used for decision making.*
- *C&P information is reported internally and externally as required.*

52. Monitoring and reporting of the contracting and procurement function is an essential element of governance and program management. Monitoring and reporting activities ensure that contracts are issued and procurement activities are undertaken in an effective manner, in compliance with relevant policies and regulations. This is important to contribute to the efficiency and integrity of the CBSA's contracting function. The TB Contracting Policy outlines the requirement for a C&P function to exercise due diligence in the conduct of their contracting activities that includes an adequate framework for monitoring and reporting.

Monitoring and Quality Assurance

53. The CBSA's Delegated Financial Signing Authorities Matrix (Appendix C) outlines the contracting authority limits of procurement officers. Any contracts prepared outside of the procurement officer's limits must be reviewed and signed off by the appropriate level of

¹⁸ Statistical random sample parameters: 90% confidence interval, 10% expected error rate, 1% precision.



management. In addition to this standard review, any file valued at the manager's delegated authority or above¹⁹, or any file that will be posted publicly on the PSPC Buy & Sell site, is subject to the contracting quality assurance (QA) process, as communicated to staff by management in the summer of 2016. A quality assurance database was developed to assist with conducting the review of files which undergo QA.

54. The current QA process does not yet include monitoring or analysis of results and trends. As such, the SPMMD could not confirm if all files that meet the QA criteria ultimately undergo the process. The established process focusses on contracts which would already undergo manager review as part of regular monitoring requirements resulting from the delegated authority structure.
55. For contracts valued within a procurement officer's delegated financial signing authority (Appendix C), a peer-review/self-verification checklist has been developed which procurement officers may employ to have a review conducted by a colleague before issuing the contract. It is not mandatory for procurement officers to solicit a peer review for their work, nor to include a copy of the completed checklist on file. Files within a procurement officer's delegated financial signing authority do not need to be reviewed by management before the contracts are signed. This results in a number of files within a procurement officer's delegation that are not subject to any review process including QA.
56. Relying on the procurement officers' delegated authority control is appropriate so long as the control is functioning as intended and the risks are sufficiently mitigated by the other controls in place. Given that the supporting controls such as standardized tools and guidance, completion of mandatory training, and a risk management process are still under development, randomized supervisory review of files and tracking of results would enable the SPMMD management to more effectively assess and manage risks of procurement files.

Performance Measurement

57. Performance measures and indicators should be established and used for decision making.²⁰ The SPMMD has developed service standards for a range of contracting and procurement services, including assigning files and awarding contracts. A target of 80% has been set for all of the established standards, and applies to situations that fall under normal circumstances. Tracking of key milestones and dates is done through the Workload Management Tool (WMT), which was established in the fall of 2016. Given the recent implementation of performance measurement activities, the SPMMD has not yet conducted any review, analysis or reporting on the milestones tracked in WMT, to confirm the extent to which service standards were met.
58. Analysis of the trends would allow for the continuous improvement of contracting activities and business processes.

¹⁹ Accountability Level V of the CBSA DFSA Matrix (Appendix C) outlines the authority levels for the managers of the SPMMD.

²⁰ COSO Internal Control – Integrated Framework Principle 16



Reporting

59. The TB Contracting Policy specifies reporting requirements which include annual reporting of contracting activity as well as the proactive disclosure of certain contracts. Federal departments and agencies are required to submit an annual report to PSPC on the total number and dollar value of contracts entered into within a department's own departmental authorities in each calendar year. Proactive disclosure requirements within the TB Contracting Policy stipulate that quarterly proactive disclosure is required for all contracts valued over \$10,000 (including amendments).
60. The audit confirmed that the CBSA meets the annual reporting requirement to PSPC. The report is prepared annually by the SPMMD and sent to PSPC by the VP Comptrollership Branch. The Agency's financial system, CAS, is the principal source of data used to provide information for the Agency's annual Contracting Report. Therefore, the transactional data in the system for CBSA procurement activities must be accurate and reliable.
61. To review the CBSA's compliance with the proactive disclosure requirements, the audit team tested a random statistical sample of 38 contracts²¹ from the 2016 calendar year. Of the contracts sampled, 27/38 (71%) were disclosed as required. However, the other 11/38 (29%) contracts were not disclosed. The audit team advised the SPMMD of the error and the specific sample files were subsequently disclosed by SPMMD during the examination phase of the audit. The extent to which this error occurred for other contracts in past and current fiscal years should be determined and corrected as required.
62. The SPMMD conducts reporting activities including the development and preparation of various reports for use within the division and for reporting to senior management. Although it was evident that data was being collected in reports for various stakeholders, these reports focus on data validation or workload management. There was limited analysis and reporting on trends, testing of key risk areas, non-compliance and corrective actions among other strategic uses.
63. In summary, the Agency has developed processes to monitor and report on the contracting and procurement function as well as ensure its compliance with government requirements; however, opportunities exist to further mature these processes.

²¹ Statistical random sample parameters: 90% confidence interval, 10% expected error rate, 1% precision.

Recommendation 3: *The VP of the Comptrollership Branch should expand the monitoring and reporting processes to include a risk based quality assurance process for contracts, a plan to track and monitor the completion of required TBS training for all PG Officers in procurement operations (HQ and regions) as well as instances of after the fact contracting, which would include documenting the rationale for each case and initiating corrective actions as necessary.*

MANAGEMENT RESPONSE	COMPLETION DATE
<p>The Vice-President of the Comptrollership Branch agrees with this recommendation and will evaluate gaps in the current quality assurance (QA) process and further develop a risk based QA process for contracts.</p> <p>The SPMMD took remedial action as soon as shortcomings in the training completion were identified during the audit. Pending course availability, current procurement officers have been asked to complete all training by fall 2017. The SPMMD will continue to ensure prompt completion of required training going forward.</p> <p>The SPMMD will enforce its existing process for handling after the fact contracting. This includes providing procurement officers with process information and sending documentary requirement reminders to stakeholders.</p>	September 2018

Recommendation 4: *The VP of the Comptrollership Branch should revise processes to ensure compliance with policy requirements for proactive disclosure for all applicable contract types and identify and correct any additional instances of non-compliance for proactive disclosure.*

MANAGEMENT RESPONSE	COMPLETION DATE
<p>The Vice-President of the Comptrollership Branch agrees with this recommendation and has already started to address this finding. As SPMMD management became aware of the shortcomings on the disclosure of some contractual activity during the course of the audit, it immediately took remedial action and disclosed the contracts from the audit sample that hadn't been disclosed. Disclosure is now compliant with policy</p>	December 2017



requirements and the practice moving forward has been adapted to ensure no more omissions occur.



APPENDIX A – ABOUT THE AUDIT

AUDIT OBJECTIVES

The objective of the audit was to provide assurance that an adequate and effective management control framework is in place to ensure that procurement operations are undertaken in compliance with contracting policies and directives, including the Treasury Board's principle-based contracting policy framework.

AUDIT SCOPE

The scope of the audit focused on the management control framework in place for the contracting and procurement process as well as compliance with policies and procedures across the Agency. The audit included the acquisition of goods and services for all contracts within the CBSA's delegation of authority that were issued from April 2014 to December 2016.

The audit excluded the following:

1. Acquisition Card Program: The Internal Audit Directorate conducted an audit of acquisition cards which was presented at the October 2017 Departmental Audit Committee meeting.
2. Compliance with the TB bidding process and the updates of the CBSA policy suite and guidance were excluded as these areas were addressed in the procurement practice review conducted by the Office of the Procurement Ombudsman completed in October 2016. A CBSA management response has been developed.
3. All CBSA contracts awarded by Public Services and Procurement Canada (PSPC). These contracts fall under the responsibility of both departments and any audit would have required a mutual agreement on the audit program between the CBSA and PSPC.
4. All agreements between the CBSA, Canada Revenue Agency (CRA) and Shared Services Canada (SSC). These contracts fall under the responsibility of multiple departments, and any audit would have required a mutual agreement on the audit program between the CBSA and CRA or SSC.

RISK ASSESSMENT

A preliminary risk assessment was conducted during the audit planning phase to identify potential areas of risk as well as audit priorities. Risk assessment activities included interviews with stakeholders from the C&P Program, reviews of relevant documentation and preliminary analysis of available C&P data. As a result of this assessment, the following key risks were identified:

Governance and Accountability



- Oversight committees may not be designed effectively to oversee the C&P program.
- Roles, responsibilities, and accountabilities may not be established and understood to support the delivery of C&P activities across the Agency.

Risk Management

- Key challenges and risk factors relevant to the department's C&P function may not be identified, measured, mitigated and monitored.

Compliance with Central Agency Requirements and CBSA Processes

- C&P delegated financial authorities may not be exercised properly in accordance with the TB requirements.
- C&P information may not be disclosed under proactive disclosures as required.
- Decisions and actions taken related to C&P files may not be adequately documented.

Monitoring and Reporting

- C&P activities may not be subject to risk-based monitoring including corrective action if required.
- C&P performance measures and indicators may not be established.
- C&P reporting may not be accurate, complete, and/or timely.

APPROACH AND METHODOLOGY

The audit was conducted in accordance with the *Internal Auditing Standards for the Government of Canada* and the *Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing*.

The following methodologies and techniques were used during the examination phase of this audit:

- Review of applicable legislation, policies, directives, procedures and other documents governing the CBSA procurement and contracting.
- Interviews with various stakeholders on their roles and responsibilities, oversight and monitoring functions in relation to procurement and contracting.
- Review and analysis of procurement and contracting data, files and reports.

AUDIT CRITERIA

The audit criteria are aligned with TB's legislative and policy framework for procurement, the Government's Management Accountability Framework (MAF), the framework of Core Management Controls and Audit Criteria (CMC) established by the Office of the Comptroller General and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Principles of Effective Internal Control.



Given the preliminary findings from the planning phase, the following audit criteria and scope were selected:

LINES OF ENQUIRY	AUDIT CRITERIA
1. Governance and Accountability	1.1. Oversight committees are designed to effectively oversee the C&P program.
	1.2. Roles, responsibilities, and accountabilities are established ²² to support the delivery of C&P activities across the Agency (HQ and the regions).
	1.3. Employees are provided with the necessary training, guidance and tools to execute their procurement responsibilities.
2. Risk Management	2.1. Management has established a risk-based approach and process to manage the C&P activity that identifies, measures, mitigates and monitors key challenges and risks, including the risk of fraud.
3. Compliance with Policies and Procedures (Limited scope²³)	3.1 Contracts are awarded and administered in compliance with CBSA processes and TB policy requirements, including FAA Sec.32, 33, 34 and proactive disclosure.
	3.2 C&P files are adequately documented in accordance with legislation and policies, and demonstrate decisions made and actions taken.
4. Monitoring and Reporting	4.1 C&P activities are subject to risk-based monitoring including corrective action if required.
	4.2 C&P performance measures and indicators are established and used for decision making.
	4.3 C&P information is reported internally and externally as required.

²² Roles, responsibilities, and accountabilities are established i.e. defined, documented, and communicated.

²³ Bidding process was excluded as it was covered by Procurement Ombudsman



APPENDIX B – LIST OF ACRONYMS

ATF	After the fact contract
C&P	Contracting and Procurement
CAS	Corporate Administrative System
CBSA	Canada Border Services Agency
CFA	Competent Financial Authority
CMC	Core Management Controls
COSO	Committee of Sponsoring Organizations
CRA	Canada Revenue Agency
CRC	Contract Review Committee
CSPS	Canada School of Public Service
DFSA	Delegated Financial Signing Authority
FAA	<i>Financial Administration Act</i>
HQ	Headquarters
MAF	Management Accountability Framework
NFTC	National Financial Transaction Centre
P2P	Procure to Pay Initiative
PG	Purchasing and Supply (classification)
PSPC	Public Services and Procurement Canada
QA	Quality Assurance
ROD	Record of Decision
SSC	Shared Services Canada
SPMMD	Strategic Procurement and Materiel Management Division
TBS	Treasury Board Secretariat
TOR	Terms of Reference
VP	Vice-President
WMT	Workload Management Tool



APPENDIX C – CBSA's Delegated Financial Signing Authority

ACCOUNTABILITY LEVEL	GENERIC POSITION	AREA OF AUTHORITY	LIMIT																
			Acquisition Cards	Goods	Services (NC) (E)	Services (NC) (AM)	Services – Traditional Competitive (E)	Services – Traditional Competitive (AM)	Services – Electronic Tendering (E)	Services – Electronic Tendering (AM)	Services – Former Public Servant (C)	Services – Former Public Servant (NC)	Goods and Services (PSPC Purchasing Tools)	Construction Services (C) (E)	Construction Services (C) (AM)	Construction Services (NC) (E & AM)	Printing – Electronic Tendering	Printing (NC)	Emergency Contracting
OPERATIONAL AUTHORITIES																			
IA	President	A	F	25k	100k	50k	400k	200k	2M	1M	100k	25k	F	400k	200k	40k	400k	40k	1M
IB	Executive Vice President	A	F	25k	100k	50k	400k	200k	2M	1M	100k	25k	F	400k	200k	40k	400k	40k	1M
FUNCTIONAL AUTHORITIES																			
II	Vice President, Comptrollership	A	F	25k	100k	50k	400k	200k	2M	1M	100k	25k	F	400k	200k	40k	400k	40k	1M
III	Agency Comptroller	A	F	25k	100k	50k	400k	200k	2M	1M	100k	25k	F	400k	200k	40k	400k	40k	1M
III	Regional Director General	R	9.9k	25k	25k	12.5k	NAFTA	37.5k	NAFTA	37.5k	NAFTA	25k	NAFTA	-	-	-	-	-	1M
IV	Director, Corporate and Program Services (Regions)	R	9.9k	25k	25k	12.5k	NAFTA	37.5k	NAFTA	37.5k	NAFTA	25k	NAFTA	-	-	-	-	-	-
V	Manager, Materiel Management (Regions)	R	9.9k	25k	25k	12.5k	NAFTA	37.5k	NAFTA	37.5k	NAFTA	25k	NAFTA	-	-	-	-	-	-
IV	Director, Strategic Procurement and Contracting Operations	A	F	25k	100k	50k	400k	200k	2M	1M	100k	25k	F	400k	200k	40k	400k	40k	1M
V	Manager, Strategic Procurement and Contracting Operations	A	-	25k	25k	12.5k	200k	100k	1M	500k	100k	25k	1M	200k	100k	40k	400k	40k	500k
VI	Procurement team lead (PG-5)	A	-	25k	25k	12.5k	100k	50k	750k	375k	-	-	750k	-	-	-	400k	40k	-
VII	Senior Procurement Officer (PG-4)	A	-	25k	25k	12.5k	75k	37.5k	500k	250k	-	-	500k	-	-	-	200k	40k	-
VIII	Procurement Officer (PG-3)	A	-	25k	25k	12.5k	50k	25k	250k	125k	-	-	250k	-	-	-	NAFTA	25k	-
IX	Procurement Officer (PG-2)	A	9.9k	25k	25k	12.5k	25k	12.5k	50k	25k	-	-	50k	-	-	-	50k	15k	-
X	Procurement Officer (PG-1)	A	9.9k	10k	10k	5k	10k	5k	15k	7.5k	-	-	15k	-	-	-	15k	10k	-
LEGEND																			
A = Agency / R = Regions / C = Competitive / NC = Non Competitive / E = Entry / AM = Amended																			



Notes on the Delegated Financial Signing Authority (DFSA) Matrix:

- The full DFSA Matrix and supporting notes are available on the CBSA Intranet site - Atlas: http://atlas/cb-dgc/pol/fv-vf/signing-signer/dfsa_dpsf_eng.asp.
- The dollar values have been abbreviated: k = thousands of dollars, M = millions of dollars.
- The amounts delegated represent the cumulative amounts of all amendments to the original contract including all applicable taxes (GST or HST).
- NAFTA = Full authority has been delegated subject to policy restrictions and the availability of funds in the relevant budget and subject to the threshold limitations provided in the North American Free Trade Agreement.
- All authorities have been delegated in accordance with the applicable policies and within the available funds of the relevant budget. F = Full authority has been delegated in accordance with the applicable policies and within the available funds of the relevant budget.