



Correctional Service
Canada

Service correctionnel
Canada



SAFETY, RESPECT
AND DIGNITY
FOR ALL

LA SÉCURITÉ,
LA DIGNITÉ
ET LE RESPECT
POUR TOUS

Audit of Contracting and Procurement Processes

Internal Audit Sector

378-1-288

January 13, 2014

Canada

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Executive Summary

Background

The Audit of Contracting and Procurement Processes was included in the 2012-2015 Risk-Based Audit Plan and was conducted in concert with *The Audit of Low Value Contracts*. The audits were conducted separately in order to address the different risks and processes associated with low value contracts and contracts over \$25,000. Both audits link to: Correctional Service Canada's (CSC) priority of "efficient and effective management practices that reflect values-based leadership"; CSC Values Statement which includes fairness and accountability; and, the *Values and Ethics Code for the Public Sector*.

Contracting for goods and services represents a significant expenditure for CSC. The organization purchases a wide range of goods and services to secure its offender population and to deliver services in specific fields such as health care, education and informatics. In 2011¹, CSC entered into 116,997 contracts totaling \$508,128,000². Of this total, 624 contracts were valued at over \$25,000 for a total expenditure of \$235,174,000. These latter numbers represent less than 1% of all CSC contracts awarded but 46% of CSC's spending dollars in contracts. The number of contracts valued below \$25,000 totaled 116,373 for a total expenditure of \$272,953,000. This represents more than 99% of all CSC contracts awarded and 54% of CSC's contract spending.

The audit objectives were to:

- assess the extent to which a framework is in place, meets departmental and Treasury Board requirements, and is functioning as intended; and
- provide assurance that contracts over \$25,000 are processed in compliance with relevant Government of Canada legislation, policies and guidelines.

The audit was national in scope covering the five regions and National Headquarters (NHQ), and included goods and service contracts for CSC including CORCAN³, originating over \$25,000, during the period of April 1, 2011 to December 31, 2012.

¹ January – December 2011

² Data obtained from TB Purchasing Activity Report 2011

³ CORCAN is a Special Operating Agency (SOA) within CSC, which allows it to operate in a business-like manner while respecting government policies and regulations. CORCAN is a key rehabilitation program of CSC and it contributes to safe communities by providing offenders with employment and employability skills training while incarcerated in federal penitentiaries, and for brief periods of time, after they are released into the community.



Conclusion

Overall, the results of the audit confirmed improvement from the 2007 CSC internal audit, the *Audit of Contracting for Goods and Services*.

For the first objective, the audit found that: CSC directives, guides and manuals were consistent with government policies relating to contracting and procurement; roles and responsibilities were defined and clear; mandatory training was offered and taken; and external monitoring and reporting requirements were being met.

Nonetheless, there were areas within the management framework that require attention:

- a regular, established communication forum between Contracting and Materiel Services (CMS) managers at NHQ and the Regions needed strengthening; and
- existing monitoring and reporting exercises were inefficient.

With regard to the second objective, the audit results demonstrated that contracts were processed as per relevant legislation, central agency policies and CSC directives. Contract files over \$25,000 generally contained required documentation, Contract Review Boards (CRB) reviewed and approved applicable contracts, and contracts were proactively disclosed as required.

Nevertheless, the following shortcomings were identified:

- contract files lacked a consistent audit trail to support contract administration, including the timely signing of contracts and CRB decision-making information across regions; and
- a standardized documented process for the certification and verification of contract invoices, as required by section 33 of the *Financial Administration Act* (FAA), had not been fully implemented.

Recommendations have been issued in the report to address these areas for improvement.

Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by March 31, 2014.



**Correctional Service of Canada
Internal Audit Sector**

**AUDIT OF CONTRACTING
AND PROCUREMENT
PROCESSES
378-1-288**

Statement of Conformance

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is 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 opinion is applicable only to the area examined.

The audit conforms to the Internal Auditing Standards for Government of Canada, as supported by the results of the quality assurance and improvement program. The evidence gathered was sufficient to provide senior management with proof of the opinion derived from the internal audit.

Date: _____

Sylvie Soucy, CIA

Chief Audit Executive



1.0 Introduction

1.1 Background

The *Audit of Contracting and Procurement Processes* was conducted as part of Correctional Service Canada's (CSC) 2012-2015 Risk-Based Audit Plan, and links to: CSC's priority of "efficient and effective management practices that reflect values-based leadership"; CSC Values Statement which includes fairness and accountability; and, the *Values and Ethics Code for the Public Sector*.

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

This audit was conducted in concert with the *Audit of Low Value Contracts* that provides additional assurance that practices are in place to support the effective and compliant use of low dollar contracts, less than \$25,000. The audits were conducted separately in order to address the different risks and processes associated between low value contracts and those over \$25,000. Both audits build on the 2007 CSC internal audit, the *Audit of Contracting for Goods and Services*.

1.2 Legislative and Policy Framework

The *Financial Administration Act* (FAA), states that the Government of Canada is committed to taking appropriate measures to promote fairness, openness and transparency in the bidding process for contracts with Her Majesty for the performance of work, the supply of goods or the rendering of services⁴.

Treasury Board's (TB) *Contracting Policy (the Policy)* outlines the objective of government procurement contracting which is "to acquire goods and services and to 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"⁵.

The Policy also states that "government contracting shall be conducted in a manner that will:

- a. stand the test of public scrutiny;
- b. ensure the pre-eminence of operational requirements;

⁴ FAA Section 40.1

⁵ TB Contracting Policy p 1



- c. support long-term industrial and regional development and other national objectives; and
- d. comply with the government's obligations under the *North American Free Trade Agreement*, the *World Trade Organization – Agreement on Government Procurement* and the *Agreement on Internal Trade*⁶.

Additional legislative and policy requirements are as follows:

- *Government Contracts Regulations*; and
- *TB Guidelines on the Proactive Disclosure of Contracts*.

At CSC, further internal guidance is provided in the following documents:

- Financial Directive (FD) 350-3, on Contracting;
- CSC National Standards, Procurement Delegation Instrument; and
- Commissioner's Directive⁷ (CD) 350, Materiel and Supply Management Services.

1.3 Contracting and Procurement at CSC

As defined by *the Policy*, a contract 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”⁸.

Contracting and procurement activities are significant, both in quantity and dollar value at CSC. The organization purchases a wide range of goods and services to fulfill its mandate which includes securing its offender population and delivering services in specific fields such as health care, education and informatics. In 2011⁹, CSC entered into 116,997 contracts, totaling \$508,128,000. Of this total, 624 contracts were valued over \$25,000 for a total expenditure of \$235,174,000. This represents less than 1% of all CSC contracts awarded and 46% of CSC's spending for contracts. Table 1 provides further detail.

⁶ TB Contracting Policy sec 2

⁷ Commissioner's Directives (CDs) and Financial Directives (FDs) provide direction on areas prescribed by the CCRA/CCRR and on fundamental areas of corrections that require consistent application.

⁸ TB Contracting Policy – Appendix A

⁹ 2011 Refers to calendar year (Jan-Dec)



Table 1 illustrates CSC's purchasing activity for the calendar years 2008 to 2011.¹⁰

| Table 1 – CSC Purchasing Activity Reports 2008-2011 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|-------------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|
| | | # of Contracts | \$ (000's) | # of Contracts | \$ (000's) | # of Contracts | \$ (000's) | # of Contracts | \$ (000's) |
| Contracts Awarded <\$25K | | 77,660 | \$98,600 | 82,474 | \$115,613 | 78,971 | \$107,694 | 116,373 | 272,953 |
| Contracts Awarded >\$25K | | | | | | | | | |
| Competitive | Traditional Competitive | 263 | \$19,797 | 242 | 19,596 | 207 | 20,998 | 185 | 22,303 |
| | Electronic Bidding | 429 | \$84,445 | 333 | \$129,533 | 282 | \$136,834 | 199 | 108,023 |
| | ACAN | 115 | \$36,105 | 185 | \$47,035 | 231 | \$117,351 | 120 | 60,935 |
| | sub total | 807 | \$140,347 | 760 | \$196,164 | 720 | \$275,183 | 504 | 191,261 |
| | Amendments | | \$108,589 | | 199,843 | | 110,063 | | 26,127 |
| | sub total | | \$248,936 | | \$396,007 | | \$385,246 | | 217,388 |
| Traditional Non-Competitive | | 88 | 7,459 | 72 | 7,659 | 74 | 8,111 | 120 | 15,648 |
| | Amendments | | 8,091 | | 13,856 | | 6,844 | | 2,138 |
| | subtotal | | 15,550 | | 21,515 | | 14,955 | | 17,786 |
| Total Awarded > \$25K | | 895 | \$264,486 | 832 | \$417,522 | 794 | \$400,201 | 624 | 235,174 |
| Total Contracts Awarded | | 78,555 | \$363,086 | 83,306 | \$533,135 | 79,765 | \$507,895 | 116,997 | \$508,128 |

CSC utilizes various methods for contracting and procuring goods and services to ensure that best value and open access are achieved and are defined in FD 350-3.

Competitive methods include:

- traditional competitive – a process used for the solicitation of bids that enhances access, competition and fairness and assures a reasonable and representative number of suppliers is given an opportunity to bid;
- electronic bidding – public notice of procurement opportunities using the Government Electronic Tendering Service (GETS); and
- advance Contract Award Notice (ACAN) – the public posting of a goods, service or construction contract to a pre-identified contractor.

¹⁰ Source: TB Purchasing Report publication – 2011 numbers are the most recent available, published July 17, 2013.



A Non-competitive method is: any contract for which bids were not solicited or, if bids were solicited, the conditions of a competitive contract were not met. Section 6 of the *Government Contracts Regulations* contains four exceptions that permit the contracting authority to set aside the requirement to solicit bids:

- the need is one of pressing emergency in which delay would be injurious to the public interest;
- the estimated expenditure does not exceed \$25,000;
- the nature of the work is such that it would not be in the public interest to solicit bids; or
- only one person is capable of performing the contract.

CSC also uses Standing Offers to procure a wide range of goods, such as food and pharmaceuticals, and services such as couriers and temporary help. Standing Offers are arranged by Public Works and Government Services Canada (PWGSC), to provide departments with a more efficient means of procuring goods and services at prearranged prices with set terms and conditions, for set periods of time. Presently there are five types of standing offers:

- National Master Standing Offer (All departments across Canada);
- Regional Master Standing Offer (All departments for a specific region);
- National Individual Standing Offer (One department across Canada);
- Regional Individual Standing offer (One department for a specific region); and
- Departmental Individual Standing offer (One department – PWGSC, not the department, has the authority to enter into a contract).

1.4 Organizational Structure

Contracting and procurement activities are decentralized at CSC. There is a Contracting and Materiel Services (CMS) group and a Contract Review Board (CRB) located in each region, including National Headquarters (NHQ). While NHQ provides functional guidance for the organization, the regional CMS groups report to their respective regions.

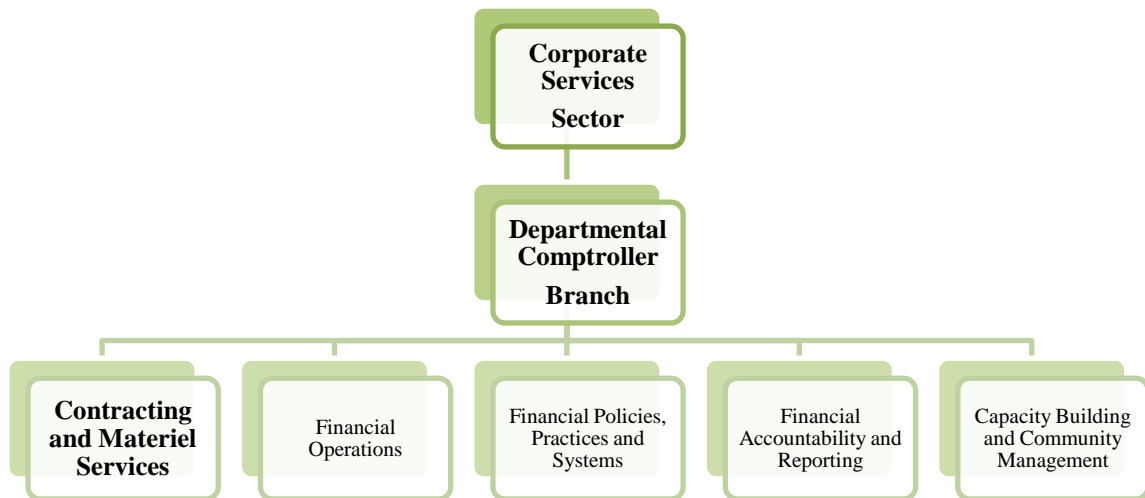
National Headquarters (NHQ)

The Departmental Comptroller's Branch is responsible for the planning, development, implementation, administration, integration and monitoring of contracting and procurement activities at CSC. NHQ CMS ensures:

- policies generated by central agencies are explained and communicated to the regions;
- CSC and central agency reporting requirements are met; and
- ongoing application of contract monitoring measures and initiatives to enhance probity and use of good contracting practices.



The chart below sets out the reporting structure at CSC:



Regional Headquarters (RHQ)

Regional Managers or Chiefs of CMS report to the Regional Comptrollers who in turn report to the Assistant Deputy Commissioners, Corporate Services in the regions. RHQ CMS ensures:

- policies generated by central agencies are implemented;
- adherence to CSC practices; and
- ongoing application of contract monitoring measures and initiatives to enhance probity and use of good contracting practices.

Manager/Project Authority - Institution and Sector Levels

Budget managers and contract project authorities in all institutions and sectors are responsible for ensuring adherence to CSC practices and *the Policy* for all contracts within their delegated authority. They are able to contact CMS for advice and support; however, it is their individual responsibility to ensure that:

- contract requirements are clearly defined;
- criteria for selection, supplier proposals and final evaluation results are documented; and
- completed work is evaluated.



Contract Review Boards

The Policy states that “contracting authorities should establish and maintain a formal challenge mechanism for all contractual proposals, including those within departmental authority, those sent to the Department of Public Works and Government Services Canada, and those submitted to the Treasury Board”¹¹.

CSC has established CRBs at the regional and local levels that meet on a weekly or bi-weekly basis as required. The regional CRB for the NHQ region also serves as the National CRB for contracts with issues of national importance, such as contracts with former public servants. The CRBs are responsible for reviewing and approving submissions within their respective authorities, which includes goods and services contracts over \$10,000, to ensure adherence to contracting legislation and contracts achieve the best value for money. Contracts that are less than \$10,000 are not required to go to a CRB unless certain conditions apply, such as a service contract with a former public servant. More details on the CRB mandate are available on CSC’s [website](#).

¹¹ TB Policy sec 11.1.1



2.0 Audit Objectives and Scope

2.1 Audit Objectives

The audit objectives were to:

- assess the extent to which a framework is in place, meets departmental and Treasury Board requirements, and is functioning as intended; and
- provide assurance that contracts over \$25,000 are processed in compliance with relevant Government of Canada legislation, policies and guidelines.

Specific criteria related to each of the objectives are included in *Annex A*.

2.2 Audit Scope

The audit was national in scope covering the five regions and NHQ, and included goods and services contracts and construction contracts for CSC including CORCAN, originating over \$25,000¹², during the period of April 1, 2011, to December 31, 2012. Contracts managed by PWGSC were not examined as part of this audit, and this would include high value construction contracts.

Risk Identification and Assessment

A risk assessment was completed based on interviews with the Office of Primary Interest (OPI), members of the CMS Branch at NHQ and a review of policies, past audit work, previous fraud risk assessment work, and other documentation related to contracting and procurement. Overall, the assessment identified that the main risks to CSC relate to the impact that incidents of perceived and actual non-compliance with legislation and policy would have on the organization.

¹² Contracts that originated under \$25,000 which exceeded this threshold after amendments were scoped into the Audit of Low Value Contracts.



3.0 Audit Approach and Methodology

Audit methodology built on the 2007 CSC internal audit, the *Audit of Contracting for Goods and Services*. Audit evidence was gathered through the following methods.

Interviews: Interviews were conducted with, and internal questionnaires were completed by 26 CSC employees, including CMS staff, senior management at NHQ and RHQ, and with staff involved in the management and administration of contracts in the regions and at selected institutions and sites across Canada.

Review of documentation: Relevant documentation, such as legislation, FDs, CDs, corporate documents, process maps, and reports were reviewed.

Testing: File examination was performed to provide assurance that contracts were processed according to legislation, policies, and CSC procedures, and included proper form completion, adherence to time frames, receipt of goods, and approval by appropriate delegated authorities.

Sample Selection

A directed judgment sample of 50 files was selected from all six regions, including CORCAN, for contracts initially valued at over \$25,000 for the period from April 1, 2011 to December 31, 2012. The following categories were used to identify the sample:

- greater than \$25K but less than \$1M;
- \$1M and greater; and
- CORCAN, greater than \$25K.

Files were selected based on a risk assessment that included the following criteria: repeat vendor, award method and dollar value. File examination was conducted at NHQ.

| Contract Amount | # of Contracts | Total Value |
|------------------------------|----------------|--------------|
| CORCAN greater than \$25,000 | 6 | \$528,203 |
| \$25,000 - \$999,999.99 | 37 | \$9,161,497 |
| \$1M and above | 7 | \$9,674,718 |
| Total | 50 | \$19,364,418 |

Total file population used to select the audit sample.¹³

| Contract Amount | # of Contracts | Total Value |
|------------------------------|----------------|---------------|
| CORCAN greater than \$25,000 | 267 | \$98,715,936 |
| \$25,000 - \$999,999.99 | 1881 | \$241,691,893 |
| \$1M and above | 94 | \$142,231,353 |
| Total | 2242 | \$482,639,182 |

¹³ IFFMS (Integrated Financial and Material Management System) reports dated January 2013



4.0 Audit Findings and Recommendations

4.1 Management Framework for Contracting and Procurement Activities

The first objective of this audit was to provide assurance that practices were in place to support CSC's contracting and procurement activities. To achieve this, the audit team assessed the management framework for contracting from four perspectives: policy framework; roles and responsibilities; communication and training; and monitoring and reporting.

4.1.1 Policy Framework

We expected to find that CDs and FDs were consistent with legislation and TB policy.

CSC CDs and FDs were consistent with relevant legislation and TB policy.

The audit examined FD 350-3 and other corporate guidance documents, such as *CSC National Standards Procurement Delegation Instrument*, and found them to be compliant with legislation and TB policy. The 2007 CSC *Internal Audit of Contracting for Goods and Services* reported that CSC's contracting directives needed to be better integrated and updated. In March 2012, CSC approved *FD 350-3 Contracting*, thereby fully implementing the 2007 audit recommendation.

Further, all 26 questionnaire respondents, (which included budget managers, project authorities, procurement specialists and members of CRBs), stated that policies were clear.

4.1.2 Roles and Responsibilities

We expected to find that CSC's organizational structure and roles and responsibilities were defined and documented.

Roles and responsibilities were defined and documented.

Roles and responsibilities are clearly defined in FD 350-3. Terms of reference exist for all CRBs and all 26 questionnaire respondents said that they understood their roles and responsibilities.

All regions have procurement specialists (PGs) in place who report to the regional chief/manager of CMS. Responsibilities are comparable, but workload is allocated differently, either by institution or sector, such as health services, or contract type, such as construction.

There were other inconsistencies noted, as some regions have a PG resource within the community who reports to the Assistant District Director, Management Services and not to the regional CMS groups. Other regions have coordinators at institutions who report to their



respective management teams. In addition, there are numerous staff supporting the administration of contracts across the organization who do not report to CMS.

With multiple lines of reporting, there is an increased risk for instances of inconsistent and non-compliant contracting and procurement practices. To mitigate the risks associated with a decentralized operating environment, robust training and communication are necessary. This is discussed below. While the audit team found no issues with compliance in contracts above \$25,000, it was reported as an area of concern in the *Audit of Low Value Contracts*.

4.1.3 Communication and Training

We expected to find that communication and training for contracting was available and provided where required.

Communication occurs between NHQ and the Regions; however, the form and frequency of communication between CMS groups at NHQ and RHQs require attention.

Joint Regional Comptroller videoconference meetings occur biweekly, providing a regular forum to discuss contracting. NHQ CMS communicates changes in policies and procedures via bulletins and internal emails called GEN-COMs to regional CMS groups, and in turn are communicated to the local level via regional bulletins or regional intranet sites. While one-way communication was reported as occurring between NHQ CMS and the regional CMS groups, internal questionnaire results indicated that five of the six regions believed that communication required improvement.

During the audit timeframe, no established meetings occurred between Regional CMS Chiefs/Managers and the Director, CMS at NHQ. Until December 2011, Regional CMS Chiefs and Managers held bi-annual meetings to allow managers from all regions to meet in person to discuss issues and ideas regarding procurement and materiel management. Without opportunities for discussion between those who are responsible for ensuring adherence to CSC directives and TB policies, there is a risk that practices may not be consistently applied across the organization's decentralized operating environment. In addition, there is a missed opportunity for the sharing of issues and best practices, and consultation between the regions and NHQ.

Mandatory training was available at the national and regional levels for budget managers and contracting staff.

CSC's mandatory training, referred to as the National Training Standards, includes the Canada School of Public Service (CSPS) mandatory training for PGs and budget managers' delegation of authority. All budget managers, CMS regional managers and PGs reported they had taken the



required training. The audit team tested this data, which is tracked by NHQ and is recorded in the Human Resources Management System¹⁴ (HRMS) and no issues were found.

4.1.4 Monitoring & Reporting

We expected to find that monitoring practices and systems were in place to ensure compliance with contracting policies and practices, and that monitoring results were reported and corrective action taken.

CSC met its external reporting requirements; however, the current processes were inefficient.

CSC monitors contracts over \$10,000 on a monthly basis in each region and NHQ, to support its requirement to proactively disclose all contracts and amendments over \$10,000. Proactive disclosure is discussed further in section 4.2.7.

Regional CMS staff obtains data on contracts over \$10,000 from all community and institutional sites, and consolidates it into a Buyers Report for NHQ. NHQ reviews all reports and if errors or questionable entries are discovered, the regions are contacted for clarification and to have the error rectified if required, prior to posting on the organization's external website. NHQ CMS also reports on any contracts to be posted on the GETS on a weekly basis.

CSC is also required to report purchasing activities to Treasury Board on an annual basis. This "Datacap"¹⁵ reporting exercise is performed at the end of the fiscal year, and was reported to be very time consuming by staff responsible for its production. Two regions stated that reporting was a full-time job for one staff member; another region reported that it takes two staff six weeks to fulfill the year-end Datacap reporting requirement.

The information compiled for the monthly Buyer's Reports is similar to that required for the end of year Datacap reporting exercise, resulting in an inefficient use of procurement resources, as data is captured twice for these separate processes. As TB had finalized the new reporting requirements for the Datacap, the audit team was informed that a reconciliation of these processes is on-going, and will alleviate the pressure of year-end reporting.

Conclusion

The audit found that a management framework was in place and was compliant with TB policy. CSC directives, guides and manuals were consistent with government policy relating to contracting and procurement; roles and responsibilities were defined and clear; training was offered and taken; and external monitoring and reporting requirements were met.

¹⁴ The Government of Canada Human Resources Management System (GC HRMS) is a government Shared Human Resources Information and Management System endorsed by the Treasury Board Secretariat (TBS) under the Shared System Initiative

¹⁵ Datacap is the name of this report, as determined by TB.



Nonetheless, there were areas within the management framework that require attention:

- a regular, established communication forum between CMS managers at NHQ and the Regions needed strengthening; and
- existing monitoring and reporting exercises were inefficient.

Recommendation 1¹⁶

The Assistant Commissioner, Corporate Services should re-establish regular communications between NHQ CMS and Regional CMS to support the application of policies, enhance opportunities for problem solving and information sharing, and ensure the consistent application of good contracting practices across CSC.

Management Response

We agree with this recommendation. By April 2014, the ACCS will:

- further its communications with the Regional Managers of CMS on a monthly basis via teleconference to address ongoing regional issues which require national input.

Recommendation 2¹⁷

The Assistant Commissioner, Corporate Services should implement the consolidation of current monitoring and reporting mechanisms to increase the efficiency in the reporting of contracting activities at CSC.

Management Response

We agree with this recommendation. By April 2014, the ACCS will:

- continue to work with Financial Systems to integrate the two current reports of DataCap and Proactive Disclosure into one monthly streamlined report.

¹⁶ Recommendation requires management's attention, oversight and monitoring.

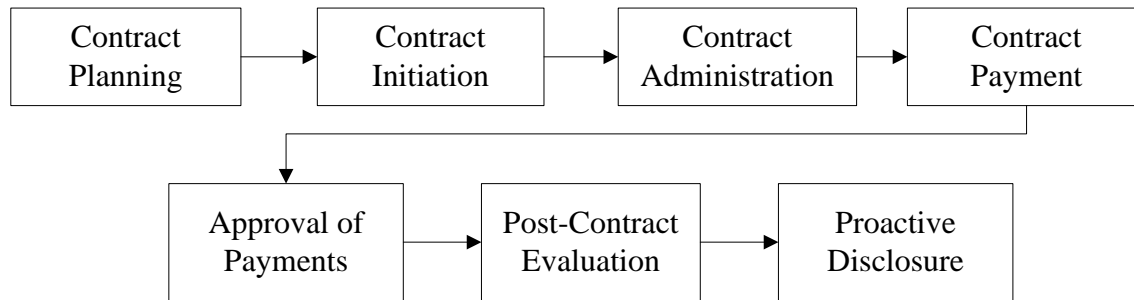
¹⁷ Recommendation requires management's attention, oversight and monitoring.



4.2 Compliance with Legislation, Policies and Guidelines

The second objective of this audit was to provide assurance that contracts greater than \$25,000 were processed in compliance with Government of Canada legislation, policies and guidelines.

CSC contracting and procurement follows a standard seven phase process, as per *the Policy*:



Fifty files were examined to determine if those contracts were processed in compliance with *the Policy* and CSC directives in each of the above areas.

4.2.1 Contract Planning

We expected to find that contract requirements were determined and appropriate contract methods were selected.

Contract requirements were identified and appropriate contracting methods were selected; no evidence of contract-splitting was detected.

Corporately, CSC produces an annual National Procurement Plan to provide industry and the public information regarding anticipated CSC contracting activities for the upcoming fiscal year, including a list of planned major procurement requirements. Input is requested from all regions, the plan is approved by the Commissioner, and it is posted on CSC's external website.

At the individual contract level, a first step in the contracting process as prescribed by FD 350-3 requires that CSC Form 286 "Request for Contract/Amendment/Extension" be completed for all service contracts going to the CRB. Of the 50 files reviewed, all had the completed form on file and contained information such as the justification for contract; security requirements; and certification that an employer/employee relationship will not develop.

The audit team examined a number of contracts, as CSC uses many different contracting methods to acquire goods and services. The appropriate method for contracting is determined by weighing the contract requirements against the available methods, while adhering to policies and regulations. As part of this examination, the audit team also looked for indications of contract-splitting. The audit team determined that appropriate methods were selected for all contracts examined, and no evidence of contract-splitting was detected. One method called the Advance



Contract Award Notifications (ACANs) was examined closely, as the audit team noted a steady increase in the number of ACAN contracts issued at CSC from 115 in 2008 to 231 in 2010 (see Table 2). ACANs allow an organization to post a notice, for no less than fifteen calendar days, indicating to the supplier community that it intends to award a good, service or construction contract to a pre-identified contractor¹⁸. If no other supplier submits a statement of capabilities that meet the requirements set out in the ACAN during the posting period, the competitive requirements of the government's contracting policy have been met. If a potential supplier can demonstrate that their capabilities meet the requirements set out in the ACAN, the organization must proceed to a full tendering process in order to award the contract¹⁹. Of the 50 files examined, 15 were ACANs and all files contained justification to support the use of the ACAN process, although justification varied in length from one or two sentences in some files, to a full page justification in others.

In 2011, the number of ACANs dropped significantly, to be more in line with ACAN use across government. The audit team also noted a 10% increase in the number of non-competitive contracts issued at CSC, rising from 74/794 (9.3%) contracts in 2010 to 120/624 (19.2%) contracts in 2011. While CSC's numbers are comparable with the government average of 20.5%, attention should be paid to ensure competitive processes are used as much as possible to enhance access, competition and fairness.

| Table 2 2008 - 2011 Purchasing Activity Reports - ACAN Comparison | | | | | | | | | | | | |
|--|-------------------|---------------|-----------|-------------------|---------------|-----------|-------------------|----------------|-----------|-------------------|---------------|-----------|
| Department | ACANs 2008 | | | ACANs 2009 | | | ACANs 2010 | | | ACANs 2011 | | |
| | # | \$ 000 | % | # | \$ 000 | % | # | \$ 000 | % | # | \$ 000 | % |
| CSC | 115 | 36,105 | 13 | 185 | 47,035 | 22 | 231 | 117,351 | 29 | 120 | 60,935 | 19 |
| Fisheries and Oceans | 178 | 37,034 | 15 | 177 | 37,038 | 13 | 70 | 19,106 | 7 | 55 | 18,049 | 2 |
| National Defence | 278 | 347,807 | 5 | 211 | 1,272,314 | 4 | 127 | 103,015 | 3 | 105 | 64,592 | 1 |
| National Research Council | 89 | 33,884 | 18 | 89 | 33,884 | 18 | 58 | 9,574 | 14 | 39 | 7630 | 8 |
| Public Works and Government Services Canada | 25 | 167,459 | 1 | 27 | 198,237 | 1 | 34 | 94,809 | 1 | 15 | 7,542 | 1 |

¹⁸ TB policy 10.7.13

¹⁹ ibid



4.2.2 Contract Initiation

We expected to find that contracts were reviewed and approved as required, and that appropriate FAA section 32 approvals were in place.

Section 32 approvals were in place prior to expenditure.

Appropriate pre-approvals were in place for all files reviewed, and funds were committed by creating a requisition or purchase order in iProcurement,²⁰ or a commitment in the Integrated Financial and Material Management System (IFMMS).

All contracts were reviewed and approved by the CRB as required; however, detailed decision-making information was not consistently on file.

As reported in section 1.4, CSC has established CRBs in each region and at NHQ. The NHQ CRB also serves as the National Contract Review Board which is responsible for reviewing issues that are national in scope, such as contracts with former public servants.

CRB minutes and decision logs were reviewed for the selected files for justification of all requests, and for proof of the CRB approval decision. All contracts were CRB approved, and decision logs/records of decision were on file; however, it was not clear to the auditors what documentation was provided to the CRB for their decision making, nor was a detailed record of the decision-making process on file.

While decision-making information was recorded electronically and maintained on shared drives accessible to all staff, some regions save all information on the shared drive, including legal reviews, email correspondence, and a signed copy of the CSC Form 286, whereas other regions save select information, such as signed records of decision. It was reported to the audit team that NHQ is currently taking steps to unify the information that is to be kept electronically.

Full implementation of this process will help CSC identify key documents and increase the consistency of information. This will mitigate the risk that a lack of proper documentation could jeopardize the organization's ability to demonstrate the high level of oversight being performed by the CRBs to the public and external oversight agencies.

4.2.3 Contract Administration

We expected to find that contract files contained a complete audit trail that included details such as decisions and contract content.

²⁰ iProcurement is the purchasing module that interfaces with IFMMS to create and process purchase orders for goods and services.



All contracts examined included supporting documentation in accordance with TB policies and CSC directives; however, some contracts were not signed before their start date.

The Policy requires that contract files be documented in such a way that all options, decisions, approvals and justifications are documented. For the purpose of this audit, a file was considered to have a complete audit trail if it included: a statement of work; timeframes; deliverables and payment terms and schedule; the signed contract; and evidence to support a competitive process if applicable.

All files examined included the necessary information. All files from two regions contained checklists that indicated what should be on file. CSC staff informed the audit team that NHQ is now using a mandatory checklist for file content; however, the implementation of this checklist occurred after the time period of files reviewed. Therefore, its effectiveness could not be ascertained.

In 11 contracts reviewed, the contracting authority signatures were not timely (in effect a verbal contract was in place prior to signature). One contract reviewed required a payment on strength for \$13,000.00, as work had been performed before the contract was in place. As per FD 350-3, the payment on strength was submitted to the CRB for approval, and a memo issuing a warning and requiring corrective action was issued. The risk to CSC is that if a contract is not signed in a timely manner, it could call into question the validity of the contract, particularly if an adverse situation occurred during the contract period or prior to signing.

4.2.4 Contract Payments

We expected to find that invoices submitted for payment were in accordance with contract terms, contained sufficient information for certification of payment, and were approved by an individual with authority under section 34 of the FAA.

No concerns were noted with respect to certification of invoices under section 34 of the FAA.

All invoices were certified under section 34 of the FAA, by individuals with delegated authority. Further, all invoices tested were found to be in accordance with contract terms.

4.2.5 Approval of Payments

We expected to find that the verification of invoices under Section 33 of the FAA was performed in accordance with TB policy and CSC directives.

A documented standardized approach to verification and certification of invoices under section 33 of the FAA has not been finalized; however, no improper payments were noted.

As previously reported in the 2007 *Audit of Contracting for Goods and Services*, CSC has not finalized or fully implemented its documented process for section 33 of the FAA. While 100%



verification occurred, as all invoices had a signature, stamp, initials or an electronic signature that belonged to the individual authorized under section 33, the audit team was unable to determine what verification or certification activity was conducted to support the decision behind the signature, as required by the *FAA*.

Good Practice

CORCAN uses a national Supplier Verification Chart to perform section 33 verification for contract payments. This template requires that expenditure initiation, expense details, compliance with policy and invoice calculations are verified, and also delineates different steps for transactions over and under \$2,000. All CORCAN files reviewed contained a signed checklist, with evidence that the work to support the checklist has been completed.

4.2.6 Post-Contract Evaluation

We expected to find that post-contract evaluations were completed in accordance with policy and guidelines.

Contract evaluation templates met the Policy requirements and were completed as required.

The Policy requires that, upon completion of a service contract, the contracting authority evaluates the work performed by the consultant or professional²¹. In 2007, the *CSC Audit of Contracting for Goods and Services* found that the content of the Contractor Evaluation (CSC Form 996) did not fully comply with *the Policy*. The 2007 audit and the 2010 *CSC Review of CORCAN Construction Contracts* also found that evaluations were not always completed as required. The results of this audit show that the current CSC Form 996 has been updated and now complies with policy, and all files reviewed had an evaluation on file as required.

4.2.7 Proactive Disclosure

We expected to find that contract and amendment information was disclosed, as required.

Contracts and amendments were disclosed as required.

As reported in section 4.1.4, each region prepares a monthly list of contracts over \$10,000, referred to as Buyers Reports, which are sent to NHQ for review prior to publication on the [CSC website](#). All files examined as part of the audit were disclosed as required, showing marked improvement from the 2007 *Audit of Contracting for Goods and Services* where 16/131 (12%) of contracts were not disclosed.

²¹ TB Policy sec 16.11.8



Conclusion

Contracts greater than \$25,000 were processed in compliance with Government of Canada legislation, policies and guidelines, with minor exceptions. Contract files contained required documentation, CRB reviewed and approved applicable contracts, and contracts were proactively disclosed as required.

Nevertheless, the following shortcomings were identified:

- contract files lacked a consistent audit trail to support contract administration, including the timely signing of contracts and CRB decision-making information across regions; and
- a standardized documented process for the certification and verification of contract invoices, as required by section 33 of the FAA, had not been fully implemented.

Recommendation 3²²

The Assistant Commissioner, Corporate Services should strengthen administrative procedures to support contract planning, initiation, administration and payments by:

- implementing consistent documentation requirements, including those supporting the CRB decision-making process, to ensure files contain a complete audit trail to support contract administration, including the timely signing of contracts; and,
- fully implementing a standardized documented process across all regions for the certification of invoices under section 33 of the FAA.

Management Response

We agree with this recommendation. By April 2014, the ACCS will:

- further enhance its tools by converting the existing checklist into a User Productivity Kit (UPK) based training module which will be available for use online for all CSC employees, which will include identification that contracts must be signed prior to work commencing; and
- review the effectiveness of S.33 applications from October 2013 to March 2014 and refine interim account verification practices as required.

²² Recommendation requires management's attention, oversight and monitoring.



5.0 Overall Conclusion

Overall, the results of the audit confirmed improvement from the 2007 CSC internal audit, the *Audit of Contracting for Goods and Services*.

For the first objective, the audit found that: CSC directives, guides and manuals were consistent with government policies relating to contracting and procurement; roles and responsibilities were defined and clear; mandatory training was offered and taken; and external monitoring and reporting requirements were being met.

Nonetheless, there are areas within the management framework that need improvement:

- a regular, established communication forum between CMS managers at NHQ and the Regions needed strengthening; and
- existing monitoring and reporting exercises were inefficient.

With regard to the second objective, the audit results demonstrated that contracts were processed as per relevant legislation, central agency policies and CSC directives. Contract files generally contained required documentation, CRBs reviewed and approved applicable contracts, and contracts were proactively disclosed as required.

Nevertheless, the following shortcomings were identified:

- contract files lacked a consistent audit trail to support contract administration, including the timely signing of contracts and CRB decision-making information across regions; and
- a standardized documented process for the certification and verification of contract invoices, as required by section 33 of the FAA, had not been fully implemented.

Recommendations have been issued in the report to address these areas for improvement.

Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by March 31, 2014.



Annex A

AUDIT OBJECTIVES AND CRITERIA

| Objectives | Criteria |
|--|--|
| 1. Assess the extent to which a framework is in place, meets departmental and Treasury Board requirements, and is functioning as intended | <p>1.1 Policy Framework - CSC Policies, guides and manuals are consistent with government policies relating to contracting for goods & and services.</p> <p>1.2 Roles & responsibilities – CSC organizational structure, roles and responsibilities are clearly defined, understood and documented.</p> <p>1.3 Communication/Training – Communication and training for contracting is available and is provided where required in a timely manner.</p> <p>1.4 Monitoring & Reporting - Monitoring practices and controls are in place to ensure compliance with contracting policies and practices. Information is reported and includes a formal follow-up mechanism.</p> |
| 2. Provide assurance that contracts over \$25,000 are processed in compliance with relevant Government of Canada legislation, policies and guidelines. | <p>2.1 Contract Planning – Requirements are clearly defined, appropriate contracting methods are selected, and justification is documented.</p> <p>2.2 Contract Initiation – Appropriate approvals are in place for each contract and funds are committed (sec 32 FAA).</p> <p>2.3 Contract Administration – The content of each contract for goods and services is in accordance with TB and CSC policy and directives.</p> <p>2.4 Contract Payments – Invoices submitted by contractors meet the contract terms of reference and provide sufficient information for the certification of section 34 of the FAA.</p> <p>2.5 Approval of payment – Verification of invoices under Section 33 of the Financial Administration Act is in accordance with TBS and CSC policy and directives.</p> <p>2.6 Post-Contract Evaluation – Post contract evaluations are completed in accordance with policy and guidelines.</p> <p>2.7 Proactive disclosure - Mandatory publication of applicable contracts (contracts >\$10,000) and amendments are pro-actively disclosed, as required.</p> |



Annex B

LIST OF ACRONYMS

| | |
|-------|---|
| ACAN | Advance Contract Award Notice |
| ACCS | Assistant Commissioner Corporate Services |
| CD | Commissioners Directive |
| CMS | Contracting and Material Services |
| CRB | Contract Review Board |
| CSC | Correctional Service Canada |
| CSPS | Canada School of Public Service |
| FAA | Financial Administration Act |
| FD | Financial Directive |
| GETS | Government Electronic Tendering Service |
| HRMS | Human Resources Management System |
| IFMMS | Integrated Financial and Material Management System |
| NHQ | National Headquarters |
| OPI | Office of Primary Interest |
| PG | Procurement Specialist |
| PWGSC | Public Works and Government Services Canada |
| RHQ | Regional Headquarters |
| TB | Treasury Board |