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POUR TOUS

Review of CORCAN Construction Contracts

Internal Audit

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Canada



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EXECUTIVE SUMMARY

The review of CORCAN construction contracts was conducted as part of Correctional Service Canada's (CSC) Internal Audit Branch (IAB) 2009-2010 Audit Plan. This review was deemed necessary due to a series of events. In May 2008, the Office of the Procurement Ombudsman (OPO) was contacted by a supplier who made allegations of irregularities pertaining to a specific CORCAN contract award. In his 2008-2009 Annual Report (Chapter 5) the Procurement Ombudsman reported on the results of the review and made a recommendation that CSC Internal Audit review CORCAN construction contracts nationally.¹

CORCAN, as a Special Operating Agency of CSC plays a key part in rehabilitation programs by providing employment training and employability skills to offenders in both federal correctional institutions and for a short period of time in the community. CORCAN operates in five regional offices and in a number of sites across Canada. There are five business lines, one of which is construction. Every year, CORCAN enters into many contracts under its construction business line.

The objectives of this review were:

- To provide reasonable assurance that a management framework is in place in support of CORCAN Construction contracts; and
- To determine the extent of CORCAN's compliance with legislation and policies.

To achieve these objectives, the team reviewed key documentation and examined relevant policies, directives, Commissioner's Directives, guidelines and CORCAN Governing Principles. In addition, the review team:

- Visited all five CORCAN Regional Headquarters, CSC Regional Supply Depot (Pacific) and all five regional construction offices;
- Conducted interviews with National Headquarters CORCAN staff, regional staff; and
- Detailed testing of 63 contract files to determine the extent of CORCAN's compliance.

OVERALL CONCLUSION:

The results of this review indicate that:

- CSC's Commissioner's directives and guidelines, and CORCAN's Governing Principles are in place and reflect relevant TB policies, directives and standards;
- Individual roles and responsibilities are defined, documented and communicated; and

¹ <http://opo-boa.gc.ca/rapports-reports/2008-2009/sect2-eng.html#no2e>



- Formal training is provided to staff involved in the procurement process.

The review revealed improvements can be made in the following areas:

- Communication to CORCAN staff about the roles and responsibilities of the Contract Review Board (CRB);
- CORCAN specific contracting training needs;
- Senior management attention to monitoring process;
- CRB pre-approval of all construction contracts over \$40,000;
- Completion of cost-benefit analyses;
- Documentation supporting in-house tendering process; and
- Post-contract evaluation requirements.

RECOMMENDATIONS

Recommendations have been made in the report to address identified areas for improvement. (See **Annex C**)



1.0 INTRODUCTION

Background

The review of CORCAN Construction contracts was conducted as part of Correctional Service Canada's (CSC) Internal Audit Branch (IAB) 2009-2010 Audit Plan. This review was deemed necessary due to a series of events. In May 2008, the Office of the Procurement Ombudsman (OPO) was contacted by a supplier who made allegations of irregularities pertaining to a specific CORCAN contract award. In his 2008-2009 Annual Report (Chapter 5) the Procurement Ombudsman reported on the results of the review and made the following recommendations:²

- *CSC review its other construction contracts to ensure a systemic problem affecting the fairness, openness and transparency in the procurement process does not exist and that no delegated financial or procurement authorities have been breached; and*
- *CSC review the need for training in the area of procurement, including construction services, and devise an appropriate action plan.*

CORCAN, as a Special Operating Agency of CSC, plays a key part in rehabilitation programs by providing employment training and employability skills to offenders in both federal correctional institutions and for a short period of time in the community. CORCAN operates in five regional offices and in a number of sites across Canada (**Annex B**). There are five business lines, one of which is construction. Every year, CORCAN enters into many contracts under its construction business line. Table 1 below presents how those contracts are spread amongst the regions. It is to be noted that many of the contracts represent purchase orders of small value.

Table 1

Total CORCAN Construction Contracts ³	2008/2009		2009/2010	
	# of contracts	Value \$	# of contracts	Value \$
British Columbia	191	\$1,426,248	158	\$1,561,288
Prairies	142	454,849	143	729,591
Ontario	1,355	1,350,665	343	447,426
Quebec	1,196	1,579,421	835	758,336
Atlantic	1,385	4,397,679	489	1,079,548
TOTAL	4,269	\$9,208,862	1,968	\$4,576,189

² <http://opo-boa.gc.ca/rapports-reports/2008-2009/sect2-eng.html#no2e>

³ Extracted from IFMMS (FY 2008/2009) and (FY 2009/2010 up to and including October 31, 2009)



Sections 6(4) and 6(6) of the Financial Administration Act (FAA) allow the Commissioner to sub-delegate signing authority to persons under his jurisdiction. Specifically, Correctional Service Canada's Financial Signing Authorities (FSA) Delegation Instrument must be signed by both the Minister and the Commissioner on the recommendation of the Assistant Commissioner, Corporate Services who is the Chief Financial Officer (CFO) for CSC.

For contracting purposes, this is done through Schedule 24 of CSC's Financial Signing Authorities (FSA) Delegation Instrument. Schedule 24 establishes authority for CORCAN staff to enter into contracts and provides limits on the financial amounts for which the identified staff has authority⁴. Until April 1, 2009, the financial limit for construction contracts allowed before requiring CRB approval was \$25,000. Starting on April 1, 2009, this limit was raised to \$40,000. See **Annex E** for full details.

Table 2 presents the number of contract above those limits for each region for the two periods reviewed.

Table 2⁵

Larger Construction Contracts	Greater than \$25,000 2008-09		Greater than \$40,000 2009-10	
	# of contracts	Value \$	# of contracts	Value \$
British Columbia	10	\$982,562	11	\$1,343,805
Prairies	2	72,970	3	577,922
Ontario	4	391,702	2	137,127
Quebec	8	326,190	1	46,692
Atlantic	29	1,999,297	3	142,819
TOTAL	53	\$3,772,721	20	\$2,248,365

2.0 REVIEW OBJECTIVES AND SCOPE

2.1 Review Objectives

The review objectives were:

- To provide reasonable assurance that a management framework is in place in support of CORCAN Construction contracts; and
- To determine the extent of CORCAN's compliance with legislation and policies.

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

⁴ Please see Annex E for further details

⁵ Extracted from IFMMS (FY 2008/2009) and (FY 2009/2010 up to and including October 31, 2009)



2.2 Review Scope

The review was national in scope and included the processes and practices in place to support compliance with relevant TB and CSC policies and CORCAN Governing Principles. The approach was a combination of key interviews and examination of a sample of files. The review included visits to all five CORCAN regional offices and sites and examination of a representative sample of different types of construction contracts in all regions from fiscal year (FY) 08/09 and FY 09/10 to October 31, 2009.

Table 3 shows the value of the large construction contracts which were reviewed⁶ as part of this engagement. Also, we reviewed an additional 23 construction contract files just below the relevant limits to ensure that we had a representative sample of smaller files as well. (**Annex E**).

Table 3⁷

CORCAN Construction Contracts Reviewed ⁸	Greater than \$25,000 2008/2009		Greater than \$40,000 2009/2010	
	# of files reviewed	Value \$	# of files reviewed	Value \$
British Columbia	7	\$832,562	7	\$1,193,805
Prairies	2	72,970	3	577,922
Ontario	4	391,702	1	62,712
Quebec	6	260,916	1	46,692
Atlantic	7	1,283,048	2	91,346
Total larger value contracts reviewed	26	\$2,841,198	14	\$1,972,477

Please see **Annex B** for the list of sites visited.

3.0 REVIEW APPROACH AND METHODOLOGY

Review evidence was gathered through a number of techniques:

- **Interviews:** We conducted a total of 23 interviews with CORCAN Regional Directors, CORCAN Regional Business Managers, Business Managers, Construction managers/supervisors, CSC Procurement Specialist (Pacific Region). At NHQ, interviews were held with CORCAN's Comptroller and Assistant Comptroller.
- **Review of documentation⁹:** We reviewed documentation such as process documents, procedure manuals, training material, and work descriptions.

⁶ Larger Contract Files Reviewed - FY 08/09 26/53 files reviewed (representing 75% of larger \$ value contracts) and FY 09/10 (to October 31, 2009) 14/20 files reviewed (representing 87% of larger \$ value)

⁷ Please note that certain contracts reviewed actually represented several repeat call-ups against standing offers, but were treated as one file review.

⁸ Extracted from IFMMS (FY 2008/2009) and (FY 2009/2010 up to and including October 31, 2009)



- **Testing:** We sampled a total of 63 construction contract files spread over five regions to determine compliance with Treasury Board policies, CSC Commissioner's Directives, guidelines, and CORCAN Governing Principles (Chapter 5) related to construction procurement.

4.0 REVIEW FINDINGS AND RECOMMENDATIONS

4.1 Management Framework for CORCAN Construction Contracts

An effective procurement management framework provides the controls, processes and systems that ensure adverse risk is identified, addressed, and increase the likelihood that the goals of government are met. It also ensures that the objectives of the procurement process of fairness, openness and transparency, together with best value, are met for the Crown and the Canadian people. Per Treasury Board contracting policy¹⁰, contracting authorities are encouraged to establish adequate control frameworks to ensure due diligence and effective stewardship of public funds and to establish and maintain a formal challenge mechanism for all contractual proposals.

We assessed the extent to which the management framework was in place in support of CORCAN construction contracts. We also reviewed the reporting and monitoring mechanisms in place.

4.1.1 Policies and Procedures

We expected to find that CSC directives, manuals, guidelines, procedures and CORCAN Governing Principles were in place and consistent with Treasury Board Contracting Policy, and government legislation (listed in Annex D).

CSC directives, procedures, guidelines and CORCAN Governing Principles were in place and consistent with relevant Treasury Board policies and government legislation.

CSC's Commissioner's Directive 240 "Contracting" was published in order to establish responsibilities and standard processes for contracting in CSC. Specifically, it serves to ensure a contract review process exists, that there is a separation of responsibilities to ensure scrutiny over the contract process; and that there is adherence to Government Contracts Regulations.

This is further supported by various documents including, Schedule 24 of the Financial Signing Authorities Delegation Instrument, which sets out:

- Responsibilities, and establishes standard contracting procedures to ensure procurement is conducted in a manner that enhances access, competition, fairness and results in the optimal balance of overall benefits; and

⁹ **Annex D** – includes a list of key policy documents, and **Annex E** includes excerpts of Schedule 24, CSC's National Delegation Instrument.

¹⁰ <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494§ion=text>



- Provides clarification of responsibilities to facilitate scrutiny over the procurement process.

These directives, guides, and procedures are further supported by CORCAN Governing Principles and provide guidance to staff on the contracting process.

Our review found that staff had also developed their own regional guides to further supplement TB Contracting Policy, CSC directives and CORCAN Governing Principles, and explain more complex procurement issues. For example, the Ontario Region designed a Standing Operating Procedures binder, detailing all aspects of procurement within CORCAN Construction Ontario. The binder is given to all new staff as a learning tool, as well as a reference document for other staff. The Prairie Region maintains updates to procurement issues on its regional Infonet, while the Quebec Region has also developed its own processes and procedures document.

Good Practice

Ontario Region - Standing Operating Procedures binder has been created, detailing all aspects of procurement within CORCAN Construction Ontario (including all relevant Governing Principles, CSC Commissioner's Directives, Schedule 24 (CSC Financial Signing Authorities Delegation Instrument). The binder is given to all new staff as a learning tool, as well as a reference document for other staff.

4.1.2 Roles and Responsibilities

We expected to find that roles and responsibilities were clearly defined, understood, documented and communicated.

Individual roles and responsibilities were clearly defined, understood, documented and communicated.

We found that individual roles and responsibilities were clearly defined and documented by way of specific CORCAN job descriptions, and communicated to staff when they started and when changes were made. Based on our interviews, we found that staff involved in the procurement process (e.g. business managers, regional business managers, construction managers, regional directors) generally understood their roles and responsibilities specific to their individual regional circumstances. We found, however, that as each region has its own organizational structure, there were different approaches to staffing and managing the construction business line, including procurement.

For example, the Quebec region has a number of indeterminate staff comprised of specific tradesmen who make up a dedicated construction team, with short term needs being addressed by the use of casual and term positions. The Pacific region on the other hand, relies on standing offers to contract tradesmen, as well as site supervisors. The risk attached with relying heavily on the same sub-contractors for specific positions



year in, year out, is that an employer/employee relationship may develop thus leading to possible legal issues and financial losses.¹¹

There was a lack of understanding of the requirement to obtain Contract Review Board approval prior to entering into higher value contracts in some regions.

Treasury Board (TB) contracting policy¹² states that contracting authorities are encouraged to establish adequate control frameworks to ensure due diligence and effective stewardship of public funds and to establish and maintain a formal challenge mechanism for all contractual proposals. CSC has created Contract Review Boards (CRBs) (National & Regional) as the review mechanism to meet this requirement. Schedule 24, CSC Financial Signing Authorities Delegation Instrument, identifies the value and type of contract requests that should be sent to the CRB for review and approval. This document also refers to CORCAN contract requests.

Based on our interviews, 88% of staff indicated that they understood the contracting levels as set out in Schedule 24. They also indicated that they understood the role of the CRB in the contracting process. 88% of staff interviewed also indicated that they were aware of the CRB appeal process, indicating that justification was provided by CRB for any rejected requests. However, two regions were not always found to be compliant with the requirement of obtaining CRB approval for contracts over the contracting limits as set out. This is further detailed in section 4.2.1 Contract Planning.

4.1.3 Training

We expected to find that training needs related to CORCAN construction procurement were available and provided to employees.

Training needs were identified and training provided, however staff indicated that this training did not always address CORCAN's specific needs.

In order to ensure compliance with TB policies, CSC directives and CORCAN Governing Principles, staff involved in the process need to be well informed and trained to meet the ever complex challenges in contracting.

Contracting & Materiel Services has developed several training courses to maintain skills, improve awareness of established policies and to ensure integrity of the contract process. The courses available are CONTRA 2 (1 day contracting course for managers and administrative officers) CONTRA 3, (2 day training course delivered in the regions to managers with contracting responsibilities) and CONTRA 4 (designed for senior NHQ management). In order to enter into, and sign contracts, staff must have successfully

¹¹ Please note that employer/employee relationship was not within the scope of this review.

¹² <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494§ion=text>



completed the contract exam administered at the end of the training session and have completed the Essentials of Managing in the Public Service course¹³.

We found that those staff involved in the procurement process, have at a minimum received the CSC contracting course (CONTRA 2). Furthermore, those with financial delegations had also undertaken the required courses, and lists are maintained indicating who had undertaken contracting and financial delegation training. Staff also indicated that informal peer-to-peer training was also provided. However, staff indicated a need for more CORCAN specific training to be provided.

Furthermore, in his 2008/2009 report (Chapter 5) the Procurement Ombudsman made a recommendation that CSC review the need for CORCAN's training, which in turn was accepted in CSC's Departmental Response.

4.1.4 Monitoring

We expected to find that monitoring practices and controls were in place to ensure compliance with contracting policies and practices.

Several tools have been developed to enhance monitoring of contracting activities; however information generated by the monitoring was generally not analyzed, nor was it submitted to NHQ senior management for consideration.

Treasury Board Contracting Policy states that it is the responsibility of departments and agencies to ensure that adequate control frameworks for due diligence and effective stewardship of public funds are in place and working. In response to this, CORCAN has developed its Regional Business Manager's (RBM) checklist which includes construction contracts. This checklist requires a sample of construction contracts to be reviewed once annually and the results to be analyzed. We found that staff interviewed (87%) were aware of the RBM checklist, and were conducting a sample once annually. In addition, a summary report was provided to the Regional Director (RD) for review and for provision to NHQ as deemed appropriate by the RD. This information was not provided to senior management at NHQ.

Furthermore, CSC's Commissioner's Directive 240, paragraph 19 states that to ensure the evaluation of the effectiveness of work provided under the terms of reference, service contracts shall be evaluated by the Project Authority. The evaluation shall consist of the completion of form CSC 996, entitled "Post-Contract Evaluation". Through interviews we found that although staff was aware of this requirement, there were issues with compliance. This is further discussed in section 4.2.6 Post Contract Evaluation.

CORCAN has other reporting processes in place to monitor expenditures in general, including contracts. These include the independent testing of CORCAN's controls as

¹³ G110 (Essentials of Managing in the Public Service) course for all managers, must be completed before being able to exercise financial delegation.



part of the annual financial statements. Still, using the RBM checklist more extensively and fulfilling the CD 240 requirements on post-contract evaluation would provide additional assurance to senior management that issues have been identified and action taken.

Good Practice

Prairies Region – CSC Prairies, Regional Procurement Manager runs a monthly “Buyers’ Report” including all contracts (both CSC and CORCAN). Once this report is run and analyzed, a memo is sent to the site offices requesting further information in answer to issues which may arise (including, but not limited to, questions over selection of contracting method, whether there has been contract splitting and justification for sole source).

CONCLUSION:

Key elements of the management framework are in place to support CORCAN Construction contracting:

- CSC’s Commissioner’s directives and guidelines, and CORCAN’s Governing Principles reflect relevant TB policies, directives and standards.
- Individual roles and responsibilities are defined, documented and communicated.
- Formal training is provided to staff involved in the procurement process.

However, improvements can be made to further enhance the overall effectiveness of contracting activities. Specifically:

- Communication to CORCAN staff about the requirement to submit qualifying contracts to CRB for approval could be enhanced;
- CORCAN contracting training could be reassessed to ensure it meets CORCAN’s specific needs;
- Further senior management attention to monitoring process is required; and
- A more consistent approach to post-contract evaluation requirements is needed (addressed later in this report).

**Recommendation 1**

CORCAN CEO should:

- Reinforce the need to comply with CSC's requirement to submit qualifying contracts to CRBs for approval prior to the award of the contract.

RECOMMENDATION 2

CORCAN CEO in collaboration with ACCS should:

Proceed with the assessment of training as per CSC Departmental Response to the Office of the Procurement Ombudsman's 2008/2009 report (Chapter 5).

4.2 CORCAN's compliance with legislation and policies

We determined the extent to which CORCAN is in compliance with Treasury Board policies, directives and standards, CSC commissioner's directives and guidelines, and CORCAN governing principles related to the award of construction contracts, in each of the following areas:

- **4.2.1 Contract Planning** – requirements are defined, appropriate contracting methods are selected, and written justification are on file for decisions made;
- **4.2.2 Pre-Approvals** – appropriate approvals are in place for each contract, signed by individuals with appropriate authority and funds are committed;
- **4.2.3 Content of Contract File** – content of each contract file for construction (goods and services) is in accordance with all relevant legislation and policies;
- **4.2.4 Invoicing** - invoices submitted by contractors meet the contract terms of reference and provide sufficient information for the certification of section 34 (FAA)
- **4.2.5 Approval of Payment** – verification of invoices under section 33 of the FAA is in accordance with all legislation, policy, directives and governing principles; and
- **4.2.6 Post-contract Evaluation** – regular post contract evaluations are completed in accordance with policy.

4.2.1 Contract Planning

We expected to find that requirements for construction contracts (e.g. goods and/or services) were clearly defined, appropriate contracting methods were selected and justification was on file for decisions made.

Contract requirements were generally properly defined and documented.



Our review of 63 construction contracting files determined that the requests for contract contained sufficient information regarding contracting requirements (e.g. a clear description of deliverables and statements of work). In some cases these were not included in the request for contract, but referenced by way of plan numbers specific to construction projects.

Generally, appropriate contracting methods were selected, however improvements are needed in documenting justifications for decisions.

A number of contracting methods are widely available and used at CORCAN including traditional competitive, non-competitive (sole source) and electronic bidding (MERX). Furthermore, standing offers¹⁴ and supply arrangement agreements¹⁵, if in place, are a method of obtaining goods and services with selected suppliers, thus allowing for ease and timeliness in the contracting process.

Of the files reviewed, 82% were found to have selected an appropriate contracting method. From interviews, we determined that though all staff agreed that standing offers were beneficial, due to the time they take to set up and the geographical area of some regions, they were not always in place. The exception to this was the Quebec region¹⁶, which effectively maintained and used standing offers as a contracting method.

With regards to sole source contracts, we found through interviews with staff that they were generally all aware of the provisions included in the Government Contracts Regulations (GCR) with regards to sole source contracts and their justification, which requires that at least of the following conditions exist:

- the need is one of pressing emergency;
- the nature of the work is such that it would not be in the public interest to solicit bids;
- only one person or firm is capable of performing the contract; or
- the estimated expenditure does not exceed \$40,000.¹⁷

Further, rationale supporting such decisions must be documented on file.

Our file review found that only 9 of the 63 contract files were in fact sole source. Of these, 5 contained incomplete justification for rationale behind contracting method selected on file. The risk associated to this is that without complete justification, on file the process may be perceived as not being fair, open and transparent.

¹⁴ TB Contracting Policy (10.5.11) Standing offer - is an offer from a potential supplier to supply goods, services or both, on the pricing basis and under the terms and conditions stated in the standing offer. Standing offers are established by competitive bidding or negotiation. A separate contract is entered into each time a call-up is made against a standing offer.

¹⁵ Pre-approved suppliers (maintained by PWGSC) who are then selected using client's specific criteria and sent a "request for contract". The formal tendering process then follows.

¹⁶ Quebec region used both national (PWGSC) and CSC department specific standing offers

¹⁷ Please note this is specific to construction contracts.



We noted few instances where a cost benefit analyses was provided.

Commissioner's Directive 240, paragraph 18 states that the Activity Centre Manager/Project Authority shall provide a cost-benefit analysis, where appropriate, to ensure that a contract is the most cost effective method of obtaining the required results. In addition, further guidelines on when the use of a cost-benefit analysis for contract purposes was appropriate were issued by the ACCS in May 2007. Our file review indicated that 7% of those reviewed included a cost benefit analysis. For other files, in some cases, they contained brief reasons for contracting method, but did not clearly address the cost benefit issue (e.g., no experienced internal resources available, rental of specialised machinery).

Requests for contracts were generally reviewed and approved by the CRB where applicable; however, non-compliance with this requirement was noted in two regions.

TB Contracting policy suggests that a formal contract review mechanism be established in order to consider, challenge and review contract proposals. Furthermore, CSC Commissioner's Directive 240, paragraph 3 states that Contract Review Boards shall be established, where appropriate, at each operational site, and shall be responsible for all contracting activity at their respective Responsibility Centre including CORCAN.

CSC Schedule 24 (Financial Signing Authorities) states that as of April 1, 2009 all requests for construction over \$40,000 must be forwarded to the CRB for approval, and that all requests to amend contracts for construction where the aggregate amendment value exceeds \$40,000 must also be forwarded to CRB for approval¹⁸. Our file review found that in applicable cases¹⁹, evidence was on file that the contract request (and/or amendment) was reviewed and approved by CRB before the contract was awarded (81% of files²⁰). Two regions were the exception to this, where only 2 out of 13, and 0 out of 4 applicable contracts were reviewed by the CRB. This exception led to non-compliance in the application of contracting delegations as described in section 4.2.2 Pre-approvals.

4.2.2 Pre-approvals

We expected to find that appropriate approvals were in place, each contract signed and issued by individuals with appropriate authority, and funds budgeted.

Appropriate approvals were in place, and in most cases contracts were signed and issued by individuals with the appropriate authority.

¹⁸ Prior to April 1, 2009 requests for Construction over \$25,000 (together with amendment value exceeding \$25,000) had to be forwarded to CRB for approval.

¹⁹ Per contracting delegation limits as set out in Schedule 24, CSC National Delegation Instrument.

²⁰ This represents 17 out of 21 applicable files (excluding two regions with non-compliance issues)



As mentioned before, the Financial Administration Act (FAA) allows the Commissioner to sub-delegate signing authority to persons under his jurisdiction. At CSC, Schedule 24 of the Financial Signing Authorities provides the parameter for this delegation²¹. Our file review found that in most cases, CORCAN construction staff entering into contracts had appropriate sub-delegated signing authority. We found however some issues with non-compliance relating to these contracting delegations in two regions, where CORCAN staff were entering into contracts surpassing the amount of their contracting delegations, without prior CRB approval (please see 4.2.1 Contract Planning).

Funds were budgeted prior to expenditure.

CORCAN does not commit funds (under section 32²² of the FAA) in the same manner as CSC, but CORCAN's Governing Principle 5.2.02 makes reference to a bid approval document which must be completed and approved by the appropriate Regional Director before a bid is submitted to a client. Included in this approval document is a budget estimate including all costs associated with a specific project. In addition, CORCAN as a Special Operating Agency with annually audited financial statements, and a revolving fund, carries out monthly budgeting and variance analyses on all its business lines, including construction projects. Of the 63 contracts reviewed, 97% (61 out of 63) had funds budgeted before entering into contracts, with the appropriate approval of the budget manager.

4.2.3 Content of Contract File

We expected to find that the content of each construction contract file met Treasury Board policies, CSC directives, guides and manuals and CORCAN governing principles requirements.

Treasury Board Contracting Policy sets out minimum requirements regarding documentation to be included in each contract file. These include:

- a clear statement of work/specifications required from the contractor;
- specific timeframes and deliverables of the work to be performed;
- a list of suggested suppliers who were sent the request for estimate/quote, together with all supplier quotes; and
- a completed contract checklist.

Further, if contract tendering was done in-house, certain requirements must be documented on file including:

- a rating system for bid evaluation (developed prior to opening bids, as suppliers need to know how they are being evaluated).

²¹ Please see Annex E

²² Section 32 of the FAA states that: 'No contract or other arrangement providing for a payment shall be entered into ... unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge [the] debt.'



- a final version of an evaluation grid (completed and signed by the evaluation team, including evidence that the evaluation was conducted independently by all members of the evaluation team);
- successful and unsuccessful bidder notifications; and
- a selection of the lowest bid together with rationale documented on file if the lowest bidder was not chosen.

Files contained statements of work, specific timeframes and deliverables; however deficiencies were noted with respect to maintaining master-lists of suppliers to whom the request for quotes were sent.

Our file review found that 94% of contract files contained detailed statements of work, while 91% of the contract files reviewed had specific deliverables to be performed. Further, 80% of contracts had specific timeframes for the work to be performed.

Of the contracts tendered in house (excluding sole source), our file review found that 70% of files reviewed contained suppliers' quotes on file. However, our review found that of these same files only 35% contained master-lists of the suggested suppliers who had been sent the request for quotes. The risk of not maintaining such master-lists is that information on file is incomplete, and, should a supplier make allegations about a specific procurement process, CORCAN may be unable to provide all required documentation.

Generally, the lowest bidder was selected; however documentation supporting the in-house tendering process was weak.

Treasury Board Contracting Policy states that the objective of government procurement contracting 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 to the Crown and the Canadian public. Our file review found that of the contracts reviewed, 88% of the time the lowest bidders were selected. Further, of the remaining 12% there were clear explanations on file as to why they were selected even though they were not the lowest bidder.

TB Contracting Policy further states that departments must ensure that adequate management controls are in place to protect the integrity of the bidding process. As stipulated above, this includes documenting the rating system and evaluation grid used for bid evaluation.

When compared to contract requirements, information could be found on file to justify that the bidders selected met the requirements. However, this was not presented in a form that clearly demonstrated which bidders met requirements and which did not and why. Our examination of the files indicated that only 3% of files reviewed had documented the rating systems they used for bid evaluation and completed an evaluation grid comparing bidders and requirements.



Unsuccessful bidders have the right (per Treasury Board Contracting Policy) to request debriefings outlining the factors and criteria used in any evaluations. Using an evaluation grid based on a pre-defined rating system assists organisations in providing organised and readily accessible information to explain the selection process to any bidders. Insufficient documentation could lead to the perception of a contracting process that is not accessible, competitive or fair.

4.2.4 Certification of Invoices (FAA section 34)

We expected to find that invoices submitted by contractors would meet the contract terms of reference, and provide sufficient information for the certification of payment, and be approved by an individual with section 34 delegation of authority²³.

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

We examined corresponding invoices for the 63 contract files reviewed and found that all issued invoices were properly certified under section 34 of the FAA by individuals with the proper delegation of authority. Furthermore, invoices reviewed contained adequate supporting documentation to substantiate compliance with the terms of payment of the contract as well as reasonableness of expenditures claimed. As part of our review, we also confirmed that the signatures on the invoices were that of individuals with the appropriate authority (e.g. having valid signature cards).

4.2.5 Approval of Payment (FAA section 33)

We expected to find that verification of invoices under section 33 of the FAA²⁴ is in accordance with Treasury Board policies, CSC directives and CORCAN Governing Principles.

We noted no concerns with the verification and certification of invoices under section 33 of the FAA.

Invoices are approved for payment (section 34) by the appropriate budget manager and then submitted to CORCAN finance for the section 33 verification and subsequent payment. We noted that CORCAN finance staff completed the verification process on each invoice, on an individual basis, before certifying section 33 and issuing payment.

²³Section 34 of the FAA states that: *'No payment shall be made in respect of any part of the federal public administration unless, [an authorised person] certifies [that] the performance of work, the supply of goods or the rendering of services ...has been performed or rendered [in] according to the [afored agreed conditions]'*

²⁴Section 33 of the FAA states that:
'No charge shall be made against an appropriation except on the requisition of ... a person authorized ... [or made] for a payment that
(a) *would not be a lawful charge against the appropriation;*
(b) *would result in an expenditure in excess of the appropriation; or*
(c) *would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it.*



As part of our review, we confirmed that the signatures and/or initials on the invoices were that of individuals with the appropriate authority.

Our file review also found that all necessary documentation, including copy invoices, contracts, and any other supporting information were contained in the payables files maintained by CORCAN finance.

4.2.6 Post-contract evaluation

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

We noted deficiencies in the rate of completion of post-contract evaluations.

The Treasury Board Contracting policy requires that, upon completion of a service contract, the relevant authority should evaluate the work performed. In order to meet this requirement CSC's Commissioner's Directive 240, paragraph 19 also states that to ensure the evaluation of the effectiveness of work provided under the terms of reference, service contracts shall be evaluated by the Project Authority. The evaluation shall consist of the completion of form CSC 996, entitled "Post-Contract Evaluation". We found that though staff was aware of this requirement through interviews, our file reviews showed that only 30% regularly completed form 996. The Quebec region completed a post-contract evaluation for all contracts, (construction, goods and services) before files were closed.

One of the risks associated with not completing and analysing post-contract evaluations on the quality of service provided by contractors, is that this important information would not be available for future considerations in awarding contracts.

CONCLUSION:

Overall, CORCAN is compliant with Treasury Board policies, CSC Commissioner's Directives, guidelines and CORCAN's Governing Principles. However, opportunities for improvement exist in the following areas:

- All construction contracts over \$40,000 being forwarded to the CRB for approval;
- Clear guidelines being provided as to when cost-benefit analyses should be completed;
- Documentation supporting in-house tendering process being completed and on file; and
- Regular post contract evaluation (form 996) being completed on all service contracts.



RECOMMENDATION 3

CORCAN CEO should:

- Ensure compliance to TB policies, CD 240 requirements and CSC guidelines including:
 - Documentation requirements for sole-source and in-house tendering; and
 - Post-contract evaluation
 - Completion of cost-benefit analysis where appropriate.

**ANNEX A****REVIEW OBJECTIVES AND CRITERIA**

OBJECTIVES	CRITERIA
1. To provide reasonable assurance that a management framework is in place in support of CORCAN Construction contracts	1.1 <i>Policy and Procedures</i> - CSC Policies, guides and manuals, and CORCAN governing principles are consistent with relevant government acts, legislation and policies.
	1.2 <i>Roles & responsibilities</i> –roles and responsibilities are clearly defined, understood, documented and communicated.
	1.3 <i>Training</i> – Training needs related to CORCAN construction procurement is available and provided to relevant employees.
	1.4 <i>Monitoring</i> – Monitoring practices and controls are in place to ensure compliance with contracting policies and practices,
2. To determine the extent of CORCAN's compliance with legislation and policies	2.1 <i>Contract Planning</i> – Requirements are clearly defined, appropriate contracting methods are selected, and justification is documented.
	2.2 <i>Pre-approval</i> – Appropriate approvals are in place for each contract and funds are budgeted.
	2.3 <i>Content of Contract files</i> – The documentation requirements of each CORCAN Construction contract is in accordance with Government Regulations, TB, CSC /CORCAN policies and directives.
	2.4 <i>Invoicing</i> – Invoices submitted by contractors meet the contract terms of reference and provide sufficient information for the certification of section 34 of the FAA.
	2.5 <i>Approval of payment</i> – Verification of invoices under Section 33 of the Financial Administration Act is in accordance with TB and CSC/CORCAN policy and directives.
	2.6 <i>Post-Contract Evaluation</i> – Post contract evaluations are completed in accordance with policy.



ANNEX B

LOCATION OF SITE EXAMINATIONS

REGION	SITES
Pacific	<ul style="list-style-type: none">• CORCAN Pacific RHQ, Abbotsford• Regional Supply Depot, Matsqui
Prairies	<ul style="list-style-type: none">• CORCAN Prairies RHQ, Saskatoon• Prairies Construction Office, Riverbend Institution
Ontario	<ul style="list-style-type: none">• CORCAN Ontario RHQ, Kingston• Ontario Construction Office, Frontenac Institution
Quebec	<ul style="list-style-type: none">• CORCAN Quebec RHQ and Quebec Construction Office, Mte St Francois, Laval
Atlantic	<ul style="list-style-type: none">• CORCAN Atlantic RHQ, Moncton• Atlantic Construction Office, Amherst
NHQ CORCAN	<ul style="list-style-type: none">• Comptroller's Office, 340 Laurier Ave, West

**ANNEX C****REVIEW OF CORCAN CONSTRUCTION CONTRACTS****MANAGEMENT ACTION PLAN**

RECOMMENDATION	ACTION SUMMARY	OPI	PLANNED COMPLETION DATE
<p>Recommendation 1: CORCAN CEO should:</p> <ul style="list-style-type: none">Reinforce the need to comply with CSC's requirement to submit qualifying contracts to CRBs for approval prior to the award of the contract.	<p>CORCAN's CEO will organize a conference call with the Regional Directors (RD), budget managers and financial officers. The CEO will remind all managers of their obligations under Schedule 24 of the Financial Signing Authorities (FSA) document and CD-240 (Contracting). This conference call will be documented and a memo will be issued to summarize the content of the discussion.</p> <p>In addition, this memo will also outline the enhanced monitoring process discussed with the RDs, budget managers and financial officers. Specifically:</p> <p>A. The CORCAN Comptroller's group will implement a post-verification process to confirm compliance with Schedule 24 of the FSA.</p> <p>1. Monthly verification will be performed by the CORCAN Comptroller's group to promptly identify and correct potential deviations from the policy so as to minimize the Department's risk exposure.</p>		<p>This process will be implemented starting in May 2010.</p> <p>May to October 2010</p>



RECOMMENDATION	ACTION SUMMARY	OPI	PLANNED COMPLETION DATE
	<p>2. Quarterly verification will be performed by the CORCAN's Comptroller group to ensure the provisions of Schedule 24 of the FSA are applied on a consistent basis.</p> <p>The Comptroller will brief the CEO of anomalies observed during the verification process. Appropriate corrective actions will be taken.</p> <p>B. CORCAN's RBMs are required to review annually each institution in their region to confirm compliance with the FAA and related departmental policies. A checklist (RBM Checklist) has been prepared to assist in this review. In response to the recommendation made by CSC Internal Audit this process will be enhanced as follows:</p> <ol style="list-style-type: none"> 1. The RD will present a plan for the completion of the RBM checklist, by institution, for approval by the CORCAN CEO. 2. The Comptroller's group will monitor the completion of the site reviews undertaken in each Region. A copy of the completed RBM checklists for each site will be submitted to the Comptroller's group for review. Anomalies will be reported to CORCAN's CEO and appropriate corrective actions will be taken. 		<p>Ongoing</p> <p>Ongoing</p> <p>May 31, 2010</p> <p>Ongoing</p>



RECOMMENDATION	ACTION SUMMARY	OPI	PLANNED COMPLETION DATE
	<p>C. To ensure payment authorization has been properly exercised under Section 33 of the FAA a checklist will be implemented. The checklist will require the Financial Officer to review all aspects of the payments including the procurement component.</p>		<p>June 30, 2010</p>
<p>Recommendation 2: CORCAN CEO in collaboration with ACCS should:</p> <ul style="list-style-type: none"> • Proceed with the assessment of training as per CSC Departmental Response to the Office of the Procurement Ombudsman's 2008/2009 report (Chapter 5). 	<p>CORCAN CEO and ACCS will review training material to address CORCAN's specific needs reponses.</p>	<p>CEO CORCAN ACCS</p>	<p>September 30, 2010</p>
<p>Recommendation 3: CORCAN CEO should:</p> <ul style="list-style-type: none"> • Ensure compliance to TB policies and CD 240 requirements including: <ul style="list-style-type: none"> ○ Documentation requirements for sole-source and in-house tendering; and ○ Post-contract evaluation; ○ Completion of cost-benefit analysis where appropriate. 	<p>CORCAN's CEO will organize a conference call with the Regional Directors (RD), budget managers and financial officers. The CEO will remind all managers of their obligations under Schedule 24 of the Financial Signing Authorities (FSA) document and CD-240 (Contracting). This conference call will be documented and a memo will be issued to summarize the content of the discussion.</p> <p>In addition, this memo will also outline the enhanced monitoring process discussed with the RDs, budget managers and financial officers. Specifically:</p> <p>A. The CORCAN Comptroller's group will implement a post-verification process to confirm compliance with Schedule 24 of the FSA.</p>		<p>This process will be implemented starting in May 2010.</p>



RECOMMENDATION	ACTION SUMMARY	OPI	PLANNED COMPLETION DATE
	<ol style="list-style-type: none"> 1. Monthly verification will be performed by the CORCAN Comptroller's group to promptly identify and correct potential deviations from the policy so as to minimize the Department's risk exposure. 2. Quarterly verification will be performed by the CORCAN's Comptroller group to ensure the provisions of Schedule 24 of the FSA are applied on a consistent basis. <p>The Comptroller will brief the CEO of anomalies observed during the verification process. Appropriate corrective actions will be taken.</p> <p>B. CORCAN's RBMs are required to review annually each institution in their region to confirm compliance with the FAA and related departmental policies. A checklist (RBM Checklist) has been prepared to assist in this review. In response to the recommendation made by CSC Internal Audit this process will be enhanced as follows:</p> <ol style="list-style-type: none"> 1. The RD will present a plan for the completion of the RBM checklist, by institution, for approval by the CORCAN CEO. 2. The Comptroller's group will monitor the completion of the site reviews undertaken in each Region. A copy of the completed RBM checklists for each site will be submitted to the Comptroller's group for review. Anomalies will be reported to CORCAN's CEO and appropriate corrective actions will be taken. 		<p>May to October 2010</p> <p>Ongoing</p> <p>Ongoing</p> <p>May 31, 2010</p> <p>Ongoing</p>



RECOMMENDATION	ACTION SUMMARY	OPI	PLANNED COMPLETION DATE
	C. To ensure payment authorization has been properly exercised under Section 33 of the FAA a checklist will be implemented. The checklist will require the Financial Officer to review all aspects of the payments including the procurement component.		June 30, 2010



ANNEX D

KEY POLICY DOCUMENTS REVIEWED FOR THE REVIEW

The following are the key policy documents reviewed for the review.

Government of Canada Legislation, Policies & Regulations

TB – Contracting Policy

Government Contract Regulations

The *Financial Administration Act (FAA)*

CSC Guidelines & Directives

Schedule 24 – Financial Signing Authorities (CSC National Standards Delegation)

Commissioner’s Directives (CD)

CD 240 – Contracting

CORCAN Governing Principles (GP)

Chapter Five – Construction

**SCHEDULE 24 – CSC NATIONAL DELEGATION INSTRUCTION (CORCAN)****CORCAN****Amounts listed include all applicable taxes:**

1. Service Contracts:
 - The CSC enclosed procurements & contracting authorities (budget manager with CSC training successfully completed, RACRB and CRB) apply to all service contracts issued by CORCAN employees.
 - All requests for service contracts, once approved by the Contract Review Board, will be returned to CORCAN to be processed via their designated contracting Officer or to CSC according to each region.
2. Goods Contracts:
 - Budget managers are authorized to purchase goods up to a maximum order total of **\$10,000**.
 - Regional directors, CEO, Comptroller and Director, Corporate Affairs are authorized to approve purchases of goods for a maximum order total up to \$25,000.
 - Regional directors, CEO, Comptroller and Director, Corporate Affairs are authorized to approve contract amendments, for the purchase of goods, up to a total aggregate value (all amendments) of not more than \$25,000.
 - CORCAN is authorized to forward all requests for goods over \$25,000 and all ensuing amendments to these directly to PWGSC without CRB approval.
 - CORCAN has been provided a special contract delegation authority for purchasing of goods.
 - a. Goods Contracts – Non-competitive
 - i. Original \$25,000
 - ii. Amendments \$25,000
 - b. Goods Contracts – Traditional Competitive
 - i. Original \$400,000
 - ii. Amendments \$200,000
3. Construction Contracts (*Internally procured, not including Specific Service*)



Agreement (SSA) with PWGSC).

A construction contract is defined as a contract for labour and material to construct a product.

- Contracts for construction up to a value of \$40,000 using the “Construction and Maintenance Work Order Contract” and the “Request for Quotation” forms (1274 and 1274-1).
 - Amendments for construction contracts up to a total aggregate value (original contract + amendments) up to a value of \$40,000.
 - All requests for Construction over \$40,000 must be forwarded to Contracting and Materiel Services for CRB approval.
 - All requests to amend contracts for construction (*Internally procured, not including Specific Service Agreement (SSA) with PWGSC*) where the aggregate amendment value exceeds \$40,000 must be forwarded to Contracting and Materiel Services for CRB approval.
4. Payments on the strength of an invoice (after the fact or fee for services) will be approved by CORCAN CEO. The manager must provide a written rationale to the CEO to support the request to pay on strength.
 5. Call-ups against Standing Offer Agreements for goods, services and/or construction will be handled by CORCAN employees via ORACLE (IFMMS).