Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

Office of the Superintendent of Financial Institutions

Internal Audit Report on
Finance - Contracting for Professional Information Management / Information Technology Services

June 2011

OSFI
BSIF

Canada

Table of Contents

1. Background

Introduction

Internal Audit conducts assurance work to determine whether the Office of the Superintendent of Financial Institutions Canada's (OSFI's) risk management, control processes, and governance, as designed and represented by management, are adequate to ensure risks are appropriately identified and managed.

The audit of Finance - Contracting for Professional Information Management / Information Technology (IM/IT) Services was approved by the OSFI Audit Committee and the Superintendent for inclusion in the OSFI 2010-2011 Internal Audit Plan. This report presents the results of that audit based on the audit work completed at the end of March 2011.

This report was presented to the OSFI Audit Committee and approved by the Superintendent on June 20, 2011. The Assistant Superintendent, Corporate Services and the Managing Director, Finance and Corporate Planning, who have provided their management comments within this report, have also reviewed it.

Context

The objective of the OSFI Procurement and Contracting (Contracting) group is to acquire the best value for goods and services in a transparent manner that enhances access, competition and fairness. They achieve this by:

- Providing centralized Contracting services for all externally acquired goods and services.

- Providing advice and guidance to OSFI employees on the applicable Government Contracts Regulations, Treasury Board Directives, International Trade Agreements (e.g. The North American Free Trade Agreement, etc.) and other contracting policy requirements.

- Maintaining OSFI contracting records and all related reporting.

OSFI uses an extensive number of contracting strategies to acquire the goods and services needed to help achieve its goals and objectives and to deliver on its Mandate and Long-Term Business Priority.

More recently, government-wide contracting practices regarding responsible spending have come under increased public scrutiny. As a result, there is a growing expectation that the appropriate management systems and practices are in place to award, administer and to monitor contracting compliance and contract performance on an ongoing basis.

1. Background, Continued

Context
(Continued)

Framework

Contracting for goods and services have traditionally been recognized as a complex area due to the number of statutes and their nature, regulations, directives, international trade agreements, policy requirements and guidelines applicable to OSFI:

- The Financial Administration Act (FAA) establishes the expenditure controls.

- The Government Contracts Regulations provide the framework for contracting activity within the Government of Canada.

- The Treasury Board Secretariat's (TBS) Contracting Policy supports these regulations by providing further direction on the application of the contracting rules.

- The TBS guidelines on the Proactive Disclosure of Contracts require the quarterly disclosure of contracts and amendments greater than $10,000 in value.

OSFI has developed its own contracting policies and procedures to provide further guidance to management and staff. These support the TBS Contracting Policy and are detailed in the OSFI Contracting Policy and the OSFI Contracting Handbook.

Other applicable international trade agreements and guidelines include:

- the North American Free Trade Agreement (NAFTA);

- the World Trade Organization - Agreement on Government Procurement (WTO-AGP);

- the Agreement on Internal Trade (AIT);

- the recent Canada-Chile Free Trade Agreement (CCFTA) and the Canada-Peru Free Trade Agreement (CPFTA); and

- guidelines on the Procurement Strategy for Aboriginal Business (PSAB).

1. Background, Continued

Context
(Continued)

<u>Value of Contract Commitments</u>

For the period April 1, 2010 to October 7, 2010, OSFI had a total of 224 contracts, worth a total commitment value of approximately $9.9 million. These included all contracts that were in place at the beginning of the period plus the contracts that were awarded, amended or closed during that period.

Out of the 224 contracts, 90 contracts (or 40% of the total OSFI contracts) were for professional IM/IT services, with a commitment value of $5.9 million (or approximately 60% of all OSFI commitments). Please refer to Table 1 below for the IM/IT services contracts as a percentage of all OSFI contracts for the fiscal year-to-date (October 07, 2010):

Contracts	#	%	Amt Committed $'000	%	Total Spent as at Oct 07, 2010 $'000	%
IM/IT services	90	40.2	$5,854	59.4	$2,170	58.1
All OSFI	224	100.0	$9,861	100.0	$3,737	100.0

Table 1: IM/IT services contracts as a percentage of all OSFI contracts for the period Apr 1, 2010 to Oct 7, 2010

2. Audit Objective, Scope, and Approach

Audit Objective The objective of the audit was to provide reasonable assurance that the control framework (i.e. OSFI's systems of risk management, control processes and governance) for the Contracting of Professional IM/IT Services, as designed and represented by management:

- is operating efficiently and effectively; and
- complies with the applicable laws, directives, regulations and policies.

The audit focused on the following key activities within the Contracting process for professional IM/IT service contracts:

	Activity	**Detailed Audit Objectives**
1	Requirements definition	1. Work descriptions or specifications are documented, reviewed and approved in accordance with the applicable policies.
2	Procurement Strategy and Contract Award	1. The appropriate procurement strategy is applied and reviewed for adherence to the relevant Policies. 2. Where applicable, a challenge function has been effectively applied to determine the appropriate procurement strategy. 3. Awarded contracts are approved by the appropriate level of delegated authority. 4. Contract amendments are reviewed to ensure that they are in the best interests of OSFI (i.e. amendments are not used to bypass the competitive process).
3	Contract Administration	1. Contracting files demonstrate the appropriate discharge of fiduciary responsibilities. 2. Payments are approved in accordance with the applicable policies.
4	Oversight, Monitoring and Reporting	1. Services rendered and related invoices are reviewed and monitored on a timely basis for compliance with the agreed terms and conditions relating to time, cost and performance. 2. All contracting activities and amendments are annually reported to the TBS, in accordance with the applicable policies. 3. Contracts and amendments greater than $10k are disclosed on a quarterly basis, in accordance with the applicable policies.
5	Contract Close-out	1. Contractor performance is formally evaluated on completion of the contract, as necessary.

Table 2: Detailed audit objectives for each key activity within the Contracting process

2. Audit Objective, Scope, and Approach, Continued

Audit Scope   The scope of the audit is for all professional IM/IT service contracts that were in place during the period April 01, 2010 to October 07, 2010 and includes such contracts that were awarded, amended or closed during that period.

The scope of the audit includes a review of OSFI's Contracting process from the requirements definition that details the nature of the required services and the deliverables or services required to fulfill the contract, to the close out of the contract, where applicable.

The scope of the audit work excludes the following:

- procurement of non-IT goods and services;
- procurement and contracting activities performed by PWGSC; and
- accounts payable.

Audit Approach   The audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, consistent with the Treasury Board Policy on Internal Audit.

The audit criteria, as set out in Appendix A - Contracting for Professional IM/IT Services Control Criteria, were used for assessing the contracting policies, processes, and controls.

The audit work was conducted on a collaborative basis involving information gathering, interviews with management and staff involved in supporting the contracting for Professional IM/IT Services and the examination of documents.

The approach to conducting the audit included:

- review of relevant documentation, such as the applicable TBS and internal policies and procedures;
- inspection/examination of a representative sample of contract files, records and supporting documents; and
- discussions/interviews with key personnel.

3. Audit Results

Review of internal policies and procedures

Since our last audit Report on Contracting from 2004/2005, the Contracting group has formally documented OSFI's policies and practices within the OSFI Contracting Policy and the OSFI Contracting Handbook.

Between 2008 and January 2010, the staff complement of the Contracting group was increased and the experience and skill sets of the team were strengthened, the results of which are evident with the development and implementation of a number of templates and checklists that standardizes the procurement processes within OSFI.

Inspection / examination of a representative sample of contracting files

Controls and monitoring practices over the Contracting for Professional IM/IT Services are operating as intended and comply with the applicable laws, directives, regulations and policies.

There were no systemic weaknesses, which would impact on OSFI being able to achieve its goals and objectives and being able to deliver on its mandate and long-term priorities.

Discussions / interviews with key personnel

Internal Audit interviewed a number of key IM/IT personnel, who frequently use the contracting services. They have all expressed their satisfaction with the levels of support and service provided by the Contracting group.

During interviews, management indicated that the Contracting group currently uses a number of disparate systems and spreadsheets to review, monitor and to report on OSFI's contracts and commitments. However, the Finance and Corporate Planning Division's 2011-14 Business Plan includes the planning and scoping of enhancements, or a replacement of these systems by the end of March 2012, as part of the Information Technology Renewal initiative (which includes the renewal of corporate systems through the implementation of an enterprise resource planning system). According to management, this is expected to improve the efficiency of the Contracting process as follows:

- the ability to provide better ad-hoc contract, commitments and spend information for monitoring and decision-making purposes; and
- a suite of management reports on contracting activities, which would expedite reporting.

4. Conclusion

Conclusion   Management controls and monitoring practices over the Contracting for Professional IM/IT Services are designed and operating effectively to comply with the applicable laws, directives, regulations and policies.

As a result, there are no observations to report, which would impact on OSFI being able to achieve its goals and objectives and being able to deliver on its mandate and long-term priorities.

We wish to recognize the excellent rapport and exchange of views with all involved in the audit. The depth of the review and focusing on what matters would not have been possible without the support received throughout the audit.

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Chief Audit Executive, IA   Date

5. Management Response

Overview   This report has been reviewed by the Managing Director, Finance and Corporate Planning and the Assistant Superintendent, Corporate Services, who acknowledge its contents.

Responses /   We thank the audit team for their collaborative approach in conducting this
Comments   audit.

From 2008 to January 2010, management took concrete actions in a phased approach to enhance the staff complement and increase the grade levels of positions within the Contracting group. In combination, these actions broadened and deepened the professional expertise and experience of the group, which in turn resulted in enhanced internal controls, risk management practices and support to OSFI's regulatory, supervisory and corporate services activities. The results of this audit demonstrate the significant return on those past investments, which OSFI continues to maintain through ongoing employee training and development.

Appendix A - Contracting for Professional IM/IT Services Control Criteria

The Contracting for Professional IM/IT Services control framework was developed on a collaborative basis with the Contracting group and accepted by the Managing Director, Finance and Corporate Planning and the Assistant Superintendent, Corporate Services as the basis for assessing and reporting on the Contracting control framework.

Contracting for Professional IM/IT Services Audit Evaluation Criteria	
Element	**Components**

1. Process and Control Activities	▪ Processing of Contracting exists that:
	
	  - Sets out contracting information, performance (service levels) and reporting requirements, aligned with Government requirements
	
	  - Sets out manual and automated procedure and control requirements at contracting, sector / division and senior management levels, including account verification and commitment control
	
	  - Provides operational policy, guidance and tools including specific guidance for management and reporting of exceptions to contract processing requirements and bidder / supplier dispute resolution
	
	  - Provides for continuous review / quality assurance including identification, assessment, reporting and remediation of non-compliance matters / problems
	
	  - Provides for recording and reporting of contracting information in the general ledger and management reporting systems
	
	 ▪ Backup and continuity plans for supporting IT systems are in place

2. Operating Environment	▪ Roles and responsibilities of Contracting management, staff, and others involved in contracting activities are defined and communicated ▪ Staff skills and competencies are defined and incorporated into informal and formal staff development and training such as on-the-job training and knowledge transfer ▪ Human Resources plans for Contracting management and staff are in place, including backup and succession planning
3. Objective Setting	▪ Objectives and services for Contracting are defined and aligned with OSFI corporate objectives and legislative mandate ▪ Contracting plans/budgets are established, aligned with OSFI corporate plans and priorities and communicated to management and staff ▪ Performance expectations are set, monitored and cascaded down to Contracting management and staff ▪ Contracting policy, guidance and practices are established, incorporate

Contracting for Professional IM/IT Services Audit Evaluation Criteria	
Element	**Components**
	the applicable legislation and TBS policy requirements and are communicated to management and staff
4. Risk Management	▪ External and internal risk related to Contracting are identified, assessed, and mitigation/controls are in place and incorporated into corporate risk management, consistent with ERM policy ▪ Corporate risk management is incorporated into Contracting risk management and cascade down to management and staff ▪ A structure and process exists for monitoring and managing risk /issues related to Contracting information, processing and reporting
5. Information and Communication	▪ Information systems appropriately support the contracting process through the provision of timely and accurate information ▪ Corporate memory is captured, maintained and accessible as needed ▪ Contracting performance expectations are communicated among staff

6. Monitoring and Management Reporting	▪ Monitoring and management reporting processes and supporting practices and tools exist at the Contracting, Finance and senior management levels including:
	
	   o a challenge function for procurement / contracting decisions
	
	   o contracting volumes and trends reports
	
	   o monitoring of contracting issues, problems, non-compliance, supplier / bidder disputes and their resolution
	
	   o reports on contract commitments and year-to-date spending
	
	   o reporting takes place on:
	      ➢ proactive disclosure of contracts in accordance with TBS guidance;
	      ➢ achievement of performance (service levels)
	      ➢ areas for improvement in operations