

ENVIRONMENT CANADA

AUDIT OF SSC SERVICES AND CHARGES

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Feb. 1/91

EXECUTIVE SUMMARY

This report presents the findings of a study of the Supply and Services (SSC) services and charges to Environment Canada (EC). The Internal Audit Branch (IAB) undertook this study in keeping with the Treasury Board requirement for clients of common service agencies to assure themselves of value for money. It is particularly timely in light of the thrust towards increased delegation of authority to line departments.

The study focuses on Environment Canada's management of the relationship with Supply and Services Canada with respect to procurement. It examines Environment Canada's perception of the value for money received from Supply and Services, opportunities for seeking greater cost-effectiveness, the department's capacity to accept increased delegation, and the use of management controls to ensure that value for money is received.

The main findings and conclusions from the study are:

- Environment Canada representatives differ in their perception of the value for money received from SSC for acquisition services. In general, however, the value for money was perceived to be satisfactory to low. Departmental representatives are doing much legwork prior to submitting a request, and feel as a consequence that the fees charged are high in relation to the service received. Turnaround time and follow-up service were most often cited as deficiencies. The dissatisfaction may be due in part to the fact that departmental representatives were not always aware of SSC's full role in the government acquisition process, such as achieving national socio-economic objectives.
- Effective management of the relationship with SSC requires a broader management perspective than the current transactional approach to procurement. The department currently lacks appropriately aggregated information to manage the service relationship with SSC effectively, but is moving ahead to address this shortcoming. The department has undertaken the development of an automated procurement system called APACS, which will streamline the procurement process when it is fully implemented. However, APACS is not configured to capture aggregate information, and further development will be required to provide the much-needed management information in this area.

- Opportunities exist for greater cost-effectiveness, such as taking greater advantage of standing offers, economies of scale, delegation of authority and negotiation of services and charges. In this case as well, a broader management approach must be taken in order to identify and evaluate the possibilities.
- A Memorandum of Understanding which will increase the delegation of procurement authority from SSC to EC is currently being negotiated between the two departments. The limits for local purchase orders will rise from \$500 to \$1000 unconditionally, and can be raised to \$2500, if the department meets certain service and accountability requirements. The department has requested a further increase of authority to \$5000.

EC managers claim to be frustrated by lengthy turnaround times from SSC, and welcome the opportunity for increased delegation. However, purchases under \$5000 account for roughly 70% of the volume, but only 20% of the fees paid to SSC. Since \$4.0 million of the \$4.25 million in service charges is made against the 28% volume over \$5,000, even with a \$5000 delegation EC staff would be doing almost all the work of procurement, but would save very little on SSC Service charges. (see Exhibit 2, p.12).

Departmental officials believe that a properly resourced procurement function, supported by an automated information system, could satisfy the service and accountability requirements of increased delegation. However, the department has not prepared a formal cost-benefit analysis of this opportunity, and thus may not be fully aware of the consequences of increased delegation. There could be risk since the MOU specifically excludes a transfer of resources from SSC to EC; and dictates that the Department will not make internal reallocations to the procurement function.

RECOMMENDATIONS

It is recommended that:

1. Level of service and value for money questions be addressed specifically in procurement functional reviews.

Response: Director, Materiel and Accommodation Management

We will be addressing level of service and value for money issues in future operational reviews.

2. A management information module be incorporated as soon as possible in the further development of the automated procurement system, in order to provide necessary management information at the Service and Corporate levels.

Response: Director, Materiel and Accommodation Management

We are presently enhancing the Automated Procurement and Contracting System's reporting capabilities. It is our intention that APACS will provide the types of information that managers need for decision making on procurement and contracting issues.

3. Opportunities for greater cost-effectiveness be identified on a systematic basis by reviewing procurement data at a suitable level of aggregation, and through feedback received during internal reviews.

Response: Director, Materiel and Accommodation Management

APACS will, once again, assist us in identifying opportunities for saving time and money. We have already begun analyzing information from the system for this purpose and will continue to do this in the future. We will also be taking appropriate action in response to the feedback we receive during our operational and other internal reviews.

4. A departmental representative be designated to act as a corporate liaison officer with SSC on matters such as negotiation of fees and methods of supply.

Response: Director General, Management Services Directorate

I am presently participating in SSC's Acquisitions 2000 project. This project is examining the role of SSC and appropriate supply methods for the future. We will also be reviewing SSC's role and fees at this year's Materiel Management Seminar to determine the amount of difficulty being experienced with these issues. Finally, DMSD and Finance representatives attend SSC's Fee Schedule meetings each year. We will be raising the issue of fee flexibility at this year's meeting.

5. A cost-benefit analysis be performed on a Service by Service basis before signing the memorandum of agreement with Supply and Services Canada for increased delegation of authority for procurement.

Response: Director, General, Management Services Directorate

Service Directors of Administration

The decision to request an increased purchase authority was, as I indicated, taken following our examination of the procurement process and our realization that we can provide our clients with better service by doing it ourselves. It is faster and easier to procure low-cost goods independently than it is to process them through SSC. We feel that it is not worthwhile to perform a cost-benefit study in the Administration Program nor to delay the signing of the memorandum of agreement. The other services should, of course, perform cost-benefit analyses if they are concerned about the implications of using the new authority.

Additional Comments: A/Departmental Comptroller

In terms of the accuracy of the findings, DMSD is in a better position to comment on the findings which refer to the quality of goods and services provided within stated requirements, whether price paid is the most economical, poor turnaround time of goods and services, etc... I understand that Francois Pagé is reviewing the report and will respond accordingly to your

findings and recommendations. I will, however, state that I am in agreement with the conclusions in the audit report.

The delegation of procurement authority has been approved to increase the limits for local purchase orders to rise from \$500 to \$1000 and is reflected in the revised Delegation of Financial Signing Authorities. In addition, a further increase to \$2500 for APACS users only has been submitted to the Minister for his approval. The issue of preparing a formal cost/benefit analysis should be looked at later once we have had some experience with the increased delegation and it's acceptance or rejection by our materiel managers because as you know, we still have the right to send our requisitions to SSC for processing.



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AUDIT OBJECTIVES AND SCOPE

The audit objective, as stated in the Terms of Reference, was to assess the cost-effectiveness of the management systems and procedures which ensure that Environment Canada is receiving value for money for common services provided by SSC. The scope included an assessment of the degree of satisfaction with SSC procurement services, identification of the potential for increased cost-effectiveness, evaluation of the management controls in place to manage the EC/SSC relationship, and an examination of Environment Canada's readiness to assume increased delegation of procurement authority.

The impetus for this audit was the Treasury Board requirement that client departments of common service organizations inform Treasury Board "when the services they must use deteriorate or when they do not receive value for money." (Treasury Board of Canada, Administrative Policy Manual, Chapter 303, Common Services).

Specific elements to be addressed, as identified in the Terms of Reference, were:

- Document the value and type of goods and services purchased by Environment Canada from Supply and Services Canada, and the policies and procedures by which they are acquired. Describe initiatives now under way to improve the cost-effectiveness of management in this area.
- Evaluate whether Environment Canada has received value for money for the goods and services provided by SSC, in terms of the level and quality of service, the fairness of charges and the cost-

effectiveness of acquisitions.

- Assess the opportunities for management within Environment Canada to seek the most cost-effective solution to the acquisitions in question.
- Assess the capacity of Environment Canada to meet the service and accountability requirements of increased delegation of purchasing authority.
- Assess the management controls which are in place to ensure that Environment Canada is receiving value for money for the services provided by SSC.

The audit focused on the way in which Environment Canada manages the relationship with SSC. It was not intended to be a review of Environment Canada's procurement function, an audit of SSC itself, or an independent value-for-money assessment of the services provided.

Procurement, which comprises the largest dollar value of fees paid to SSC by EC, is the focus of this study. As shown in Appendix A, \$4.7 million was paid to SSC in 1988/89 as "Contract Administration Service Charges". This amount includes procurement and contract administration fees. Printing and publishing also represent a large portion of total fees, but are not addressed in this report due to the significant changes in these areas planned by SSC for the near future.

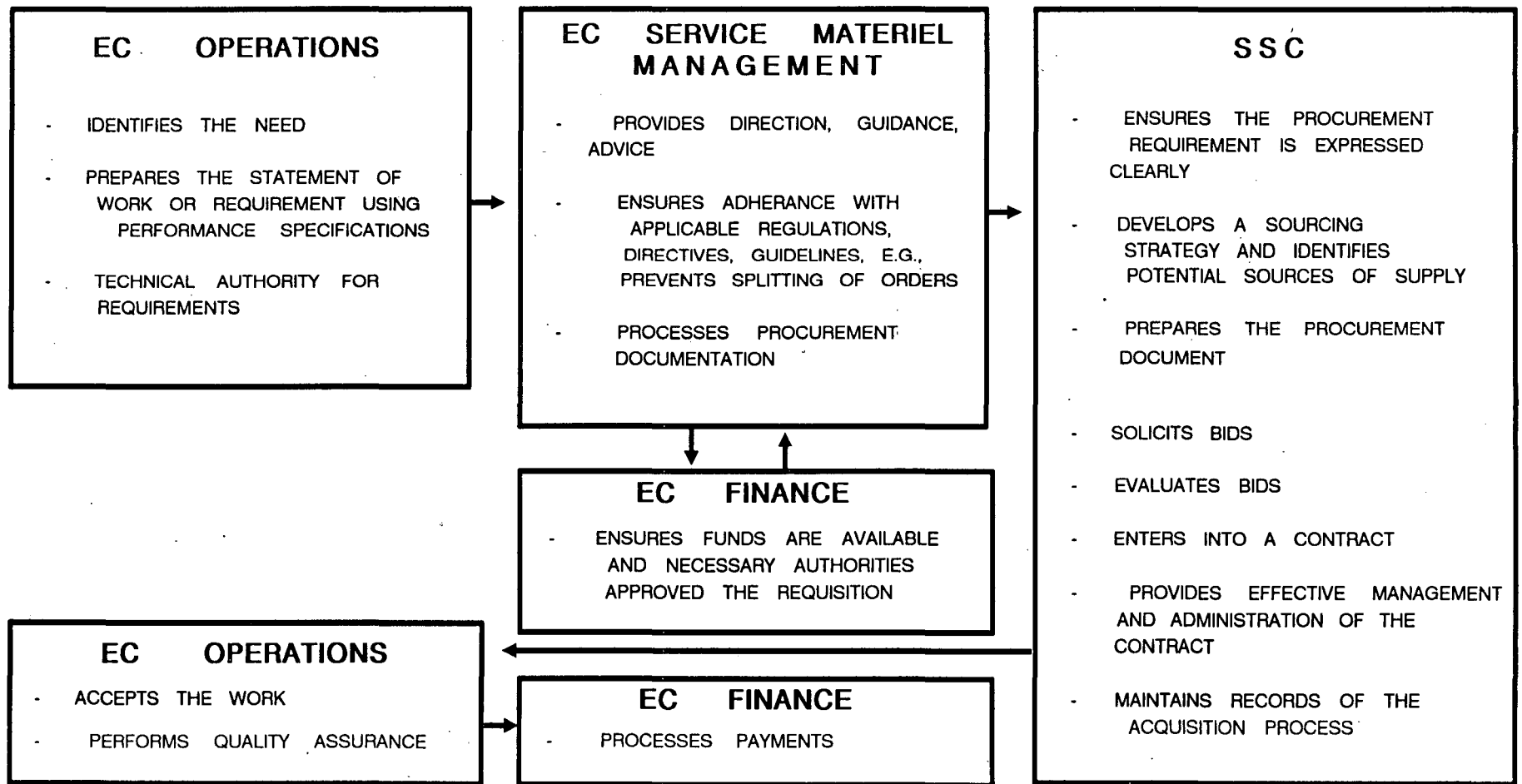
AUDIT APPROACH

This section summarizes the audit approach; a more detailed account is provided in Appendix B. The audit was conducted in the following five phases:

1. **Project Initiation:** During this phase, a consensus was reached as to the objectives, scope, and management of the audit. A project initiation report was delivered to facilitate this process.
2. **Preliminary Review:** In this second phase, we conducted preliminary interviews, developed audit criteria, and developed a questionnaire for the more detailed interviews. The criteria are presented in Appendix C, and the EC and SSC questionnaires are provided in Appendix D.
3. **Audit Field Work:** In the field work phase, we conducted interviews with Corporate and Service materiel management personnel and program managers, at Head Office and in the Ontario Region. We also interviewed representatives of SSC. A list of interviewees is provided in Appendix E.
4. **Review and Analysis:** During this phase, we analyzed interview results and data received, and conducted further information gathering deemed to be required. It should be noted that the analysis was constrained by a lack of aggregate data about procurement activity in the department. We prepared an interim report to provide findings and conclusions to date.
5. **Reporting:** A series of reports, both oral and written, were provided during the study. Contact was maintained with both the Project Authority and the Auditee.

PROCUREMENT PROCESS

Responsibilities and Flows



BACKGROUND

The functional responsibility for the procurement function within Environment Canada rests with the Departmental Management Services Directorate, and more specifically, the Materiel and Accommodation Management Directorate of the Finance and Administration Program. The line responsibility for procurement falls with each Service materiel management group, which is the responsibility of the headquarters or regional Service Comptroller or equivalent. This materiel management group is an intermediary between the Service operational managers and SSC. Exhibit 1, opposite, illustrates the responsibilities and flows associated with goods and services procured through SSC. Key points from the SSC Customer Manual regarding SSC responsibilities versus customer responsibilities are presented in Appendix F.

The policies and procedures which the procurement managers, officers, clerks, and operations personnel must adhere to are:

Treasury Board

- Administrative Policy Manual
- Consolidated Contracting Policy and Guidelines
- Guidelines and Circulars

Environment Canada

- Departmental Administrative Policy Manual (Procurement Policy)
- Canadian Parks Service Materiel Management Procedures Manual

SSC

- Customer Manual

The Departmental Management Services Directorate has prepared a departmental procurement policy, which is now in final draft form. The Canadian Parks Service is the only Service within Environment Canada to provide its materiel management personnel with a "how to" procedures manual for the procurement function. Procurement is typically taught to new personnel by individuals in the Department experienced in procurement.

Supply and Services Canada has a number of responsibilities related to the procurement function, including:

- expressing the purchase requirement clearly;
- developing a sourcing strategy and identifying potential sources of supply;
- preparing the procurement document;
- soliciting bids;
- evaluating bids;
- entering into the contract;
- providing effective management and administration of the contract; and
- maintaining records of the acquisition process.

In charging for procurement, SSC has defined a number of service categories, including: procurement operations, major crown projects; printing and communications; client services; management consulting; and auditing and advisory services. Within each of the major categories, SSC provides a further breakdown of its services. For example, procurement operations is divided into: acquisitions, special services, traffic management, fleet management, standards and specifications, and assets management. In this study, we are concentrating on the acquisition of goods and services, and are using the term procurement to represent the entire acquisition cycle.

SSC charges are applied on a scale which ties rates to dollar business volume by value class interval (VCI). There are eight VCI ranges. Hence, a base fee is paid depending on the VCI interval into which the purchase value falls, and a percentage of the amount that exceeds the previous VCI range's highest value. The base charges increase with each higher VCI range, while the percentage rates decrease.

One of the scope requirements in the request for proposal was to develop a profile of the goods and services purchased by the Department. We were able to obtain summary data from SSC for the 1988/1989 fiscal year by VCI range. Exhibit 2, opposite, illustrates the volume of goods and services procured by Environment Canada through SSC in relation to the associated SSC service fees within key dollar ranges. This exhibit shows that at the low dollar end, the volumes are high and the relative fees paid to SSC are low. This is of significance because the breakpoints of \$2,500 and \$5,000 are the levels of increased delegation being contemplated by the department for the future. It should be noted that the \$0 - 5,000 category comprises 70% percent of the transactions but only 20% percent of the fees.

FINDINGS BY LINE OF INQUIRY

In this section we present the findings by line of inquiry. It is important to note that the findings for the most part are based on qualitative information from interviews in Head Office and the Ontario region. There was a lack of available quantitative data from which to draw conclusions, particularly in the area of improving cost-effectiveness. Nonetheless, the findings do shed light on the department's management of the relationship with SSC in the acquisitions area.

A. Value-for-Money from SSC

One of the key lines of inquiry in this audit was value-for-money. Value-for-money was measured in terms of the level and quality of service provided by SSC, the fairness of SSC charges and the cost-effectiveness of acquisitions. We sought to address this issue by examining turnaround times; quality of service, helpfulness, advice; knowledge of the client department; follow-up service and contract administration; ability to handle urgent requests; and communication of delays with suppliers. We attempted to determine whether the goods and services received by Environment Canada met their needs as defined and whether the quality was consistent with the amount paid. We asked interviewees whether the cost of SSC services are fair and reasonable, or onerous. Additionally, we wanted to determine if Environment Canada was receiving cost advantages from going through SSC or whether the same good or service could be acquired for the same or a lower price elsewhere.

Findings:

In general, departmental representatives were not impressed with the value for money received from SSC in the acquisitions area. We caution the reader that interviewees were not always aware of the level of fees being paid to SSC, the exact functions performed by SSC in the acquisitions process, or the extent of protection offered by central agency involvement in the procurement process. This protection takes the form of prudence and probity on the part of the central agency, as well as legal follow-up where required. Feedback on the level of service provided by SSC is summarized below. The findings are in line with those presented in the latest Auditor General's report on the subject. It should be noted that the most important factor cited in the AG's report as causing lengthy turnarounds was supplier delay. In presenting these findings, we have tried to exclude exceptional cases and give SSC the benefit of the doubt, as we realize that examples cited tend to be the problematic cases.

- The nature and quality of goods and services provided is for the most part within the requirements specified in the requisitions. Many departmental representatives take credit for this fact, attributing it to their thorough advance legwork in defining the specifications and possible suppliers.
- The prices obtained may not always be the best, for three reasons. First, in order to take advantage of the convenience of standing offers, prices may have to be somewhat higher. Second, due to the central approach and the time taken in the acquisition process, certain temporary price discounts are unavailable to the department.

Third, due to SSC fulfilling certain of the federal government's socio-economic objectives, such as regionalization and rotation of contractors, the best price may not always be obtained. However, price was not a big issue with the interviewees.

- The main complaint about acquiring goods and services through SSC was in the turnaround times before the goods are received or contracts signed. It was reported to be particularly frustrating in the low-dollar end of the scale, where the requirements are fairly simple and the need short-term.
- SSC response to urgent requests was reported to be very good.
- Some frustration was experienced in working with SSC on the acquisition of scientifically complex equipment and other technical purchases. It seems to be hit-and-miss as to whether the SSC representative is adequately qualified to deal with such requests.
- There were few specific complaints about the mid-range dollar value items, which constitute the highest spending by the department.
- The extent to which SSC reports back to the department on the progress of a particular transaction was seen to be a major deficiency. Departmental representatives often are not made aware of the status, expected delays, or reasons for delays. Further, it is extremely difficult to

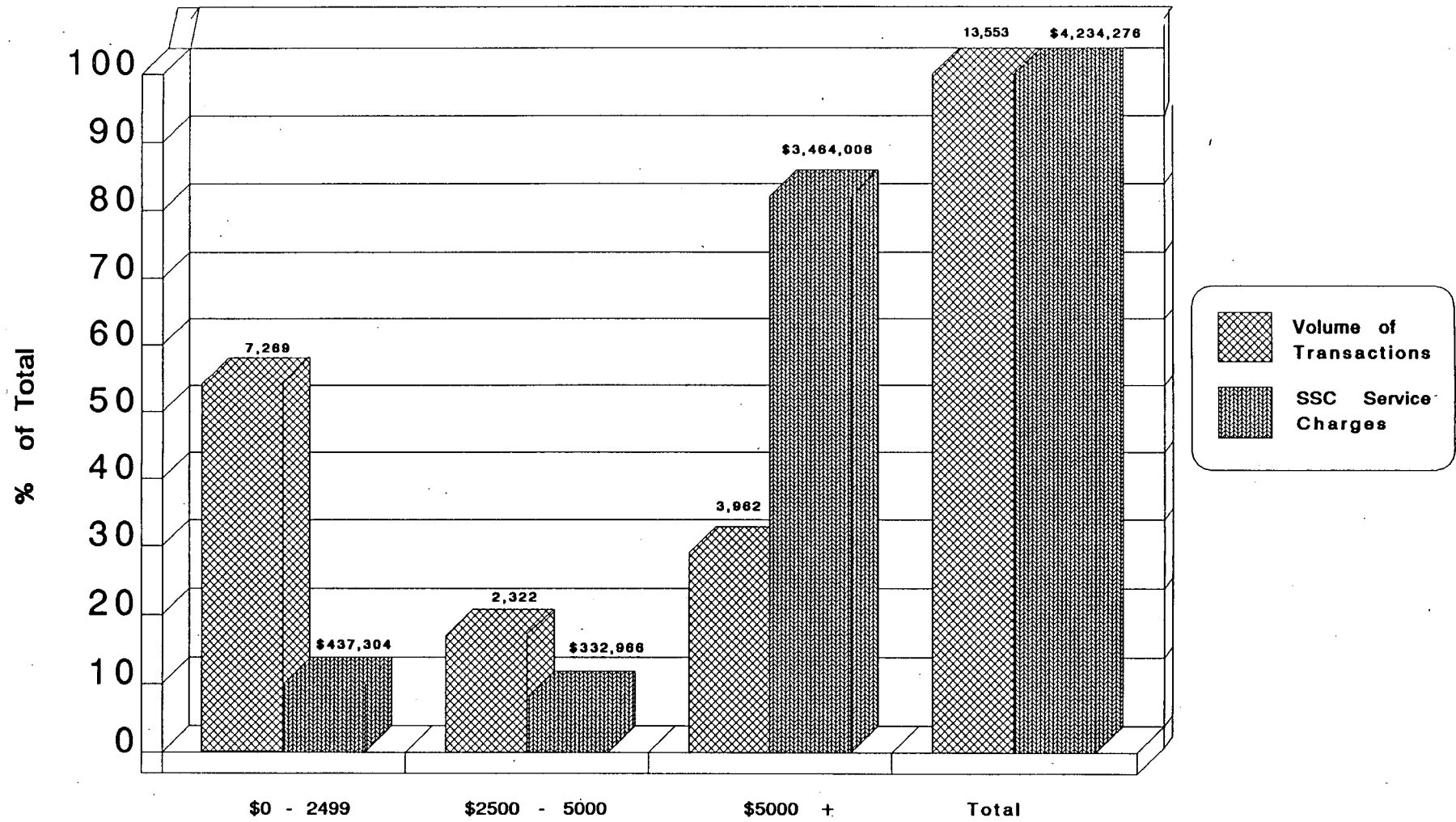
follow-up with SSC as the appropriate SSC officer cannot easily be identified.

- The best service is received from SSC when an EC representative makes direct contact with an SSC officer dealing in a particular area, and develops a working relationship with that individual based on direct communication.
- Some interviewees, who appear to understand the role of SSC and the constraints faced by the central agency, are very satisfied with the acquisitions services provided. They recognize the complexities and variety of objectives inherent in delivering government services. They feel that Environment Canada could not significantly improve overall performance, while ensuring prudence, probity, and the achievement of government socio-economic objectives.

All in all, departmental representatives see SSC as an extra layer in the process which slows it down and adds to the cost. Many interviewees avoid the use of SSC services where possible, such as in low dollar non-scientific contracts. They welcome the possibility of increased delegation for the low-dollar items, on the assumption that they could do the work faster and cheaper.

However, the department is not monitoring the value for money received in any formal or comprehensive manner. Departmental officials who experience difficulties communicate and take action as necessary on a case-by-case basis, but there is no synthesis nor reporting at a branch or departmental level. Criteria have not been set for the monitoring and assessment of value for money.

Environment Canada
 Goods and Services Procured Through SSC:
 Volumes and Fees (1988/89)



Conclusions and Recommendations:

The consulting team which performed this study acknowledges the difficulties with SSC that have been cited, but cautions that all departmental officials may not have a full appreciation of the activities involved in procurement in a government context where multiple objectives, such as fairness and regionalization, must be satisfied. There is certainly room for improvement, as is discussed in the next section.

We recommend that the department keep track of value for money in two ways:

- (i) by including value for money as a topic in procurement audits and functional reviews, and
- (ii) by tracking turnaround times, fees paid by type of good or service, and other such measures to assist in quantifying SSC's performance.

This approach will provide the department more information with which to assess value for money, and promote changes to improve the the cost-effectiveness of procurement.

B. Opportunities for EC Management to Seek Greater Cost-Effectiveness

The purpose of this line of inquiry was to evaluate the cost-effectiveness of procurement practices, and to identify avenues for seeking greater value for money. We attempted to determine the use of the competitive process, the extent of grouping purchase orders of similar items, and the degree to which commercially available goods were acquired over custom-designed goods. We also looked at whether the roles and responsibilities of Environment Canada and SSC were clear, documented and understood, the contribution APACS would make in lowering procurement process costs and time, the degree of use of standing offers and LPOs, and the frequency with which the Department had attempted to negotiate lower SSC service charges or improved services.

It should be recognized that certain approaches to greater cost-effectiveness are difficult to pursue due to relatively fixed requirements such as the SSC fee schedules approved by Treasury Board, and the geographic dispersion of the department's operating units.

Findings:

We experienced difficulty in determining the existing level of cost-effectiveness due to the lack of aggregate information, and the lack of awareness by departmental managers of the use that is made of different methods of procurement. We believe that there are improvements which can be made to enhance cost-effectiveness, particularly because there is not now a systematic effort to take advantage of the opportunities which do exist. Our findings can be summarized as follows:

- The department makes use of standing offers, but all respondents agree that this could be increased. In fact, data presented in the Acquisitions Service Line (ASL) Study report prepared by SSC in January, 1989, shows that Environment makes low to average use of standing offers in relation to other departments. Selected points from the ASL study are provided in Appendix H.
- The department attempts to achieve economies of scale, but hesitates to do this if it means waiting to aggregate orders, as time is seen to be a more important factor than price.
- There appears to be some duplication of effort between SSC and EC. This duplication is on EC's part, as reflected in the many interviewees who said they were doing all the legwork and SSC simply processing the paper. EC representatives are going the extra mile to ensure they obtain goods and services which meet their requirements (as noted earlier, the nature and quality of purchases was not cited as a problem). Therefore, it is difficult to say whether the extra time spent up-front in defining requirements and researching suppliers is an unnecessary cost, or a worthwhile contribution to overall cost-effectiveness.
- Departmental representatives have rarely attempted to negotiate fees with SSC, but have been successful in some instances when they did. Cases cited were renewal by SSC of a large contract of high dollar value with little change from the previous contract. Both parties recognized that SSC's level of effort and value-added was low

relative to the fees according to the VCI schedule, and adjustments were made.

- There is a lack of client focus on the part of SSC. It operates on a product and functional basis, and does not have a client representative for an individual department such as Environment Canada. Information by department may be obtained on request and at a price, but it is not routinely gathered. This makes it difficult for the department to verify activities and results from an overall management perspective.
- In addition to the preceding point, and more importantly in the context of this audit, Environment Canada does not gather its own management information on methods of procurement used, to what extent, for which categories of goods and services, and by which Services. It does not have a handle on fees paid to SSC for various types of acquisition; indeed, the quantitative information presented earlier in this report had to be obtained from SSC on special request. This will be discussed further in the section on management controls.
- The department has undertaken the development of a department-wide automated procurement system called APACS. It is almost fully in place in Conservation and Protection, partially in the Canadian Parks Service, and not at all in Atmospheric Environment Service. This system should improve efficiency with respect to particular transactions when it is fully implemented. While the system has the capacity for ad hoc management reports, it is not

yet set up to provide overall management information of the kind needed to systematically identify opportunities for greater cost-effectiveness, e.g., volumes of purchases by type and location.

Conclusions and Recommendations:

We believe that there are opportunities for greater cost-effectiveness. Areas for improvement are: increased use of standing offers, greater economies of scale, increased delegation of procurement responsibility (discussed in the next section), further negotiations on rates with SSC in particular instances, full implementation of APACS, and not doing SSC's work for it in preparing the requisition.

These opportunities cannot be identified systematically nor realized fully without taking a management (rather than just transactional) approach to procurement and the relationship with SSC. They can be identified once the functional authority within the department has a handle on the nature and extent of use of different procurement practices. This will require the support of management information, such as that which could in future be generated from the APACS data base if it is configured as it should be to provide aggregate data.

We recommend that the department systematically identify opportunities for greater cost-effectiveness by gathering the appropriate information to manage and review at a consolidated level, rather than on a transactional basis. This approach was discussed under the value for money issue, and will be further discussed below under management controls.

C. Capacity to Accept Increased Delegation

A draft Memorandum of Understanding (M.O.U.) has been negotiated between Environment Canada and SSC that increases the local purchase order (LPO) authority from \$500 to \$1,000, and further delegates purchasing authority to Environment Canada for the procurement of low-dollar value goods greater than \$1,000 but less than \$2,500. The M.O.U. provides Environment Canada operational managers with appropriate authority to coincide with their increased responsibility and accountability. Under the M.O.U., there is to be no transfer of person-years or financial resources between SSC and EC, nor is EC to increase its person-years to implement the agreement. Key points drawn from the M.O.U. are provided in Appendix G. It should be pointed out here that the authority for LPOs has been increased to \$1000 without conditions, but that the higher value of \$2500 brings with it additional accountability requirements.

In terms of Environment Canada's capacity to accept increased delegation, we were primarily concerned with three issues. The first issue is whether or not the Department had conducted a cost-benefit analysis to determine the feasibility and desirability of accepting increased delegation. The analysis should include a clear understanding of the changes that increased delegation may involve.

The second issue concerns the accountability requirements to SSC. As outlined in the M.O.U., the reporting entails the use of appropriate vendor codes and supplementary vendor data, provision of the type of award process, types and value of materiel, customer code, contract award date, and contract satisfaction rating. The department's capacity to meet the accountability for carrying out appropriate procurement practices will hinge on personnel resources, management

controls, and the full implementation of APACS.

The third issue examined was whether there are adequate personnel resources in terms of number and experience to handle an increased delegation and the associated increase in workload. The initial delegation of authority is from SSC to the corporate level of Environment Canada. The corporate functional authority for procurement intends to implement the increased delegation on a phased basis, as groups within the department are able to demonstrate the capacity to properly manage and account for the increased responsibility. At present, it is recognized that only the Finance and Administration and certain regions of Conservation and Protection have both adequate staffing and support systems (i.e., APACS) to be able to take on the delegation. Geographic dispersion of departmental offices limits the application of the agreement, and it would be more convenient for some offices to continue to use SSC services.

Findings:

We found that departmental officials are most eager to implement increased delegation, but may not be fully aware of the implications at this stage. Related findings are as follows:

- A formal cost-benefit analysis of this opportunity has not been performed. It is assumed that EC can attain faster turnaround and lower prices than SSC, and that the savings in fees will outweigh the incremental costs of taking on these activities. It is also assumed that the delegated functions can be carried out with the existing and planned PY complements. A cost-benefit analysis would

formalize and bring together these various assumptions to satisfy management that a good business decision is being made, and that the department can operate under the terms of the M.O.U.. In order to properly perform this cost-benefit, further information is required from SSC in terms of required tasks and existing SSC workload statistics to perform the tasks being transferred.

- Under the M.O.U., Environment Canada would need to handle an increased volume of transactions (Referring to Exhibit 2: 7,300 each year up to the \$2500 level, or roughly 50% of the total purchase transactions). EC would also be required to provide SSC with quarterly reports, and adhere to government contract policy. In return, the turnaround times for procurement are expected to decrease and a portion (\$440,000 up to the \$2500 level, or 10% of total \$4.2 million fees currently paid to SSC) of the current SSC fees will not be incurred.
- When the APACS system is fully implemented, it appears that the department will be able to meet the reporting requirements of SSC, as these are very transactional in nature.
- There is a clause in the M.O.U. that states that no transfer of PYs will occur from SSC to EC, and that EC will not add to its PY complement for these purposes. Departmental officials have identified a need to improve the personnel capacity for procurement in AES irrespective of increased delegation of purchasing authority, and recognizes

that there may be some classification implications in other Services.

- Aside from monthly reporting, SSC reported that tasks to be assumed by Environment Canada between the \$1,000 and \$2,500 level would include: maintaining source lists, tendering, bid solicitation, bid evaluation, contract award and contract administration as per TB directives. (Refer to Exhibit 1). An implication of unknown dimensions is the responsibility to meet the social and economic goals of government, a requirement which is more significant as the level of delegation increases. As the M.O.U. provides no increase in PYs for Environment Canada, the Department must satisfy itself that it will be able to handle any increase in the procurement workload.
- Corporate functional representatives and certain individuals within the services recognize that the department is not ready as a whole to accept increased delegation. In certain instances, particularly within AES, the required procurement personnel are simply not there, and the APACS system is not in place. The intention is to introduce increased delegation as the capacity to do so is achieved by particular groups.

Conclusions and Recommendations:

We recommend that a cost-benefit analysis be performed before signing the MOU with SSC to increase the delegation of procurement authority. The incremental cost of delivering the services internally, both in direct costs and increased accountability, may be greater than the savings in SSC fees.

Although the pace of the implementation of the MOU is at the department's discretion, the agreement would commit the department to a course of action that may not be advantageous to it.

D. Management Controls to Ensure Value for Money from SSC

The last line of inquiry (which in fact has implications for the preceding areas and has therefore been touched upon earlier) examined existing management controls to ensure cost-effectiveness of procurement services provided by SSC.

This investigation looked for conventions such as the use of a bring forward system to notify Environment Canada procurement personnel of outstanding good/service delivery dates and tracking, actual procurement turnaround times against expected, performance problems with suppliers originating from an SSC procurement, SSC fees paid in relation to procurement values and value-added received, and the accuracy of SSC fees charged.

The necessary controls would normally be part of a broader management approach to procurement.

Findings:

Our findings with respect to management controls are as follows:

- When it is fully implemented, APACS should assist in the efficiency of transaction processing and tracking, and should provide the necessary audit trail for EC and SSC needs.
- EC, even with APACS, does not produce information required for effective overall management of the procurement function. There is little to no aggregation of procurement information within the Services, and certainly not for the department as a whole. The type of information being discussed

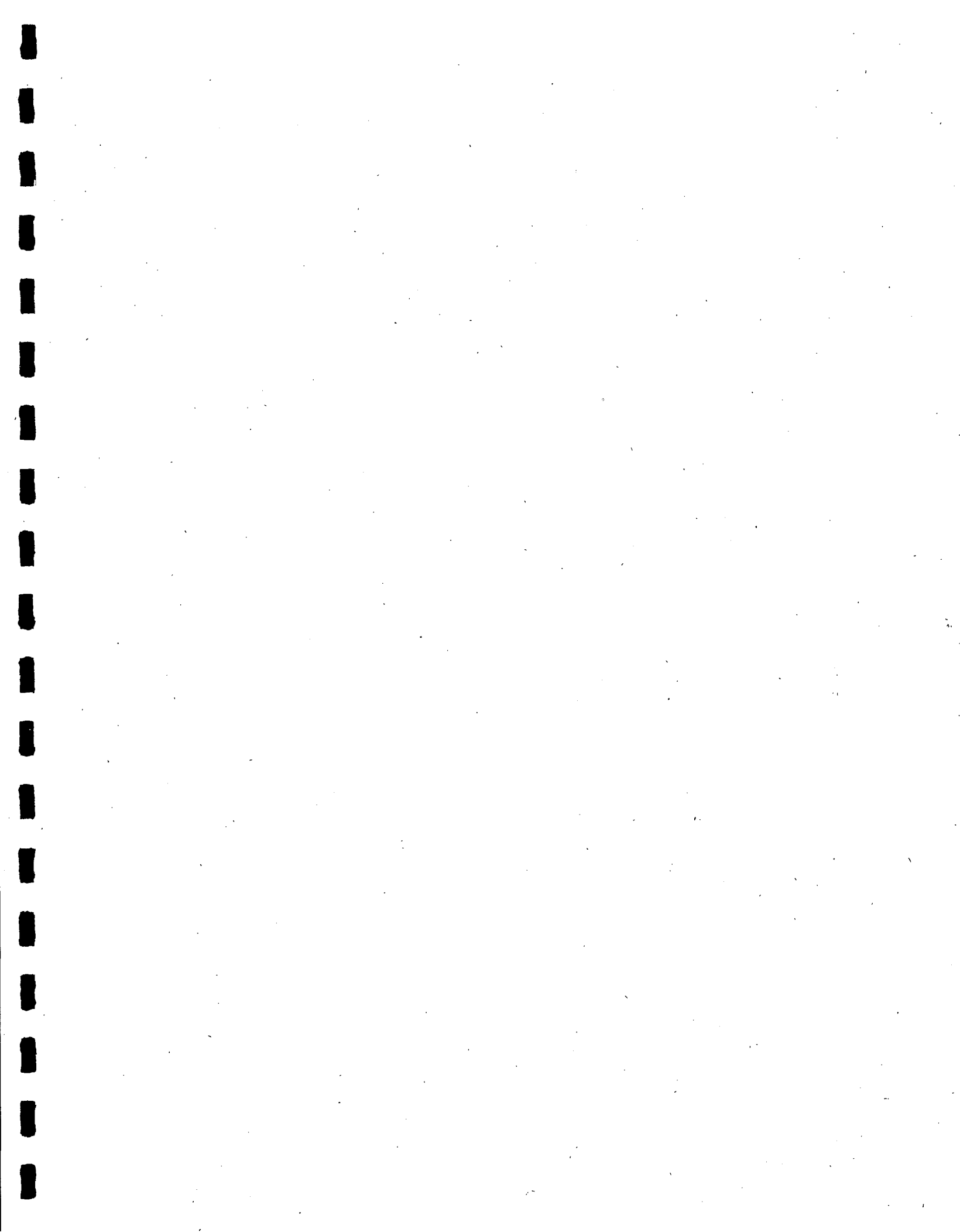
includes such measures as the fees and method of purchase by type of good, location, service, and VCI range; the extent of delays beyond predefined limits according to the preceding categories, and records of preferred versus problem suppliers.

- The department intends to produce management information from APACS once it is fully implemented. This will require additional programming to bring together the various pieces of information which will be gathered within the system.

Conclusions and Recommendations:

Without the type of management information described above, it is very difficult for the department to assure itself that the most cost-effective means are being employed, and that the best value for money is being achieved. Therefore, a broader management approach to procurement must be taken in order to address the concerns raised in the context of this audit.

In further developing the APACS system, it is of great importance to ensure that a management module is developed which will provide aggregate data for management decision-making.



APPENDIX A

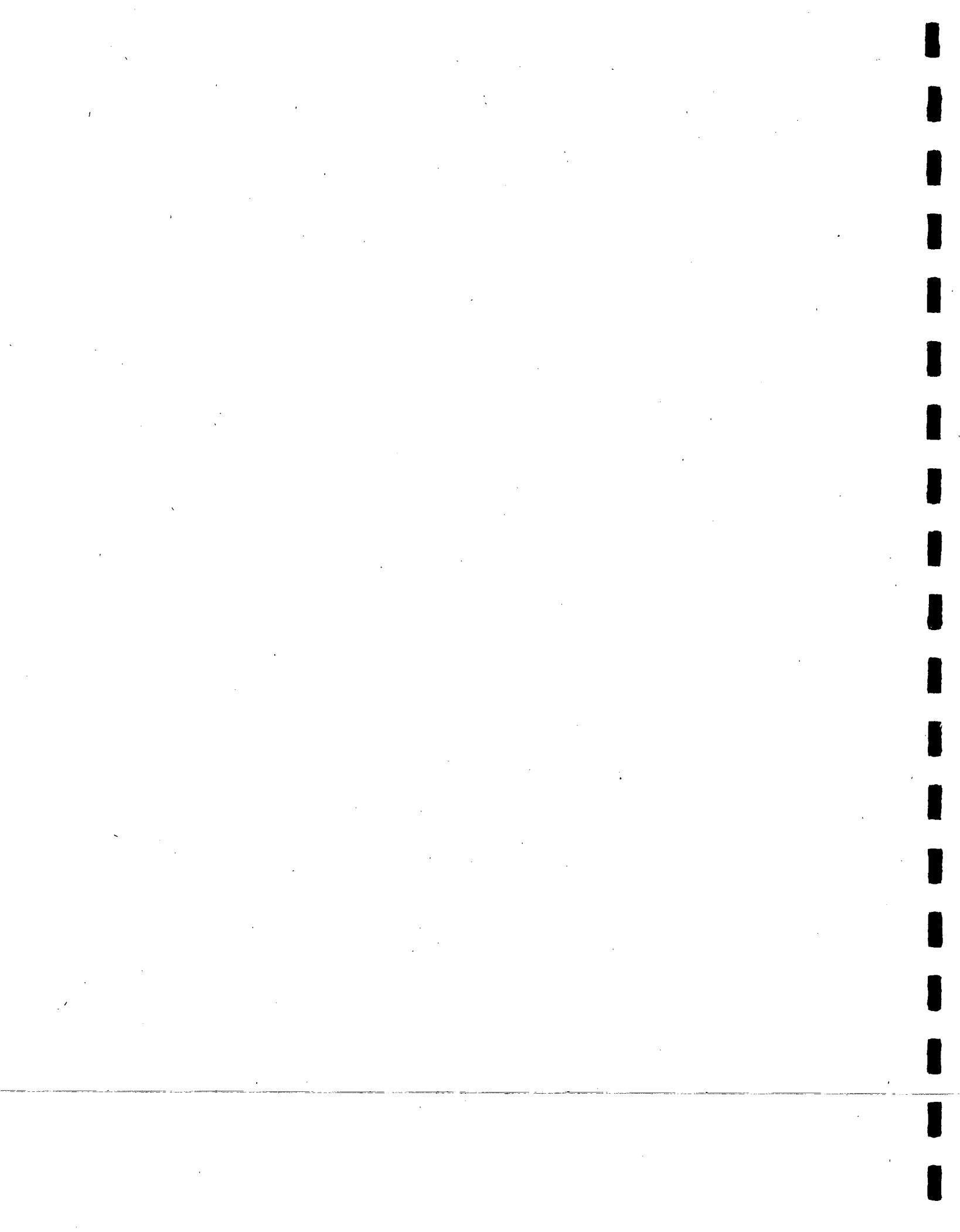
SSC FEES AND CHARGES PAID BY EC



EXPENDITURE BY LINE OBJECTS 1988/89
as per DRS 09004, P15

LINE OBJECT	ADMIN	PARKS	C&P	AES	TOTAL
0566 Central Removal Service -DSS	\$23,017	\$647,702	\$189,920	\$861,774	\$1,722,413
0654 Cen.Freight- O.S. Traffic	\$122,203	\$100,529	\$258,229	\$282,653	\$763,614
0904 Advertising Acquired from DSS	\$476,943	\$683,096	\$22,765	\$222	\$1,183,026
0912 Pub. Affairs. from DSS	\$1,000				\$1,000
1040 Broch Maps & Charts-Publishing	\$11,867	\$127,313	\$36,926	\$44,008	\$220,114
1043 Other Related Publishing Exp.		\$14,774	\$2,669	\$506	\$17,949
1045 Publication DSS Dist Centre		\$1,421	\$336	\$104	\$1,861
1060 Pub Broch Maps & Charts Print DSS		\$190,173	\$572,454	\$85,305	\$847,932
1061 Scientific & Tech.Papers	\$508		\$85,561	\$67,853	\$153,922
1062 Press Releases DSS	\$6,074	\$1,088	\$23,157	\$1,949	\$32,268
1063 Competition Posters	\$2,457	\$35,321	\$52,472	\$30,732	\$120,982
1064 Other Print Exp	\$472,131	\$366,273	\$503,753	\$316,714	\$1,658,871
1065 Newsletters	\$525	\$60	\$2,067	\$45	\$2,697
1066 Manual Operational			\$76	\$80,021	\$80,097
1067 Manuals tech & Maintenance				\$39,918	\$39,918
1068 Manuals Admin & Financial			\$285	\$745	\$1,030
1069 Manuals-Training				\$29,841	\$29,841
1080 Expositions Service from DSS		\$567,170	\$43,697	\$243	\$611,110
1084 Visual Services from DSS					\$0
1085 Audio Services from DSS	\$15,021	\$58,728	\$17,979	\$752	\$92,480
1102 Accounting Auditing.Serv. DSS	\$262,990	\$42,414			\$305,404
1525 Contract Admin Ser.Charges-DSS	\$232,862	\$1,254,129	\$1,361,950	\$1,890,984	\$4,739,925
1526 Contract Admin DSS Adver Comm		\$15,640			\$15,640
1561 Warehousing Services DSS		\$815	\$3,250	\$21,621	\$25,686
1750 Maint & Repair Services DSS	\$49,064	\$25,526	\$4,086	\$13,566	\$92,242
2048 Stock Items Other Supplies DSS	\$133,330	\$414,693	\$527,529	\$211,339	\$1,286,891
2334 Furniture & Fixtures DSS	\$11,496	\$118,312	\$70,854	\$159,542	\$360,204
Total	\$1,821,488	\$4,665,177	\$3,780,015	\$4,140,437	\$14,407,117

Prepared by FPRA
July 18, 1989



APPENDIX B

AUDIT APPROACH



During the first phase of the audit, project initiation, the Price Waterhouse audit team met with the Project Authority to confirm our mutual understanding regarding the audit. We delivered a Project Initiation Report containing:

- scope of the study;
- proposed methodology/expected deliverables;
- project organization; and
- initial project plan.

The objective of the Project Initiation Report was to ensure that there was a consensus at the outset of the project as to the direction to be taken and the responsibilities, commitments and relationships of Environment Canada and Price Waterhouse. It was also at this point that the Ontario Region was identified as the region to be visited during this audit. This was confirmed during the preliminary audit phase.

In the second phase of the audit, the preliminary review phase, we took each line of inquiry, as indicated in the Audit Objectives and Scope section, and developed criteria against which to measure the findings. The criteria were used in the development of a preliminary interview guide and a further detailed interview guide. The original criteria are presented in Appendix C, but these were significantly reduced as they were too closely associated with procurement principles rather than management control. The criteria used are presented as questions and issues to address within each of the lines of inquiry.

This phase of the audit provided us with a basic understanding of procurement within each service of Environment Canada.

This understanding came from a meeting with individuals in the Procurement and Contract Administration Section as well as a half dozen preliminary interviews with those individuals primarily responsible for procurement within each of the main services, namely, Canadian Parks Service, Conservation and Protection, and Atmospheric Environment Service. The interview guide developed for these interviews dealt with such procurement topics as:

- procurement organizational set-up;
- goods and services procured;
- policies and procedures followed;
- features and implementation of APACS;
- local purchase order (LPO) use;
- role as a customer of SSC;
- value-for-money; and
- general satisfaction with the procurement process.

The interviews served to identify key issues for follow-up in the next phase of the audit and for the development of a detailed interview guide for a second round of interviews. Interviewees were asked to provide the names of individuals carrying out the procurement function and operational personnel at headquarters and in the Ontario Region for these upcoming detailed interviews.

The detailed questionnaire mentioned above was designed to satisfy each of the lines of audit inquiry, namely:

- profile of goods and services purchased;
- value-for-money from services provided by SSC;
- cost-effectiveness of acquisitions;
- capacity to meet increased procurement delegation;
- use of services offered by SSC and obligations as a customer; and
- management controls to ensure value-for-money.

The interview guide is included in Appendix D.

During the audit's second phase, we also met with an individual in the Internal Audit Directorate of SSC. The purpose of this meeting was to obtain information on Environment Canada's ability to meet customer obligations and also to clarify the distinction between the roles and responsibilities of SSC and client departments. We were given general feedback from the Audit Services Bureau regarding roles and delegation of authority, but because of the dispersion of SSC functions which deal with EC within the various service lines, we did not proceed with further interviews. Questions asked of SSC are provided in Appendix C, after the EC interview guide.

The third phase or, audit field work, consisted of detailed interviews at headquarters and in the Ontario Region for each of the Services based on the detailed questionnaire. A full

list of all interviewees that participated in the conduct of this audit is included in Appendix D.

We made attempts to collect data from many sources. Data was requested from SSC on procurement dollar values, transaction volumes and SSC charges, by Service and by VCI category. This information was received, but as a total for Environment Canada. This data is presented in graph form in the Background section of this report. Every attempt was made to collect procurement data from the Services themselves, such as:

- Service dollar value and/or transaction volume of goods and services procured as a whole and through SSC;
- as above, but per each type of good or service;
- breakdown of the dollar value and/or transaction volume of goods and services procured by the Service (as opposed to SSC-procured) by procurement methods such as LPOs, Standing Offers;
- breakdown of the total Service value of goods and services procured and/or transaction volume by dollar intervals such as: \$0-\$500; \$500-\$2,500; \$2,500-\$5,000; and \$5,000+; by procurement method; and by type of good or service; and
- SSC charges as a total and per category of good or service.

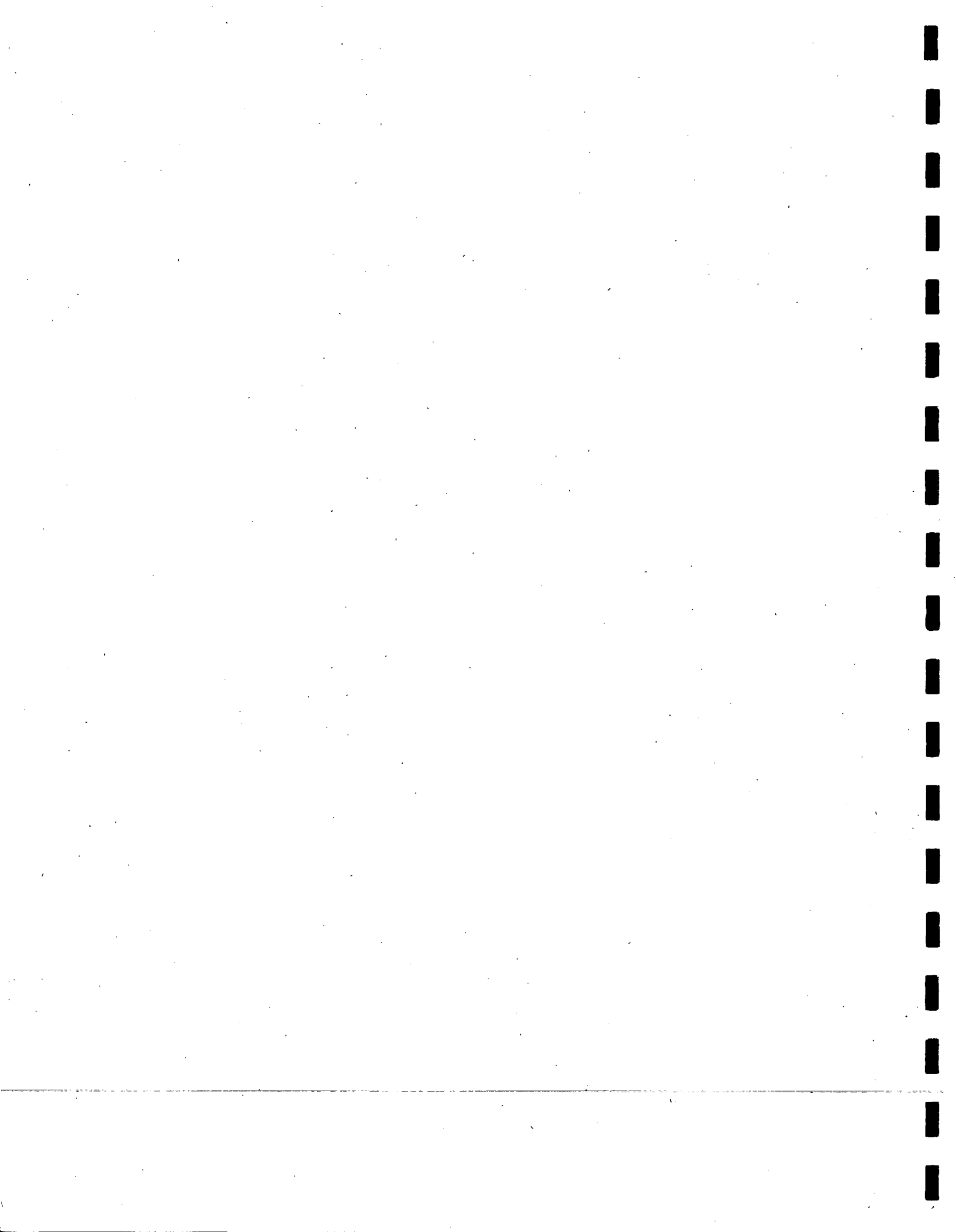
We were unable to obtain this data from the Services at Headquarters or in the Ontario Region. Most data was in a manual form and could not be rolled-up without expending considerable time.

The fourth phase of the audit consisted of a review and analysis of all audit activities to ensure completeness and performance of any additional required activities. Audit results were analyzed, key issues summarized, draft conclusions and recommendations made.

Mid-way through our audit field work we delivered an Interim Review Report, the main purpose of which was to document key findings and issues. The document also contained an audit entity model, audit criteria, audit plan and status, and an outline of the final report.

In terms of final reporting, the Price Waterhouse audit team submitted a final report outline reviewed and amended in consultation with the IAB Project Manager and the Director, IAB, Environment Canada. The review of the report outline included discussing all audit findings and recommendations. The intention of the outline was to ensure that the final report would conform to IAB standards as indicated in the Request for Proposal.

This Draft Final Report was reviewed with the IAB Project Manager and the Director, IAB before being issued for review by the auditee. Meetings were held with the auditee at the outset of the audit, at an interim stage of analysis, and in the final phase just prior to issuing the Draft Final Report. This ensured that the auditee was kept up-to-date with study findings, conclusions and recommendations.



APPENDIX C

AUDIT CRITERIA



AUDIT CRITERIA

This section includes audit criteria within each of the audit objectives (excluding the first objective which is primarily data gathering rather than assessment).

Factors to be considered are grouped into categories of criteria under each objective. Our interviews and data gathering were structured to enable an assessment against these factors. These factors were used as guides in designing data gathering instruments. The most important criteria are highlighted in the text of the report under each line of inquiry; others presented below may be used in the context of the procurement audit.

A. AUDIT OBJECTIVE: VALUE FOR MONEY FROM SSC

To assess whether Environment Canada has received value for money for the goods and services provided by SSC.

AUDIT CRITERIA

A-1. Satisfactory Process

- Level of service provided by SSC should be satisfactory to Environment Canada clients in terms of:
 - Turnaround times;
 - Quality of service, helpfulness, advice;
 - Knowledge of client department;
 - Follow-up service and contract administration;
and

- Ability to handle urgent requests.
- Supplier difficulties resulting in delays should be communicated.
- SSC procurement forms should be simple and quick to complete.
- SSC supplier sourcing should be effective.

A-2. Appropriate Goods/Services

- Good or service should meet the needs definition on the procurement requisition.
- Quality of goods should be consistent with amount paid.

A-3. Reasonable Cost

- SSC administrative charges should be fair and reasonable.
- Acquisitions should be cost-effective.

B. AUDIT OBJECTIVE: COST-EFFECTIVENESS OF ACQUISITIONS

To assess the opportunities for management within Environment Canada to seek the most cost-effective solution to the acquisitions in question. It should be noted that many of the functions are performed by SSC, but Environment Canada can employ processes which promote cost-effectiveness.

AUDIT CRITERIA

B-1. Cost-Effectiveness of Goods/Services

- Materiel acquisition should be performed using a competitive process where worthwhile to lower cost of goods/services. (where worthwhile, ie. cost savings exceed costs of the process)
- Preference should be given to commercially available materiel over custom designed/made units.
- Efforts should be made to minimize the variety of materiel being acquired and to combine purchases of

similar items allowing for larger order volumes, reduced acquisition costs and smaller inventory holdings due to economies of scale, while maintaining satisfactory scheduling of deliveries.

- Quality and suitability of goods and services should be weighed against reduced costs.

B-2. Cost-Effectiveness of Process

- Standing offers and LPOs should be used where the benefits of these vehicles exceed the costs of these and alternative approaches.
- Roles and responsibilities of the Department and of SSC should be clear, documented and understood to avoid duplication.
- Procurement process should be simple and streamlined with a minimum amount of administrative work required.

B-3. Opportunities for Improvement

- In instances where SSC has provided low value-added, EC should make attempts to negotiate lower charges.
- Procedures should exist to identify and implement opportunities to increase cost-effectiveness.
- Computer systems should be used wherever appropriate to provide fast information retrieval to enhance the procurement process.

C. AUDIT OBJECTIVE: CAPACITY TO MEET INCREASED DELEGATION

To assess the capacity of Environment Canada to meet the service and accountability requirements of increased delegation of purchasing authority.

AUDIT CRITERIA

C-1. Capability

- There should be a functional authority for the procurement function at Environment Canada.
- An organizational structure should be in place at headquarters and the regions for each of the Services that clearly indicates responsibilities for the procurement function.
- PY complement should be of sufficient number and training to handle the increased responsibilities.
- Procurement policies and procedures should be consistent across the Department, up-to-date, and be communicated and understood by all staff responsible for applying them.
- Management controls and management systems should be in place to monitor the procurement process.

C-2. Execution

- Supplier sourcing should be effected by monitoring and recording of supplier performance for LPOs and Standing Offers.

- Adequate systems should exist and should be used to facilitate the recording and reporting of results to management and SSC as required.
- Requirements for materiel should be identified and submitted in a timely fashion so as to allow the Service unit sufficient time to complete the necessary arrangements.
- Control measures should be taken to ensure appropriate signing authorities and security measures are followed.

D. AUDIT OBJECTIVE: MANAGEMENT CONTROLS TO ENSURE VALUE FOR MONEY

To assess the management controls which are in place to ensure that Environment Canada is receiving value for money for the services provided by SSC.

AUDIT CRITERIA

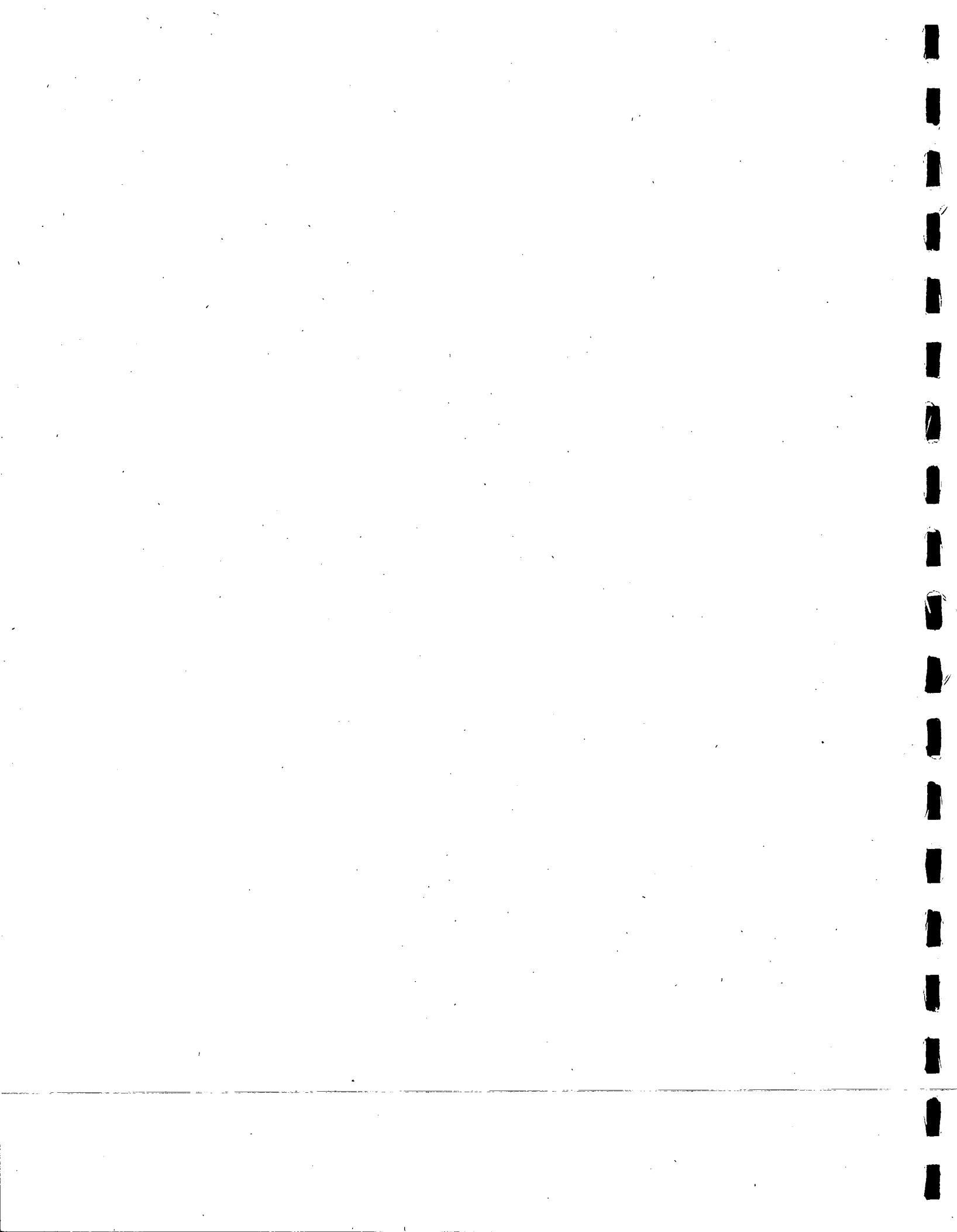
D-1. Process

- The Department should request feedback from SSC as to what stage a requisition is at, and what steps are being taken to expedite and control the acquisition.
- Systems should be in place to track and record fees spent by type of good or service, turnaround times, significant problems encountered and their frequency, and accuracy of fees charged.

- The benefits gained from management control mechanisms should exceed the costs of the mechanism.

D-2. Results

- Ensure goods or services received are in accordance with statement of needs requirement.
- Departmental personnel should monitor and assess the performance of all chosen suppliers, regardless of procurement mechanism.

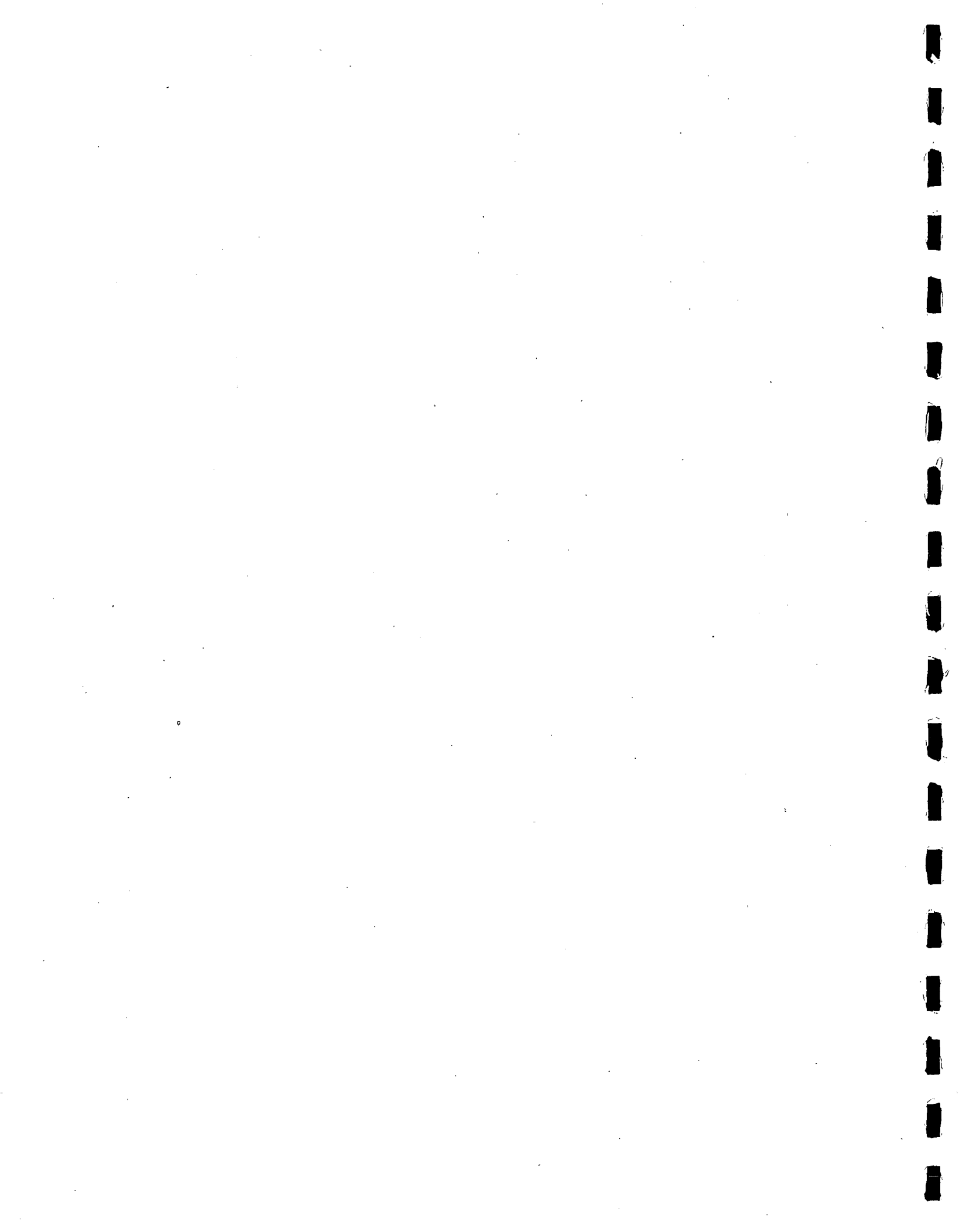


APPENDIX D

QUESTIONNAIRES:

Environment Canada

Supply and Services Canada



ENVIRONMENT CANADA

OPERATIONAL AUDIT OF SUPPLY AND SERVICES CANADA
SERVICES AND CHARGES TO ENVIRONMENT CANADA

Questionnaire

Prepared by: Price Waterhouse Management Consultants.

Purpose of this questionnaire: To be used during more detailed interviews at headquarters and in the Ontario Region to provide us with information within each Service of Environment Canada as to:

- Profile of Goods and Services Purchased;
- Value-for-Money from Services Provided by SSC;
- Cost-Effectiveness of Acquisitions;
- Capacity to Meet Increased Procurement Delegation;
- Use of Services Offered by SSC and Obligations as a Customer; and
- Management Controls to Ensure Value-for-Money.

The questions are presented in the above categories, and a grid is attached to capture background data on procurement activity.

Interviewees: We intend to interview those individuals in Materiel Management primarily responsible for procurement and Responsibility Centre managers initiating the procurement of goods and services within each of the four main Services of Environment Canada, namely, Parks, Conservation and Protection, Atmospheric Environment and Finance and Administration.

BACKGROUND

Procurement Organizational Set-up

- What hierarchy of positions in your Service is responsible for the procurement function, both within headquarters and in the Ontario Region?
- Describe the interrelationship of the Service with others (ie. EC Corporate, SSC) as it relates to the procurement process?

Goods and Services Procured

- What are the goods and services you procure? What is their dollar value and what are the associated SSC charges?
- What dollar value or volume of goods and services are purchased through the Local Purchase Authority? What is the value of goods and services purchased in the range of \$500 to \$2500, and \$2500 to \$5000? Can this be broken down by each good or service?

Procurement Policies and Procedures

- What policies/procedures/guidelines do you follow with respect to procurement practices?

VALUE FOR MONEYSatisfactory Process

- Has the Service received value for money for each of the goods and services provided by SSC in terms of:
 - turnaround times;
 - quality of service, helpfulness, advice;
 - knowledge of the client department;
 - follow-up service and contract administration; and
 - ability to handle urgent requests?
- Are difficulties encountered with suppliers, resulting in delays, communicated to you by SSC?
- Are the procurement forms you are required to fill out simple and quick to complete?

Appropriate Goods and Services

- Do the goods or services requisitioned meet your needs as defined?
- Is the quality of the good or service procured consistent with the amount paid?

Reasonable Cost

- For the service SSC provides, do you consider it fair and reasonable? Onerous?
- Are you receiving cost advantages from going through SSC? Can you get the same good or service for the same or lower price?

COST EFFECTIVENESS OF ACQUISITIONSCost-Effectiveness of Goods/Services

- Are efforts made to:
 - acquire goods through a competitive process;
 - acquire commercially available goods over custom-designed goods; and
 - combine purchase orders of similar items.

Cost-Effectiveness of Process

- Are the roles and responsibilities of the Department and SSC pertaining to procurement clear, documented and understood?
- What stage of implementation is the APACS system set-up in your Service?
 - If implemented, how satisfied have you been? Has it met your expectations?
 - If not implemented, what are your expectations?

- Are Standing Offers and LPOs used wherever possible/appropriate?
- Have you made any attempts to negotiate lower charges to SSC in those situations where there is low value-added?
- What ideas do you have for improvements/cost-effectiveness of the procurement function?

CAPACITY TO MEET INCREASED DELEGATION (MANAGEMENT CONTROLS)

Capability

- Are procurement policies and procedures documented, communicated and complied with by staff responsible for initiating procurement (operational personnel) and those responsible for the procurement function itself?
- Do you believe your PY complement is sufficient and that your staff has sufficient training to handle a possible increase in procurement authority?
- Do you perceive that the APACS and/or other systems, if properly used, will provide adequate support and streamlining to enable handling the increased workload and responsibility?

Execution

- Do you monitor and record supplier performance for Standing Offers and LPOs?

- Are requirements for goods or services identified and submitted in a timely fashion to allow the Service unit sufficient time to complete the necessary arrangements?
- Are controls in place to ensure adherence to established policies and procedures?
- Are control measures in place that ensure requests for goods and services are initiated and approved by authorized individuals and do not result in exceeding budget appropriations?
- Are procurement plans developed annually for the purchase of major items, i.e. EDP equipment?
- Are control mechanisms in place such that there is not a dependence on a single or a limited number of vendors?
- Are controls in place to prevent splitting of orders?
- Is it a practice to keep complete records for all requisitions and contracts initiated?

MAXIMUM USE OF SSC/OBLIGATION AS A CUSTOMERMaximum Use of SSC

- What are the services SSC provides related to the procurement of goods and services?
- Is there any duplication of service as between the Service and SSC? If so, why?
- For those services that are optional from SSC, what is the rationale for not using the service?

Customer of SSC

- Are you aware and clear on your accountability requirements as related to procurement as set out in the SSC Customer Manual, for example:
 - forms required;
 - information required; and
 - lead times to be adhered to.
- Do you plan for time delays resulting from the GATT, the Free Trade Agreement or other reasons which should be anticipated and planned for, prior to submission of the requisition?

MANAGEMENT CONTROLS ENSURING VALUE FOR MONEY FROM SSCProcess

- Is it a practice to request feedback from SSC regarding the stage of completion of the purchase order?
- Do you track and record:
 - fees and turnaround times by transaction and by type of good or service;
 - significant problems encountered and their frequency; and
 - accuracy of fees charged.
- Are operational managers aware of SSC service charges for goods and services procured?
- Is contract administration performed by SSC such that there is satisfaction among all parties concerned?

Results

- Do you ensure goods or services received are in accordance with the statement of needs requirement?
- Do you assess and record performance of all chosen suppliers, regardless of procurement method?
SUMMARY OF DATA FROM SSC (\$, volumes - in graph form)

OPERATIONAL AUDIT OF SSC SERVICES AND CHARGES TO ENVIRONMENT CANADA

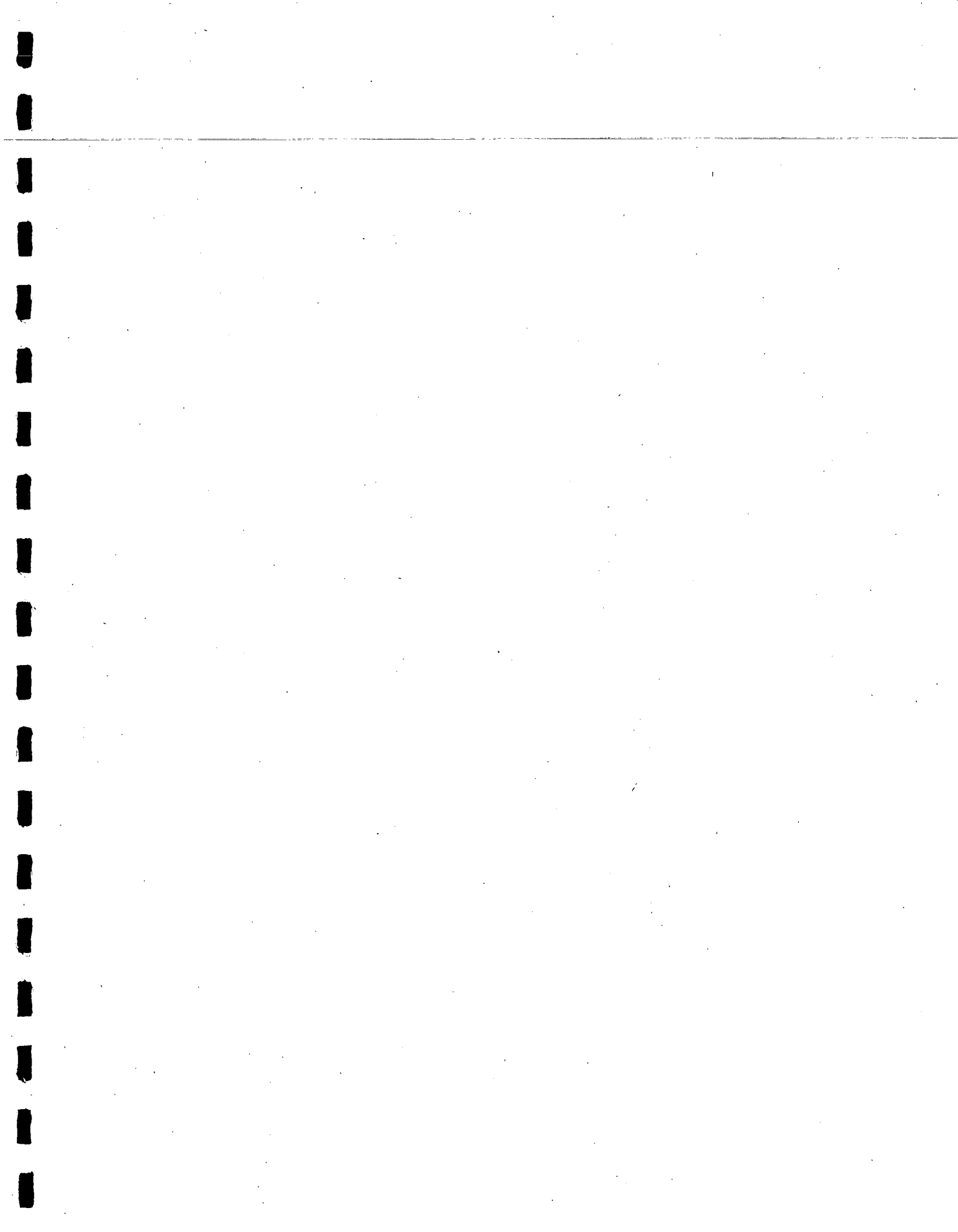
SERVICE INFORMATION REQUIREMENTS	RECEIVED	TO BE SENT	NOT AVAILABLE
SERVICE: _____ HEADQUARTERS OR REGION			
Materiel Management Organization Charts			
Materiel Management PYs			
Materiel Management Job Descriptions			
- Manager			
- Officer			
Materiel Management Reporting Samples			
- APACS			
- Other			
Service dollar value and/or transaction volume of goods and services procured as a total:			
- through SSC			
- through Service			
As above, but as per each type of good or service:			
- through SSC			
- through service			
Breakdown of the Service dollar value and/or transaction volume by procurement method (excluding SSC procured goods and services)			
- LPOs			
- Standing Offers			
- Other			
Breakdown of the Service dollar value and/or transaction volume by:			
- \$ 0 - \$ 500			
- \$ 500 - \$2500			
- \$2500 - \$5000			
- \$5000 +			
As above, but by:			
- procurement method			
- type of good or service			
SSC Charges			
- total			
- per category of good or service			

NOTE: All dollar values and/or transaction volumes are to be for a one year period.

Audit of SSC Services and Charges to Environment Canada

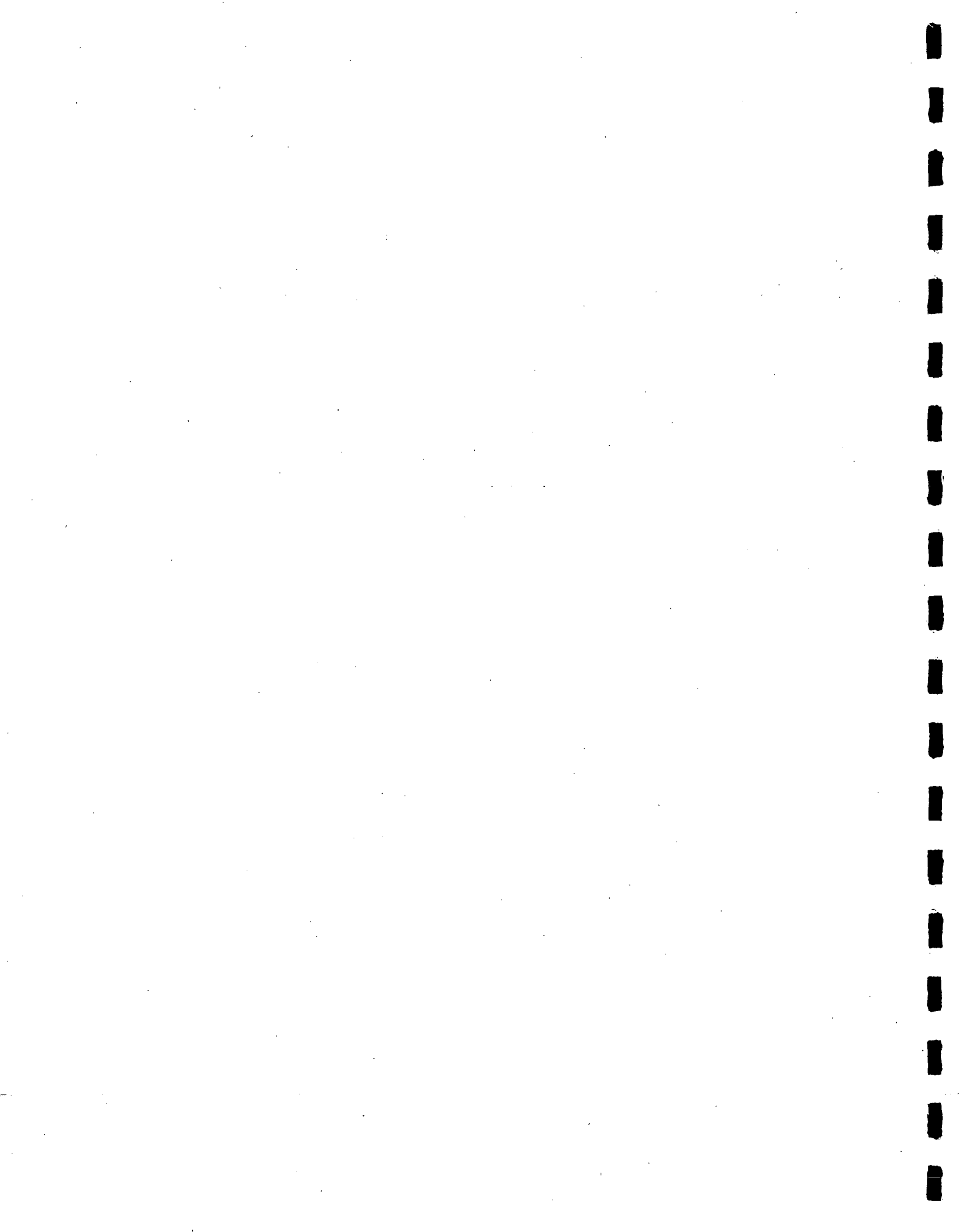
Questions for SSC

1. Are there any gaps or overlaps in the roles and responsibilities of SSC and EC? Does EC understand what its responsibilities are?
2. Is EC a good customer to SSC? Does it follow procedures, provide complete and timely information on acquisitions, make full use of SSC services?
3. What is the scope for negotiation of SSC charges?
4. Is there potential for increased benefits to EC in its purchases through economies of scale, e.g., more use of standing offers?
5. What would be the accountability requirements under increased delegation?
6. If delegation is increased, what tasks which SSC is now performing would be assumed by EC?
7. What are the performance indicators for purchasing by SSC agents in the areas under negotiation for increased delegation, e.g., transactions per agent for low dollar value acquisitions?



APPENDIX E

LIST OF INTERVIEWEES



LIST OF INTERVIEWEES

Environment Canada

Headquarters

(i) Canadian Parks Service (Hull)

Materiel Management

Phil Clouthier, Materiel Management and Administrative Services

Don Moore, Materiel Management and Administrative Services

André Hudon, Material Management and Administrative Services

Pauline Johnson, Contract Services Branch

Jake Demour, Contract Services Branch

Operations

Estelle Baillargeon, National Parks Directorate

Therese Chenier, National Parks Directorate

Dave Lohnes, Natural Resources Branch, National Parks Directorate

Richard Lindo, Interpretation Branch, National Historic Parks Directorate

B. Fry, Publications Section, Archaeological Research Branch, National Historic Parks Directorate

(ii) C&P (Hull)

Materiel Management

John Rutenberg, Administrative Services Division

Ray Brazeau, Administrative Services Division

Bernard St. Laurent, Administrative Services Division

Operations

Brian Christopher, National Wildlife Research Centre
Carol James, National Wildlife Research Centre
Richard Turle, National Wildlife Research Centre

(iii) AES (Downsview)

Materiel Management

Ed Elliotson, Materiel Management
Ron O'Shay, Materiel Management

Operations

Eric Aldcroft
Neil Trivet
Hugh Black
Gail Cross, Personnel
Heather Mackey, Communications
Albert Wright, Printing

(iv) Departmental Management Services Directorate, Finance and
Administration

J. G. Touchette, Materiel and Accommodation Management
Rhéal Pilon, Materiel Management Division
Art Benoit, Procurement and Contract Administration Section
Robert Graham, Procurement and Contract Administration Section

(v) Finance Directorate, Finance and Administration

Mike Hider, Financial Services Branch
Lionel Fauvel, Financial Services Branch

Ontario Region

(i) Parks (Cornwall)

Materiel Management

Murray St. Aubert, Materiel Management
René Aubin, Materiel Management - Goods
Donna Cameron, Materiel Management - Services

Operations

Nancee Cruickshank, General Accounting and Financial Control,
Finance
Ed Duchoslav, Media Unit
Cecellia Anderson, Library
Sherry Garrow, Personnel

(ii) C&P (Toronto)

Materiel Management

Bryce Smith, Finance and Administration
Carole Woodward, Finance and Administration

Operations

J. P. Auclair, Environmental Protection
Craig Wardlow, Environmental Protection

(iii) AES (Toronto)

Materiel Management

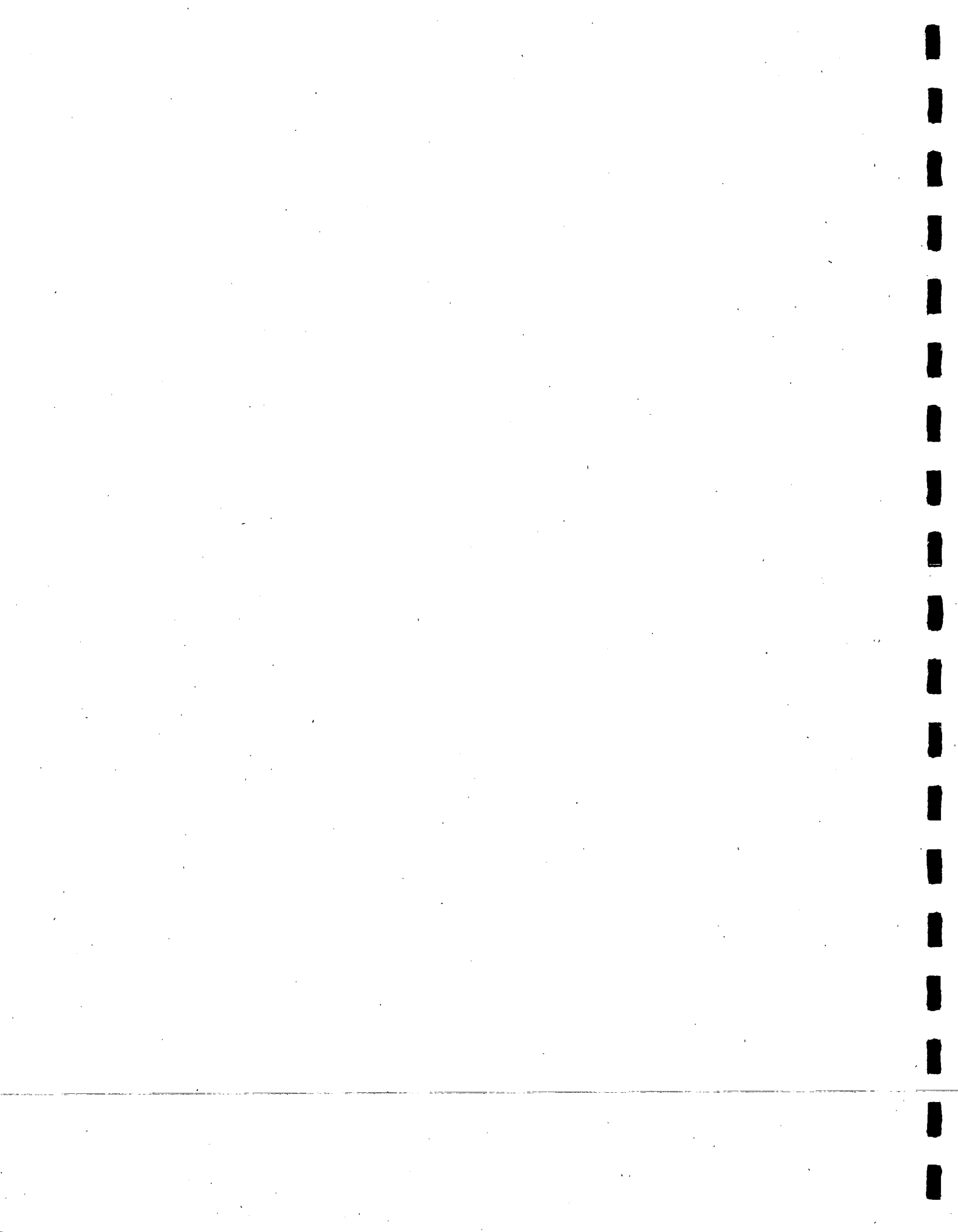
Peter Learmont, Administrative Services

Operations

B. Kirkpatrick

Supply and Services Canada

John Billings, Internal Audit Directorate
Allan MacMillan, Internal Audit Directorate



APPENDIX F

KEY POINTS FROM REVIEW OF
SSC CUSTOMER SERVICE MANUAL



EXISTING PROCESS, ROLES (EC AND SSC) As per the SSC Customer Manual:

Customer Responsibilities

- identifying the need
- preparing the statement of work or requirement using performance specifications as often as practical
- acting as the technical authority
- accepting the work
- quality assurance

SSC Responsibilities

- expressing the requirement clearly
- developing a sourcing strategy and identifying potential sources of supply
- preparing the procurement document
- soliciting bids
- evaluating bids
- entering into contract
- providing effective management and administration of the contract
- maintaining records of the acquisition process



APPENDIX G

KEY POINTS FROM THE

MEMORANDUM OF UNDERSTANDING



KEY ASPECTS OF THE M.O.U.

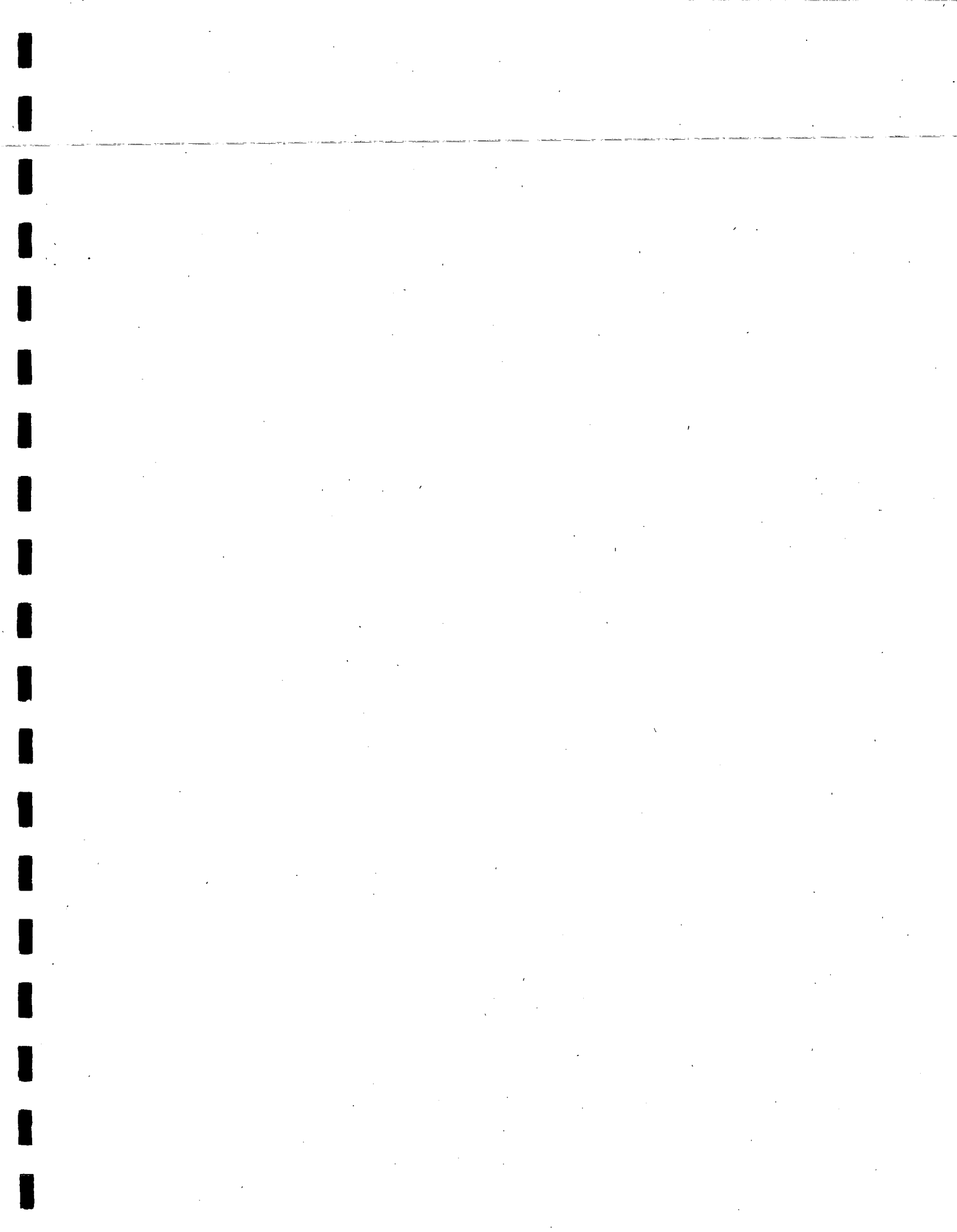
Memorandum of Understanding between SSC and EC

- The M.O.U. delegates purchasing authority to EC for the procurement of low dollar value goods greater than \$1,000 but less than \$2,500 and establishes the terms and conditions governing the responsibilities and obligations of both departments under this increased delegation.
- M.O.U. provides EC operational managers with appropriate authority to coincide with responsibility and accountability.
- M.O.U. covers the period from April 1, 1990 to March 31, 1993. Either department can renegotiate this M.O.U. Amendments must be approved by the Ministers of both departments.
- The increase in delegation of authority is granted by Section 10, paragraph one of the Department of Supply and Services Act, and reflects the intent of the increased Ministerial Authority and Accountability (IMAA) regime.
- The M.O.U. assumes there is an accountability framework within EC to support an increased purchasing authority, i.e., purchasing principles, policies and practices in place, suitable financial controls, and capability and willingness to perform periodic procurement audits.

- The M.O.U. charges a representative of EC and of SSC to administer the agreement, to act as a focal point for the resolution of deviations from the agreement, and to coordinate and consolidate interests within their respective organization.

Implications for Environment Canada

- EC still has the option of having SSC carry out procurement of goods falling under the M.O.U. if it is more feasible or convenient.
- EC must comply with government contracting policy, the Government Contracts Regulations and the Treasury Board Contract Directives, as expanded in the appropriate Treasury Board Manual.
- Materiel being purchased must not be available through standing offers or through SSC Supply Centres unless operational requirements preclude their use.
- EC may not split purchase orders to circumvent the limits of the delegated authority.
- There will be no transfer of person-years or financial resources between SSC and EC as a result of the M.O.U. and no incremental person-years to EC.
- EC must comply with electronic monthly reporting requirements to SSC, according to format specifications by SSC. In some cases this will involve costs to EC, for example, payment to SSC for initial listing and quarterly or semi-annual updates of vendor codes in machine readable form.



APPENDIX H

KEY POINTS FROM SSC ACQUISITIONS
SERVICE LINE STUDY



SSC ACQUISITIONS REPORT (e.g. degree of use of standing offers, workload statistics)

- In 1987/88, Environment Canada made use of 1,384 standing offers, amounting to \$16,716,000; 1,217 of which were Regional Individual Standing Offers (RISOs) amounting to \$15,502,000.

- In 1988, Environment Canada's largest dollar value purchases by commodity were:
 - Fuels, oils, waxes \$57,947,000
 - Data Processing \$22,957,000
 - Lab Equipment \$10,476,000
 - Motor Vehicles \$6,571,000
 - Communications Equipment \$4,643,000

- In 1988, Environment Canada's largest standing offer use was for the following commodities (out of a total of \$5.4 million):
 - Chemical Products \$1,545,000 (76% of the total spent on chemical products)
 - Motor Vehicles \$633,000
 - Constr. & Bldg. Material \$575,000
 - Lumber \$566,000
 - Hardware \$461,000

Some Points of Interest - Client Perspectives Report (a section of the ASL Study)

- Conducted a series of interviews with client departments. Seven departments were chosen and a questionnaire was developed. Environment Canada was one of them. Conclusions come from not only these interviews, but other sources of information drawn upon.
- It is interesting to note that although questions requested quantitative information, for the most part client departments were unable to provide this within the time period allowed for the study. Therefore, responses were largely confined to non-quantitative factual information on client operations and to qualitative observations on the issues related to delegation.

(i) General Points

- The majority of clients regard the services of the ASL as satisfactory. Particularly professionalism of staff and the fact that the system supports competition.
- Two aspects of ASL that have caused difficulties include lack of timeliness and flexibility. This stems in part from the obligations of SSC to meet objectives other than service to clients (e.g. support for national objectives, fairness and equity for suppliers). Clients are not always aware of the steps that must be followed to meet these obligations.

- Mixed views on the extent to which SSC provides added value through its acquisitions services. A number of clients felt they did most of the work anyway. There was some difference in perception of value-added depending upon the complexity of the procurement, i.e., more value-added on large ticket items.
- Those areas frequently cited by clients as representing positive value-added, included a reduction in product prices, increase in the level of competitiveness among suppliers, promotion of fairness and equity for suppliers, and assistance in resolving contract problems.
- Apart from the fees charged by SSC, there were a number of administrative costs and costs imposed on their programs as a result of having to deal with SSC, e.g., administrative costs associated with additional paperwork, invoice verification and account reconciliation associated with fee charging, and costs imposed on clients' programs by procurement delays.
- The fees charged by SSC are generally viewed as being too high.
- A high level of awareness among clients that SSC is required to support national objectives, but sceptical over the effectiveness of such support.
- Most clients interviewed claimed to use their LPO authority in almost all cases where it was available.

- Client departments attempt to make use of standing offers, when they are aware of them and when they appear to offer good value-for-money.
- The general practice among client departments is to delegate full available authority for procurement to their regional offices.
- Delegation to departments of procurement was seen by these departments as increasing speed, decreasing costs, and the same or increased effectiveness.
- Substantial support for an increase in the LPO - \$1,000 was considered appropriate in most instances.
- Respondents who were concerned over lack of available resources or over potential contracting or control problems that they might run into if they were to handle a significantly greater workload did not favour an increase in the LPO level.
- Most responses were positive to increased availability of standing offers provided that appropriate technology is in place, i.e., on-line information on available standing offers, on-line access to vendors/SSC, continuous updating of available suppliers, etc.

(ii) Points Specific to Environment Canada

- Environment Canada is considered to be a medium user of ASL services as is Health and Welfare.
- Environment Canada claimed that they did most of the acquisitions work.
- Environment Canada indicated that they have contract review boards or committees. However, these committees are concerned with financial controls and with such issues as obtaining value-for-money and the use of sole sourcing versus competitive tendering. They are not concerned with non-service objectives, such as support for national objectives or supplier development.
- With the use of LPOs, Environment Canada indicated that their normal practice with such purchases is to telephone two or three suppliers to obtain bids. They do not make any attempt to rotate suppliers, however; nor do they check for adherence to government policy, such as that on South Africa.
- Environment Canada cited difficulties in identifying what standing offers are available.
- Environment Canada indicated they wanted the LPO changed to \$5,000 (interpreted, in part, as functional delegation).
- In terms of increased availability of standing offers, Environment Canada's response was somewhat positive (but concerned over tracking)?

- In terms of increased functional delegation the department wished an increase up to \$5K (might need extra resources), have contract review committee in place (some prudence/probity monitoring), can't deal with GATT/Free Trade Agreement.