



Audit of Procurement and Contracting at Health Canada and the Public Health Agency of Canada

Final Report

October 2019



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List of acronyms

CCM	Cost Centre Manager
CFOB	Chief Financial Officer Branch
CRC	Contract Review Committee (Tier 1)
FTE	Full-Time Equivalent
HC	Health Canada
LDV	Low Dollar Value contracts
MAMD	Material and Asset Management Division
NML	National Microbiology Laboratory
P2P	Procure to Pay
PG	Procurement Officer
PHAC	Public Health Agency of Canada
PO	Purchase Order
PS1	Service contract above \$10,000
PS2	Service contract below \$10,000
PSPC	Public Services and Procurement Canada
SAP	Systems Applications and Products
SGBA+	Sex- and Gender-Based Analysis Plus
SMD	Security Management Division
SRCL	Security Requirement Checklist
TBS	Treasury Board Secretariat

Executive summary

What we examined

Procurement is the overall process for acquiring goods and services for the operations of Health Canada and the Public Health Agency of Canada. We examined the management control framework in place for the service delivery and management of procurement and contracting activities. This audit focused on the structures, processes, and activities in place to support service delivery from April 1, 2016, to August 31, 2018, specifically:

- Procurement planning;
- The efficiency of service delivery in the workflow process, associated risk tolerances, monitoring, and performance reporting activities;
- The procurement process in place for urgent contracting needs and non-competitive contracting; and,
- The level of integration of Sex- and Gender-Based Analysis Plus (SGBA+) into the procurement processes.

Why is it important

Procurement and contracting is an integral part of government operations, and supports program delivery across government. Procurement and contracting is a service shared for both Health Canada (HC) and Public Health Agency of Canada (PHAC) by the Material and Asset Management Division (MAMD). There were 10,735 contracts processed at HC and PHAC in fiscal year 2017-18, totalling more than \$212M. Effective procurement and contracting is crucial for the two organizations to achieve their objectives.

What was found

Overall, we found that high-risk contracting activities were effectively managed and had no deficiencies, while there were several areas needing improvement in service delivery. Also, SGBA+ was not yet integrated into the business processes of MAMD. Furthermore, we found that service delivery for the contracting process had more than one major deficiency.

Management processes and practices were effective in the following areas:

- A planning mechanism was in place at HC and PHAC that supported the activities of MAMD, including procurement plans, quarterly planning meetings with client branches, and monitoring of procurement activities;
- Targeted standing offers were implemented to increase opportunities for efficiency, as well as the promotion of bulk purchases;
- A comprehensive set of service standards;
- An informal process to support processing of files that were deemed urgent; and
- Documented requirements for non-competitive contracting, including what constitutes acceptable support for a sole-source contract.

We also identified the following opportunities for improvement:

- A more detailed analysis of differences in meeting service standards between branches, periods, and contract types had not been conducted by MAMD;
- Delays and inconsistencies in the initial pick up and review of low dollar value contracts should be addressed;
- The requirement for Security Requirement Checklists (SRCLs) across the different types of contracting needs clarification;
- Monitoring activities were not risk-based and did not target high-risk transactions; and
- SGBA+ has not yet been examined by MAMD to determine how it can best contribute to this initiative.

The areas for improvement noted in this audit report will collectively strengthen management of Procurement and Contracting activities.

A. Introduction

1. Procurement is the overall process for acquiring goods and services. The pre-contractual phase of the process relates to the identification and definition of requirements, including preliminary procurement planning. Activities in this phase may include, but are not limited to: identification and review of requirements, including timing; analysis of options; and development of procurement solicitation documents. The contracting phase of procurement includes all activities from bid solicitation, evaluation, and vendor selection to contract award and debriefing. Contracting can therefore be described as the transactional function of the procurement process.
2. Cost Centre Managers (CCM) at Health Canada (HC) and the Public Health Agency of Canada (PHAC) are responsible and accountable for initiating expenditures from their budgets, controlling commitments pursuant to section 32 of the *Financial Administration Act* (FAA), entering into and managing contracts under \$10K, as well as performing account verification and certification, pursuant to section 34 of the *FAA*. Because CCMs are accountable for program performance and results, they make decisions about what goods and services are required for program delivery. CCMs participate in the selection of suppliers and monitor contract performance.¹
3. Contracting services are provided by the Materiel and Assets Management Division (MAMD) within the Chief Financial Officer Branch (CFOB) of HC, pursuant to the Shared Services Partnership agreement. MAMD also processes all contracts of \$10K or greater for the two organizations.
4. Systems Applications and Products' (SAP) "Procure to Pay" (P2P) technology is in place for use by both organizations as an end-to-end solution for the electronic approval of procurement transactions and invoices, and to facilitate control and documentation of contracting activities.
5. During fiscal year 2017-18, MAMD processed 10,735 contracts for both HC and PHAC, totaling more than \$212M. MAMD developed the current centralized contracting model in 2012, based on an analysis of the contracting needs of HC and PHAC. It was determined that 20,737 transactions were to be expected each year. It was anticipated that 34 full-time equivalents (FTEs) would be required to process that number of transactions. The Chief Financial Officer (CFO) stated that, since then, the total number of transactions has declined, but changes to contracting delegated authorities and other functional directions and pressures have resulted in a need for a complement of 39 FTEs, with 5 of those transferred to Indigenous Services Canada to support the First Nations and Inuit Health Branch.

¹ Contracting Guide for Cost Centre Managers and Cost Centre Administrators: <http://masource.hc-sc.gc.ca/eng/ss/programs-services/financial-operations/procurement-and-contracting/reference-material/contracting#a5>

6. MAMD has faced challenges in achieving a full complement of staff, which is reflective of the overall shortages across government in the Procurement Officer (PG) community. During the audit period, vacancies varied from 5 to 12 of 34 FTEs in the NCR (23% on average), and 1 of 5 positions at the Winnipeg Hub (20%). The CFO stated that efforts have been made to address these vacancies, including HC-led staffing processes, partnering with Public Services and Procurement Canada (PSPC) and the Treasury Board Secretariat (TBS) on collective processes, establishing an internal development program, and developing recruitment partnerships with colleges that offer supply chain programs.
7. In light of the magnitude of contracted goods and services, and the key role of MAMD in providing procurement and contracting services to both HC and PHAC, it is important that an efficient procurement process, including service delivery, be in place to support operational requirements for both organizations.
8. The appendices for this audit report provide additional information on the results of the audit and how it was conducted: Appendix A – About the Audit; Appendix B - Lines of Enquiry and Criteria; Appendix C – Scorecard.

B. Findings, Recommendations, and Management Responses

Planning

9. Coordinated planning of procurement and contracting enables an organization to allocate resources, identify efficiencies, and monitor and report to management on the planned activities.
10. We expected to find an effective planning process in place to support procurement and contracting activities, as well as efficient processes to support service delivery.
11. We found planning mechanisms to be in place at both HC and PHAC. MAMD solicited planning information from each branch on an annual basis, to allow for the alignment of resources that meet forecasted client demand, and to enhance the Division's ability to:
 - Develop Department-wide and multi-year procurement strategies;
 - Consider specific strategies for the effective and efficient procurement of goods and services;
 - Explore cost-saving opportunities; and
 - Manage contracting risks, such as improving lead times for highly complex requirements, and the risk associated with year-end increases in volume and their respective impact on timelines.
12. Through interviews and a review of departmental planning documents, we found that HC had a holistic approach to planning through the Departmental Integrated Operational Planning Process (DIOPP). Through the DIOPP, all branches provided, their procurement plans for the following fiscal year. These plans contained expenditure information by type of good and service that was presented at a high level. MAMD aggregated all the different branch procurement plans to obtain a global picture for the next fiscal year, which was then posted on the HC website as a guide to potential service providers and suppliers. MAMD monitored these high-level branch procurement plans and shared them with the appropriate branch semi-annually or annually, forming the basis of joint discussions between branches and MAMD to obtain greater accuracy related to the plans.
13. Similar to HC, MAMD provided past contracting data, such as the number of contracts in the previous year, to PHAC managers and branches to support the identification of their procurement needs, which are then communicated back to MAMD. We reviewed PHAC's planning process and noted that their procurement planning was not as structured and formal as HC's. We also noted that the procurement plans provided by PHAC branches to MAMD were provided on an ad hoc basis. Mid-year and year-end reporting was carried out in the same manner as for HC.

14. We noted that the differences in the procurement plans between HC and PHAC did not impede efficient planning, as MAMD also engaged individual branches in face-to-face discussions of their requirements. This proactive approach provided PGs with a better understanding of branch needs. MAMD stated that this approach provided opportunities to better manage their workload.
15. We noted that MAMD put strategies in place to improve the efficiency of the procurement process. The strategies identified by MAMD and implemented at both HC and PHAC included standing offer (SO) tools for services required for translation, nursing, and information technology. MAMD found additional efficiencies by encouraging bulk purchases.
16. Overall, we found an effective planning process in place to support procurement and contracting at both HC and PHAC. MAMD's objective of gathering relevant procurement information was clearly identified and shared with the branches through the annual planning process. The procurement planning process at HC was more comprehensive and was incorporated into the annual departmental planning exercise. While the PHAC procurement planning process was more limited, as procurement planning was not included as part of the overall planning process, this did not impact efficient planning. The planning process was supplemented with quarterly planning meetings with branches, in order to have up-to-date information on procurement requirements, and monitoring of the procurement activities took place mid-year and at year-end, in order to compare actual performance to planned activities.

Efficient Service Delivery

17. We expected to find that the design and operation of the procurement and contracting process and related activities supported efficient service delivery. Specifically, we expected that defined objectives and priorities were established to guide procurement and contracting activities, indicators that allow MAMD to report on its performance were established, and management action was taken when necessary, based on the analysis of the reported information.

Objectives and Priorities

18. We found that MAMD established procurement and contracting objectives and priorities that were aligned with senior management's expectations that contract requests were being processed as per the service standard 85% of the time. The procurement and contracting service standards were developed in 2012 and were first published following fiscal year 2014-15. These standards were developed through MAMD's analysis of contracting needs at HC and PHAC at that time, and identified the appropriate level of service for a variety of types of procurement, in terms of the number of calendar days needed to complete the action. Based on the analysis, MAMD determined that 20,737 transactions were expected each year, and would require 34 full-time equivalents (FTEs) in the NCR, and an additional 5 positions in the Winnipeg Hub, for a total of 39. We noted MAMD had a perpetual shortage of between 5 and 12 of 34 vacancies in the NCR (23% average) and 1 of 5 in Winnipeg (20 % average), which affected its procurement processing capacity.

19. Through benchmarking with five other science-based government departments and agencies, we learned that the recruitment of procurement specialists had also been a challenge. The CFO states that MAMD has tried to fill positions through traditional hiring processes, and by collaborating with PSPC and TBS on collective processes, with limited success. In addition, they took steps to recruit and develop staff by establishing an internal professional development program, entered into a partnership with a college to recruit graduates from a supply chain management program, and are developing a targeted external recruitment strategy to attract mid-career professionals.
20. We also found overall, through the benchmarking, that the service standard developed by MAMD was more comprehensive than those found in other departments. Although the institutions surveyed varied in size and in the nature of their contracting requirements, it was evident that MAMD had implemented a more thorough set of measures, as the other departments and agencies did not have separate standards by type and method, instead they were mostly categorized simply by dollar amount.

Indicators for reporting performance

21. MAMD monitored and reported key indicators to the HC and PHAC CFOs on a quarterly basis. The key indicators were the 16 service standards (e.g., the time required to review and/or process the contract in calendar days) of the 27 types of contracts processed. MAMD also reported on other indicators, such as amendments, repeat commissioning/potential contract splitting, confirming orders, and the results of quality assurance activities. These indicators were also shared with the HC and PHAC CFOs on a regular basis. MAMD was also responsible for reporting annually on Management Accountability Framework (MAF) indicators. MAMD monitored and reported each type of contract against their standards and categorized their performance using the following criteria:
- Acceptable: Initial contracts approved within 100% of required days;
 - Opportunity for improvement: Initial contracts approved within 100.1% and 149.9% of required days; and
 - Attention required: Initial contracts approved 150% or > of required days.²
22. A target of meeting the timeline for the service standard 85% of the time was recognized by MAMD across all contracting types. We found that, of the 27 types of contracts processed in 2017-18, nine types had met their timeline 85% of the time, four had met the target 70% of the time, while the rest ranged from 69% down to low double digits. Throughout the audit, MAMD held the view that 85% was intended to be a global measure, to be calculated using the totality of all contracts, versus having it applied to each specific contracting type. The rationale was that a global application of the 85% target takes into consideration the overall procurement processing throughput volumes.

² MAMD Service Standards Report.

23. On average, 84% of PHAC's transactions and 75% of HC's transactions were processed within service standards. In fiscal year 2017-18, MAMD processed 10,735 contracts overall for HC and PHAC, and met service standards 77% of the time, which was below the 85% target.

Management analysis and action taken

24. We noted that MAMD managed the contracting process as a whole for both HC and PHAC, and not by type of contract or by branch. We found no evidence that MAMD had conducted in-depth analysis to identify the root cause of standards not being met, and no action plan was developed on how to better achieve service standards, given actual performance. We identified five types of contracts that represented approximately 76% of the contracts processed in fiscal year 2017-18. Only one of the five met the 85% level: non-competitive call-ups against a standing offer for goods of \$10K and above excluding information technology (IT): 3,001 contracts were processed and were within the expected service standard 97% of the time.
25. The remaining four types of contracts most often used at HC and PHAC were not processed within the 85% timeline target:
- Non-competitive purchase orders (PO) for goods of less than \$25K, excluding IT: 2,050 contracts were processed within the expected service standard 81% of the time;
 - Competitive call-ups against a standing offer for goods of less than \$10K, excluding IT: 1,906 contracts were processed within the standard 66% of the time;
 - Non-competitive short form contracts of less than \$10K for services (PS2): 726 contracts were processed within the service standard 52% of the time; and,
 - Non-competitive long form service contracts of \$10K and above (PS1): 454 contracts were processed within the standard 54% of the time.
26. We also identified other types of contracts that often exceeded the service standard timelines:
- PWGSC (PSPC) purchase requisitions³; and
 - All supply arrangement contracts⁴ (services and goods, competitive and non-competitive).
27. We found that there were major differences between branches, as some branches conducted significantly more transactions that exceeded service standards. We noted that, for the majority of the branches where contracts were not meeting standards, the bulk of those transactions were of the types noted above (call-ups, PS1, PS2, PWGSC, and supply arrangement contracts) that, on average, did not meet the service standard. For example, contracts processed for the Healthy Environments and Consumer Safety

³ Purchase requisitions processed by PWGSC/PSPC were not included in the sample tested, as the processing time is, for the most part, out of MAMD's control.

⁴ Supply arrangements were not included in the sample tested as they made up less than four percent of contracts processed at HC and PHAC for FY 2017-18.

Branch (HECSB) at HC met the service standard 51% of the time. HECSB mostly entered into non-competitive service contracts (PS1 and PS2), and those contracts were among the types exceeding service standards.

28. We also noted that PHAC had PGs located in Winnipeg that were dedicated solely to processing National Microbiology Laboratory (NML) contract requests below \$25K for goods and below \$10K for services, thus functionally reporting to MAMD. Of the 1,052 contracts processed by PGs at NML in 2017-18 FY, 987 (94%) were processed within services standards; in most cases within a day or two. If the contracts processed by PGs at the NML were removed from all the contracts processed at PHAC for the last fiscal year, the average percent of contracts processed within the service standard at PHAC would drop by 8% to a level of 76% processed within the standard, and would reduce the average for both HC and PHAC by 2% to 75% overall.
29. Based on the timelines noted above, we sought to determine the possible causes of the delays and selected a targeted sample of 70 contracts from fiscal year 2017-18 including most contract types that were known to have delays. The sample selected was not intended to generalize findings back to the entire population, but to provide an opportunity to identify some of the factors contributing to delays in the overall process. The sample from both HC and PHAC accounted for the types representing the majority of contracts; for example, call-ups, PS1, PS2 and POs (see the list of the top five types of contracts above), competitive and non-competitive, largest average processing time in relation to standards, contracts processed both at headquarters and at the NML, as well as those contracts experiencing delays at different stages of the process. We included call-ups, which accounted for approximately 56% of all contracts, as well as service contracts PS1 (above \$10K) and PS2 (below \$10K) representing 13% of all transactions. We also selected purchase orders below \$25K, due to the difference between the processing times at HC and PHAC and the difference between competitive and non-competitive. For example, we calculated that non-competitive POs were taking three times longer at HC than at PHAC. We did not look at contracts processed by PWGSC/PSPC, as the timelines were, for the most part, out of MAMDs control. Nor did we look at supply arrangement contracts, as they represented less than four percent of overall contracts. Our testing identified three potential underlying inefficiencies⁵.
30. First, we found that 20 out of 28 low dollar value (LDV) contract requests taken from the sample of 70 had missed MAMD's standard for picking up the file. The process in place for LDV contracts required PGs to proactively pick up requests using the P2P contracting software, as opposed to being assigned the request. The auditors noted that the SAP system did not have the functionality to allow MAMD to accurately identify or track who was responsible for a certain action related to the procurement file (MAMD or the CCM) at a particular point in time, so the specific causes for these delays were not captured in the business process. Some potential causes include discussions with CCMs while the file was in progress (time was still being counted), and missing documentation.

⁵ These inefficiencies were not mutually exclusive, one or all of them could have occurred in each contract process.

31. Second, of the 70 sampled contracts, 29 contracts had delays stemming from the CCMs. Out of the 29 contracts, there were 16 instances where the delays were due to the CCMs not providing timely approvals or CCMs deleting the approval steps, and possibly changing their requirement. The remaining 13 contracts had delays due to CCMs not initially providing the required documentation, or uploading the wrong documents, which led to the service standard not being met. We noted that all necessary templates and required documentation checklists were readily available on *MySource*, and it was the responsibility of the CCMs to use the resources made available to them.
32. Third, we found that 23% of the 70 contracts sampled experienced delays because the Security Requirement Checklist (SRCL) was required, but initially missing from the documents submitted by the CCMs. The guidance documents provided to CCMs by MAMD and the Security Management Division (SMD) of the Corporate Services Branch were not consistent in their direction for the use of the SRCL. These inconsistencies caused confusion for CCMs on the requirements, and could have contributed to misunderstanding among CCMs and PGs as to when the SRCL was required. Guidance provided by SMD to the audit team indicated that SRCLs were required for all contracts processed at HC and PHAC.
33. We also conducted interviews with 17 CCMs responsible for some of the contracts known to have had delays, in order to better understand the cause of the delays and the impact the delays had on operations. Managers contacted indicated having had a mixed experience with MAMD. Common feedback included that the advice provided by PGs was inconsistent, and that the quality of service provided varied depending on the PG that was assigned to the file. CCMs also mentioned confusion regarding required documentation, such as SRCLs.
34. We also heard from MAMD that, due to the nature of their work, there were occasions where prioritization decisions were required in order to meet pressing requests or to process higher priority files. In some instances this was communicated to the CCM, however, the auditors also heard from the CCMs interviewed that, once their file was submitted into SAP, they did not know who to contact. However, this information was readily available online through *MySource*.

Monitoring and Quality Assurance

35. We expected to find MAMD's monitoring and quality assurance activities to be clearly defined and risk-based.
36. We found that MAMD had two clearly defined controls in place to ensure completeness of files in SAP: review of all LDV contracts and a quality assurance program. For transactions above \$10K, MAMD had functional authority, which means MAMD processed and signed the contracts on behalf of the CCMs.
37. MAMD reviewed the documentation in SAP for all LDV transactions below \$10K (100%) before the CCM could sign the contract (Section 41). MAMD reviewed all LDV transactions, regardless of the level of risk associated with that type of transaction. This

process was not risk-based and may have been over controlled. Furthermore, MAMD did not compile information on the number of initial requests under \$10K that did not have the required documentation during the initial document review; therefore, there was no evidence to suggest that those contracts required this level of review.

38. Through our benchmarking, we noted that, although the majority of the science-based departments surveyed had the same level of authority and responsibility requirements as HC and PHAC, two out of five departments surveyed encouraged their procurement and contracting divisions to exercise some flexibility in their review and monitoring of contracting documentation by their PGs prior to processing and approving contracts. We also learned that at least one other department allowed their CCMs to use acquisition cards with a \$10K limit, thus reducing the burden on PGs to monitor all contracts.
39. We found that MAMD had a quality assurance program in place where, on a sample basis, documentation in SAP was reviewed to confirm a physical presence (completeness of file) each month. The process consisted of a random selection of 5% of contracts below \$10K and 10% of contracts above \$10K, with a minimum of three files per contract type to be reviewed. We noted that the process was not consistently followed and did not always target high-risk transactions. MAMD indicated that high-risk contracting was dealt with through authority delegations by contract type, the documentation and justifications required by each contract type, as well as who was assigned to work on the file (i.e., the higher the risk, the higher the PG competency assigned to the file).
40. Overall, we found that the delays resulting from PGs, CCMs, and security issues within the operations of the procurement and contracting process and related activities affected the overall efficiency. There were opportunities for process improvements that, if implemented, should improve overall efficiency and effectiveness, and lead to higher compliance with established service standards.

Recommendation 1

The Chief Financial Officer, Health Canada, should conduct regular analysis of contract types not meeting service standards to identify underlying issues and take appropriate actions to address them, including working with management as necessary.

Management response

Management agrees with the recommendation.

As the report acknowledges, the Client Cost Centre Manager, Procurement Officer, and Security Division all have a role to play in the procurement process. The Material and Asset Management Division (MAMD) has the ability to identify the status and responsibility of any given file by type at any given time, all of which culminate in the service reports discussed herein. A regular analysis of this information will be provided to the Director General, Financial Operations Division (DG FOD) and CFOs, and shared with both Executive Committees (ECs).

Recommendation 2

The Chief Financial Officer, Health Canada, should identify the underlying reasons why all low dollar value contracts were not picked up in a timely manner and take corrective action.

Management response

Management agrees with the recommendation.

While there is always room for improvement, 98.3% of LDV requests were picked up within the service timeline (with 59.2% of those having a contract in place in less than half of the standard time). Management will ensure that supervisors confirm that all requests are picked up within 72 hours, or returned to the client if incomplete.

Additionally, it should be noted that MAMD has regular discussions with branches to determine the relative priority of their files. This helps ensure that the most critical and urgent procurement needs are addressed in the most expedient fashion. This means that during busy periods, some of the LDV contracts that are, in many cases, less important to the branch may be delayed.

Recommendation 3

The Chief Financial Officer and the Assistant Deputy Minister, Corporate Services Branch, should ensure that clear direction is communicated to Cost Centre Managers and Procurement Officers on the mandatory requirements of completing the Security Requirement Checklist for all Health Canada and Public Health Agency of Canada contracts.

Management response

Management agrees with the recommendation.

CSB will collaborate with MAMD to assist with guidance on the use of Security Requirement Checklist.

CSB will collaborate with MAMD on a training and awareness package for both HC and PHAC Cost Centre Managers.

Recommendation 4

The Chief Financial Officer, Health Canada, should ensure that the quality assurance process is followed and that monitoring is based on acceptable risk tolerance.

Management response

Management agrees with the recommendation.

MAMD will review the QA process and ensure that risk tolerance is adequately addressed.

MAMD will review options for risk-based approaches to the procurement function. Options will review what is being done in other government departments, considerations, impacts, risks, and options should be presented to CFOs and deputy heads to consider.

Urgent Contracting

41. A pressing emergency, as defined in the *Government Contracts Regulations*, is “a situation where delay in taking action would be injurious to the public interest. They are normally unavoidable and require immediate action which would preclude the solicitation of formal bids. It could constitute an actual or imminent life-threatening situation, a disaster which endangers the quality of life or has resulted in the loss of life, or one that may result in significant loss or damage to Crown property”⁶. Urgent contracts, by contrast, are purchasing requests that are deemed to require more urgent attention, even if they don't meet the requirements for emergency situations.
42. We expected to find an established process to address urgent contracting needs, including emergency situations. Both emergency and urgent contracting needs were well defined in Government of Canada guidance documents. MAMD confirmed that there had not been any true ‘emergency’ contracting requirements in the preceding two-and-a-half years. The audit team identified 15 ‘urgent’ contracts for the scoping period of the audit.
43. We found that, while not documented, there was an internal process in place to identify and process urgent contracting requests. In order for a request to be prioritized, CCMs must contact MAMD and communicate the nature of the urgent request. The request would then be prioritized pursuant to consultations between MAMD and the CCM, taking resource availability into consideration. All 15 contracts identified as urgent were tested and found to have been processed well within normal service standards (in less than half the time of the service standard, in most instances).
44. MAMD stated that the process regarding urgent contracting requests had not been documented. Instead, the emphasis was placed on accurate and timely procurement planning by CCMs. Given the nature and complexity of procurement and contracting,

⁶ Contracting Policy: <https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494#>

and the evidence provided below on how these types of contracts had been dealt with, the audit team did not deem this strategy to be a high risk.

45. We conducted testing to identify specific instances of emergency and urgent contracting needs that arose during the audit period, in order to assess the extent to which established processes were known, understood, and followed.
46. Fifteen urgent contracts were selected based on their limited tendering coding, and two based on special requests from senior management. The audit team enquired into the two special requests from senior management and concluded that priority was given to both cases when brought to MAMD's attention, and were processed well within the established standards.
47. In addition to the two examples, the audit team conducted further analysis and testing on extremely urgent files. For the audit scope, 15 contracts out of 20,388 were deemed 'urgent', 14 of which had a seven-day standard, and one had a 30-day standard for completion. Through an analysis of the data, the audit team identified that two of the 15 were confirming orders, meaning that the procurement had already taken place and therefore the processing standards for these contracts were not applicable in calculating performance. They were processed in 12 and 23 days, respectively.
48. Of the remaining 13 contracts reviewed, one had a service standard of 30 days and was processed in 18 days, well below the service standard for sole-source service contracts. Another contract with a service standard of seven days was completed outside of the established standard at 10 days. The delays were typical, in that the requirement was refined and the client needed to update and change documents in SAP accordingly. For the remaining 11 contracts, the audit team determined that, on average, urgent contracts were processed in 2.37 days. These contracts were therefore completed well within normal service standards.
49. Overall, we found that there was an undocumented internal process in place to identify and process urgent contracting needs. This process was known internally within MAMD; however, it has not been shared with the CCMs or outside the Division. All urgent contracting needs were dealt with on a case-by-case basis, and all those identified and examined were processed well within service standards.

Non-competitive contracting

50. Non-competitive or "sole-source" contracting is the ability to set aside the requirement to solicit bids and award contracts based upon one of the following four exceptions:
 - there is a pressing emergency wherein any delay would be injurious to the public interest;
 - the estimated expenditure does not exceed \$25K;
 - the nature of the work is such that it would not be in the public interest to solicit bids; and
 - only one person or firm is capable of performing the contract.
51. We expected to find rationales for non-competitive contracts that were adequately documented and challenged.

52. We found that MAMD had documented and communicated the requirements for non-competitive contracting, including what constituted acceptable support for sole-source justifications. MAMD prepared and disseminated the 'Procurement and Contracting Guide for Cost Centre Managers', as well as other resources available on the HC and PHAC *MySource* intranet site, to support CCMs in preparing sole-source justifications.
53. The audit team conducted statistical and judgmental sample testing of completed sole-source justification checklists to determine if sufficient rationale was on file to justify the sole-source decision. We reviewed 108 sole-source contracts and found that the justification was adequately documented and provided sufficient information for a Procurement Officer (PG) to understand the reasoning for the exception to competition. No instances were identified by the audit team where the rationale for sole-source contracting could clearly be challenged based on the information on file.
54. We also examined the Tier 1 Contract Review Committee (CRC) responsible for monitoring "at-risk" contracts and identifying issues to be brought to the attention of the MAMD director such as contract splitting, repetitive contracting, excessive use of sole-source, and all sole-source contracts over \$25K, with the exception of equipment maintenance contracts where only one supplier could provide the service.
55. As the CRC was the control mechanism in place to monitor these higher-value contracts (over \$25K), it was important for the Committee to clearly define and understand its role, and ensure that its mandate was followed as outlined in its Terms of Reference. In our review of CRC's ToR, we found five categories of sole-source contracts over \$25K that the committee did not review and were not stated in the ToR. We sought details on these files and were provided acceptable explanations of how and why the files were dealt with in the way they were; however, not all file types that did not require CRC review were listed in the ToR.
56. Overall, while all contracts reviewed had a sufficient sole-source justification on file, the Tier 1 committee responsible for reviewing and challenging non-competitive contracts of higher value did not have an accurate ToR to articulate their responsibilities, nor was there a consistent process for tracking or recording contracts reviewed by the Committee.

Recommendation 5

The Chief Financial Officer should ensure that the Tier 1 Contract Review Committee Terms of Reference are updated to include all contract types that the CRC does not review. In addition, a process to record CRC transactions should be implemented to ensure complete and efficient record keeping.

Management response

Management agrees with the recommendation.

CFOB will revise the CRC terms of reference to include all contract types. CRC maintains a record of decisions, which will be enhanced to include any transaction-level activities.

Sex- and Gender-Based Analysis

57. Sex- and Gender-Based Analysis Plus (SGBA+) is an analytical tool used to assess how various groups of women, men, and gender-diverse people may experience policies, programs, and initiatives. SGBA+ also considers many other identity factors, like race, ethnicity, religion, age, and mental or physical disability.⁷

58. MAMD follows guidelines provided by the Treasury Board Secretariat (TBS) and Public Services and Procurement Canada (PSPC) for all procurement and contracting activities. Guidelines provided by TBS and PSPC do not yet include requirements or direction on the requirements for SGBA+ implementation. We noted that no specific direction has been provided to MAMD in this regard, and that they are not included in the current Departmental SGBA+ Plan. As such, we found that MAMD had not yet incorporated SGBA+ awareness training for its staff, nor had it determined how it could be applied within MAMD. However, given that SGBA+ is a priority initiative within HC and PHAC, MAMD should now be examining how it can contribute to this initiative.

Recommendation 6

The Chief Financial Officer, Health Canada, should determine how Sex- and Gender-Based Analysis Plus can be applied within the Material Assets and Management Division.

Management response

Management agrees with the recommendation.

The Chief Financial Officer will consult Procurement Services and Procurement Canada and the Treasury Board Secretariat, and, at a minimum, ensure Procurement Officers have received SGBA+ training.

⁷ <https://www.swc-cfc.gc.ca/gba-acsc/index-en.html>

Conclusion

Overall, we found that high-risk contracting activities were effectively managed and had no deficiencies, while there were several areas needing improvement in service delivery. Also, SGBA+ was not yet integrated into the business processes of MAMD. Furthermore, we found that service delivery for the contracting process had more than one major deficiency.

59. Management processes and practices were effective in the following areas:

- A planning mechanism was in place at HC and PHAC that supported the activities of MAMD, including procurement plans, quarterly planning meetings with client branches, and monitoring of procurement activities;
- Targeted standing offers were implemented to increase opportunities for efficiency, as well as the promotion of bulk purchases;
- A comprehensive set of service standards;
- An informal process to support processing of files that were deemed urgent; and
- Documented requirements for non-competitive contracting, including what constitutes acceptable support for a sole-source contract.

60. We also identified the following opportunities for improvement:

- A more detailed analysis of differences in meeting service standards between branches, periods, and contract types had not been conducted by MAMD;
- Delays and inconsistencies in the initial pick up and review of low dollar-value contracts should be addressed;
- The requirement for a Security Requirement Checklists (SRCLs) across the different types of contracting needs clarification;
- Monitoring activities were not risk-based and did not target high-risk transactions; and
- SGBA+ has not yet been examined by MAMD to determine how it can best contribute to this initiative.

61. The areas for improvement noted in this audit report will collectively strengthen management of Procurement and Contracting activities.

Appendix A – About the Audit

Audit Objective

62. The objectives of this audit were to assess the efficiency of the contracting process, to provide assurance that high-risk contracting activities were effectively managed, and to assess the integration of Sex- and Gender-Based Analysis Plus into business processes.

Audit Scope

63. The scope of this audit focused on the structures, processes and activities in place from April 1, 2016 to August 31, 2018 and included the examination and assessment of:

- procurement planning;
- the efficient service delivery of the work-flow process, associated risk tolerances, monitoring and performance reporting activities;
- the procurement process in place for urgent contracting needs and non-competitive contracting; and,
- the level of integration of Sex- and Gender-Based Analysis Plus into the procurement processes.

The scope also included activities undertaken by branches within both HC and PHAC.

Activities not in Scope

64. The procurement and contracting function at HC and PHAC has been the subject of a number of audit/review engagements in the recent past. An audit was conducted by the Portfolio Audit and Accountability Bureau of PHAC in 2015; a review was also conducted by the Office of the Procurement Ombudsman in 2015 focusing on contracting through Standing Offers and Supply Arrangements; and, in 2017, HC was included in the Office of the Auditor General's horizontal initiative across select departments/agencies that assessed the management of fraud risk. The focus of these engagements included assessment of processes/controls in place to support compliance and mitigate related risks, including those related to fraud and errors. Management action plans addressing recommendations of the aforementioned engagements have been implemented. As such, although the audit team was mindful of instances of non-compliance, errors, or potential for fraud, these areas were not a focus of audit activity.

65. Activities related to contract administration, such as business management units within branches, were also excluded from the scope of this engagement. For greater clarity, the scope of activities subject to examination did not include those that occur after the approval of the contracts.

Audit Approach

66. We conducted this audit in conformance with the Treasury Board of Canada's *Policy on Internal Audit* and with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. The audit was conducted at Health Canada's Headquarters (HQ) and included processes in place and activities carried out by MAMD within CFOB, HQ, and the procurement specialists within Program Services at the National Microbiology Laboratory (NML) in Winnipeg.

67. The principal audit procedures included, but were not limited to:

- A review and analysis of:
 - workflow processes and controls;
 - monitoring and quality assurance strategies, methodologies, and outputs;
 - performance frameworks, including standards for service delivery and associated monitoring and reporting;
 - procurement planning processes and documentation; and
 - planning documents and documentation related to service delivery and performance.
- Walkthroughs and interviews with key personnel;
- Testing of a sample of files from contract types that did not meet service standards;
- Analysis of monitoring and performance results and contracting metrics; and
- An informal benchmarking exercise involving a sample group of five science-based departments and agencies, primarily to provide context and support for assessments made by the audit team.

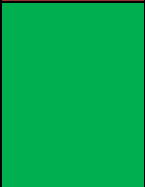
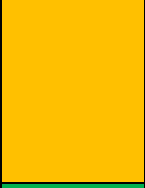

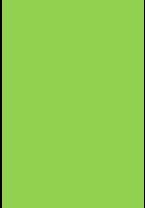

Statement of Conformance

68. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* as supported by the results of the Office of Audit and Evaluation's Quality Assurance and Improvement Program.

Appendix B – Lines of Enquiry and Criteria

Audit of Procurement and Contracting	
Criteria Title	Audit Criteria
Planning	1. There is effective planning in place to support procurement and contracting activities.
Efficient Service Delivery	2. The design and operation of the contracting process and related activities support efficient service delivery.
Urgent Contracting	3. There is an effective process in place to address urgent contracting needs.
Non-competitive contracting	4. The rationale for non-competitive contracting is adequately documented and challenged.
Sex- and Gender-Based Analysis	5. The Material and Assets Management Division incorporates Sex- and Gender-Based Analysis Plus in procurement and contracting.

Appendix C – Scorecard

Audit of Procurement and Contracting			
Criterion	Rating	Conclusion	Rec #
1. Planning		A planning mechanism was in place at Health Canada and at the Public Health Agency of Canada, although the procurement planning process at HC was more comprehensive and incorporated into a larger planning exercise. The planning process was supplemented with quarterly planning meetings and monitoring of procurement activities.	
2. Service Delivery		Design and operations of the procurement and contracting process and related activities did not support efficient service delivery for all branches. There were opportunities for process improvements that, if implemented, should improve overall efficiency and effectiveness of the process, and lead to higher compliance with established service standards.	1, 2, 3, 4
3. Urgent Contracting		An informal internal process exists to process files that were deemed urgent by MAMD, resulting in all urgent contracts identified and examined being processed well within the service standards.	
4. Sole Source Justifications		Documented requirements for non-competitive contracting were in place, including what constitutes acceptable support for sole-source requests. Terms of Reference need to be updated to include all exceptions that require mandatory review and, in addition, a process to record Contract Review Committee transactions should be implemented to ensure complete and efficient record keeping.	5
5. Sex- and Gender-Based Analysis		MAMD had not yet incorporated Sex- and Gender-Based Analysis Plus (SGBA+) awareness training for its staff, nor had it determined how it could be applied within MAMD into its business processes.	6

