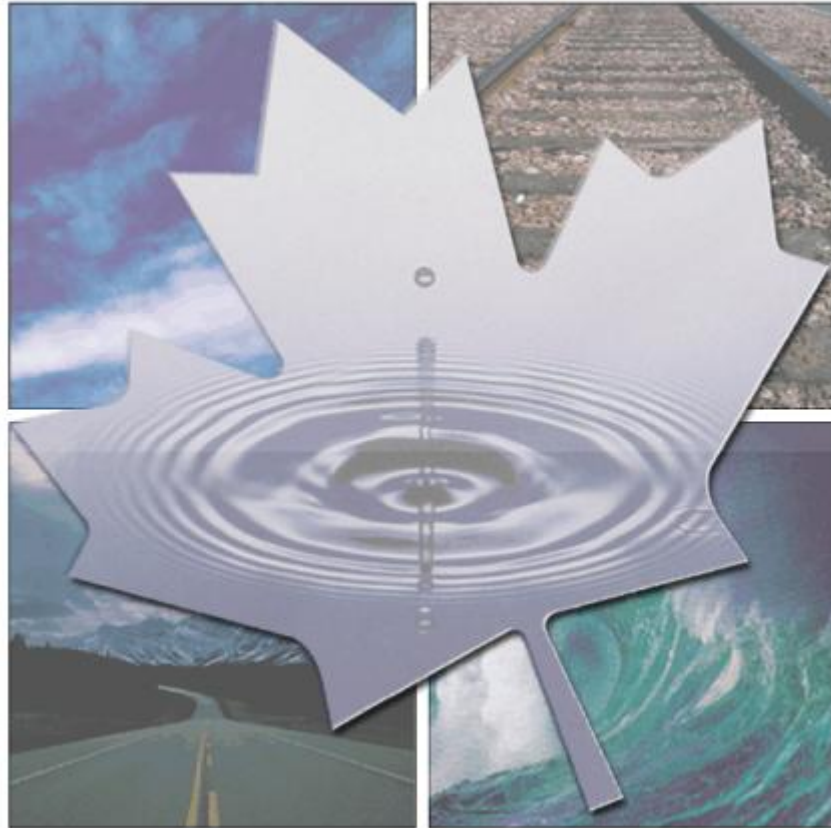


Audit and Advisory Services
Integrity, Innovation and Quality



Audit of Temporary Help Services

File Number: 1577-11/12-104

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EXECUTIVE SUMMARY

INTRODUCTION

Temporary help services (THS) are services that are provided by the resources of temporary help firms. The THS On-Line System is an on-line procurement tool designed by Public Works and Government Services Canada (PWGSC) to assist federal departments in the National Capital Area, in their procurement of temporary help services up to \$400K (which includes all subsequent amendments, travel/living expenses, overtime and GST/HST) or 48 consecutive weeks, whichever comes first. A call-up/contract can be extended by an additional 24 consecutive weeks with the approval of PWGSC.

There are two components to the THS On-Line System: a Standing Offer (SO) and a Supply Arrangement (SA). At Transport Canada (TC), functional authority for contracting rests with Corporate Management's contracting unit. However, authority to enter into THS contracts using either the SO or the SA has been delegated to responsibility centre managers under their Low Dollar Value signing authority.

Over the last four years (FY 2008/09 - FY 2011/12), 244 responsibility centres in the National Capital Region (NCR) have managed 1,731 THS contracts for a total of \$65M in expenditures. From FY 2008/09 - FY 2010/11, THS contracts represented approximately nine percent of Professional Services contracts per the Public Accounts.

AUDIT OBJECTIVES & SCOPE

The purpose of this audit was to assess the effectiveness of controls over the use of the THS On-Line System and to provide assurance as to the extent to which those controls are respected. The audit also looked at trends in the use of THS to determine potential opportunities for greater efficiency.

Since 98% (\$65M) of THS expenditures from FY2008/09 – FY2011/12 were spent in the NCR, this audit focused only on THS expenditures in the NCR.

CONCLUSIONS

Overall, the audit found that governance priorities and controls regarding the use of THS contracts would benefit from significant improvements (see Appendix A for complete conclusion scale with definitions).

It is only since the creation of the Senior Procurement Review Committee (SPRC) in December 2011 that there has been any challenge and oversight of THS use in the Department. The SPRC plays a limited challenge as to whether or not a responsibility centre manager's need for professional services resources should be met through the contracting of the resource or through other means such as permanent or temporary staffing arrangements. Once the SPRC agrees with the responsibility centre manager's request to enter into a contract for professional services, there is no further challenge or oversight of THS contracting, either by the SPRC or by contracting staff.

The appropriateness of delegating THS contracting authority to responsibility centre managers has not been reassessed since THS limits were increased in 2008 from \$89K to \$400K. There would be merit in reviewing these delegations in the context of risk and expenditure controls. There would also be merit in reviewing the SPRC role with respect to THS contracts.

Finally, the audit found that the control framework needs to be strengthened to:

- reduce the high volume of financial system coding errors being made. (It was noted that recent changes to the department's financial system will also help reduce coding errors and improve the accuracy of reporting.);
- ensure contracted resources meet the minimum requirements of the position (stream and classification) as stipulated by PWGSC;
- ensure a THS contract is the most cost-effective and appropriate vehicle to obtain required resources and to complete the work required; and
- ensure complete file documentation is being maintained.

The ADM, Corporate Management and Crown Corporation Governance with the support of the DG, Finance and Administration, should:

- conduct a full risk assessment, keeping in mind the results of this audit, to determine the Department's acceptable risk tolerance, and to guide decisions regarding THS delegation, contracting authority and controls required to support that delegation;
- determine the appropriate level of ongoing oversight and monitoring over the use of THS contracting, commensurate with the level of risk identified in the risk assessment and accepted risk tolerance, to ensure proper usage of THS contracts and adherence to the various controls;
- ensure complete and accurate reporting;
- update directions and guidelines to address gaps identified in this audit, including the need for appropriate record keeping, and ensure managers are made aware of these;
- ensure that those exercising THS contracting authority have access to a central area of expertise where they can obtain necessary advice and guidance; and
- ensure that those exercising THS contracting authority have the appropriate training.

STATEMENT OF ASSURANCE/RELIANCE

It is our professional judgment that the audit has been conducted in accordance with the Internal Auditing Standards of the Government of Canada as prescribed by the Comptroller General of Canada. Satisfactory procedures for the audit have been conducted, and sufficient relevant evidence has been gathered to support the accuracy of the opinions provided in this report.

Signatures

Signed by	October 2, 2012
_____ Dave Leach (CIA) Director, Audit and Advisory Services	_____ Date
Signed by	October 2, 2012
_____ Laura Ruzzier, Chief Audit Executive	_____ Date

1. INTRODUCTION

1.1. PURPOSE

The Audit of Temporary Help Services (THS) at Transport Canada (TC) was included in the Department's 2011/12 audit plan based partially on concerns raised by the Public Service Commission about the use of Temporary Help Services across the government and the potential for the inconsistent or inappropriate use of THS in TC.

The purpose of this audit was to assess the effectiveness of controls regarding the use of the THS On-Line System and THS contracts and to provide assurance as to the extent to which those controls are respected. The audit also identified trends in the use of THS to determine potential opportunities for greater efficiency,

1.2. BACKGROUND

When the need arises, TC may obtain outside expertise for temporary and/or specialized help through a number of mechanisms. From a staffing perspective, TC can hire casual, term or student employees. TC can also obtain resources by using one of the many Standing Offers (SO) and Supply Arrangements (SA) created by Public Works and Government Services Canada (PWGSC) to contract for services.

The THS On-Line System is both a SO and a SA created by PWGSC to assist federal departments in the National Capital Region (NCR) to procure temporary help services of up to \$400K per contract.

The SO allows a responsibility centre manager to request a resource(s) of a particular classification and level. The selection process is based on the vendor with the lowest price who can provide the required resource(s).

The SA allows a responsibility centre manager to contract resources to meet more complex requirements by specifying mandatory and rated selection criteria in a Statement of Work (SOW). The SOW is sent to a minimum of three vendors. Two vendors are selected by the THS On-Line System (the lowest cost vendor and one vendor selected randomly) and additional vendor(s) are selected by the responsibility centre manager. The successful vendor is chosen based on a combination of cost and the assessment of rated and mandatory criteria.

PWGSC defines THS as “services that are provided by the resources of temporary help firms”¹.

The PWGSC THS On-Line system contains five streams of resources (office support, administrative services, operational services, technical services, and professional services). Each stream has multiple classifications (e.g. general office clerk, construction

¹ PWGSC website regarding THS - <http://www.tpsgc-pwgsc.gc.ca/app-acq/sat-ths/index-eng.html>

site coordinator, electrician, auditor, etc) and each classification has up to four levels (junior, intermediate, senior, and advanced). THS can only be used if the resource required falls under one of the pre-defined classifications.

Pursuant to TC Materiel and Contracting Services Bulletin 2009-1², “managers in the NCR who require temporary help services must obtain the services using PWGSC’s THS On-Line System”.

The THS On-Line System is only to be used by federal departments in the NCR when:

- a public servant is absent for a period of time;
- there is a requirement for additional staff during a workload increase, and there is an insufficient number of public servants available to meet the requirement; or
- a position is vacant and staffing action is in process.

If the Department’s requirements are outside the above mentioned scope or do not fit one of the pre-defined classifications, then the THS method of supply is not to be used.

A challenge for this audit was how to identify the universe of THS contracts issued by TC since there was no method of definitively identifying THS contracts in the departmental financial system without specifically looking at each contract document individually. It should be noted that recent changes to the departmental financial system will make the identification of THS contracts much simpler in the future, should the department request tracking of such information.

For this audit, an initial list of potential THS contracts were identified by examining three fields in the departmental financial system that are to be used to code THS contracts.

This potential list of THS contracts was then analyzed and contracts identified as non-THS contracts were removed. The audit team then augmented the list with additional information necessary for the audit by locating and mining various data sources. This was a long and laborious process. The resulting list of THS contracts represents the best information that could be generated from the information available in the departmental financial system. While considerable time was invested in creating this information, the audit could not have been completed without it.

² APPENDIX D - TC Materiel and Contracting Services Bulletin 2009-1, “Acquisition of Temporary Help Services in the National Capital Region”, RDIMS #7275162

The following table details THS expenses by region and fiscal year:

Expenditures to Date by Region	Encumbered Fiscal Year						
	Region	2008-2009	2009-2010	2010-2011	2011-2012	Grand Total	% of Total
4 — NATIONAL CAPITAL REGION (NCR)		17,538,150	19,976,564	15,630,906	11,935,036	65,080,655	98.13 %
1 — ATLANTIC RÉGION		56,855	90,739	76,061	54,000	277,656	0.42 %
3 — ONTARIO RÉGION		154,350	19,619	10,702	80,029	264,700	0.4 %
V — SHARED SERVICES CANADA					241,553	241,553	0.36 %
2 — QUÉBEC RÉGION		82,374	72,347	70,852	15,810	241,382	0.36 %
6 — PACIFIC RÉGION		33,119	32,902	21,845	97,377	185,244	0.28 %
5 — PRAIRIE & NORTHERN REGION		5,716	1,783	18,512	3,244	29,255	0.04 %
Grand Total		17,870,565	20,193,953	15,828,877	12,427,049	66,320,445	100 %

Table 1 Temporary help services expenses by region and fiscal year.

Since over 98% (\$65M) of all potential THS expenditures were spent in the NCR, the audit focused only on THS expenditures in the NCR.

The following tables are found in the Appendices and further profile THS expenditures:

- Appendix G - THS Usage by Organization
- Appendix H - Capital vs. Operating THS expenditures
- Appendix I - THS Contracts by Value Range
- Appendix J - Comparison of THS Expenditures vs Professional Services Expenditures

1.3. AUDIT OBJECTIVE, SCOPE & METHODOLOGY/APPROACH

The overall objective of the audit was to assess the effectiveness of controls over the use of the THS On-Line System and to provide assurance as to the extent to which those controls are respected. The audit also looked at trends in the use of THS to determine potential opportunities for greater efficiency.

Over the last four years (FY 2008/09 - FY 2011/12), 244 responsibility centres in the NCR have managed 1,731 THS contracts for a total of \$65M in expenditures. From FY 2008/09 - FY 2010/11, THS contracts represented approximately nine percent of Professional Services contracts per the Public Accounts.

Responsibility centres were ranked and sorted based on both their total expenditures and the total number of contracts administered. The population was split into those responsibility centres considered to be major users of THS contracts and those responsibility centres considered not to be major users. All responsibility centres that had over \$1M of expenditures and/or administered over 20 contracts for the period FY 2008/09 - FY 2011/12 were considered major users of THS. Thirty-six responsibility centres were identified as major users. These 36 responsibility centres (15% of all RCs) represent over 50% (928 contracts) of all THS contracts and 60% (\$40.5M) of THS expenditures.

A random sample of 73 contracts was selected for detailed examination from the population of 36 major users. With a sample of 73, there is 95% confidence, $\pm 5\%$, that any results found in the sample are also applicable to the population of major users of THS.

As explained earlier, our list contained potential THS contracts. Of the original sample of 73, 4% (3 contracts) were found to be non-THS contracts.

Thirteen interviews with responsibility centre managers and administrative assistants were conducted to ascertain the responsibility centre's need for and use of THS contracts. The audit also identified what other options were considered and why the use of a THS contract was determined to be the best solution to meet the responsibility centre managers' needs. Finally, these interviews helped identify the level of knowledge that responsibility centre managers and staff had regarding the rules surrounding the use of THS and the coding requirements in the financial system.

Further analysis was done and the names of contract resources were identified for the majority of the THS contracts. Out of 1,121 contractors identified, 63 (4%) contractors were identified as being involved in four or more contracts. Resources with four or more contracts were further analyzed to determine if any contractors had the appearance of providing continuous services through repeated contracts.

The following sources were considered in establishing the audit criteria:

- PWGSC guidance on the use of the THS On-Line System. Information is found on the PWGSC website as well as their user manual³;
- Bulletin 2009-1 - Acquisition Of Temporary Help Services In The National Capital; and
- Public Service Commission's (PSC) 2010 Study on the "Use of Temporary Help Services in Public Service Organizations".

Based on the above we expected to find the following:

- Governance Framework
 - Appropriate oversight, based on an assessment of risk, was in place to ensure procedures are being followed and that controls in place are working as designed.
- Control Framework
 - The Department is in compliance with PWGSC and TC requirements with respect to the use of THS.
 - Managers and staff using THS On-Line System were aware of the requirements.
 - Alternatives to THS had been considered and THS was selected when it was deemed to be the best option to meet short term needs.
 - A "file" was maintained for each THS contract (electronic and/or paper) that contains the contract and all amendments, all invoices and all documentation supporting all decisions/history pertaining to the contract.

³ [RDIMS-#7184017-PWGSC - THS USER GUIDE](#)

- THS contracts were approved by employees with the delegated authority to enter into such contracts.

The planning phase of the audit occurred from November 2011 to May 2012. As previously mentioned, required information was not readily available and as such, a significant amount of time was spent in data mining and generating this information.

The audit conduct phase was completed by the end of July. File documentation for the 73 selected files was obtained and reviewed in detail against the criteria identified in the planning phase. Selected responsibility centre managers and staff were also interviewed.

1.4. STRUCTURE OF REPORT

Audit findings are grouped under two themes: the Governance Framework and the Control Framework. The Control Framework was further sub-divided into four categories: Compliance, User's Knowledge of THS, Use of THS, and Records.

Conclusions and recommendations to address weaknesses and gaps described in the findings section are provided in the Conclusions and Recommendations sections.

The Recommendations section includes a Management Response and Action Plan (MRAP) from the Department. The MRAP gives management's response to the audit's recommendations, commitments, and timelines for addressing identified weaknesses or gaps.

2. FINDINGS

2.1. FINDINGS: INTRODUCTION

The findings are grouped under two themes: Governance Framework and Control Framework. Findings are based on an examination of the Department's policies and practices, PWGSC's documentation regarding the THS On-Line System, file reviews, interviews, and data analysis.

2.2. FINDINGS: GOVERNANCE FRAMEWORK

There is limited challenge and oversight of THS contracting in the Department.

An effective THS oversight function, including a challenge function, is key to ensuring sound management of THS spending. A clear understanding of THS spending practices and trends is necessary for senior management to play an effective challenge and oversight role.

The Treasury Board (TB) Contracting Policy states that departments and agencies are responsible for ensuring that adequate control frameworks for due diligence and effective stewardship of public funds are in place and working. Further, the Policy encourages contracting authorities to establish and maintain a formal challenge mechanism for all contractual proposals and recognizes that this mechanism could range from a formal central audit board to divisional or regional advisory groups, depending on the departmental organization and magnitude of contracting.

At TC, responsibility centre managers have been delegated contracting authority to enter into and manage THS contracts.

It was noted that a Senior Procurement Review Committee (SPRC) was recently established in December 2011. The SPRC is an ADM-DG level committee with a mandate to review professional services requirements related to operational requirements and to provide TC with improved oversight of procurement planning, priorities and expenditures. The committee is to provide a challenge function and make recommendations to group heads (e.g., ADMs, RDGs) on outsourcing requirements. The SPRC plays a limited challenge as to whether or not a responsibility centre manager's need for professional services resources should be met through the contracting of the resource or through other means such as permanent or temporary staffing arrangements. The SPRC does not comment on which contracting vehicle is appropriate. At the time of the audit, the committee is reviewing all THS contracts greater than \$50K (including amendments and taxes) that are charged to Operating Expenses. The committee is not reviewing at this time, THS contracts that are less than \$50K or contracts that are greater than \$50K (including amendments and taxes) that are charged to capital projects. As seen in Appendix H, THS contracts for capital projects represent approximately 20% of all THS expenditures.

Once the SPRC supports a manager's decision to the outsourcing of professional services, the actual approach regarding which procurement vehicle to use is determined by the "Contracting Authority". In the case of THS, the Contracting Authority is the responsibility centre manager.

The SPRC does not provide any additional challenge or oversight once it has agreed with the responsibility centre manager's request to enter into a contract for professional services. The audit also found that there is no challenge or oversight at the functional level by the contracting group. At the time of the audit, contracting staff were not involved in the THS contracting process as they are with other contracting vehicles. The only other situation where a responsibility centre manager is permitted to procure professional services directly without the involvement of contracting staff is for contracts under \$5K. Without any oversight and challenge of THS contracts at the functional level, there is a risk that THS contracts may be entered into that do not meet the requirements for contracting under THS.

To summarize, the SPRC is a senior level oversight body that provides limited oversight by challenging the need for contracting of professional services of a non-capital nature. Once the SPRC agrees with the responsibility centre manager's request to enter into a contract for professional services, there is no further challenge or oversight of THS contracting, either by the SPRC or by contracting staff.

2.3. FINDINGS: CONTROL FRAMEWORK

2.3.1. Compliance

A THS SO and a SA were created by PWGSC to enable departments in the NCR to put THS contracts in place.

As previously described, the SO is based on the lowest cost vendor while the SA allows for more complex requirements and is based on a combination of cost and an assessment of rated and mandatory criteria.

The audit team used two methods to assess TC's compliance with the rules governing the use of THS contracts. Where possible, the entire list of THS contracts from 2008 to 2012 was examined. In addition, a random sample of 73 contracts was selected for a detailed file review from the population of major THS users to determine the degree of compliance with the rules.

Interviews suggest that THS contracts are not always used appropriately.

PWGSC has indicated that the THS contracting vehicle may only be used for one of the following three reasons:

1. A public servant is absent for a period of time;
2. When there is a requirement for additional staff during a temporary workload increase, in which there is an insufficient number of public servants available to meet the requirement; (this must only be used when there is a temporary increase in the normal work of the organizational unit, which cannot be completed by the existing staff within the required timelines. This additional workload is not to include special one-off projects with deliverables or the providing of special expertise not normally found in the organizational unit); or

3. A position is vacant and staffing action is being completed.

There is currently no requirement for responsibility centre managers to identify and document why THS is being used. Based on the detailed file review of the random sample of 73 files, 24% of the sample had sufficient documentation to identify the reason THS was being used and in all of those cases, the THS contracting vehicle was used for an appropriate reason. However, interviews with responsibility centre managers revealed that the THS contracting vehicle is also being used for reasons not approved by PWGSC (e.g.: for special projects or to acquire skills that the responsibility centre does not possess). At issue is the definition of “*special one-off projects*” and “*organizational unit*”. Neither of these terms had been defined by PWGSC. PWGSC however did respond to the audit team’s request for a definition and they provided the following:

- **Special one-off projects** - Special “one-off projects” refers to out of scope activities. The concept is not whether or not the work is described as a project. It is work that falls outside the normal activities performed within the unit or the providing of expertise not normally found in the organizational unit. In other words, work that is not conducted by the unit on a day-to-day basis.
- **Organizational Unit** - The term “organizational unit” is loosely defined to reflect the different structures that exist within the federal government. It refers to the lowest level structure where the work is being done. For example: if a unit needs an economist, then this unit must be able to demonstrate that they have an employee who performs similar work. In other words, they must have an economist working in that specific unit. If an economist is working in another unit, under the same Branch, Directorate or Department, then THS is not the appropriate method of supply. The unit cannot be interpreted as the Branch, Directorate or the Department.

Our interviews identified that some responsibility centre managers have used THS contracts for work that the organizational unit does not normally do in their day-to-day operations. In addition, THS is sometimes used to acquire skills that the organizational unit does not possess and has no intentions of developing the capacity in the future.

It is important to note that PWGSC advised the audit team that they are “presently working on a new National Procurement Strategy for THS. One objective is to review and update all documentation relating to temporary help services, including terminology as well as information posted on the website”. PWGSC did not provide a timeline for when this strategy will be finalized and provided to Departments.

Minimum requirements for classifications and levels, as set by PWGSC, are not always met by contractors.

The THS On-Line System includes five streams of work, which encompass 331 different combinations of stream, classification/group, and level. For each classification and level, PWGSC has defined minimum standards of education and experience that the contractor must have before they can be contracted in that capacity.

We were not able to determine if all contractors in our random sample met these minimum requirements. However, we were able to make an assessment in 86% of the files and we found that contractors did not meet the minimum requirements in 18% of those files.

It is important that the selected contractors meet PWGSC's minimum standards in order to comply with the requirements and also to ensure that the contractor is capable of performing the tasks associated with the contract. There is a risk of overpayment and/or underperformance if the contractor does not possess the minimum requirements for the position.

We also noted that the SOW often did not include the minimum requirements set by PWGSC. It would be a best practice to always include the minimum requirements in the SOW to ensure managers verify that prospective contractors meet the PWGSC's minimum requirements for the position.

The responsibility centre manager is also permitted to include in the SOW additional educational and experience requirements over and above those required by PWGSC.

In addition, 7% of the files assessed had contractors that also did not meet the additional educational and experience requirements set by the responsibility centre managers.

Contracts were within the time and dollar limits permitted by PWGSC although not all time extensions had the required PWGSC approvals.

PWGSC has limited a THS contract to no more than \$400K. Based on our review of the entire population of THS contracts, we did not find any instances where a THS contract exceeded this maximum limit.

As well, PWGSC has limited the duration of a THS contract to no more than 72 continuous weeks (initial duration of up to 48 weeks plus an extension not exceeding 24 weeks). Based on our review of the random sample of THS contracts, we found all THS contracts were within this maximum limit.

THS contracts can be entered into and can be extended without PWGSC approvals for up to 48 continuous weeks. Any extension of a contract beyond 48 continuous weeks requires the written approval of PWGSC. Out of the five contracts in the random sample that exceeded 48 weeks, one file did not have the required PWGSC approval.

The majority of THS contracts were awarded following the approved process.

For THS-Supply Arrangement contracts, bid documentation is required to be sent out to a minimum of three vendors. Bid documents are to be sent to two vendors selected by the THS On-Line System (lowest cost vendor and one random selection) plus the vendor(s) selected by the responsibility centre manager. Out of the 38 SA contracts in the random sample, 95% of the contracts did send out bid documentation to the minimum of three or more vendors.

THS- Standing Offer contracts are to be issued to the vendor with the lowest bid that can provide the required resources. Out of the 32 SO contracts in the random sample, 75% of the contracts were in compliance with this principle of "Right of First Refusal". For the remaining THS-SO contracts, we could not make a determination because the supporting documentation was not provided.

Financial system information on THS contracts was incorrect in over 50% of the cases.

As previously indicated, the departmental financial system contains three fields that are unique to THS contracts. In accordance with TC's Bulletin 2009-1, all THS contracts must be coded in the Purchasing Module as:

- "Temp Help" under Line Type
- "R0.R9" must be selected as the Category.

The Director, Financial Controls and Accounting Services confirmed that all THS expenditures are to be coded to a specific expense code in the Department's financial system (LOBJ 2201). It is important to note that this requirement has not been formally communicated to responsibility centre managers or staff.

Therefore, any THS contract that did not meet all three of these coding requirements was deemed to have coding errors. Based on an analysis of the entire database, over 50% of the THS contracts had at least one coding error.

Coding Errors	Total # of Contracts	Total # of Contracts as a % of Total	Total Expenditures	Total Expenditures as a % of Total
Coding Errors	937	54 %	30,979,180	48 %
No Errors	794	46 %	34,103,021	52 %
Grand Total	1,731	100 %	65,082,201	100 %

Table 2 Coding errors due to at least one field for THS contracts not being coded.

We also noted that there are no edit checks in the purchasing module of the financial system to detect/prevent these types of errors. This creates a risk of errors related to the completeness and/or accuracy of the mandatory Proactive Disclosure Reports and responses to Access to Information and Privacy (ATIP) requests as well as the amounts reported in the Public Accounts.

The Department has recently introduced changes to the purchasing module of the departmental financial system that will help improve the level of detail available in the system. However, there are opportunities for additional changes that would further improve the accuracy of the coding and reduce the risk of errors. Appendix K contains details of potential improvements that the Department may wish to consider.

2.3.2. User's Knowledge of THS

Since the allowable limit for THS contracts was increased from \$89K to \$400K in 2008, TC has not assessed the risk of delegating THS contracting authority to managers.

When the THS SO and SA were introduced, TC delegated contracting authority for these two contracting vehicles to the responsibility centre manager. This delegation was included under the responsibility centre manager's Low Dollar Value signing authority. Prior to 2008, THS was limited to \$89K per contract and was used for filling administrative type positions.

In 2008, PWGSC increased THS dollar limits to \$400K per contract and added many professional and technical classifications (e.g. construction site coordinator, electrician, auditor, special advisor, etc).

With the increase of over 400% in the permitted value of THS contracts, we would have expected TC to revisit the delegation of contracting authority to determine if it was still appropriate for responsibility centre managers to have this authority or whether specific monitoring controls or other controls were needed. We found no evidence that TC re-assessed the risks associated with responsibility centre managers having delegated authority over contracts with a new limit of \$400K.

Responsibility centre managers are not aware of TC guidance regarding THS as found in Bulletin 2009-1.

In order for the Department to be in compliance with PWGSC's and TC's THS requirements, it is critical that managers and staff using THS On-Line are aware of their obligations.

Procedures governing the use of the THS On-Line System have been developed and disseminated by both PWGSC and TC. During interviews however, it was apparent that most users are unaware of the existence of TC's available guidance (Materiel and Contracting Bulletin 2009-1).

Bulletin 2009-1 provides guidance on how THS contracts are to be coded in the Purchasing Module of the departmental financial system. The lack of familiarity with Bulletin 2009-1 may be one reason for the high level of coding errors which in turn impacts the accuracy of reporting of THS usage.

Responsibility centre managers do not have the required training to exercise their THS delegated contracting authority as identified in Bulletin 2009-1.

Training on THS is essential to ensure that staff entering into contracts understand the THS requirements, how to solicit services using THS and how to record the contracts in the financial system.

Bulletin 2009-1 requires responsibility centre managers to have the PWGSC THS training *before* exercising their delegated contracting authority. Section 4.0 (1) states:

Individuals in the NCR with delegated Low Dollar Value (LDV) procurement authority **who have attended a PWGSC THS training session** are authorized to issue call-ups against the Standing Offer and Supply Arrangement components of the *THS On-Line System*

Interviews with responsibility centre managers, who are given the delegated authority to enter into THS contracts and incur expenses against those contracts, confirmed that they had not received the required PWGSC training. Therefore, responsibility centre managers do not meet TC's requirements as stated in Bulletin 2009-1 since they do not receive the required training to exercise their delegated authority.

In addition, PWGSC has indicated that those individuals entering into THS-SA contracts must have procurement knowledge, i.e. a procurement background. Alternatively, a Department can establish an approval process for contracts which will validate procurement knowledge. PWGSC had not specifically defined the term procurement knowledge or procurement background. When we requested a definition from PWGSC, the description of this requirement was removed from their website and PWGSC advised that they are working on the new National Procurement Strategy for THS, including terminology as well as information posted on the website.

Once PWGSC has defined “procurement knowledge”, TC may need to change its processes to accommodate the new definition.

Responsibility centre managers do not always have access to expert advice and guidance regarding THS contracts.

It was expected that departmental staff would have access to expert resources regarding questions concerning the use of THS contracts or the use of the THS On-line system. Within TC, the functional authority for contracting is Materiel & Contracting Services within Corporate Services.

Through interviews, it was determined that there have been mixed results when either TC’s contracting group or PWGSC expert resources were contacted for advice on the rules surrounding the use of THS. Some responsibility centre staff have contacted departmental contracting specialists and were told to contact PWGSC since TC’s contracting group does not deal with THS contracts. In these cases, PWGSC would provide assistance on the rules and processes but when asked for help regarding SA rated and mandatory merit criteria, they were advised to contact departmental contracting staff who have the required procurement knowledge. This circular process left the responsibility centre manager and staff with no practical advice as to how best to proceed.

2.3.3. Use of THS

Other options are not always considered before choosing THS.

Since procurement should lead to the most "cost-effective" solution, alternatives to THS should be considered. Other options, such as temporary or casual employees or other contracting solutions, should be considered to fill short-term needs and THS should only be selected when it is deemed to be the best option to meet short term workload needs.

The audit did not find any evidence that there is a process in place where the SPRC, Human Resources, Materiel & Contracting Services and the responsibility centre manager worked together and collaborated in order to determine how to best meet a responsibility centre manager’s need.

While interviews indicated that some responsibility centre managers and staff do evaluate other options prior to choosing THS, THS was also viewed as the quickest solution to obtain required resources and it is often used to the exclusion of staffing or other contracting options.

A common theme expressed in the interviews was that other contracting vehicles and staffing options take too long to meet immediate needs. Consequently, more appropriate contracting vehicles or staffing options may be ignored and may lead to negative impacts on quality of work and/or limits to employment opportunities.

Statements of Work were found to be reasonable and to support competition.

For THS-SA, the SOW contains the requirements of the individual needed to perform the tasks associated with the contract. In order to ensure that the contracting process is fair and competitive, the requirements described in the SOW must not be overly restrictive.

Requirements in the SOW for all THS-SA contracts in the random sample were found to be reasonable and did not appear to restrict competition.

In cases where contractors could be identified, some contractors appear to have provided continuous service (i.e. at least two years) through THS contracts. (Note: This is for THS contracts only and does not consider any of the other contracting vehicles used by TC. Also, further audit work would be required in order to determine if the existence of multiple contracts creates an employer-employee relationship or if contract splitting was employed to circumvent rules.)

As previously mentioned, the duration of THS contracts cannot exceed 72 weeks and cannot exceed 48 weeks without PWGSC's approval. THS contracts are intended to fulfill a short-term need. A THS contract must not be used as a vehicle to satisfy a long-term need. In those cases where a contractor has continuous contracts, the question is whether or not the contracts were created to circumvent the time/dollar limits imposed by PWGSC on THS contracts or to acquire resources to meet long-term needs.

A review of all contractors with four or more contracts identified 18 contractors within 11 responsibility centres whose multiple contracts have an initial appearance of being of a continuous nature over at least a two year period, i.e., one contract after another working in the same organization. Whether or not these contracts were created to meet a long-term requirement or to circumvent PWGSC rules cannot be determined without further detailed analysis.

2.3.4. Records

Generally, "official files" are not being maintained for THS contracts. In addition, some required documentation was not provided when requested.

Matériel & Contracting Services is the departmental authority on contracting procedures. They have developed a "Guide to Procurement and Material Management" which contains a section on "Contract Records Management". Specifically, the guide states that Records Management must be provided "access to your procurement information by placing it in official files." Managers must "open an official file for individual contracts." The guide goes on to provide a list of documentation to be maintained on the file. In summary, the list contains the contract and all amendments, all invoices and all documentation supporting all decisions/history pertaining to the contract.

For the random sample of 73 THS contracts, responsibility centre managers were asked to provide the following information:

1. The Request for Availability (Standing Offer) or the Request for Services (Supply Arrangement) sent to prospective suppliers and any subsequent amendment to the request.
2. For services acquired under the Standing Offer
 - a. Documentation from THS On-Line System showing selection of suppliers who were asked to bid on the requirement
 - b. Résumés of potential resources provided by THS firms
 - c. Documentation explaining how a proposed resource met the requirements or not
3. For services acquired under the Supply Arrangement
 - a. Documentation from THS On-Line System showing selection of suppliers who were asked to bid on the requirement
 - b. Proposals (technical and financial) received from bidding firms
 - c. Evaluation of the bids received

Responsibility centre staffs were able to provide the majority of information requested, initially suggesting that the required "file" was being maintained. However, in 8% of the cases, information was missing that prevented the completion of the file review. The audit team did not determine if the missing information actually existed or was just not provided.

Subsequent interviews however suggest that the "files" being retained are not "official files". The information is not in RDIMS or recorded in RDIMS. Much of the required information is in email format but those emails are maintained in individuals' email accounts. The Department's email system is not regarded as an official repository for documents. Emails should either be printed and put in a paper file or profiled electronically in RDIMS.

3. CONCLUSIONS

Overall, the audit found that governance priorities and controls regarding the use of THS contracts would benefit from significant improvements (see Appendix A for complete conclusion scale with definitions).

It is only since the creation of the Senior Procurement Review Committee (SPRC) in December 2011 that there has been any challenge and oversight of THS use in the Department. The SPRC plays a limited challenge as to whether or not a responsibility centre manager's need for professional services resources should be met through the contracting of the resource or through other means such as permanent or temporary staffing arrangements. Once the SPRC agrees with the responsibility centre manager's request to enter into a contract for professional services, there is no further challenge or oversight of THS contracting, either by the SPRC or by contracting staff.

The appropriateness of delegating THS contracting authority to responsibility centre managers has not been reassessed since THS limits were increased in 2008 from \$89K to \$400K. There would be merit in reviewing these delegations in the context of risk and expenditure controls. There would also be merit in reviewing the SPRC role with respect to THS contracts.

Finally, the audit found that the control framework needs to be strengthened to:

- reduce the high volume of financial system coding errors being made. (It was noted that recent changes to the department's financial system will also help reduce coding errors and improve the accuracy of reporting.);
- ensure contracted resources meet the minimum requirements of the position (stream and classification) as stipulated by PWGSC;
- ensure a THS contract is the most cost-effective and appropriate vehicle to obtain required resources and to complete the work required; and
- ensure complete file documentation is being maintained.

4. RECOMMENDATIONS AND MANAGEMENT RESPONSE AND ACTION PLAN

It is recommended that the ADM, Corporate Management and Crown Corporation Governance with the support of the DG, Finance and Administration:

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
1	<p>Recommendation Rating – Medium</p> <p>Conduct a full risk assessment, keeping in mind the results of this audit, to determine the Department’s acceptable risk tolerance, and to guide decisions regarding THS delegation, contracting authority and controls required to support that delegation.</p>	<p>A risk assessment on departmental contracting activities will be completed based on the life cycle of the procurement process: from requirements definition through to contract close-out. This assessment will include THS contracting, as a specific category of contract.</p> <p>The outcome of this assessment will be used to determine the appropriate delegation of THS contracting authority. The department’s delegation instrument will subsequently be amended.</p> <p>A report of this risk assessment will be presented to the Department’s Executive Management Committee (TMX) for discussion and direction on appropriate controls to support delegation.</p>	December 2012	DG F&A
2	<p>Recommendation Rating – Medium</p> <p>Determine the appropriate level of ongoing oversight and monitoring over the use of THS contracting, commensurate with the level of risk</p>	The appropriate oversight and monitoring will be determined based upon the outcome of the risk	March 2013	DG F&A

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
	identified in the risk assessment and accepted risk tolerance, to ensure proper usage of THS contacts and adherence to the various controls.	assessment and direction from the Department's Executive Management Committee. Refer to action item #1		
3	<p>Recommendation Rating – Medium</p> <p>Develop clear data collection and entry procedures and perform effective quality control to ensure complete and accurate reporting.</p>	Data collection and data entry procedures will be revisited, communicated and implemented to ensure effective reporting.	March 2013	DG F & A
4	<p>Recommendation Rating – Low</p> <p>Update directions and guidelines to address gaps identified in this audit, including the need for appropriate record keeping, and ensure managers are made aware of these.</p>	Directions and guidelines will be developed or updated. The approach will be determined once the question of delegated contracting authority for THS is determined. Refer to action items #1, 2, 3, and 5.	September 2013	DG F&A
5	<p>Recommendation Rating – Low</p> <p>Ensure that those exercising THS contracting authority have access to a central area of expertise where they can obtain necessary advice and guidance.</p>	Employees exercising THS contracting authority have access to PWGSC guidance on how to use the tool. TC Contracting staff will complement this expertise in-house by completing the mandatory PWGSC training on how to use the THS tool and will then be in a better position to provide guidance on both contracting policy and the tool.	March 2013	DG F&A
6	<p>Recommendation Rating – Medium</p>			

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
	Ensure that those exercising THS contracting authority have the appropriate training.	TC Contracting staff will complete the mandatory PWGSC training on how to use the THS tool. Training beyond the Contracting staff will be determined based on the outcome of the review of the delegated contracting authority for THS. If authorities are delegated beyond the contracting staff, in house basic contract training will be mandatory before being able to exercise this delegation. Refer to action item #1.	March 2013	DG F&A

Note: Each recommendation has been assigned a rating based on the rating scale found in Appendix E.

List of Appendices

NOTE. APPENDICES HAVE BEEN REMOVED AND ARE AVAILABLE UPON REQUEST

Appendix A - Conclusion Scale

Appendix B - Audit Criteria

Appendix C - Senior Procurement Review Committee Terms of Reference

Appendix D - Bulletin 2009-1 – Acquisition of Temporary Help Services in the National Capital Region

Appendix E - Audit Recommendations Priority Rating

Appendix F - Acronyms

Appendix G - THS Expenditures by Organization

Appendix H - Capital vs Operating THS Expenditures

Appendix I - Profile of THS Contracts by Value Range

Appendix J - Comparison of THS expenditures vs Professional Services

Appendix K - Potential Improvements to departmental financial system