

Audit of Procurement and Contracting Management

**Corporate Internal Audit Division
Natural Sciences and Engineering Research Council of Canada
Social Sciences and Humanities Research Council**

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1 EXECUTIVE SUMMARY

Background

The Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC)¹ support scholarly endeavors in Canada's post-secondary institutions, and report to Parliament through the Minister of Industry. NSERC supports post-secondary students in their advanced studies, promotes and supports discovery research, and fosters innovation by encouraging Canadian companies to participate and invest in post-secondary research projects in the sciences and engineering. Similarly, SSHRC promotes and supports research and training in the humanities and social sciences.

The Agencies share a Common Administrative Services Directorate (CASD) in which the Procurement, Contracting and Material Management (PCMM) group is housed. The PCMM group reports through the Director General of F&AA (DG Finance) to the Vice President, CASD (VP, CASD) and is mandated to carry out two functions:

- i- Procurement and contracting (P&C) function: manages the procurement of the Agencies' goods and services (G&S) such as, IT equipment, office supplies, furniture and professional consulting and contractor services; and also coordinates the Agencies' acquisition cards.
- ii- Meeting & Travel Planning Services (MTPS) function: coordinates the Agencies' travel and meeting activities, manages travel cards, and ensures practices align with policy requirements.

Audit Rationale

As part of the risk-based planning process, the Corporate Internal Audit (CIA) Division identified P&C Management as an area meriting examination. The decision to include this review in the 2012-15 Risk-Based Audit Plan (RBAP) is based on the following reasons:

- Due to the high percentage (approx. 45%) of non-salary envelope devoted to the procurement of G&S, and in light of the recent Deficit Reduction Action Plan (DRAP) activities, this audit can identify areas of improvement that could assist the Agencies in better allocating their limited resources;
- Public scrutiny with regards to government procurement and contracting of G&S has increased with a focus on fairness, transparency and value for money over the use of public funds;
- P&C process improvements would assist the Agencies in the timely procurement of G&S which in turn would help managers within the Agencies to better forecast their expenditures;
- To provide assurance that the Agencies' policies and directives on P&C are aligned with those of Treasury Board; and
- The previous audit of the P&C function was conducted in 2004, and the scope did not include acquisition cards.

¹ NSERC and SSHRC shall be referred to throughout the reports as "the Agencies."

Audit objective and scope

Objective

The objective of the audit was to assess the appropriateness and effectiveness of the management control framework, processes in place to support contracting and procurement activities within NSERC and SSHRC, and the level of compliance with related policies.

Scope

1. Governance of Procurement and Contracting activities;
2. Internal controls within procurement and contracting processes, including compliance with the Finance Administration Act (FAA) and other relevant policies and legal requirements; and
3. Consideration of risk is being used and employed throughout the procurement and contracting management lifecycle.

The audit covered all contracts entered into and P&C activities between April 1, 2010 and March 31, 2012 for both Agencies, and reviewed a sample of contract files and acquisition card statements (and supporting documentation). Issues related to the content and/or adequacy of the delivery of contracts, goods and services procured through Memorandum of Understanding (MOUs), or activities within Meeting and Travel Planning Services have been scoped out and could be included in future audits, if warranted.

Key audit findings

The audit found that a few essential elements of a sound P&C management framework are currently in place within NSERC and SSHRC. A formal and documented Delegation of Financial and Contracting Authority has been established and is updated as required, and the VP, CASD receives information from the PCMM team such as reporting of issues as-required, pro-active disclosure² lists, and the Business Volume report annually.³ Additionally, the file review determined that contracts awarded through competitive process, are generally well-maintained. Furthermore, the PCMM team has taken steps to improve the awareness and understanding of P&C processes by conducting a planning exercise with internal clients,⁴ and is developing a documented process that is currently in draft format.

The audit also noted a number of areas where improvements are needed.

1. A complete P&C framework should include internal policies, directives and guidelines, as well as key procedures, processes, and standards that comply with and support the TBS policy to ensure that operational tasks are performed consistently and efficiently. The audit concluded that the Agencies do not currently have a formal P&C framework and as a result, key information has not been documented and communicated to PCMM's internal clients. This has led to inconsistent advice and guidance provided by PCMM employees on similar

² In October 2004, the Government of Canada announced a new policy that requires departments and agencies to disclose all contracts and contract amendments over \$10,000 on their websites at least quarterly to support broader government commitments to transparency and accountability within the public sector (source: TBS website)

³ Organizations are asked to provide PWGSC with data on their annual contracting activities. PWGSC supplies this data to TBS, along with PWGSC data on contracting undertaken on behalf of organizations (source: TBS website).

⁴ For the purpose of this report, "PCMM internal clients" and/or "PCMM clients" refers to all employees within NSERC and SSHRC (except those working in PCMM) who require P&C services from the PCMM team.

requests to internal clients who require PCMM's services. Depending on the level of knowledge and experience of PCMM employees, including their personal interpretation of the TBS policies and PWGSC's guidelines, groups within the Agencies have been provided with different advice / guidance, processes and procurement methods. These combined factors have led to incomplete P&C information, reporting inaccuracies, and operational inconsistencies.

2. The audit found that the current governance of the P&C function includes reporting of P&C issues to the VP, CASD as needed, including the pro-active disclosure⁵ lists for approval and the Business Volume report.⁶ However, the Agencies have not mandated any of the existing senior management oversight bodies/committees with the responsibility to review information related to the P&C function and high risk P&C activities.
3. Contracting Authorities are individuals who have been delegated authority on behalf of the Crown to ensure P&C practices are aligned with policy requirements.⁷ These individuals should play a key role in assuring practices enhance access, competition and fairness and result in best value or the optimal balance of overall benefits to the Crown and Canadian people."⁸ Given these requirements, P&C functions within the Government of Canada are expected to play a functional authority role, to provide advice, and to conduct monitoring of P&C activities. The audit found that the Agencies have a clear delegation of Contracting Authorities assigned to the Presidents, VP CASD, Executive Vice-Presidents (EVPs), DG Finance, and PCMM employees, but that the overall roles and responsibilities of the P&C function have not been clearly defined. Due to this lack of clarity, it was noted that PCMM staff does not fully exercise its P&C functional authority role, as expected. Another contributing factor is the fact that some current positions in PCMM are very junior and at least one level lower than similar positions in other departments and agencies. This also could be one of the key reasons why PCMM has experienced substantial employee turnover in the last two years.⁹
4. The audit noted that PCMM's involvement in P&C processes varies from one internal client group to another within the Agencies, and as a result some internal clients have taken it upon themselves to perform duties that should be carried out by PCMM. These practices have led to instances where some items paid for by acquisition card or purchased from vendors on the standing offer index list should have had a contract in place. These transactions accounted for more than 15%¹⁰ of the total dollars disbursed for G&S between April 1, 2010 and March 31, 2012. The above-mentioned practices have led to incomplete contract files and data, resulting in reporting inaccuracies. Furthermore, the Agencies could potentially be put at risk in areas such as security, legal, and not to mention ensuring value-for-money and demonstrating fairness and transparency.

⁵ In October 2004, the Government of Canada announced a new policy that requires departments and agencies to disclose all contracts and contract amendments over \$10,000 on their websites, on a quarterly basis. This supports broader government commitments to transparency and accountability within the public sector (source: TBS website)

⁶ Each year, organizations are asked to provide PWGSC with data on their contracting activities. PWGSC supplies the data to TBS, along with PWGSC data on the contracting that it undertakes on behalf of organizations (source: TBS website).

⁷ TBS Contracting Policy, section 4.1.9

⁸ TBS Contracting Policy, 9.1.1

⁹ The PCMM team is composed of five positions and from April 1, 2010 to March 31, 2012, the staffing of two positions was stable, but there was a turnover of 15 employees in the other three positions.

¹⁰ This percentage, of the total dollars disbursed for goods and services, does not include travel-related expenses, honorariums for peer reviewers, or MOU arrangements with other organizations for in-kind services.

Conclusion

The role of procurement and contracting, as a function, is to ensure internal practices and activities are aligned with policy requirements and support fairness, transparency and value for money. Though the P&C functional authority resides in CASD, procurement and contracting compliance is an Agency-wide requirement and its success depends on the practices within NSERC and SSHRC as a whole. The Agencies must establish and document a solid and complete P&C framework, and internal clients must support PCMM by respecting the roles, responsibilities and processes, once defined, and by engaging the PCMM team early in their procurement activities.

As the Agencies navigate through a time of financial constraint, it is important to establish a P&C framework, to identify a governance structure for the P&C function, and to determine the role and composition of the team required to support the function's mandate. Efficiencies can be gained through the identification and documentation of the P&C framework (including key processes, procedures, and tools) and then through Agency-wide communication of the framework to ensure it is consistently understood. Having these elements in place can help maximize the Agencies' use of non-salary funds, and improve performance, reporting and overall operations of the procurement and contracting function while ensuring due diligence with regards to public funds.

2 BACKGROUND

The Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC), hereby referred to as the Agencies, support scholarly endeavors in Canada's post-secondary institutions. NSERC supports post-secondary students in their advanced studies, promotes and supports discovery research, and fosters innovation by encouraging Canadian companies to participate and invest in post-secondary research projects in the sciences and engineering. Similarly, SSHRC promotes and supports research and training in the humanities and social sciences. The Agencies report to Parliament through the Minister of Industry.

The Agencies share a Common Administrative Services Directorate (CASD) in which the Procurement, Contracting and Material Management (PCMM) group is housed. The PCMM group reports through the Director General of F&AA (DG Finance) to the Vice President, CASD (VP, CASD) and is composed of two teams, including:

- i- Procurement and contracting (P&C) function: manages the procurement of the Agencies' goods and services (G&S) such as, IT equipment, office supplies, furniture and professional consulting and contractor services; and also coordinates the Agencies' acquisition cards.
- ii- Meeting & Travel Planning Services (MTPS) function: coordinates the Agencies' travel and meeting activities, manages travel cards, and ensures practices align with policy requirements.

3 AUDIT RATIONALE

The audit of P&C Management within the Agencies is necessary because:

- Procurement and contracting was identified in the 2012-15 Internal Audit Risk-Based Audit Plan (RBAP) as an area meriting further examination;
- Public scrutiny with regards to government procurement and contracting of G&S has increased with a focus on fairness, transparency and value for money over the use of public funds;
- A large proportion of the Agencies' non-salary envelope is used to procure goods and services. Over the course of two years, from April 1, 2010 to March 31, 2012, the Agencies' disbursements for goods and services (G&S) accounted for approximately 13% of the Agencies' combined Operating and Maintenance (O&M) envelope, and 45% of their combined non-salary envelope;
- In light of the recent Deficit Reduction Action Plan activities, an audit of Procurement and Contracting can help determine areas of improvement that could potentially lead to a more efficient use of limited resources;
- P&C activities impact overall Agency budget management, and improvements in this area could help reduce the carry-forward into the new fiscal year, which can result when contracts are not administered efficiently;
- To provide assurance that the Agencies' policies and directives on P&C are aligned with those of Treasury Board; and
- An audit of Procurement and Contracting Management has not occurred in the Agencies since 2004, and has never included acquisition cards.

4 AUDIT OBJECTIVE AND SCOPE

Objective

The objective of the audit was to assess the appropriateness and effectiveness of the management control framework, processes in place to support contracting and procurement activities within NSERC and SSHRC, and the level of compliance with related policies.

Scope

In addition to assessing appropriateness and effectiveness, the audit reviewed:

1. Governance of the procurement and contracting activity;
2. Internal controls within procurement and contracting processes including compliance with the Finance Administration Act (FAA) and other relevant policies and legal requirements; and
3. Consideration of risk is being used and employed throughout the procurement and contracting management lifecycle.

The audit covered all contracts entered into and procurement activities between April 1, 2010 and March 31, 2012 for both NSERC and SSHRC. That audit reviewed a sample of contract files and acquisition card statement (and supporting documentation). Issues related to the content and/or adequacy of the delivery of contracts, goods and services procured through Memorandum of Understanding (MOUs), and activities within Meeting and Travel Planning Services have been scoped out. These issues could be included in future audits if warranted.

5 AUDIT METHODOLOGY

The audit work was based on the Policy Framework which sets out the requirements for procurement and contracting in the Government of Canada, including but not limited to the:

- Financial Administration Act (FAA)
- Treasury Board Secretariat (TBS) Contracting Policy
- Public Works and Government Services Canada (PWGSC) Policy for Mandatory Standing Offers
- PWGSC Policy for Temporary Help Services
- TBS Directive on Acquisition Cards

The Corporate Internal Audit (CIA) Division used the following methodology to conduct its work:

- Document review of various sources of information—including previous reviews, planning documentation, policies, guidelines, training material, NSERC/SSHRC Intranet and web sites, various reports, etc.
- Interviews with internal key stakeholders involved in the delivery of the procurement and contracting function, and with a number of PCMM clients.
- File review of contracting and acquisition card files to determine whether contract requests had been subject to appropriate reviews and approvals, and bids had been adequately solicited, awarded and amended in accordance with prevailing policy and guidelines. A total of 135 contracting files (57 random and 78 judgmental of a total of 873 files maintained by PCMM) and 48 acquisition card statements (three NSERC and three SSHRC statements per month within a judgmental sample of 12 months) were reviewed.

Consultants from Samson & Associates were engaged to participate in some interviews in the planning phase and to conduct most of the file review during the examination phase. The audit was carried out and completed using standards set by the Institute of Internal Auditors (IIA). The

conclusions were drawn based on the assessment of audit findings against the criteria¹¹ used for this audit.

In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to provide a high level of assurance on the findings contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. This internal audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors International-Standards for the Professional Practices of Internal Auditing.

6 KEY AUDIT FINDINGS

6.1 Procurement and contracting framework

The TBS Contracting Policy requires that departments and agencies ensure adequate control frameworks are in place and working to ensure due diligence and effective stewardship of public funds.¹² A complete Procurement and Contracting (P&C) framework should include internal directives and guidelines, as well as key procedures, processes¹³, and standards that comply with and support the TBS policy, and help ensure operational tasks are performed consistently and efficiently. These tools can also be key training resources during the development of new employees or as learning tools for clients. One key aspect of an effective framework is a strong P&C function, composed of a team that is well trained, experienced, and has the authority to ensure departments and agencies respect policy requirements. Furthermore, the composition of an effective team should align with their role, enable them to fulfill their mandate, and be at a level where they can meet the needs of their clients.

6.1.1 *The Agencies have not formalized, documented and communicated their P&C framework, including directives, guidelines, or supporting tools such as standards, processes, or training.*

While the Agencies use the TBS Contracting Policy, they lack formal internal guidelines, key operating procedures, and directives to support compliance with the policy requirements. In the absence of these internal key framework elements, any effort to train and educate PCMM staff and their internal clients¹⁴ is reliant on the knowledge of the PCMM Team Leader or Procurement Officers.

The audit found that the absence of documented policies, directives, guidelines, standards and processes has resulted in inconsistent advice and guidance provided by PCMM employees. Their understanding varies depending on the level of training received, their experience, and their personal interpretation of the TBS policies and PWGSC guidelines. To further complicate this issue, consistency within PCMM has been impacted in the last few years due to significant turnover within the group. The lack of documented guidelines and processes also impacts internal client groups and the audit found that these clients have different understandings of processes and procurement methods such as sole sourcing or standing offers. PCMM is aware of this issue and has begun to develop a working-level process to better guide procurement activities. Until this work is completed, PCMM employees have no approved processes they can

¹¹ Refer to Appendix I, Audit Criteria

¹² TBS Contracting Policy, section 5.1.1

¹³ Refer to Appendix II, Procurement & Contracting Process

¹⁴ For the purpose of this report, "PCMM internal clients" and/or "PCMM clients" refers to all employees within NSERC and SSHRC (except those working in PCMM) who require P&C services from the PCMM team.

officially refer to, or provide to internal clients who question the guidance provided about policy requirements, processes and procedures. In addition, the varied understandings could potentially lead to compliance issues or delays in establishing contracts.

Recommendation 1: It is recommended that the Agencies formalize and document their internal Procurement and Contracting framework which includes directives, processes, procedures, supporting guidelines and standards, and ensure alignment with the TBS Contracting Policy and other procurement requirements. Once completed, agency-wide communication and training are also recommended to ensure that employees have a good understanding of the P&C processes.

6.1.2 Procurement and contracting governance should be strengthened to ensure management is formally involved in planning, reporting and risk management.

The Contracting Policy requires that management be involved in P&C activities including planning resources, monitoring compliance, discussing higher-risk contracts, and determining if the proposed work is required¹⁵. The audit found that the current governance of the P&C function includes reporting of P&C issues to the VP, CASD as required. In addition, the audit noted that the VP CASD receives information from the PCMM team such as pro-active disclosure¹⁶ lists for approval and the annual Business Volume report.¹⁷ Although contracting issues that need management guidance, oversight, or approval are brought to the attention of the VP CASD and/or DG Finance, these interactions are not consistently documented or widely communicated within the Agencies. Moreover, the audit also found that the Agencies have not identified a senior management oversight body that meets to review information related to P&C. Several committees exist and are responsible for a number of operational areas, however, none have been mandated with the responsibility to review information related to the P&C function and high risk P&C activities, to provide advice on issues, and to communicate its decisions to the organization in a timely manner; all of which has impacted the level of awareness of P&C issues throughout NSERC and SSHRC.

Recommendation 2: It is recommended that the Agencies include procurement and contracting oversight requirements into their existing committee structure to ensure formal senior management oversight on high risk P&C files/activities and accountability.

6.1.3 The Agencies' Delegation of Authorities is documented and up-to-date

Government agencies and departments are expected to develop a risk-based delegation of functional authorities, which is considered an essential element of sound management, in areas such as finance, contracting and human resources.¹⁸ The Agencies have recently updated their Delegation of Authorities documents which map authorities to appropriate positions throughout the Agencies, and defines the delegated contracting authorities as members of PCMM, the Deputy Director Financial Operations, DG Finance, VP CASD, EVPs and the Presidents. Once these draft versions have been approved by the Minister, they will be circulated and posted internally. In addition to this, the audit noted that the Agencies also maintain a Delegation of

¹⁵ TBS Contracting Policy, Section 11.1.1

¹⁶ In October 2004, the Government of Canada announced a new policy that requires departments and agencies to disclose all contracts and contract amendments over \$10,000 on their websites, on a quarterly basis. This supports broader government commitments to transparency and accountability within the public sector (source: TBS website)

¹⁷ Each year, organizations are asked to provide PWGSC with data on their contracting activities. PWGSC supplies the data to TBS, along with PWGSC data on the contracting that it undertakes on behalf of organizations (source: TBS website).

¹⁸ TBS Directive on Delegation of Authorities, October 1, 2009

Authority database in which the specific delegations are linked to employee profiles. The audit found that the Agencies have processes in place to update employee profiles and track any temporarily assigned delegations, such as when an employee is “acting” during a colleague’s absence.

6.1.4 The role of the procurement and contracting function is unclear

The Agencies depend on the procurement and contracting function to manage activities in a manner that is fair, open, and transparent, while simultaneously ensuring value for money is achieved. Contracting Authorities, as outlined in the TBS Contracting Policy, are individuals who have been delegated authority on behalf of the Crown and who must ensure the practices of departments and agencies are aligned with the policy requirements.¹⁹ These authorities play a key role in assuring practices are “conducted in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and Canadian people.”²⁰ Given these requirements, P&C functions within the Government of Canada are expected to play a functional authority role which includes advisory and monitoring activities.

Aside from the assigned authority outlined in 6.1.3, and in contrast to what is expected of P&C functions in the Government of Canada, the audit found that the roles and corresponding responsibilities of the P&C function have not been clearly defined and that their functional authority is not being exercised consistently and is not respected Agency-wide. The audit found that PCMM provides advice and support throughout the contracting process to some internal clients, but in other cases, clients have assumed responsibility for front-end procurement steps and then rely on PCMM to put a contract in place. The audit also noted that the role of PCMM is currently focused on the operational processing of contracts rather than exercising its functional authority that includes agency-wide monitoring and reporting of P&C activities. The audit identified several issues that could have been identified if regular monitoring activities were taking place. These issues included:

- Frequent payment of invoices without purchase orders (POs) or contracts;
- Recurring amendments on contracts leading to substantial increases in contract value;
- Use of acquisition cards instead of the required purchase method; etc.

In order to clearly define the role of the P&C function, the Agencies must also determine the classification level of PCMM positions and the expertise required to support the role. The audit noted that current classifications of some positions within PCMM are, at least, one level lower than those within other departments and agencies. In addition, the PCMM group has been unstable for more than two years which has resulted in inefficiencies within the P&C function. The Agencies are aware of these staffing issues and Management had already identified the classification of positions and salary gap as potential contributing factors to the significant employee retention issues experienced within PCMM in the last two years.²¹

Recommendation 3: It is recommended that the Agencies define, agree on, and communicate the role and responsibilities for both PCMM and for their internal clients, as well as ensure the importance of the function is communicated throughout the Agencies. As part of the

¹⁹ TBS Contracting Policy, section 4.1.9

²⁰ TBS Contracting Policy, 9.1.1

²¹ The PCMM team is composed of five positions and from April 1, 2010 to March 31, 2012, the staffing of two positions was stable, but there was a turnover of 15 employees in the other three positions.

examination, VP CASD should examine PCMM's composition and staffing levels to ensure the role and function is appropriately supported.

6.2 Procurement and contracting operations

The Contracting Policy requires that key P&C process steps be followed²² to procure goods and services, regardless of the P&C method²³ used, and that contracting authorities ensure files are properly documented.²⁴ This documentation should include details relevant to communications and decisions between approval authorities²⁵ (such as senior management or contracting authority approvals), and key documents that demonstrate requirements of the work to be produced or supplied under the contract²⁶ (such as a statements of work, evaluation criteria, vendor reviews and approvals, sole source justifications, and rationales for contract value amendments). Having this information on file not only ensures that there is a complete record, but also helps demonstrate the fairness, openness and transparency of contracting processes. The Agencies have the responsibility to ensure contracting practices align with policy requirements, and Contracting Authorities must ensure that the acquisition of goods and services is carried out in a manner that enhances access, competition and fairness, and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people.²⁷

6.2.1 Files for contracts awarded through competitive process are generally well maintained

The audit reviewed 135 contract files (57 randomly and 78 judgmentally selected) and 48 acquisition card statements and supporting documentation. The audit noted that the files for contracts awarded through a competitive process generally respected policy requirements and contained contract lifecycle information, yet some weaknesses were identified. The Contracting Policy requires the following steps be documented and kept on file: information regarding decisions²⁸, evaluations to ensure services rendered are aligned with the contract's stipulations,²⁹ and a formal evaluation of contractor or consultant performance.³⁰ The audit found several instances where the documentation to support decisions with respect to bid evaluations, sole sourcing, or contract amendments was incomplete or not on file. The audit also identified a lack documented assessments of services rendered against contract stipulations, and of documented consultant evaluations. These key steps of the procurement process should be well documented to ensure a complete record of the engagement exists not only for audit purposes, but also to inform future contracting decisions and to support the principles of value-for-money.

Recommendation 4: It is recommended that the Agencies ensure that contracting and procurement activities are well documented, as per the Contracting Policy, especially regarding the completeness of information to support a decision and post-performance evaluation of

²² Refer to Appendix II, Procurement & Contracting Process

²³ Refer to Appendix III, Glossary of Procurement & Contracting Terminology

²⁴ TBS Contracting Policy, section 5.2.2

²⁵ TBS Contracting Policy, section 12.3.1

²⁶ TBS Contracting Policy, section 12.4.1

²⁷ TBS Contracting Policy Objective, section 1

²⁸ TBS Contracting Policy, section 12.3.1

²⁹ TBS Contracting Policy, section 16.11.8

³⁰ TBS Contracting Policy, section 16.11.9

consultants. The Agencies should define the requirements of a complete file, and assign responsibility and accountability for various components to both the PCMM team and internal clients.

6.2.2 Varied contracting practices within the Agencies has led to deviations from policy and incomplete data

Contracting processes and the establishment of a contract or purchase order (PO) are meant to ensure value for money for the Canadian public, to increase financial control, and to protect the Agencies by formalizing parameters against which the quality of goods and services can be measured. The Government of Canada has established procurement methods that are intended to simplify some types of acquisition processes. For example, acquisitions cards³¹ are intended to provide a convenient and practical method to pay for everyday expenses of smaller dollar value³² goods and services, while maintaining financial control. Another method is the Public Works and Government Services Canada (PWGSC) Standing Offer (SO)³³ Index, which lists vendors and their agreed-upon public service rates. Departments and agencies that choose to use the SO contracting process are expected to offer first right of refusal to the vendor with the lowest rate.

The audit found that these methods of procurement are not well understood by PCMM or their internal clients, and processes related to these methods varied and were not always applied as intended, from one group to another. Various groups used acquisition cards to conduct P&C activities for higher value purchases (on an ongoing basis adding up to a high value, or one-time high dollar value transactions), and similarly, various groups have purchased goods and services from vendors on the SO list without establishing a contract or PO. The transactions associated with these practices accounted for more than 15%³⁴ of the total dollars disbursed for G&S between April 1, 2010 and March 31, 2012. In cases where POs or contracts are not in place, the Agencies are obligated to pay for goods and services rendered, regardless of quality or whether the Agencies' needs were met. In addition, these practices put the Agencies at risk in areas including: security (of vendors, contractors and the staff with whom they interact); potential legal implications; ensuring value-for-money; identifying vendor selection and whether they offered quality goods and services; or, ensuring procurement methods were fair, open and transparent.

In addition, as mentioned in section 6.1.4, the issue of clarity around roles and responsibilities has led to various groups assuming responsibility for some contracting activities and then conducting these activities independently of the PCMM team. A typical P&C process requires the input of internal clients in areas such as defining the statement of work, establishing a budget, and assessing the quality of goods and services provided by vendors. Also, internal clients typically involve their procurement team early in their P&C activities to ensure contracts or POs are in place when required, P&C data is complete, records are accurate, and to allow

³¹ The intended purpose of an acquisition card is to "provide a convenient and practical method of procuring and payment for goods and services while maintaining financial control" (Directive on Acquisition Cards, section 5.1).

³² Directive on Acquisition Cards, 3.3, "The use of acquisition cards is recommended for purchases of day to day expense items for standard maintenance, repair and operational goods and services, excluding large dollar purchases, complex transactions, fleet-related operating expenses, travel and capital assets."

³³ A Standing Offer is an agreement on rates or price between a vendor and the Government of Canada. When a department or agency decides to make a call-up against one of the standing offers in place, they are expected to offer the vendor with the lowest price first right of refusal.

³⁴ This percentage, of the total dollars disbursed for goods and services, does not include travel-related expenses, honorariums for peer reviewers, or MOU arrangements with other organizations for in-kind services.

the P&C team to monitor and guide practices to ensure compliance. In instances where contracts or POs are not established, there is currently no process in place to ensure the information related to these activities is captured in the Agencies' P&C database³⁵ or in a paper contract file which results in reporting inaccuracies.

The audit also identified inconsistencies between the electronic contracting data and paper file information (such as dates, dollar amounts, vendor name spelling, etc.). Since the Agencies depend on the electronic data for reporting purposes (i.e., for both the Business Volume report³⁶ and the Proactive Disclosures postings³⁷) the PCMM team has developed a reconciliation processes to ensure the BV report data matches the paper files. However, this practice is time consuming and does not capture the information about procurement activities taking place outside of PCMM so despite this reconciliation process, the data captured and reported remains incomplete.

Recommendation 5: It is recommended that once internal processes and guidelines are developed (see Recommendation 1), that the VP CASD clarify, define and document criteria for determining the dollar thresholds, procurement activity types, and payment methods that require contracts and purchase orders, and which do not. The VP CASD should formally communicate these criteria and ensure they are understood by the PCMM team and their clients.

Recommendation 6: It is recommended that the VP CASD develop a solid monitoring regime to ensure compliance to the procurement and contracting framework, including monitoring of adherence to internal policies and processes, and supporting guidelines, directives, standards.

7 CONCLUSION

The role of procurement and contracting, as a function, is to ensure internal practices and activities are aligned with policy requirements and support fairness, transparency and value for money. Though the P&C functional authority resides in CASD, procurement and contracting compliance is an Agency-wide responsibility and its success depends on the practices within NSERC and SSHRC as a whole. The Agencies must establish and document a solid and complete P&C framework, and internal clients must support PCMM by respecting the P&C roles, responsibilities and processes, once defined, and by engaging the PCMM team early in their procurement activities.

As the Agencies navigate through a time of financial constraint, it is important to establish a P&C framework, to identify a governance structure for the P&C function, and to determine the role and composition of the team required to support the function's mandate. Efficiencies can be gained through the identification and documentation of the P&C framework (including key processes, procedures, and tools) and then through Agency-wide communication of the framework to ensure it is consistently understood. Having these elements in place can help maximize the Agencies' use of non-salary funds, and improve performance, reporting and overall operations of the procurement and contracting function while ensuring due diligence with regards to public funds.

³⁵ The PCMM team uses a module of "Freebalance," which is a Government Resource Planning (GRP) software application, to manage contracts and purchase orders.

³⁶ The Contracting Policy (section 5.1.2) requires that all agencies and departments submit an annual report of all contracting activities to TBS, which is fulfilled through the submission of the Agencies' Business Volume (BV) Report.

³⁷ The Contracting Policy (section 5.1.6) requires that all agencies and departments disclose all contracts and amendments over \$10,000 on the Agencies websites, at least quarterly.

8 AUDIT TEAM

Corporate Internal Audit Division

Chief Audit Executive: Phat Do
Audit Principal: Benjamin Cyr
Senior Auditor: Patricia Morrell

9 MANAGEMENT RESPONSE TO AUDIT RECOMMENDATIONS

ITEM	RECOMMENDATION	ACTION PLAN	TARGET DATE
1.	It is recommended that the Agencies formalize and document their internal Procurement and Contracting framework which includes directives, processes, procedures, supporting guidelines and standards, and ensure alignment with the TBS Contracting Policy and other procurement requirements. Once completed, agency-wide communication and training are also recommended to ensure that employees have a good understanding of the P&C processes.	<p>Agreed. A procurement and contracting service delivery model review is currently underway and is expected to be completed by March 2013. A key deliverable includes a documented proposed delivery model supported with a strategic roadmap and implementation plan.</p> <p>The implementation plan will identify key activities to document the framework supplemented by appropriate internal policy instruments. In light of the service delivery model review the current training sessions will also be modified accordingly.</p> <p>An accreditation framework which includes procurement responsibilities is currently being designed to ensure that delegated managers are equipped with the knowledge and competencies to carry out their delegated responsibilities.</p>	<p>March 2013</p> <p>To be confirmed in the implementation plan</p> <p>March 2013</p>
2.	It is recommended that the Agencies include procurement and contracting oversight requirements into their existing committee structure to ensure formal senior management oversight on high risk P&C files/activities and accountability.	Agreed, once the training accreditation for procurement is in place and senior managers have been accredited in order to provide the oversight.	To be confirmed in the implementation plan
3.	It is recommended that the Agencies define, agree on, and communicate the role and responsibilities for both	The procurement and contracting service delivery model review will include a documented delivery model which will clarify the respective delegated procurement and	To be confirmed in the implementation

	PCMM and for their internal clients, as well as ensure the importance of the function is communicated throughout the Agencies. As part of the examination, VP CASD should examine PCMM's composition and staffing levels to ensure the role and function is appropriately supported.	contracting responsibilities. It will be aligned with the TBS Guideline on Common Financial Management Business Process 3.1 – Manage Procure to Payment. The delegated financial signing authority chart is being updated and will align with the new service delivery model.	plan
4.	It is recommended that the Agencies ensure that contracting and procurement activities are well documented, as per the Contracting Policy, especially regarding the completeness of information to support a decision and post-performance evaluation of consultants. The Agencies should define the requirements of a complete file, and assign responsibility and accountability for various components to both the PCMM team and internal clients.	Agreed.	To be confirmed in the implementation plan
5.	It is recommended that once internal processes and guidelines are developed (see Recommendation 1), that the VP CASD clarify, define and document criteria for determining the dollar thresholds, procurement activity types, and payment methods that require contracts and purchase orders, and which do not. The VP CASD should formally communicate these criteria and ensure they are	Agreed. The delegated financial signing authority chart is being updated and will provide additional clarity.	

	understood by the PCMM team and their clients.		
6.	It is recommended that the VP CASD develop a solid monitoring regime to ensure compliance to the procurement and contracting framework, including monitoring of adherence to internal policies and processes, and supporting guidelines, directives, standards.	The documented delivery model following the review will include a monitoring component such as reporting to MAC and EMC.	March 2013

10 APPENDIX I – Audit Criteria

AUDIT CRITERIA³⁸	
Procurement and Contracting Framework	criteria code
Authority is formally delegated with a consideration of risk, and is aligned with individuals' responsibilities.	AC-1C AC-3B
Management has considered the risks related to procurement processes and guidelines and have developed appropriate controls to address them.	RM-3d
Current well documented policy and guidelines exists, are reviewed and updated, and are accessible to users. The processes in place are understood and adhere to relevant legislative requirements, TBS and PWGSC policies and directives.	PP-4 PP-3A ST-22A
The oversight body / bodies request and receive sufficient, complete, timely and accurate information.	G-6
Role of the Procurement and Contracting Function	
A clear and effective organizational structure is established and documented.	AC-3
Responsibility for maintaining the contracting related information is clearly assigned, understood, and adhered to.	ST-12B
Individuals responsible for the initiation of (FAA section 32 - commitment) and/or approval of the payment (FAA section 34) of transactions must not be the same individual responsible for payment. Incompatible functions must not be combined.	ST-13 A&B
Procurement and Contracting Operations	
Reporting is reviewed for completeness, accuracy, relevance, timeliness, appropriateness, and reasonableness and is communicated internally and externally.	ST-18A ST-20
Approval is evidenced: signoff, email, minutes, etc.	ST-18B
There is a program in place to monitor the activities of third party service providers.	ST-22c

³⁸ The audit criteria were based on the Office of the Comptroller General's *Audit Criteria related to the Management Accountability Framework: a Tool for Internal Auditors*, March 2011.

11 APPENDIX II – Procurement & Contracting Process

The TBS Contracting Policy outlines the key steps for contracting and procurement activities. These steps are as follows, and departments and agencies are expected to:

A. PLANNING

- Determine best value through a planning exercise that assessed options and associated costs (Sec. 9.1)
- Decide which approach to solicit bids is most appropriate: competitive process vs. non-competitive for services (Sec. 10.1, 10.2)
- Define requirements of the work to be completed / goods required (Sec. 10.4)
- Select the best prospective contractor / goods provider based on pre-defined requirements (Sec. 10.5)
- Establish price, either through competitive process where price becomes a factor to selected the appropriate vendor, or basing price on competitive market value of similar services / goods (Sec 10.6)

B. COLLECT PROPOSALS

- Solicit bids through the most appropriate PWGSC vehicle (Sec 10.7)
- Receive bids (Sec. 10.8)

C. ASSESS AND AWARD CONTRACT

- Review proposals (Sec.11.1)
- Assess the proposals against pre-defined requirements (Sec. 11.2)
- Ensure security requirements are met (Sec. 11.3)
- Ensure requirements are met if dealing with another government agency (Sec. 11.4)

D. ADMINISTERING THE CONTRACT

- Ensure contracts are executed in accordance to the agreed terms (Sec. 12.1)
- Ensure financial controls are respected (i.e. payment upon delivery, vs. advance payments, etc.) and that delegated financial signing authorities validate payment steps (Sec. 12.4)

E. POST-CONTRACT ADMINISTRATION

- Delivery according to contract requirements:
 - Perform an assessment of whether contract stipulations were met for each stage of the contract, and for the overall contract requirements (Sec. 16.11.8)
- Consultant performance:
 - Perform contractor performance assessments and kept the assessments on file for future reference (Sec. 12.6)
 - Ensure non-performance of a contractor is dealt with according to the outlined steps in the policy, and is documented for future reference (Sec. 12.7)

12 APPENDIX III – Glossary of P&C Terminology

Sole Source	<p>A sole source contract is directed to a specific supplier without competition, and no opportunity if provided to firms to submit a proposal. This method can be used when:</p> <ul style="list-style-type: none"> - The requirement is less than \$25,000 for general services or less than \$100,000 for architectural or engineering services; - Only one supplier is qualified (i.e. proprietary software); - It is not in the public interest to advertise the requirement (i.e. security consideration); - There is a pressing emergency and delay would be injurious to the public interest.
Temporary Help Services	<p>Temporary Help Services is an appropriate procurement method when specific criteria are met, such as when:</p> <ul style="list-style-type: none"> - A Public Servant is absent for a period of time; - A position is vacant and staffing action is underway; and, - There is a temporary workload increase with no suitable staff available.
Standing Offer	<p>A Standing Offer is a pre-qualified list of suppliers, established by PWGSC, for specific streams of goods and services. The list is established from the lowest priced to highest priced qualified bidder. When a Call-Up Against a Standing Offer is made, the lowest price qualified bidder must always be given the “right of first refusal.”</p>
Supply Arrangement	<p>A Supply Arrangement is a pre-qualified list of suppliers, established by PWGSC, for specific streams of good and services. The list contains the name of the supplier as well as the quoted rate. When the Department wishes to use a Supply Arrangement, at least 3 suppliers must be provided the opportunity to submit a proposal for the requirement. Generally, the request for proposal must be sent to:</p> <ul style="list-style-type: none"> - Lowest priced qualified bidder; - At least one randomly selected from the list of qualified suppliers; - Any additional suppliers that the project authority would like to invite.