



Audit of Contracting Services

REPORT



**Audit and Evaluation Division
June 11, 2003**



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Auditor's Statement

I have completed the internal audit of Contracting Services. The objective of this audit was to examine compliance with Government of Canada and Statistics Canada rules and regulations regarding contracting services.

This internal audit was carried out in accordance with the Internal Auditing Standards for the Government of Canada. During the audit period, I conducted a file review of 253 contracts, including in-depth review of 54 contracts, conducted a survey of across-section of contract managers and administrative staff and interviewed approximately 20 employees.

I concluded that for criteria examined, the Agency is in compliance with the Treasury Board Secretariat's Contracting Policy and Government Contracts Regulations. Areas where improvements could be made relate primarily to operational procedures. Conclusions are based on the assessment of findings against pre-established criteria and agreed to by the Internal Audit Committee in May 2001 and reflect the audit work conducted principally between November 2001 and December 2002.

In my opinion, sufficient and appropriate audit work has been performed and evidence gathered to support the conclusions contained in this audit report.

Recommendation:

Sole-source service contracts under \$5,000

The Agency changes internal gate keeping practices to allow the Chief, MACS, to be responsible for administering sole-source service contracts under \$5,000.

Doug Zinnicker

June, 2003



I. Introduction

Background

As stated by the President of the Treasury Board - the most important priority of government is to be responsive to the needs of citizens. This is a central theme of the government's modern management agenda outlined in *Results for Canadians: A Management Framework for the Government of Canada*. Four core commitments are incorporated into this framework, one being *Responsible Spending* - spending must be systematically assessed and management frameworks must be in place to ensure due diligence and proper stewardship of public funds. Treasury Board (TB) has carried forward this commitment through its modern comptrollership initiative and through its Advisory Committee on Contracts, made up of assistant deputy ministers of major contracting departments. The Treasury Board's *Contracting Policy* and the *Government Contracts Regulations* detail how contracting is to be conducted.

The Office of the Auditor General (OAG) over the past few years has reported on a comprehensive audit of the TB accountability framework for contracting, as well as two audits on sole source contracting. The latter audits concluded that the process of awarding and advertising contracts needed improving across government.

Significant operational changes have also occurred in Statistics Canada since it last conducted an audit of contracting services in 1987. For example, the responsibility for contract management moved from the finance area to a new section, Materiel and Contracts Services Section (MACS), in the administrative services area. Recently, the Resource Management Division, in the Finance, Planning, Audit and Evaluation Branch, has developed the administrative position of Business Manager whose role includes contract advisor to managers.

These internal events, in combination with external influences made it timely to conduct an audit of contracting services again.

Purpose and Objective

The purpose and objective of this audit is to provide senior management with an independent assessment of the Agency's compliance with Treasury Board's *Contracting Policy* and *Government Contracts Regulations*. As such, the audit examined compliance with Government of Canada and Statistics Canada rules and regulations regarding contracting services. If significant deviations from the policies and/or ineffective or inefficient practices are identified, specific corrective measures will be recommended.



II. Methodology

Scope

The audit examined complete contracts for services, for all methods and phases, entered into from July 1, 2000 to June 30, 2001.

Census contracts administered through MACS were included. We excluded Regional Offices since they enter into few service contracts, most being call-ups against Standing Offers for local services. Mastercard transactions were also excluded, as the service portion of transactions is estimated by MACS. Internal Letters of Agreement were not in-scope as government contracting regulations do not apply.

Criteria

We expected to find that

- contract documents are properly completed, authorized, reviewed and maintained, for all contract phases and activities;
- proper contract verification tools exist and are adhered to;
- proper exclusions are applied, rationale is provided and authorization is received when sole sourcing a contract;
- appropriate rationale is provided and documents are amended to reflect changes when contract amendments are made;
- there is proper justification for going to contract;
- contracts are arranged in a timely manner;
- competition is open, fair and gets good value;
- contracting performance is monitored, reported and acted upon;
- the *Purchasing Activity Report*, prepared by MACS annually, contains the mandatory reporting requirements outlined by the *TB Contracting Policy* and is timely;
- work has not commenced prior to the signing of contracts;
- contracts comply with government policy and regulations when contracting with former public servants;
- communication mechanisms with clients ensure a mutual awareness of the requirements associated with contracting and of expectations regarding service standards; and
- contract administration and procedures are effectively and efficiently managed.

Approach

With the assistance of a methodologist, the audit team selected a representative sample of 177 of the 438 contracts finalized from July 1, 2000 to June 30, 2001. The Automated Material Management Information System (AMMIS) was the primary source used to determine the in-scope sample.



The following steps were conducted:

- An audit checklist was developed and applied to the 177 in-sample contract;
- An additional 54 sole-source and amended contract files were identified and underwent in-depth examination;
- An additional 22 contracts were identified and examined using custom AMMIS reports developed for audit criteria, for example to determine if contract-splitting had occurred;
- A questionnaire about subject-matter manager's knowledge of contracting policy and their responsibilities, training, and contracting experiences was designed and applied to a cross-section of managers; and
- Interviews were held with subject-matter managers, administrative staff, financial staff, and MACS staff.

III. Findings and Recommendations

Compliance-related findings

Contracting documents meet Policy content and clarity guidelines

We found the Agency to be in compliance with the Treasury Board *Contracting Policy* content and clarity guidelines for writing contract documents. Statements of work clearly defined the work to be carried out, objectives and the timeframe. Particular audit attention was given to sole-source contracting documents.

Sole-sourcing justification requirements are being met

Contracting policy and regulations permit certain exceptions to allow for sole-source contracts. Circumstances that justify using this method *are* to be fully documented on the contract file. We found that justification for sole-sourcing was well documented, properly authorized and that files were complete.

Concerns have been raised that the gatekeeper approval process for sole-source service contracts under \$5,000, requiring actioning up to the ACS level, is neither efficient nor cost effective. This practice is internal and above TB policy requirements. Our examination of sole-sourcing activities found that files were well documented, properly authorized and complete. All Statements of work examined clearly defined the work to be carried out, objectives and timeframe. Our audit examination found no occurrences of contract-splitting that could result in sole-sourcing. Based on our sole-source findings and that MACS conducts ongoing monitoring activities, we believe there is extremely low risk involved in managing these low value contracts. The responsibility for sole-source service contracts under \$5,000 could rest with the Chief, MACS.

Recommendation: Sole-source service contracts under \$5,000

The Agency changes internal gatekeeping practices to allow the Chief, MACS, to be responsible for administering sole-source service contracts under \$5,000.



Contract-splitting is not occurring

Policy approval requirements stipulate that contracting authorities **must not** split contracts or contract amendments in order to avoid obtaining the approval required by statute, the Treasury Board Contracts Directive or appropriate management approval required by the department or agency. The intent is to promote open and fair competition and good value. We examined information for all in-scope contracts and found no evidence of split-contracting. In addition, we examined all in-scope contracts for occurrences of multiple contracting with the same firm or individuals. We found no evidence, without proper justification.

Monitoring and reporting of contracting activities comply with Policy requirements

The Policy specifies that two mechanisms **will** be used to monitor and report on contracting activities – departmental audits, one now being conducted, and an annual contracting activity report, to be provided to Treasury Board. Treasury Board outlines the information to be provided and the reporting date. The information will be used by TB to evaluate departments’ compliance with contracting policies and the level of competitive contracting. The responsibility for compliance rests with Materiel and Contract Services (MACS). We concluded that MACS provides Treasury Board with the information it requires, and in a timely manner.

Most contractor work is begun after proper documentation has been completed, complying with Policy

The *Contracting Policy* stipulates that the work of the contractor **must not** begin before all parties have entered into a legal agreement, including the signing of the contract. Most contracts complied with policy, however the audit team found contracts that were signed after work had commenced. The situation was rectified, in part, when Statistics Canada went to in-house language training standing offers with several firms, rather than continue using PWGSC standing offers. For remaining cases, MACS now requires that contract managers allow five days for documents to be prepared before contractors begin work.

Contracts are amended before their end date has lapsed, complying with Policy

By policy, MACS **must not** amend a contract (usually a time extension) that has lapsed its end date. MACS complies with policy requirements. However, in some cases, contract managers did not amend before work was completed, requiring a second contract to complete work. The issue is one of efficiency in contract management and administration, addressed through training and development audit information provided to management and administrative staff.

Proper justification is provided for amending contracts, except for temporary help

The *Contracting Policy* states that a full explanation of why costs will exceed the original contract and details of the original contract **must** be provided when requesting approval to increase the value of a contract. Further, contracts **should** not be amended unless such amendments are in the best interest of government. We found high compliance, the exception being contracts for temporary help services, normally small in value and low risk. MACS is taking steps to improve compliance for temporary help contracts.



Complete audit trails exist and there is a high level of adherence to signing authorities

The *Contracting Policy* specifies that contract files *should* be established which will provide an audit trail containing details on matters such as approvals, identifying the officials or authorities who made them. It also states that the actual contract *should* be signed by the authorized departmental officials and the representatives of the contractor. Statistics Canada is also required to follow financial authorities stated in its delgated authorities chart. We found the existence of a complete audit trail for most contracts examined. We found a high level of adherence with approvals procedures and signing authorities. Temporary help contracts, small in value, were the exception. This related to a short period where staff were unavailable to sign contracting forms. We found no further occurrences of this non-compliant activity.

File maintenance practices need improving to ensure an audit trail exists

The *Contracting Policy* stipulates that for contract administration purposes contract files *should* be established which will provide a complete audit trail. Throughout the audit we found that the process of tracking and locating files was difficult. In fact, some files remained un-locatable. Further investigation determined that most of the un-located files were maintenance contracts, where the file was moved to a new file folder. MACS has taken immediate action to remedy this situation - from this point forward there are procedures in place for manual and automated (AMMIS) cross-referencing of renewed contracts in both the old and new files.

Contract and contractor evaluations are not occurring

The *Contracting Policy* states that on completion of a contract, the contracting authority *should* evaluate the work performed. Consultant *should* receive a performance critique and be allowed to respond for the record. We found no cases of a contract or contractor evaluation that followed the suggested criteria. Performance evaluations are particularly important when the evaluation is not favourable, but can also add value by providing analysis of the cost of work and the estimated value and quality of work performed. MACS agrees that it is well-positioned to promote the need for evaluations, and could do so through training provided to managers and administrative staff.

Auditing for compliance of contracting with former public servants was not possible

We could not audit this criteria fully because there is no formal tracking mechanism to single out these types of contracts for audit purpose. Our sample did, however, include one such contract and it was fully compliant. In addition, the Agency's Alumni Program, which came into effect during the audit, has reduced, if not eliminated the requirement for such contracts by using temporary staffing mechanisms.



Performance-related findings

Audit feedback provided to stakeholders (primarily MACS)

The following were found to be opportunities for operational improvements. Audit findings and feedback, in the form of considerations and suggestions for improvements, have been provided to the appropriate managers and remedial actions have been taken or are being discussed.

- More completely and consistently documenting contracting activities, and improving the effectiveness of checklists
- Improving file tracking practices for the central management of contract files
- Training and development for contract managers and administrative staff to optimize contracting usage and administration
- Improving MACS' web site to provide managers and administrative staff more complete and up to date self-help capability
- Reviewing AMMIS' usability to improve overall contract management (review being undertaken as part of admin. community modernization project)
- Developing standard contracting activity reports

IV. Conclusion

We observed overall high compliance with Treasury Board and Statistics Canada contracting policy and regulations. Areas where a higher level of compliance can be obtained have been identified and courses of action have been suggested. We found no evidence of deliberate non-compliance nor situations that place the Agency at risk. In addition, the audit found that MACS provides a high quality of service.

Operational hindrances and opportunities were identified during the audit. MACS has taken immediate action to address many and will be addressing others in their post-audit follow-up activities.



Appendix A – Management Action Plan

Recommendations	Management Action Plan	Responsible for Action	Estimated Completion Date	Status
<p>Sole-source service contracts under \$5,000 –The Agency changes internal gatekeeping practices to allow the Chief, MACS, to be responsible for administering sole-source service contracts under \$5,000.</p>	<p>Senior Management hold discussions on changing gatekeeping responsibilities for sole-source service contracts under \$5,000. The responsibility for sole-source service contracts under \$5,000 could rest with the Chief, MACS.</p>	<p>Senior Management</p>	<p>To be determined</p>	

