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FINAL AUDIT REPORT

Contract and IT Expenditures Management Frameworks

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Executive Summary

Statistics Canada's contracting and IT expenditures management practices are key management processes supporting its role and mandate. From April 1, 2007 to August 31, 2009, there were 8,102 contracts estimated at \$95.05 million awarded (goods or services partially or totally delivered) under Statistics Canada's delegated contracting authority.

The audit objectives were to provide the Chief Statistician and the Departmental Audit Committee (DAC) with assurance that:

- The Contracting Management Control Framework is adequate and effective;
- The activities supporting the Contracting Management Control Framework are compliant with the Government of Canada and Statistics Canada contracting policies; and,
- The Management Control Framework for IT Expenditures on goods and services is managed in accordance with the prescribed policies.

The audit was conducted by the Internal Audit Services in accordance with the Government of Canada's *Policy on Internal Audit*.

The examination was based on an analysis of policies, guidelines, documents, interviews with key employees and management, and an analysis of a sample of 60 contract files.

The audit found that the key elements of the Contracting Management Control Framework exist, but the addition of a Contract Review Board at the departmental level is required.

The activities supporting the Contracting Management Control Framework are compliant with most of the Government of Canada and Statistics Canada's contracting policies, however control weaknesses have been identified. Statistics Canada needs to improve its management monitoring activities, performance evaluations, and contract file documentation. Combined, these activities will improve the departmental risk management strategies.

The third objective, "The Management Control Framework for IT Expenditures on Goods and Services", will be reported through the Office of Comptroller General's Management of Information Technology Assets in Large Departments and Agencies horizontal audit which was conducted in parallel.

Summary Results

The key elements of the Contracting Management Control Framework (CMCF) exist, but the addition of a departmental Contract Review Board is required.

The activities supporting the CMCF are compliant to policies, weaknesses have been identified in the area of monitoring, performance evaluation and contract file documentation.

Introduction

Background

In its attempt to create an open, fair and transparent federal procurement system, the Government of Canada has put policies in place to strengthen public sector procurement procedures. The general direction provided by the government aims to tighten control measures in order to help departments and agencies be more accountable. As a result spending must be assessed regularly and management frameworks must be in place to ensure due diligence and proper stewardship of public funds. Robust controls in Contract Management and Information Technology (IT) Expenditures¹ will provide the organization with stronger mechanisms for governance and accountability and improve management of public funds.

Statistics Canada's contracting and IT expenditures management practices are key management processes supporting its role and mandate. Based on data from the Corporate Support Services Division, from April 1, 2007 to August 31, 2009, there were 8,102 contracts, including IT expenditures, estimated at \$95.05 million awarded under Statistics Canada's delegated contracting authority. The risk assessment indicated that regional procurement initiatives were numerous but of low value². Therefore, these contracts were excluded from the scope. Also excluded were contracts under \$5,000. The remaining procurement effort represented 1,582 contracts with a value of \$88.64 million for an average of \$56,028 per contract, this was considered significant.

The audit examined business practices and controls to determine the level of compliance with Treasury Board Secretariat (TBS) and Statistics Canada policies and procedures with regards to Contract Management and IT Expenditures Management Framework. The themes "Contract Management Framework" and "Management of Expenditures on IT Goods and Services" were identified in the Risk-Based Audit Plan (RBAP) 2008/09-2010/11 as areas to be audited. To improve efficiencies, these themes were combined into the audit of Contract and IT Expenditures Management Frameworks.

¹ Throughout the report, IT expenditures relate to IT expenditures on goods and services.

² Based on data from the Corporate Support Services Division, regional offices awarded 2,522 contracts for a total amount of \$1.99 million from April 1, 2007 to August 31, 2009. This represents an average of \$792 per contract, an amount considered low risk.

Authority

The audit was undertaken by the Internal Audit Services in accordance with Statistics Canada's RBAP 2008/09-2010/11 which was approved by the Internal Audit Committee on March 19, 2008.

Audit Objectives

The objectives of the audit were to provide the Chief Statistician and the Departmental Audit Committee with assurance that:

- The Contracting Management Control Framework (CMCF) is adequate and effective;
- Activities supporting the CMCF are compliant to the Government of Canada and Statistics Canada contracting policies; and
- The Management Control Framework for IT Expenditures on goods and services is managed in accordance with the prescribed policies.

Criteria used for each objective are found in Appendix A.

Scope and Approach

The scope of the audit focused on assessing Statistics Canada's contracts and IT expenditures issued under the delegated authority of the Chief Statistician. The scope included the management control frameworks that supports the contracting and IT expenditures functions at Statistics Canada. Contracts managed by Materiel and Contracts Services Section (MACS) where goods or services were partially or totally delivered through the designated period of April 1, 2007 to August 31, 2009 with a value of \$5,000 and above were in scope. The period included contracts that have gone through the full life cycle as well as more recent contracts that followed revised procedures based on the review of the readiness assessment of financial statements. During this period, 1,582 in-scope contracts were issued for a total value of \$88.64 million. A sample of 60 contracts was selected for a value of \$19.53 million.

Excluded from the scope are all contracts from regional offices and contracts less than \$5,000.

The audit was conducted in accordance with the Government of Canada's *Policy on Internal Audit*.

Appendix B provides information on the selected sample.

The examination included the following divisions:

1. Financial Management Operations and Systems Division (FMOSD),
2. Corporate Support Services Division (CSSD) including *Materiel and Contracts Services Section (MACS)*,
3. Informatics Technology Services Division (ITSD) and System Development Division (SDD),
4. Resource Management Division (RMD), and
5. Five selected client divisions to MACS.

The examination was based on an analysis of policies, guidelines, documents, interviews with key employees and management, and an analysis of a sample of 60 contract files.

The sample of contract files contained various types of procurement such as Advanced Contract Award Notice; Aboriginal; Competitive; Non competitive; Networking Equipment Support Services; Professional Services On-Line; and Public Works and Government Services Canada (PWGSC) contracts. The total value of the sample represents \$19.53 million.

In September 2009, during the conduct of this audit, Statistics Canada was informed that it had been selected in the sample of the Office of the Comptroller General's (OCG) Management of Information Technology Assets in Large Departments and Agencies horizontal audit. Statistics Canada internal audit staff were involved in the execution phase of this audit. The OCG audit focused on the governance of IT assets and was similar to our third objective, "The Management Control Framework for IT Expenditures on goods and services is managed in accordance with the prescribed policies". For this reason the third objective was conducted through the OCG audit and summary results will be commented on in their report.

Findings, Recommendations and Management Responses

In relation to the first objective, the audit found that the key elements of the Contracting Management Control Framework exist, but the addition of a Contract Review Board at the departmental level is required.

Evidence collected for the second objectives indicate that the activities supporting the CMCF are compliant with the Government of Canada and Statistics Canada contracting policies, but control weaknesses have been identified. Statistics Canada should improve its management monitoring activities, performance evaluations, and contract file documentation. Combined, these activities will improve the departmental risk management strategies. In addition, the expenditure control system was working as intended since April 1, 2009.

The examination results for third objective, the IT Control Framework, will be reported under the OCG audit as indicated in the scope of this audit.

All recommendations and proposed responses and action plans should be considered within the existing Statistics Canada Management structure.

Contracting Management Control Framework

Key elements of CMCF are in place. However, a Contract Review Board is not established.

An adequate and effective CMCF is necessary to systematically identify, assess, mitigate and manage risks associated with procurement activities and ensure compliance with the Financial Administration Act (FAA), and the Treasury Board Contracting Policy and regulations. The Treasury Board Contracting Policy states that “it is the responsibility of departments and agencies to ensure that adequate control frameworks for due diligence and effective stewardship of public funds are in place and working”.

The audit revealed that key elements of the CMCF, such as an organizational structure, departmental procedures and guidelines, a database, and the delegation of financial signing authorities, are in place. However, a Contract Review Board is not established. The following cases are examples of contracts that could have benefited from the review and approval of a Contract Review Board before the contracts were awarded in order to reduce the risk associated with the contracting process. The first example is a sampled contract valued at \$2.37 million, where deficiencies relative to contract administration and close-out were identified. Another example is a contract issued for \$212,000 although the request for a service contract and the statement of work stated that the total payment to the supplier would not exceed \$200,000 including goods and services taxes (GST) with a 6 months option for \$100,000 including GST. The option was exercised for \$106,000 although less than 40% of the value of the initial contract had been expended; and an invoice was received after the year was closed with a note stating that they would try to pay the amount out of uncommitted funds.

Considering that Statistics Canada awards several significant contracts to support its role and mandate, there is a risk that a competitive, transparent and fair contracting process as well as the receipt of value-for-money could not be assured. In addition, a Contract Review Board would provide management with the assurance that the riskier contracts are being reviewed and ensure compliance with Treasury Board directives. The Contract Review Board would also limit the potential risk of conflict of interest or favouritism.

Recommendation No. 1

It is recommended that the Assistant Chief Statistician (ACS) of Census and Operations ensure the establishment of a Contract Review Board to review high risk contracts.

Management Response

Management accepts the recommendation.

Management propose to include as members on the new Contract Review Board the Director General (DG) of Operations, DG of Informatics, DG of Planning and Evaluation, Director of Corporate Support Services Division, Chief of Materiel and Contract Services, and as required, the Legal Advisor. Management will establish the Terms of Reference and develop a communication strategy.

Deliverables and Timeline:

- *Contract Review Board established (terms of reference and members) and communication strategy*
- *Director General, Operations – June 2010*

Monitoring and Performance Evaluation

There is no evidence that contract activities are being fully and appropriately monitored; and, no performance evaluation reports included in any of the sampled contract files audited.

Monitoring of contracts and contractor performance evaluations are fundamental activities supporting the CMCF and help to make it adequate and effective. As already mentioned above, departments are responsible for due diligence and effective stewardship of public funds and monitoring is one of the activities helping to achieve this responsibility. The Treasury Board Contracting Policy states that “the contracting authority should appoint a procurement officer and the technical authority should appoint a project officer (who may be the same person), to be responsible and accountable for monitoring the work”.

Furthermore, the Treasury Board Contracting Policy stipulates that “on completion of the contract, the contracting authority should evaluate the work performed by the consultant or professional. The evaluation should be undertaken by officials competent in the particular fields involved. If judgmental comments are provided, they should be supported by complete and factual detail”.

During our review, we noted that there was no evidence that contract activities are being fully and appropriately monitored; and, there were no performance evaluation reports included in any of the 60 contract files which we examined. For example, based on shipping and receiving information, for one of the sampled contracts, some items had not been received two years after the due date of the deliverables. This could have been avoided if contracting activities were appropriately monitored and contractors performance evaluated.

Divisional representatives stated that performance evaluations are only conducted on an informal and as required basis.

The lack of appropriate contract monitoring and contract performance evaluation could potentially have a negative impact on the department's reputation. Additionally, there is a risk of not detecting that the delivery (goods or service) was not in compliance with the terms and conditions of the contract which could lead to not obtaining best value-for-money.

Recommendation No. 2

It is recommended that the Assistant Chief Statistician (ACS) of Census and Operations ensure that performance evaluation is completed during the course and at the conclusion of each contract in accordance with Treasury Board directives; and a contract monitoring program be established.

Management Response

Management accepts the recommendation.

Performance Evaluation

Management will develop formal procedures for performance evaluation of suppliers at the conclusion for all contracts above \$5,000.00 and of a duration of 6 months or less. Contracts above \$5,000.00, but of a duration of more than 6 months, formal procedures will be developed for performance evaluation at the mid-point and at the conclusion of the contract period. Management will update the procurement checklist to include performance evaluation of suppliers.

Deliverables and Timeline:

- *Performance evaluation form and updated procurement checklist*
- *Director, Corporate Support Services Division – June 2010*

Monitoring

Management will develop and establish a contract monitoring program in order to ensure adequate contract management framework and activities supporting this framework are monitored.

Deliverables and Timeline:

- *Contract monitoring program scope and establish roles and responsibilities*
- *Director, Corporate Support Services Division – October 2010*

Contract Files Documentation

The contracting files were inconsistently documented and showed deficiencies throughout the sample audited. Only a small portion of files were complete and well documented.

Complete and appropriate documentation in a procurement file is necessary to effectively manage all aspects of the procurement process. The Treasury Board Contracting Policy stipulates that “Procurement files shall be established and structured to facilitate management oversight with a complete audit trail that contains contracting details related to relevant communications and decisions including the identification of involved officials and contracting approval authorities”. In addition, a complete file ensures that the principles of enhanced access, competition, fairness and best value expressed in the Treasury Board Contracting Policy are applied.

Statistics Canada strives to meet the objectives and directives of the Treasury Board Contracting Policy. Our sample review identified files which were complete and well documented. These files included a procurement checklist which was prepared and confirmed that the contract had been completed in accordance with the established procedures. These files also included a chronological history of the contract process. However, this procedure was not consistent throughout the sample and limited to a few files. We noted the following deficiencies in several files:

- The procurement checklist was not followed consistently;
- Solicitation source list of qualified suppliers was not on file;
- There was no evidence of alternatives analysis and cost benefit analysis;
- Results of proposals evaluation were not on file;
- Proposals from unsuccessful bidders were not on file and there was no reference advising where they were being kept;
- Notification to unsuccessful bidders was not on file;
- Monitoring and performance evaluation reports were not on file; and,
- Supplier invoices were not in the contract file.

The audit found that sole-source justifications were documented; moreover, the Statistics Canada directive to obtain the Assistant Chief Statistician’s approval for sole-sourcing exceeding \$5,000 was followed. However, there was no assurance that the prices quoted were competitive to similar contracts in the industry. Also, successful suppliers in a non-competitive process were not being asked to

confirm that the prices being quoted for items such as per diems were not higher than comparable contracts they were involved in.

There is a risk that incomplete documentation and an inappropriate audit trail will not support the decision making process and departmental risk management strategies.

Recommendation No. 3

It is recommended that the Assistant Chief Statistician (ACS) of Census and Operations ensure Corporate Support Services Division develops formal procedures of periodic reviews of contract files, which would ensure that the contract files are consistently prepared and standardized by all procurement officers.

Management Response

Management accepts the recommendation.

Management will develop a quality control review process. The process will be applied for contract files above \$5,000.00. Management will also update the procurement checklist to include all documents that should be included in each contract file.

Deliverables and Timeline:

- *Quality control review process and updated procurement checklist*
- *Chief, Materiel and Contract Services – July 2010*

Expenditures

For contracts awarded since April 1, 2009 the financial requirements are in accordance with the FAA.

The audit identified deficiencies related to the financial aspects of contracts awarded before April 1, 2009. However, for contracts awarded since this date, the financial requirements are in accordance with the Financial Administration Act (FAA). The improvement is attributed to the implementation of recommendations following a study on "Assessment of Capital Assets Expenditures" by Financial Management Operations Systems Division (FMOSD) and of an internal audit of "Asset Protection and Life Cycle Management", both carried out in 2008. In view of these circumstances, no recommendation is necessary.

Appendices

Appendix A: Audit Objectives and their Criteria

Objective 1 : The Contracting Management Control Framework is adequate and effective

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| <ul style="list-style-type: none">• Management and planning of contracting practices are adequate• Contract information is accurately and appropriately reported and reliable• Evidence that proper monitoring and training practices are in place |
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Objective 2 : The activities supporting the Contracting Management Control Framework are compliant to Government of Canada and Statistics Canada contracting policies
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| <ul style="list-style-type: none">• Evidence of proper approval process concerning the contracting activities (Sections 32 and 34)• Evidence of proper approval practices for payment (Section 33)• Evidence of compliance with Treasury Board Contracting Policy (Contracting steps and reporting to TBS are followed) |
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Objective 3 : The Management Control Framework for IT Expenditures on goods and services is managed in accordance with the prescribed policies

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| <ul style="list-style-type: none">• Effective planning and budgeting processes are in place for acquiring IT goods and services which best support the departmental objectives, priorities and operations• The organization is taking the necessary steps to ensure efficient and cost effective performance, use and maintenance of IT goods and services |
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Appendix B: Selection of Contract Sample

In Scope Contracts from April 1, 2007 to August 31, 2009

Type of contract	Contracts In Scope		Contracts Sampled	
	Number	\$ Value	Number	\$ Value
ACAN	26	\$4,448,013	4	\$1,829,601
Aboriginal	3	\$64,894	2	\$59,891
Competitive	925	\$44,596,446	24	\$13,822,061
Non competitive	438	\$10,972,322	15	\$336,352
NESS	30	\$2,374,963	5	\$268,175
PS Online or PWGSC	144	\$25,058,816	7	\$2,891,009
Other	16	\$1,120,189	3	\$324,838
Total	1,582	\$88,635,643	60	\$19,531,927

ACAN: Advanced Contract Award Notice

MERX: An Internet-based service that allows public-sector organizations to publish and manage opportunity notices and associated documentation online

NESS: Networking Equipment Support Services

PS Online: Professional Services On-Line