

Contracting Audit Report

Audit Report
On
Contracting
in the
Financial Consumer Agency of Canada
Audit and Consulting Services

Contracting Audit Report

**Financial Consumer Agency of Canada (FCAC)
Contracting Audit**

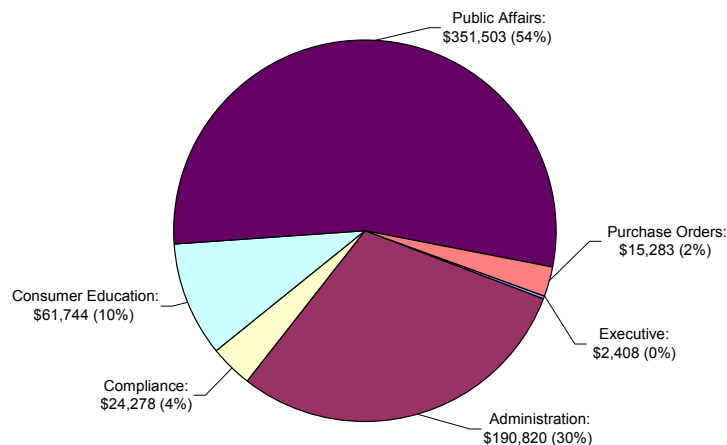
1. Background
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Attachment 1

Rating scale for reporting on internal audit assessments
and conclusions

Contracting Audit Report**Audit and Consulting Services (A&CS) Audit Report
on Contracting****1. Background**

The A&CS internal audit plan as approved by the FCAC Audit Committee includes an audit of FCAC contracting practices.



The profile of the \$646,035 in contracting expenditures for the period April 1, 2005 to October 31, 2005 shows that the major expenditures were incurred by Public Affairs (54%) and Administration (30%). A total of 58 contracts and 18 purchase orders were issued during the period. Amendments were issued in five of the 58 contracts.

FCAC has developed its own contracting policy, which is based on the TBS Contracting Policy and tailored to FCAC's operating context. FCAC contracting guidance includes the above-mentioned internal contracting policy, a standardized "Contract Approval and Justification" form, templates for contracts (long-form and low-dollar-value), and a standard section 34 certification form. This guidance is available on a shared network drive (in lieu of an intranet), which is accessible by all FCAC staff. A process flowchart depicting the contracting process has also been approved by senior management and distributed.

The Contracts Officer has the primary responsibility for application of contracting policy and for procurement activities. The Project Manager is responsible for identifying and documenting the work requirement (i.e., Statement of Work), including the estimated cost and period in which the work is to be performed. The Responsibility Centre (RC) Manager is responsible for ensuring that adequate funds are available to cover the value of the contract (section 32 certification) and for attesting that the amounts invoiced are valid, accurate, and in accordance with the terms and conditions of the contract (section 34 certification). The RC Administrative Assistant is responsible for monitoring the cumulative amounts paid against a contract, and informing the RC Manager of any invoices received which would cause the total value of the contract to be exceeded.

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Three training sessions on contracting were held in the past four years for FCAC personnel. FCAC is in the process of documenting its internal procedures for all administrative activities, including contracting. The documented procedures are currently undergoing a second-level review, and are expected to be finalized by the end of November 2005.

2. Objectives of the audit

The audit objectives were structured to:

- Facilitate a review of FCAC contracting practices and the respective roles of FCAC users and management
- Provide an assessment of contracting practices in four areas:
 - Consistency of FCAC practices with FAA, its Policies and other Government requirements
 - The management and reporting framework in place which:
 - Maintains, monitors, and reports on contracting activities
 - Ensures appropriate information is maintained and available for internal and external reporting purposes
 - Promotes application of contracting policies and guidance
 - Establishes and communicates contracting policies and guidance to FCAC staff
 - Whether contracting practices ensure financial integrity (documentation, review and approval structure) of contracting
 - Whether contracting policies and guidance are being effectively applied
- Provide a report on the results of the contracting audit

3. Scope and approach

The audit consisted of 4 phases:

- a) A review of contracting policies and guidance
- b) A review of contracting practices and related processes, and control and reporting structure
- c) Interviews with management and users on responsibilities, and on any contracting issues
- d) A detail check of selected contracts against the Policies and supporting documentation considering the size and scope of FCAC.

The audit involved:

- I. Review of contracting policy and review of framework for contracting activities*
 - An assessment of FCAC contracting policy, guidance and practices
 - Discussions with the Contracts Officer and selected users of contracting regarding:
 - Current contracting activities
 - Advice and support provided by the Contracts Officer, including issuance of policy, guidance and training
 - Contracting documentation: approval forms, supporting documentation and Contracts Officer and RC approvals
 - Possible areas for improvement
 - A review of any observations and areas for improvement

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II. Testing of contracts against FCAC and TBS policy and supporting documentation

- A listing of all contracts issued between April 1, 2005 and October 31, 2005 to establish the sample population and selection of contracts for detailed testing.
- A detailed check of a sample of contracts for:
 - Application of FCAC and TBS policy, in particular:
 - procurement process (including bid solicitation, justification for sole source)
 - services are rendered during the contract period
 - security requirements
 - approval of amendments to contract period and / or contract value
 - Evidence of appropriate review and Section 32 sign-off
 - Evidence of appropriate review and Section 34 sign-off
 - Arithmetic accuracy of the processed contract payment
 - Posting of contract payments to the appropriate general ledger accounts and accounting period
- A review with FCAC management of testing results and areas for improvement

III. Reporting on the contracting audit

- A review of the audit results and report with FCAC management
- Provide an audit report on the results of the contracting audit to the FCAC Audit Committee

IV. Client group and responsibilities

- FCAC management is the client for the purposes of this audit. FCAC management provided timely access to the relevant personnel and documents.

4. Audit observations and areas for improvement

A&CS observations and areas for improvement have been organized into two areas with management's comments to them:

- I. Framework for contracting process and activities
- II. Testing of contracts against FCAC & TBS policy and supporting documentation
- III. Management's comments

I. Framework for contracting process and activities

FCAC's internal contracting policy was reviewed for consistency with TBS Contracting Policy. In some respects, the FCAC Policy is more constrained; for example, the threshold for setting aside the requirement for competitive bids is \$10,000 in FCAC Policy, compared to the \$25,000 threshold provided for in TBS Policy. FCAC Policy also specifies the approval levels required for various types of contracting activities (e.g., directed contracts; contracts involving a former public servant; etc.).

Discussion with key users of contracting indicated that a RC Manager's approval for contract amendments could be given verbally or in writing (e.g., by e-mail). These discussions also indicated that contract amendments are usually identified on an urgent basis. In two cases, the need for a contract amendment was recognized only when cumulative invoices amounts would

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exceed the total contract value. This contracting practice does not provide sufficient lead time for normal identification, approval and preparation of contract amendments before additional work is performed.

Current contracting procedures are silent with respect to the steps to be followed in issuing contract amendments. Although a standardized “Contract Approval and Justification” form is used for entering into a contract, no standardized form exists to document the approval and justification for contract amendments. The informal nature of contract amendment procedures could lead to different practices being used, such as RC Manager’s approval being given verbally or in writing, and services being provided, possibly before a contract amendment is issued.

Recommendation

We recommend that the steps for processing contract amendments be formalized and documented. A standardized form, similar to the “Contract Approval and Justification” form, should be used to document the reasons for, and approval of, contract amendments prior to additional services being performed.

We recommend that the Project Manager routinely monitor contract work and invoices against the total contract value and the contract start and completion dates. If the contract value or the contract period is insufficient, an amendment process should be initiated before additional work is authorized and performed.

II. Testing of contracts against FCAC and TBS policy and supporting documentation

A judgement sample of 16 contracts was reviewed in detail against the pre-determined audit attributes. Of the 16 contracts tested, 7 of the contracts have one or more observation, with a total of 15 observations.

A summary of observations by audit attribute is as follows:

Testing Period	No. of Contracts Tested	No. of Contracts with observations raised	Attributes Tested – Number of observations				
			Policy Compliance	Review & Sign-Off		Timeliness of s.34 Certification	Accuracy
				s.32	s.34		
Apr/05 to Oct/05	16	7	7	1	4	3	0

Attribute definitions and the nature of the observations:

- The *policy compliance attribute* tested whether contracts were issued in accordance with provisions of FCAC and TBS Contracting Policies such as the procurement process (including bid solicitation, justification for sole source, and contract amendments), the period in which contracted services were rendered, and whether security requirements (if any) were identified and met.

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- The *review and sign-off attribute* tested whether appropriate section 32 and section 34 sign-offs were provided and the adequacy of supporting documentation.
- The *timeliness of section 34 certification attribute* tested whether section 34 certification of supplier invoices occurred in a timely manner.
- The *accuracy attribute* tested such things as appropriate cut-off between fiscal years, posting to the general ledger classification as indicated, and mathematical correctness of supplier invoices.

Note that due to the timeline for the audit, a few of the contracts selected for review had not completed their full contracting cycle; therefore not all attributes on those contracts were examined. However, the assessments and observations made are sufficient to report at this time and to conclude on the audit results.

Testing Conclusions

- Contracting procedures and control with respect to the preparation / issuance of contracts were found adequate.
- Administration and progress of work against the contract, particularly the processing of contract amendment, needs to be strengthened. Attention should be paid by Project Managers and RC Managers to ensure that:
 - Work is performed within the contract dates;
 - Contract invoices are reviewed and certified in a timely manner; and
 - Funds are committed on a timely basis for payments on the contract.
- The importance of tracking / reviewing contractor invoices by RC Managers needs to be communicated, and emphasised by senior management.

In discussions with selected Project Managers and RC Managers, no concerns were expressed with regard to the general administration of contracts and the review and approval of supplier invoices. They recognized that contract amendments are sometimes sought late in the contracting process. When specific guidance is needed, Project Managers and RC Managers ask the Contracts Officer for clarification of contracting policy. They indicated that they appreciate the level of technical support and the quality of service provided by the Contracts Officer.

In a general review of the 16 sample contract files, we found no correspondence between FCAC and the contractor or other documentation that would suggest there was a concern as to the quality and delivery of services / products as specified in the contract.

Contracting Audit Report**Recommendation**

As outlined previously, FCAC needs to strengthen contracting procedures with regards to monitoring of contracts, certification of supplier invoices and amendments. To ensure that Project Managers and RC Managers understand the new procedures & related responsibilities, training and support should be provided as appropriate.

In addition, to achieve high quality in managing contracts, FCAC should consider tracking and reviewing procurement activities, by RC group and by the contract attributes outlined in this report.

III. Management's comments and action plan

By March 31, 2006, Administrative Services will develop internal procedures and processes related to the amendments of contracts for use when unforeseen situations require an amendment to the original contract.

By April 30, 2006, the Administrative Services will provide an additional training session on FCAC's contracting procedures to FCAC's staff, including a focus on the procedures and processes related to the amendments of contracts. Highlights of the contracting audit report will be shared with the pertinent staff at that time.

In order to address the matters of timeliness, verification of invoices and the need to improve documentation of the contract files, we note a lack of administrative support in the Public Affairs and Consumer Education (PACE) area with only one administrative assistant position currently providing support to the Director of PACE and 18 other staff members with their day-to-day administrative needs. We aim to have a second administrative assistant in place by June 30, 2006.

Starting on June 30, 2007 and for each two subsequent years, a sample review of the contracts (at least 20% of annual contracts) closed and undertaken during the previous fiscal year, will be performed by Administrative Services to verify that all contracting procedures and practices have been followed. The Administrative Services Manager, in collaboration with the Senior Corporate Officer – Strategy and Reporting, will present the results of the review to the Audit Committee at the fall meetings (September or October).

6. Audit Opinion

A&CS undertook an audit of contracting practices for the period April 1, 2005 to October 31, 2005 as described in Section 2 – Objectives of the audit. The audit was conducted in accordance with TBS Policy on Internal Audit Standards for the Government of Canada, which incorporates the Institute of Internal Auditors, Standards for Professional Practice of Internal Auditing. The work carried out in forming an audit opinion on contracting practices is described in Section 3 – Scope and approach.

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Key audit activities involved an examination of the contracting control framework and testing of selected contracts against predetermined audit attributes. A judgement sample of contracts was tested for application of FCAC policy, appropriate review / approval, timeliness of Section 34 approval, and accuracy. For each contract sampled, an overall reasonableness check was also completed.

Based on a review of FCAC contracting policies, discussions with the Contract Officer and selected users of contracting, a review of contracting documentation, and testing of a sample of contracts, we concluded that overall contracting practices are *satisfactory and* during the period from April 1, 2005 to October 31, 2005 they were *satisfactorily applied*¹. Improvements are needed in the areas of the administration and monitoring of contract work and invoices, review and certification of supplier invoices and contract amendment policy and procedures.

¹ The rating scale for reporting on internal audit assessments and conclusions is attached to this report. The definition of *Satisfactory* is 'some areas of the practices / processes are working as intended but improvements are needed in other areas'.

Contracting Audit Report**DRAFT****Attachment 1****The rating scale for reporting on internal audit assessments and conclusions**

1	Weak
2	Needs Improvement
3	Satisfactory
4	Good
5	Strong

- 1: Weak: Management attention is needed to address *significant problems* within these practices / processes.
- 2: Needs Improvement: *Some areas* of the practices / processes are working as intended but *many deficiencies* exist.
- 3: Satisfactory: *Some areas* of the practices / processes are working as intended but *improvements are needed* in other areas.
- 4: Good: *Most areas* of the practices / processes are working as intended but there are *opportunities for improvement*.
- 5: Strong: *All areas* of the practices / processes are working well as intended. *No areas for improvement* were identified.