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**Audit of the Contracting Function  
Informatics Services Branch  
Canadian Intellectual Property Office (CIPO)  
As of January 6, 2000**

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## **Executive Summary**

### **Background**

The Audit and Evaluation Branch (AEB) was asked by the Canadian Intellectual Property Office (CIPO), through the Assistant Deputy Minister, Operations Sector, to include an audit of the contracting function of the Informatics Services Branch (ISB) as part of the 1999-2000 AEB Plan. The objectives of the audit were to determine whether the :

- tendering process used in the award of ISB contracts was in compliance with the contracting policy and regulations of the Treasury Board Secretariat; and
- ISB contracting function is being managed economically, efficiently and effectively in a manner that promotes the achievement of best value and the attainment of ISB's strategic management objectives.

The scope of the audit included a sample of six contracts covering the 1997/98 and 1998/99 fiscal years. The sample mix included the following types of contracts: two non-competitive, two competitive through CIPO, and two competitive through PWGSC. The audit focused on the following three stages of the contracting life-cycle: needs definition and screening, tendering and contract delivery. Audit findings relating to each of the stages are described below.

### **Risk Management Workshop**

Overall, the findings leading to the recommendations of this audit confirm the risks and controls identified in the action plan that was produced during the Risk Management Workshop - May, 1999, relating to the two information technology (IT) management objectives developed at the workshop. These objectives are as follows:

- management of IT will be based upon and aligned to CIPO's business and financial objectives; and
- maintenance of existing and investment in new IT will support the attainment of CIPO's strategic objectives and delivery of world class intellectual property (IP) services.

### **Overall Assessment**

The tendering processes associated with the six sample ISB contracts examined were, in general, in compliance with the contracting policy and regulations of the Treasury Board Secretariat. ISB Management strives towards awarding and managing its contracts in a cost-effective manner in the pursuit of achieving best value. The quality of the contract file documentation does not, however, consistently demonstrate achievement of these objectives.

### **Stage 1 - Need definition and screening**

This stage focuses on defining the program need and screening out requests for goods and services that are unacceptable, unduly expensive, or unnecessary, so that ISB buys, with integrity, only what it needs.

**Finding (refer to section 2.1)**

- The need associated with the six sample contracts examined was appropriately vetted by ISB Management while establishing its priorities for the 1997-98 and 1998-99 fiscal-years. The preparation of the 1997-98 and 1998-99 Long-Term Capital Plans also enabled the CIPO Executive Committee to exercise a review and challenge function.
- A vision of information technology (IT) management was documented by ISB in a Long-Range Strategic Informatics Plan (LRSIP) in May 1998. The LRSIP has not been formally approved by the CIPO Executive Committee nor has it been revised to reflect the organization's forecasted financial situation. Decisions were, therefore, made during the 1999-2000 Business Planning exercise to reduce operational, maintenance and capital budgets without the benefit of an approved and up-to-date long-term vision of IT management. This did not provide the best forum for screening IT project proposals.

**Recommendation #1**

We recommend that the Chief, Operating Officer (COO) ensures that the:

- LRSIP is updated to reflect the corporate strategic vision, its current fiscal realities and stakeholders' interests;
- existing LRSIP resourcing strategy, consisting of a mix of full-time equivalents and contracted resources, is updated;
- CIPO Executive Committee approves the revised LRSIP and its associated resourcing strategy; and,
- approved LRSIP is used as a basis for screening and approving IT project proposals as part of the business planning process and used throughout the fiscal year, along with the long-term capital plan, for screening and approving IT projects.

**Finding (refer to section 2.2)**

While some progress has been made during the past six months, a documented framework to effectively integrate CIPO's financial, business and IT planning efforts remains absent. Senior management's expectations should be clearly articulated as to the: activities to complete, key milestones to achieve, outputs to produce, description of roles and responsibilities of participants, composition and mandate of committee(s) structures for stakeholder representation and criteria for evaluating, prioritizing and approving IT project proposals.

**Recommendation #2**

We recommend that the COO ensures that the planning efforts of ISB, product line managers and the Planning, Finance and Administration (PFA) Branch are better integrated by documenting a financial, business and IT planning process, educating stakeholders, and monitoring closely its application. The defined process should be based on the input from all stakeholders to promote its "buy-in".

## **Stage 2 - Tendering**

This stage focuses on the extent tendering practices are open, fair and promote the achievement of best value.

### **Findings (refer to sections 3.1 & 3.2) - Competitive contracts through CIPO and PWGSC**

- Overall the request for proposals (RFPs) issued for competitively tendered requirements were of high quality. The mandatory and rated criteria were well described as was the basis of their evaluation. Evaluation ‘guides’ were prepared with discipline to encourage a consistent assessment of the proposals by the individual members of the evaluation team.
- The quality of the contract files could be improved. The evaluation of proposals by individual members could not always be located. When on file, the basis of the points assigned to the rated criteria was not always evident. Negotiations in situations when only one valid bid was received was short on documentation. The outcome of the review of both the RFP and the draft contract conducted by the Finance Procurement Officer and the ISB Chief, Budget and Financial Management generally did not make its way to the contract file.
- There is some confusion as to the respective role, responsibilities and authorities of CIPO Finance and ISB personnel vis-à-vis the contracting process. In addition, ISB Responsibility Centre (RC) Managers have been delegated full contracting authority since there is no progressive dollar threshold of authorities. As a result, this limits the number of projects where the ISB Director and Deputy Directors formally review and challenge contracting decisions made by staff. However, in an attempt to strengthen this process during nine of the past twenty-four months, the ISB Director highlighted that he was to approve all Branch expenditures.

### **Recommendation #3**

We recommend that the COO, in consultation with all stakeholders, ensures that CIPO adopts a concise user friendly contracting guide, educate users and monitor closely its application. The guide should focus on defining the role, responsibilities and authorities of stakeholders, the minimum activities to perform, the outputs to produce and the documentation to retain. The Contracting for Services Bulletin (POL 005), issued by the Comptrollers Branch on December 8, 1999, should be consulted and tailored, as necessary, to meet CIPO’s needs.

### **Recommendation #4**

We recommend that the COO re-examines, in consultation with ISB Management and PFA representatives, the authority levels delegated to Branch personnel and assess the extent they result in sufficient review, challenge and approval of contracting decisions at the ISB Director and Deputy Director levels while, at the same time, promoting efficiency in operations.

### **Finding (refer to section 3.3) - Non-competitive contracts**

The non-competitive contracts examined were properly justified in accordance with the conditions specified in the Government Contract Regulations. Generally, their associated statement of work

(SOW) was well described. However, deliverables could benefit from a more detailed description. Contract files were not always complete. Evidence of the request for proposal (RFP), the company's response, the RC Manager's review of the proposal and of the negotiations undertaken was not consistently found on file.

### **Recommendations #5**

We recommend that:

- ISB Management ensures that deliverables are more clearly described in a contract's Statement of Work in order to facilitate effective contract administration; and
- recommendation three above also applies to non-competitive contracts.

### **Stage 3 - Contract Delivery**

This stage focuses on the extent to which contract administration practices ensure that the supplier delivers what was agreed, when it was agreed, and for the price agreed.

#### **Finding (refer to section 4.1)**

A contract administration framework (CAF) identifies planned activities to be performed to promote achieving best value during the delivery stage of the contract life-cycle. A CAF was in place for all sample contracts reviewed. Its degree of formality varied amongst the sample contracts reviewed. In one particular case, the CAF was documented and subject to review by ISB Management. This was a positive practice. The audit team noted that such a formal approach was not adopted on the largest contract subject to review (i.e. approximately \$225,000 in monthly expenditures). This is not to say that ISB officials are not effectively administering the contract. Rather, it is simply difficult to conclude on the appropriateness of the CAF given that it is not evident which specific activities were planned, at the inception of the contract, to be undertaken to assess the quality of each specific area of contractor performance.

### **Recommendations #6**

We recommend that the COO:

- ensures that a CAF is formally documented by the ISB for all current and future significant contracts based on appropriate stakeholder consultations. The CAF should highlight whether there is a risk that particular aspects of performance, as defined in the contract, will not be subject to adequate quality control given current resources levels;
- ensures that the CAF is reviewed by the Information Technology (IT) Committee; and
- approves the CAF, based on the recommendation of the IT Committee, and receives periodic status reports as to its effectiveness.

#### **Finding (refer to section 4.2)**

Three contracts reviewed dealt with the maintenance and enhancements to the Techsource and Intrepid systems. The associated CAFs varied greatly. The CAF applied to contracts related to the

Intrepid system was much more detailed. Although there is no one way to administer a contract, the audit team did not expect to see such a wide variation in the respective CAFs given the similarity in the nature of the services provided. There is, therefore, likely some efficiency issues that deserve ISB Management's attention.

**Recommendation #7**

We recommend that the COO ensures that the CAFs associated with contract(s) for the maintenance and enhancements services related to the Techsource and Intrepid systems are reviewed for purposes of identifying best practices and potential efficiency improvements.

**Finding (refer to section 4.3)**

ISB Management has endeavored to develop a solid professional relationship with contracted resources to assist in achieving best value. ISB staff, however, have commented that decisions made by ISB Management, based on close consultation and input from the contracted resources, were not always transparent in their mind. This is not to say that the relationship established between ISB Management and its contracted resources is inappropriate. It has, however, adversely impacted the morale of a small number of ISB staff that the audit team interviewed.

**Recommendation #8**

We recommend that ISB Management become increasingly aware of the staff sensitivities surrounding relationships it fosters with contracted resources. Decisions should, to the maximum extent possible, be made and communicated in an open and transparent manner as a means of better managing staff sensitivities.

**Finding (refer to section 4.4)**

Contract amendments were in, general, properly justified and exercised within delegated authority levels. The quality of the documentation with respect to price support and the negotiations undertaken could be improved. Although certification of services rendered in accordance with Section 34 of the Financial Administration Act (FAA) was exercised by an individual with appropriate authority, the supporting detailed account verification was not consistently evident.

**Recommendation #9**

We recommend that the COO coordinates the development of:

- a concise user friendly contract administration guide, educate stakeholders and monitor closely its application. The focus of the guide should be similar to the one described under Recommendation 3 above; and
- a procedure to show that there is adequate evidence of the detailed account verification performed in support of the certification under Section 34 of the FAA.

## **1.0 INTRODUCTION**

The Audit and Evaluation Branch (AEB) was asked by the Canadian Intellectual Property Office, through the Assistant Deputy Minister, Operations Sector, to include an audit of the contracting function of the Informatics Services Branch's (ISB) as part of the 1999-2000 AEB Plan.

The following section describes the audit background, scope, objective and approach.

### **1.1 Background**

In May 1999, a risk assessment workshop was conducted at CIPO covering information technology (IT) management. There were approximately 12 stakeholders that had participated in the workshop. These included the Chief Executive Officer of CIPO, senior management of the ISB and staff from the product lines.

The objectives of the workshop were to establish key IT management objectives, risks and controls as well as produce an action plan to mitigate the potential and significant risks identified. This audit meets the requirement of one of the action steps identified to mitigate against an identified risk included in the action plan.

### **1.2 Audit Scope**

The scope of the audit included a sample of six contracts covering the 1997/98 and 1998/99 fiscal years. The sample mix included two non-competitive contracts, two competitive through CIPO and two competitive through PWGSC. **Appendix I** provides summary information associated with the six sample contracts.

The audit focussed on the following three stages of the contracting life-cycle; needs definition and screening, tendering and contract delivery. Sections two, three and four report the findings and recommendations under each of the three stages of the contract cycle.

### **1.3 Audit Objectives**

The objectives of the audit were to determine whether the :

- tendering process used in the award of ISB contracts was in compliance with the contracting policy and regulations of the Treasury Board Secretariat; and
- ISB contracting function is being managed economically, efficiently and effectively in a manner that promotes the achievement of best value and the attainment of ISB's strategic management objectives.

### **1.4 Audit Approach**

The audit approach consisted of reviewing contract file documentation maintained by the Planning, Finance and Administration (PFA) and the Informatics Services Branches. Interviews were held with product line representatives and staff from the PFA and the Informatics Services Branches. **Appendix II** contains the names of the individuals interviewed.



To achieve the audit objectives, criteria were adopted from the Auditor General's December 1998 - Chapter 26 audit covering contracting for professional services and from relevant Treasury Board Guidelines. **Appendix III** describes the audit criteria that were used to assess ISB's practices for each stage of the contracting life-cycle.

## **2.0 STAGE 1 - NEED DEFINITION AND SCREENING**

This stage focuses on defining the program need and screening out requests for goods and services that are unacceptable, unduly expensive, or unnecessary, so that ISB buys, with integrity, only what it needs.

### **2.1 Finding: The need associated with the six sample contracts was appropriately vetted by ISB Management. A review and challenge was also exercised by the CIPO Exec. CIPO's Long-Range Strategic Informatics Plan requires updating in order to provide a better basis for screening future IT project proposals.**

Three priority areas were identified during the preparation of the 1998-99 Long-Term Capital Plan (LTCP). These areas were: connectedness, continuous service improvement and planning and performance reporting. The priorities were derived from "scans" conducted by departmental (i.e. Industry Canada) officials and CIPO corporate and branch staff. Annex 2 of the LTCP identified the linkage between CIPO's information technology (IT) initiatives/priorities, its corporate business objectives and Industry Canada's strategic objectives.

ISB Management prepared a "Priorities Scan" document for the 1997/98 and 1998/99 fiscal-years. The document identified branch pressures, opportunities, priorities, possible actions and considerations/constraints. A formal action plan was also prepared for each fiscal-year. The action plan identified IT project proposals required to address branch priorities. These projects would be funded both from operational and maintenance as well as capital monies. The audit team was able to link the six sample contracts to a project proposal included in the applicable action plan. This suggests that ISB Management appropriately screened the need for the project proposals as part of branch and corporate planning processes.

The LTCP for the 1997-98 and 1998-99 fiscal-years contained a list of approved IT project proposals under each of CIPO's strategic initiatives. The audit team was able to establish a reasonable link between the project proposals associated with the sample contracts reviewed, of a capital nature, and those contained in the LTCPs. This suggests that the need associated with the sample contracts was subjected to some degree of review and challenge by the CIPO Executive Committee (i.e. CIPO Exec.) as the LTCPs required the Committee's approval.

A Long-Range Strategic Informatics Plan (LRSIP) was prepared by ISB in May 1998. The LRSIP documented the vision for IT management within CIPO. It contained an assessment of the current state of IT management within the organization, identified organizational and program priorities, elaborated upon organizational strategies for managing IT resources, identified service improvements, dealt with planning and performance reporting issues and provided implementation plans.

ISB Management intended to seek the CIPO Executive Committee's approval of the LRSIP. This did not take place. ISB Management report that the organization was dealing with significant financial challenges at the time. These challenges consumed a large part of senior management's agenda. Management of these challenges saw the organization effect budget cuts and tighten expenditure controls in 1998/99 and 1999/2000.

The LRSIP and its associated resourcing strategy has not been updated to reflect the organization's forecasted fiscal situation. ISB Management is aware that the LRSIP needs to be revised. It also recognized that, as a result, it did not assist in screening IT project proposals and making budget decisions during the preparation of the 1999-2000 Business and Financial Plan.

In conclusion, there is a need for ISB Management to update the LRSIP to reflect the new fiscal realities. Effective consultations with stakeholders will be critical for this purpose along with some direction from CIPO Exec. as to the organization's priorities. ISB's current resourcing strategy will have to be reviewed to ensure its continued relevance. Formal approval of the revised LRSIP and its associated resourcing strategy will have to be obtained from the CIPO Exec.

### **Recommendation #1**

We recommend that the Chief, Operating Officer (COO) ensures that the:

- LRSIP is updated to reflect the corporate strategic vision, its current fiscal realities and stakeholders' interests;
- existing LRSIP resourcing strategy, consisting of a mix of full-time equivalents and contracted resources, is updated;
- CIPO Executive Committee approves the revised LRSIP and its associated resourcing strategy; and,
- approved LRSIP is used as a basis for screening and approving IT project proposals as part of the business planning process and used throughout the fiscal year, along with the long-term capital plan, for screening and approving IT projects.

### **2.2 Finding: CIPO's financial, business and IT planning efforts need to be better integrated.**

Aligning the management of IT with CIPO's business and financial goals was identified as an ISB objective during the May 1999 Risk Management Workshop. Achieving this objective required the effective integration of CIPO's financial, business and IT planning efforts. This was considered as a key risk factor.

Establishing a Finance, Planning and IT Committee was earmarked as "action step". Progress has been made in this regard. A document dated November 8, 1999 describes a proposed structure of CIPO Committees. Terms of reference for seven committees have been drafted. A CIPO planning schedule was also attached to this document. It provides a one page "snapshot" of the major planning activities to take place in each of the four quarters of the fiscal-year.

ISB has a documented planning framework. The framework calls for planning to take place at both strategic and operational levels. Planning inputs, actions and outputs have been identified along with a schedule for their occurrence.

While some progress has been made during the past six months, a documented framework to effectively integrate CIPO's financial, business and IT planning efforts remains absent. Senior management's expectations should be clearly articulated as to the: activities to complete, key milestones to achieve, outputs to produce, description of roles and responsibilities of participants, composition and mandate of committee(s) structures for stakeholder representation and criteria for evaluating, prioritizing and approving IT project proposals. The need for an integrated planning framework was confirmed by PFA, IT and product line representatives.

In conclusion, there is a need to better integrate ISB planning efforts with those that take place as part of CIPO's financial and business planning process. This is recognized by all parties concerned. This will be facilitated by documenting an integrated planning process. ISB's documented planning framework could serve as a useful starting point. Close collaboration between ISB officials and representatives from Planning, Finance and Administration and the product lines will be required to ensure "buy-in" to the defined process.

## **Recommendation #2**

We recommend that the COO ensures that the planning efforts of ISB, product line managers and the Planning, Finance and Administration (PFA) Branch are better integrated by documenting a financial, business and IT planning process, educating stakeholders, and monitoring closely its application. The defined process should be based on the input from all stakeholders to promote its "buy-in".

## **3.0 STAGE 2 - TENDERING**

This stage focuses on the extent the tendering practices are open, fair and promote the achievement of best value. Findings for both competitively and non-competitively awarded contracts are described below.

### **3.1 Finding - Competitive contracts through CIPO & PWGSC: Overall, the request for proposals (RFPs) reviewed were of high quality.**

Four of the six sample contracts were awarded following a competitive process (refer to Appendix I). Two of these contracts (i.e. Gamet - ISB Consulting and ISM - Facility Management) were awarded by PWGSC on CIPO's behalf. The remaining two (i.e. Certus and Neodyne) were awarded directly by CIPO after having been advertised on the MERX.

Overall, the RFPs reviewed contained a clear statement of work (SOW). The work to be carried out, the objectives to attain and the time frame for delivery were, generally, well described. This was particularly the case with the larger dollar requirements tendered through PWGSC.

The SOW for the Certus and Neodyne contracts could, however, have benefitted from having a clearer description of deliverables which specified "time sheets" and "regular progress meetings" as

the contractor's main outputs. Although these aspects are important from a contract administration perspective, they do not adequately reflect the expected outputs given that the contractor was engaged to assist in maintaining the Intrepid II system. The ISB Manager interviewed confirmed that the description of the deliverables could have been better tailored to the nature of the services provided by the contractor. Moreover, he also confirmed that this would have provided a better basis for monitoring contractor performance with the view of achieving best value.

Overall, the RFPs reviewed clearly described the mandatory and rated criteria to be used for purposes of evaluating the proposals. The point rating assigned to each rated criteria was also, generally, clearly described. A guide to assist the evaluators in interpreting and applying the evaluation criteria was prepared for all four sample contracts examined. These guides were of high quality. They specified the basis for providing a different point score to each rated criteria. The method of selection (i.e. lowest cost per point, lowest price + meets mandatory & minimum technical criteria, etc.) was also consistently clearly enunciated in the RFPs.

In conclusion, preparing a high quality RFP is one of the first steps to be taken in order to obtain an open and fair tendering process. Overall, the quality of the SOWs reviewed, the clarity of the mandatory/rated criteria and the method of selection positively contributed towards achieving "best value" and the objectives of openness and fairness.

**3.2 Finding - Competitive contracts through CIPO & PWGSC: The quality of the contract files need to be improved to better reflect the tendering process applied. The role, responsibilities and authorities of the different stakeholders involved in the contracting life-cycle need to be more clearly articulated.**

Maintaining adequate contract file documentation is important for purposes of demonstrating the application of tendering practices that are open and fair. The above conclusion (refer finding 3.1) with respect to the quality of RFP documentation is positive in this regards. The same degree of comfort, however, cannot be obtained from the documentation associated with the receipt and evaluation of proposals.

The RFPs reviewed appropriately specified a bid closing date and time. The contract files reviewed with respect to the two contracts awarded directly by CIPO (i.e. Certus & Neodyne) did not contain evidence suggesting that the evaluated proposals respected the bid closing requirement. This is normally addressed by date and time stamping the envelope(s) containing a contractor's proposal. In the case of the Neodyne contract, the envelopes could not be located. Envelopes were on file for the Certus contract but did not indicate the date and time of receipt.

The evaluation of proposals is an important aspect of a tendering process. It is often the source of "unfair" complaints from the supplier community. For this reason, the applicable documentation is particularly relevant. The audit team noted a number of observations suggesting that the associated documentation practices could be further strengthened.

The evaluation of proposals was documented in all four sample contracts reviewed. The evaluations were carried out in a manner that was consistent with the relevant information contained in the RFP.

None of evaluation forms, however, consistently had a cross-reference to the proposal to support either the point rating given to the rated criteria or the conclusion that mandatory criteria were met or not. Without this cross-reference, there is considerably more subjectivity associated with the final assessment/rating provided by the evaluator. This is particularly relevant given that several of the proposals did not contain any evidence (i.e. pencil marks, use of a highlighter, etc.) suggesting that they were even read.

In the case of the Gamet ISB Consulting contract, one of the evaluator's assessment could not be located. In addition, the review of the qualifications of the proposed personnel carried out by one of the evaluators could also not be found. ISB staff report that a meeting of the evaluation team, to review their individual ratings and those areas of the proposal requiring discussion, took place. This is an appropriate practice. The contract file did not, however, contain evidence of the discussions that took place at this meeting.

ISB staff report that a three person evaluation team was formed to evaluate the proposals received in response to the Facility Management (FM) RFP. The contract file contains, however, only a single "draft" evaluation form. Moreover, the evaluation form does not indicate that the proposed resources were evaluated against the specific qualifications contained in Attachment E of the RFP. ISB staff report that this evaluation did take place but could not locate the supporting documentation. ISB staff further report that the quality of the file documentation may be a reflection that the evaluation team perceived a lower risk of a "challenge" given that only one valid bid was received. ISB staff also stated that the evaluation team met to discuss the single bid received. As was the case with the ISB Consulting Contract, a summary of the discussions was not placed on the contract file.

The Neodyne RFP stated that "the proposals which met all mandatory criteria and will have obtained the lowest numerical value for best value will be the winning proposal(s)". The numerical value was defined by dividing the per diem rate by the total technical point score. Sixteen different resources were evaluated from eight different firms. A "final rating" dated April 17, 1998 provided the numerical value, in ascending order, assigned to each of the 16 resources evaluated. The contract file did not, however, contain documentation of the calculations made to support these final ratings.

The "Gament ISB Consulting" and the "ISM Facility Management" contracts were the two largest contracts in the audit sample. Their initial award value were \$1 and \$18.4 million respectively. In both situations, only one bid was received. Under these circumstances, requesting price support and undertaking price negotiations are recognized as acceptable practices. They help to derive some assurance that the contract value represents best value. ISB staff report that they assisted PWGSC during these negotiations. There was, however, very little documentation retained in the ISB files of the negotiations undertaken.

The CIPO Finance Procurement Officer and the ISB, Chief, Budget and Financial Management report conducting a review of both the RFP and the draft contract. These reviews are designed to contribute to maintaining a tendering process of high quality. They represent appropriate "checks and balances". With the exception of the Neodyne and Certus contracts, there was little evidence in the contract files of having conducted the reviews. This is not surprising as both the CIPO Finance Procurement

Officer and the ISB, Chief, Budget and Financial Management stated that their comments are, at times, communicated verbally.

Interviews conducted with ISB staff have indicated that the procurement role, responsibilities and authorities of the CIPO Finance Procurement representative and the ISB, Chief, Budget and Financial Management are not clearly understood. Some of the ISB RCM's consider the ISB, Chief, Budget and Financial Management's role to be strictly financial (review of invoices, maintaining budget/contract financial status information, etc.) with no responsibility or authority to question their contracting decisions. Moreover, the ISB, Chief, Budget and Financial Management reports that his job description does not specifically address the contracting responsibilities he discharges nor the authority vested with this function. There is also some confusion in the minds of some ISB staff as to the role and specific responsibilities of the CIPO Procurement Officer. It is not clear, for example, which documentation is to be retained in the ISB and CIPO Finance "contract files".

The "Delegation of Authority" document obtained by CIPO Finance indicates that the ISB Director, Deputy Directors and Managers have been delegated "full authority" in accordance with the Deputy Minister's Delegation Document. There is, therefore, no progressive dollar threshold of authorities. As a result, this limits the number of contracts where the ISB Director and Deputy Directors formally review and challenge the contracting decisions made by staff. This is particularly relevant given that the ISB, and CIPO overall, has not established a formal Contract Review. While there is always a need to "let the managers manage", there is also a need to ensure that adequate management oversight is exercised. Having a structure of progressive delegated authorities, based on dollar thresholds, is one such way of ensuring that Management has an opportunity to discharge its oversight role. It should be noted, however, that in an attempt to exercise greater oversight during nine of the past twenty-four months, the ISB Director highlighted that he was to approve all Branch expenditures.

In conclusion, there is a need to improve the quality of contract file documentation. This will assist ISB Management in better demonstrating the application of due diligence in the pursuit of best value. CIPO needs to define and formalize its contracting process such that Management expectations are clearly articulated. This will assist applicable stakeholders in better understanding their role, responsibilities and authorities and to improving the overall quality of contract file documentation. There is also a need to review the authorities delegated to ISB personnel to ensure that an appropriate balance exists between management oversight on the one hand, and efficiency of operations on the other.

### **Recommendation #3**

We recommend that the COO, in consultation with all stakeholders, ensures that CIPO adopts a concise user friendly contracting guide, educate users and monitor closely its application. The guide should focus on defining the role, responsibilities and authorities of stakeholders, the minimum activities to perform, the outputs to produce and the documentation to retain. The Contracting for Services Bulletin (POL 005), issued by the Comptrollers Branch on December 8, 1999, should be consulted and tailored, as necessary, to meet CIPO's needs.

#### **Recommendation #4**

We recommend that the COO re-examines, in consultation with ISB Management and PFA representatives, the authority levels delegated to Branch personnel and assess the extent they result in sufficient review, challenge and approval of contracting decisions at the ISB Director and Deputy Director levels while, at the same time, promoting efficiency in operations.

#### **3.3 Findings - Non-competitive contracts. The sole-sourced contracts reviewed were properly justified in accordance with the Government Contract Regulations. The quality of the Statement of Work could be improved by better defining deliverables. Contract file documentation needs to be strengthened.**

Two sole-sourced contracts (Gamet Strategic Planning & Research & Gamet Performance Indicators) were selected for examination (refer Appendix I). The award value of both contracts was below \$25K. The Government Contract Regulations (GCRs) provides for sole-sourcing contracts below this dollar threshold. For this reason, the justification for the sole-sourced contracts examined was consistent with the GCRs.

The Statement of Work (SOW) of both contracts reviewed contained an adequate description of the activities to be performed. For example, “managing the document control system”, “maintaining detailed project plans”, “direct the activities for the development of Performance Indicators”, etc. While one could “read between the lines” as to what are the contract deliverables, they were not, however, clearly and specifically defined in the contract. There is no section entitled “deliverables” or any sentence(s) that make reference or incorporate the term deliverable. As a result, the SOW did not facilitate managing contractor performance.

Price support and negotiation are particularly important in cases of sole-sourced contracts. They are necessary as the Crown would, otherwise, have no assurance that the price represents best value as a competitive process is not followed. ISB staff report that they obtained this assurance for the two contracts reviewed.

In the case of the Gamet Performance Indicators contract, ISB staff report having met with the contractor to discuss the SOW, consider the proposed resource, and review the reasonableness of the proposed per diem. There was not, however, an official request for proposal issued nor a proposal submitted by Gamet. ISB staff further report that they successfully negotiated a \$50 reduction in the per diem initially proposed by the contractor. They felt that this rate was consistent with the “going market rate” for similar services. Documentation of the negotiations undertaken and the basis to assert that the negotiated per diem rate was within a reasonable range of the “going rate” was not, however, contained in the contract file.

ISB staff report having compared the per diem rate associated with the Gamet Strategic Research and Planning contract with the daily rate of a CR4 position. This was done in order to develop assurance as to the reasonableness of the per diem rate quoted by the contractor. The analysis confirmed the reasonableness of the the \$220 per diem. The contract file did not, however, contain evidence of the

analysis undertaken. Moreover, as was the case with the Gamet Performance Indicator contract, an official request for proposal was not issued nor was a proposal officially submitted by the contractor.

In conclusion, the sole-sourced contracts reviewed were properly justified in accordance with the GCRs. Greater effort needs to be placed on ensuring that deliverables are more clearly defined in a contract's SOW. The quality of the contract file documentation needs to be improved by ensuring that it includes the formal request for proposal, the contractor's offer, the evaluation of the proposal carried out by ISB staff along with their efforts to support and negotiate a fair and reasonable price.

#### **Recommendation #5**

We recommend that ISB Management ensures that deliverables are more clearly described in a contract's Statement of Work in order to facilitate effective contract administration. (Note - Recommendation three above also relates to non-competitive contracts).

### **4.0 STAGE 3 - CONTRACT DELIVERY**

This stage focuses on the extent to which contract administration practices ensure that the supplier delivers what was agreed, when it was agreed and for the price agreed.

#### **4.1 Finding: A contract administration framework (CAF) was in place for all six sample contracts reviewed. Its degree of formality varied. A formal CAF was, however, not documented for the largest contract subject to examination.**

A CAF identifies planned activities to be performed to promote achieving best value during the delivery stage of the contracting life-cycle. It was evident through discussion with ISB staff that a CAF had been defined for all sample contracts reviewed. There was some thought given to how best to manage the contract to achieve its objectives. The degree of formality in documenting the CAF varied. This is to be expected since a CAF should be defined at the outset for all contracts to promote best value. The approach, structure and documentation are key components which should be tailored to the size and complexity of the contract. This ensures that both objectives of effective contract administration and efficiency in operations are given due consideration. In general, the degree of formality and documentation produced is considerably less for lower dollar value contracts.

Two contracts in the audit sample involved significant amounts of monies. The "Gamet ISB Consulting" and the "ISM Facility Management (FM)" contracts had award values of \$1 and \$18.4 million respectively.

A "Gamet Contract Administration" committee was formed comprising of ISB and contractor representatives. Its mandate focused on defining the procedures to apply to effectively administer the contract. The committee met on several occasions over the course of the contract with the majority of the meetings taking place at its inception. Minutes of the meetings were kept. The committee established standard forms [i.e. task authorization forms (TAFs)] and defined processes for the preparation and approval of the TAFs, time sheets and invoices. Concise flowcharts of the processes were prepared. ISB staff also defined a process for tracking the financial status of the contract. This was necessary as the TAFs were in effect "call-ups" against the contract value. It was



important to know at any one point in time the TAFs that had been, and were forecasted to be, committed against the contract's value. The above suggests that careful consideration was given to establishing a CAF at the outset of the contract. To the credit of ISB staff, the contract file contained adequate documentation of the efforts in this regard.

The ISM FM contract was the most financially material of those reviewed. It involved monthly expenditures approximating \$225K. As previously mentioned, the SOW was very well defined with quantified and targeted performance levels and dozens of specified deliverables. Given the significant sums of monies involved, it is reasonable to expect a more formal approach to defining and documenting a CAF. This would promote achieving best value for the monies expended.

ISB performs a number of activities designed to effectively administer the contract. Formal and informal meetings take place to review contractor performance. The most significant of these is the "monthly operations review (MOR)" attended by ISB and ISM representatives. The meeting focuses on reviewing and discussing the comprehensive MOR report prepared by the contractor. The Techsource Operations Committee and the Techsource Support Group also meet on a monthly basis to review development and technical issues respectively. ISB, product sector and contractor representatives attend these meetings. Weekly meetings also take place between ISB Computer Network Services' staff and the contractor to review task status and progress. A daily meeting also occurs "first thing every morning" to review operational issues. Product line, ISB and contractor representatives are in attendance. ISB staff report that ad hoc meetings of the above committees/groups also take place as required.

While it is clear that ISB staff is expending considerable effort in administering the ISM FM contract, it is equally clear that a documented CAF was not prepared at the inception of the contract. This was confirmed by ISB staff. This is not to say that ISB officials are not effectively administering the contract. Rather, it is simply difficult to conclude on the appropriateness of the CAF given that it is not evident which specific activities were planned, at the inception of the contract, to be undertaken to assess the quality of each specific area of contractor performance. Moreover, the absence of a documented CAF is important from another perspective. ISB Management report that, since approximately August 1998, a decision was made to reduce resources dedicated to the administration of the ISM FM contract from approximately 4.1 to 2.6 FTEs. This decision by ISB Management was in response to budget pressures existing at the corporate level. Without a documented CAF as a starting point, it is difficult to assess the appropriateness of the changes made to the contract administration practices used by ISB from both a risk management and best value perspective.

### **Recommendations #6**

We recommend that the COO:

- ensures that a CAF is formally documented by the ISB for all current and future significant contracts based on appropriate stakeholder consultations. The CAF should highlight whether there is a risk that particular aspects of performance, as defined in the contract, will not be subject to adequate quality control given current resources levels;

- ensures that the CAF is reviewed by the Information Technology (IT) Committee; and
- approves the CAF, based on the recommendation of the IT Committee, and receives periodic status reports as to its effectiveness.

**4.2 Finding: The CAF associated with contracts let for the maintenance /enhancement of the Techsource and Intrepid systems vary considerably thereby suggesting the existence of efficiency opportunities.**

Two of the sample contracts (i.e. Certus & Neodyne/Compaq) dealt with the maintenance and enhancement of the Intrepid system. The Manager responsible for administering these contracts implemented a very detailed CAF. A “Problem Report (PR)” data base is maintained. Each “problem/enhancement” is assigned a number in the PR data base. A separate PR file is opened for each problem/enhancement. The tasks required to respond/address the problem/enhancement are individually identified and tracked in the PR data base. An estimate of their associated level of effort and a target completion date are also defined and captured in the PR data base. Once the task is completed, the actual level of effort and completion date are entered into the PR system. A cover sheet is attached to each PR file where by ISB and product sector representatives sign-off thereby accepting the product/output produced. This is part of the formal quality assurance and control practices used by the ISB Manager. Informal discussions and staff meetings are also used as means to gauge a contractor’s performance.

In contrast, a less detailed approach was used while applying the CAF associated with the sample contract (i.e. ISB Consulting) whereby some of the work performed related to the maintenance and enhancement of the Techsource system. A Task Authorization Form (TAF) is prepared. A “claim number” and a “maximum claim amount” are specified for tracking purposes. A SOW is attached to the TAF. Whereas a data base was used to describe, cost and track the progress of individual tasks associated with contracts dealing with the maintenance and enhancement of the Intrepid System, such a data base is not used with respect to the Techsource System. The ISB Manager assessed the contractor’s performance primarily through bi-weekly status meetings, established release management practices and daily interactions/discussions.

ISB Management report that the above differences in the CAF are, in part, a reflection of the different business practices that existed in the respective units responsible for the maintenance/enhancement of the Intrepid and Techsource systems prior to centralizing information technology in 1997. It further reports that harmonizing business practices has been a challenge.

In conclusion, although there is no one way to administer a contract, the audit team did not expect to see such a wide variation in the respective CAFs given the similarity in the nature of the services provided. There is, therefore, likely some efficiency issues that deserve ISB Management’s attention.

## **Recommendation #7**

We recommend that the COO ensures that the CAFs associated with contract(s) for the maintenance and enhancements services related to the Techsource and Intrepid systems are reviewed for purposes of identifying best practices and potential efficiency improvements.

### **4.3 Finding: The approach used to communicate decisions needs to be refined in order to improve the transparency of the decision making process.**

ISB Management has endeavored to develop a solid arm's length professional relationship with contracted resources. This is an appropriate approach as it maximizes the return on the resources invested into the contract. It assists in achieving best value. ISB staff, however, have commented that decisions made by ISB Management, based on close consultation and input from the contracted resources, were not always transparent in their mind. They report feeling inadequately consulted at times and not always fully understanding the rationale of some of the decisions made. This is not to say that the relationship established between ISB Management and its contracted resources is inappropriate. It has, however, adversely impacted the morale of a small number of ISB staff that the audit team interviewed.

Relationship building, both with staff and contracted resources, is a "soft", sensitive and difficult area to manage. This is particularly relevant to ISB as it frequently calls upon the services of contracted resources. It is also an area that can quickly impact staff morale. There is some indication that some improvement could be made to the manner the ISB manages its relationship with its staff and contracted resources. Although the audit team cannot conclude on the extent the comments expressed by some of the ISB staff interviewed are representative of views held at the Branch level, they do touch upon morale issues which is an area that always deserves Management's close attention.

## **Recommendation #8**

We recommend that ISB Management become increasingly aware of the staff sensitivities surrounding relationships it fosters with contracted resources. Decisions should, to the maximum extent possible, be made and communicated in an open and transparent manner as a means of better managing staff sensitivities.

### **4.4 Finding: Contract amendments were in, general, properly justified and exercised within delegated authority levels. The quality of the documentation with respect to price support and the negotiations undertaken could be improved. Although certification of services rendered in accordance with Section 34 of the Financial Administration Act (FAA) was exercised by an individual with appropriate authority, the supporting detailed account verification was not consistently evident.**

Amendments were made to four (i.e. Certus, Neodyne/Compaq, Gamet ISB Consulting and ISM FM) of the six sample contracts examined. Overall, an adequate justification for the amendments reviewed was contained in the contract files. The justifications focused, in general, on describing the potential

for improving the efficiency and effectiveness of programs. Delegated contract amendment authorities were also consistently respected. The above are positive aspects of ISB's change management practices. There are areas, however, that could be improved. These opportunities are discussed below.

The value or "price" of an amendment should be adequately supported in the contract files. Documentation should exist clearly describing the basis of the price thereby providing assurance that it is commensurate with the amendment's scope of work. This type of documentation was not consistently found in the contract files examined with the exception of the ISM FM contract. For example:

- ❑ an amendment of \$46.1K was made to the Certus contract on November 6, 1998 bringing its revised value to \$169.1K. This reflected an increase of 75 days in the number of contracted days with an associated per diem of \$575. There was, however, no documentation on file indicating the basis of the 75 day increase;
- ❑ the Neodyne contract was amended by \$60.9K on November 10, 1998 reflecting an increase of 99 days in the number of contracted days at a \$575 per diem. Once again, the basis of the 99 day increase was not evident in the contract file; and
- ❑ an amendment of \$78K to claim number C0007 under the Gamet ISB Consulting contract was made on February 28, 1999. It represented an increase of 120 days at a \$650 per diem and an extension in the completion date to February 28, 1999. The basis for the 120 day increase was not described in the contract files. Moreover, it appears that the amendment was made retroactively given that the amendment was authorized by the ISB Manager on the day that coincided with the revised completion date (i.e. February 28, 1999).

Price negotiation is also an integral part of a change management process. The contract files should contain not only a description of the basis of an amendment's value but also evidence of a negotiation process or rationale of why it was set aside. Such documentation, for the sample amendments examined, could not consistently be located on the contract files. However, the second amendment to the ISM FM contract represents an exception. In a Contract Amendment Request dated December 9, 1997 prepared by PWGSC, who was acting as the contracting authority, it is stated that "extensive negotiations with ISM has also resulted in reducing the unit purchase price, which represents a considerable savings of \$281,424.00." This demonstrates that negotiating an amendment's value can result in significant savings to the Crown. For this reason, it is important to document the rationale in those situations where a decision is made not to negotiate an amendment's value.

The audit team noted that a separate contract, for similar if not identical services, was used when it was determined that insufficient funds existed under the Gamet Strategic Planning and Research contract. Invoice number 2476C dated December 31, 1998 in the amount of \$4,221.50 was received by the ISB on January 5, 1999. CIPO Finance advised the ISB that insufficient funds existed under the contract (i.e. #8-4394) to cover the invoiced amount. The invoice was subsequently charged to contract # 4715A on January 20, 1999. This indicates that a separate contract (i.e. #4715A) was

used to cover the expenditure instead of amending the original contract # 8-4394. This creates the perception of contract splitting.

Adequate account verification procedures are necessary in order to support the certification of supplier invoices under Section 34 of the Financial Administration Act (FAA). These procedures include, for example, verifying the arithmetical accuracy of an invoice and whether its consistent with the financial terms and conditions of the contract.

The invoices associated with the six sample contracts reviewed consistently contained a Section 34 certification. Moreover, the certification was given by an individual who had been delegated the appropriate authority. Although evidence of the Section 34 certification was consistently found in the contract files, the same cannot be said of the requisite account verification procedures. There were several instances noted where an invoice bore no visible signs of verification other than the Section 34 signature. Table I provides examples where this observation was noted during the review of the sample contracts.

Evidence of having performed a detailed account verification could include, for example, some form of a tick mark/symbol or stamp. Applying this type of a procedure would serve to indicate that specific information contained in the invoice had been verified with the terms and conditions of the contract. The audit team is not suggesting that the invoices referred to in Table I had not been subject to a detailed account verification. ISB officials report that the Section 34 certification signifies that the detailed verification took place. The audit team believes, however, that this assertion could be better demonstrated and supported by supplementing the Section 34 certification with evidence of having performed other procedures (i.e. verified extensions and additions, agreed per diem rate to contract, traced total hours to approved time sheets, etc.)

### **Recommendation #9**

We recommend that the COO coordinates the development of:

- a concise user friendly contract administration guide, educate stakeholders and monitor closely its application. The focus of the guide should be similar to the one described under Recommendation 3 above; and
- a procedure to show that there is adequate evidence of the detailed account verification performed in support of the certification under S34 of the FAA.

**Table I**

<b>Canadian Intellectual Property Office Audit of the ISB Contracting Function Sample Invoices - No Evidence of Detailed Account Verification Procedures</b>	
<b>Sample Contract</b>	<b>Sample Invoice</b>
Gamet ISB Consulting (competitive - PWGSC)	March 31, 1998 - \$74,750.19 April 30, 1998 - \$63,995.63 July 31, 1998 - \$55,878.97
Gamet Strategic Planning & Research (non-competitive)	November 30, 1998 - \$4,708.00 December 31, 1998 - \$4,221.50
Gamet Performance Indicators (non-competitive)	February 26, 1999 - \$8,025.00
ISM FM (competitive - PWGSC)	March 31, 1998 - \$86,798.40 March 31, 1998 - \$248,848.98 May 31, 1998 - \$658,050.00
Certus (competitive - CIPO)	February 28, 1998 - \$3,411.65 May 29, 1998 - \$10,695.00
Neodyne/Compaq (competitive - CIPO)	June 30, 1998 - \$10,593.00 September 30, 1998 - \$10,516.50

**CANADIAN INTELLECTUAL PROPERTY OFFICE**

**ISB - CONTRACTING AUDIT**

**LISTING OF SAMPLE CONTRACTS**

Supplier	Description	Mode	RC	Authorized By	Original Contract Value + Amendments
Gamet Consultants Inc.	Strategic Plan & Research	NC	K4200	H. Denolf	\$21,186.00
Gamet Consultants Inc.	ISB Consulting	C - PWGSC	Variou us	N. Kraya	\$2,000,000.00
Gamet Consultants Inc.	Performance indicators	NC	K4100	D. Major	\$8,025.00
Certus Concept Online	Intrepid Cobol	C - CIPO	K2340	M. Chrétien	\$169,193.75
IBM Canada Ltd.	FM	C - PWGSC	K3300	N. Kraya	\$22,228,428.41
Neodyne (Compaq)	Intrepid II	C- CIPO	K2350	M. Chrétien	\$134,739.75

**Notes**

NC = Non-competitive, C = Competitive

RC= Responsibility Centre Number

## ***APPENDIX II - LISTING OF INTERVIEWEES***

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- ! Mr. Nabil Kraya - ISB
- ! Mr. David Major - ISB
- ! Mr. Richard Perron - ISB
- ! Mr. Henri Denolf - ISB
- ! Mr. Richard Toutloff - ISB
- ! Mr. Michel Chrétien - ISB
- ! Mr. Graham Frost - PFA
- ! Mr. André Rousseau - CIPO Finance
- ! Ms. Ginette Maisonneuve - CIPO Finance
- ! Mr. Pierre Trépannier - Patents Product Line
- ! Mr. Doug Kuentze - Trademarks Product Line
- ! Mr. John Rombouts - Trademarks Product Line



## ***APPENDIX III - AUDIT CRITERIA***

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### **Stage 1 - Need definition and Screening**

This stage focuses on defining the program need and screening out requests for goods and services that are unacceptable, unduly expensive, or unnecessary, so that the ISB buys, with integrity, only what it needs. The relevant audit criteria are:

- The need for the contract should be clearly established and linked to program requirements..
- A “make or buy” analysis should be prepared in support of a decision to source a requirement by means of external contract resources.
- A clear statement of work (SOW) should be prepared detailing performance, time, service and cost expectations.
- The SOW should be approved by an appropriate authority.

### **Stage 2 - Tendering**

This stage focuses on the extent tendering practices are open, fair and promote the achievement of best value. The relevant audit criteria are

- Tendering practices should be open and fair to the supplier community.
- Sole source contracting decisions should be justified in accordance with the exceptions contained in the Government Contract Regulations.

### **Stage 3 - Contract Delivery**

This stages focuses on the contract administration practices ensures that the supplier delivers what was agreed, when it was agreed, and for the price agreed. The relevant audit criteria are:

- Invoices should be certified under section 34 of the Financial Administration Act by an individual with the appropriate delegated signing authority.
- There should be evidence on file that deliverables are provided in accordance with the time, cost, performance and quality expectations specified in the contract.
- Contract amendments should be properly justified and approved.

## **Management Response**

### **Background**

The Audit and Evaluation Branch (AEB) was asked by the Canadian Intellectual Property Office (CIPO), through the Assistant Deputy Minister, Operations Sector, to include an audit of the contracting function of the Informatics Services Branch (ISB) as part of the 1999-2000 AEB Plan. The objectives of the audit were to determine whether the :

- ! tendering process used in the award of ISB contracts was in compliance with the contracting policy and regulations of the Treasury Board Secretariat; and
- ! ISB contracting function is being managed economically, efficiently and effectively in a manner that promotes the achievement of best value and the attainment of ISB's strategic management objectives.

The scope of the audit included a sample of six contracts covering the 1997/98 and 1998/99 fiscal years. The sample mix included the following types of contracts: two non-competitive, two competitive through CIPO, and two competitive through PWGSC. The audit focused on the following three stages of the contracting life-cycle; needs definition and screening, tendering and contract delivery. Audit findings relating to each of the stages are described below.

### **Risk Management Workshop**

Overall, the findings leading to the recommendations of this audit confirm the risks and controls identified in the action plan that was produced during the Risk Management Workshop - May, 1999, relating to the two information technology (IT) management objectives developed at the workshop. These objectives are as follows:

- ! management of IT will be based upon and aligned to CIPO's business and financial objectives; and
- ! maintenance of existing and investment in new IT will support the attainment of CIPO's strategic objectives and delivery of world class intellectual property (IP) services.

### **Overall Assessment**

The tendering processes associated with the six sample ISB contracts examined were, in general, in compliance with the contracting policy and regulations of the Treasury Board Secretariat. ISB Management strives towards awarding and managing its contracts in a cost-effective manner in the pursuit of achieving best value. The quality of the contract file documentation does not, however, consistently demonstrate achievement of these objective.

### **Response:**

*Generally speaking , it is felt the audit report was fair, and in many instances quite complimentary to ISB's practices. In its overall assessment it confirms that ISB is in compliance with regulations, and that ISB management strives to award and manage contracts in a cost-effective manner. Most of the recommendations that pertain to ISB practices focus on the comprehensiveness of*

*documentation in contract files and are considered reasonable. The report also contains recommendations of broader nature that need to be addressed by CIPO as a whole. We are in general agreement with the report. An action plan to address the issues raised in the audit will be prepared and implemented in fiscal 2000/2001.*

### **Stage 1 - Need definition and screening**

This stage focuses on defining the program need and screening out requests for goods and services that are unacceptable, unduly expensive, or unnecessary, so that ISB buys, with integrity, only what it needs.

### **Finding (refer to section 2.1)**

- ! The need associated with the six sample contracts examined was appropriately vetted by ISB Management while establishing its priorities for the 1997-98 and 1998-99 fiscal-years. The preparation of the 1997-98 and 1998-99 Long-Term Capital Plans also enabled the CIPO Executive Committee to exercise a review and challenge function.
- ! A vision of information technology (IT) management was documented by ISB in a Long-Range Strategic Informatics Plan (LRSIP) in May 1998. The LRSIP has not been formally approved by the CIPO Executive Committee nor has it been revised to reflect the organization's forecasted financial situation. Decisions were, therefore, made during the 1999-2000 Business Planning exercise to reduce operational, maintenance and capital budgets without the benefit of an approved and up-to-date long-term vision of IT management. This did not provide the best forum for screening IT project proposals.

### **Recommendation #1**

We recommend that the Chief, Operating Officer (COO) ensures that the:

- ! LRSIP is updated to reflect the corporate strategic vision, its current fiscal realities and stakeholders' interests;
- ! existing LRSIP resourcing strategy, consisting of a mix of full-time equivalents and contracted resources, is updated;
- ! CIPO Executive Committee approves the revised LRSIP and its associated resourcing strategy; and,
- ! approved LRSIP is used as a basis for screening and approving IT project proposals as part of the business planning process and used throughout the fiscal year, along with the long-term capital plan, for screening and approving IT projects.

### **Response # 1**

*Agreed.*

*The recommendation to update the LRSIP to reflect the corporate strategic vision and its current fiscal realities is valid. The IT Committee should undertake this initiative on a priority basis.*

*Much of the problems ISB has been experiencing over the past 2 years is a result of changing CIPO directions. As a result of having to address a major budgetary and financial crisis, CIPO*

*management has had to rethink and re-establish its priorities including those priorities that would drive IT directions. With its resulting focus on sound fiscal responsibility, confirmation of business objectives and implementation of a governance process to align IT investments with business objectives, CIPO (through its newly established IT Committee) is now well positioned to update and approve its LRSIP.*

**Finding (refer to section 2.2)**

While some progress has been made during the past six months, a documented framework to effectively integrate CIPO's financial, business and IT planning efforts remains absent. Senior management's expectations should be clearly articulated as to the: activities to complete, key milestones to achieve, outputs to produce, description of roles and responsibilities of participants, composition and mandate of committee(s) structures for stakeholder representation and criteria for evaluating, prioritizing and approving IT project proposals.

**Recommendation #2**

We recommend that the COO ensures that the planning efforts of ISB, product line managers and the Planning, Finance and Administration (PFA) Branch are better integrated by documenting a financial, business and IT planning process, educating stakeholders, and monitoring closely its application. The defined process should be based on the input from all stakeholders to promote its "buy-in".

**Response #2:**

*Agreed.*

*The merger of CIPO's strategic and corporate planning functions with finance and administrative functions was completed in September, 1999 with the creation of the new Planning, Finance and Administration (PFA) branch. In addition, CIPO's committee structure has been re-designed in order to improve/facilitate decision-making in all areas including information technology. In this regard, an IT Sub-Committee (reporting to the Executive Committee) has been created to establish an IT vision for CIPO; to act as a focal point for all corporate-wide IT governance; to advise on IT reengineering; to review, prioritize and approve IT initiatives including electronic commerce; and to approve CIPO's Long-Term Capital Plan and provide the corporate endorsement of IT investments. To assist in its activities, the IT Sub-Committee has established two ongoing working groups: the Business Case and Project Review Working Group and the Standards and Infrastructure Working Group.*

*The roles and responsibilities of the new committee structure will be documented through committee Terms of References, which will include the deliverables from each committee. For example, the business case review committee will review the business cases to determine whether they are aligned with business objectives, and that they meet specific priorities set out annually in the CIPO Business Plan.*

*Furthermore, CIPO will document its business, financial and IT planning processes. Education of key staff and stakeholders will continue. The effectiveness of the planning processes and governance structures will be closely monitored and adjusted, as required.*

## **Stage 2 - Tendering**

This stage focuses on the extent tendering practices are open, fair and promote the achievement of best value.

### **Findings (refer to sections 3.1 & 3.2) - Competitive contracts through CIPO and PWGSC**

- ! Overall the request for proposals (RFPs) issued for competitively tendered requirements were of high quality. The mandatory and rated criteria were well described as was the basis of their evaluation. Evaluation ?guides? were prepared with discipline to encourage a consistent assessment of the proposals by the individual members of the evaluation team.
- ! The quality of the contract files could be improved. The evaluation of proposals by individual members could not always be located. When on file, the basis of the points assigned to the rated criteria was not always evident. Negotiations in situations when only one valid bid was received was short on documentation. The outcome of the review of both the RFP and the draft contract conducted by the Finance Procurement Officer and the ISB Chief, Budget and Financial Management generally did not make its way to the contract file.
- ! There is some confusion as to the respective role, responsibilities and authorities of CIPO Finance and ISB personnel vis-à-vis the contracting process. In addition, ISB Responsibility Centre (RC) Managers have been delegated full contracting authority since there is no progressive dollar threshold of authorities. As a result, this limits the number of projects where the ISB Director and Deputy Directors formally review and challenge contracting decisions made by staff. However, in an attempt to strengthen this process during nine of the past twenty-four months, the ISB Director highlighted that he was to approve all Branch expenditures.

### **Recommendation #3**

We recommend that the COO, in consultation with all stakeholders, ensures that CIPO adopts a concise user friendly contracting guide, educate users and monitor closely its application. The guide should focus on defining the role, responsibilities and authorities of stakeholders, the minimum activities to perform, the outputs to produce and the documentation to retain. The Contracting for Services Bulletin (POL 005), issued by the Comptrollers Branch on December 8, 1999, should be consulted and tailored, as necessary, to meet CIPO?s needs.

### **Response #3:**

*We fully agree with the recommendation that CIPO, in consultation with the controller branch of Industry Canada, establishes a concise user-friendly contracting guide*

*This guide will define the role, responsibilities and authorities of stakeholders. Particular attention will be placed on establishing a contract file with a complete audit trail regarding the contract, including all contractual documents (request for proposal, suppliers' bids received, contract, correspondence, etc.), options considered, consultations with IC experts, decisions and written justification for choosing the selected contractor, approvals, and amendments and authorities involved.*

*Once the guide has been developed, all stakeholders, particularly ISB staff, will be trained on its use. A training plan will be developed, stakeholders identified, and training implemented. The*

*training package will be updated as required, and training will be given on an as required basis once the initial training has been completed.*

#### **Recommendation #4**

We recommend that the COO re-examines, in consultation with ISB Management and PFA representatives, the authority levels delegated to Branch personnel and assess the extent they result in sufficient review, challenge and approval of contracting decisions at the ISB Director and Deputy Director levels while, at the same time, promoting efficiency in operations.

#### **Response # 4:**

*We agree with this recommendation. This should be part of the user-friendly contracting guide which will be reviewed by the PFA Sub-Committee. Managers with delegated authority to contract for services have to be well informed on their responsibilities related to contract planning, contracting methodology and contract administration.*

#### **Finding (refer to section 3.3) - Non-competitive contracts**

The non-competitive contracts examined were properly justified in accordance with the conditions specified in the Government Contract Regulations. Generally, their associated statement of work (SOW) was well described. However, deliverables could benefit from a more detailed description. Contract files were not always complete. Evidence of the request for proposal (RFP), the company's response, the RC Manager's review of the proposal and of the negotiations undertaken was not consistently found on file.

#### **Recommendations #5**

We recommend that:

- ! ISB Management ensures that deliverables are more clearly described in a contract's Statement of Work in order to facilitate effective contract administration; and
- ! recommendation three above also applies to non-competitive contracts.

#### **Response # 5:**

*Agreed. This should be part of the contracting guide.*

#### **Stage 3 - Contract Delivery**

This stage focuses on the extent to which contract administration practices ensure that the supplier delivers what was agreed, when it was agreed, and for the price agreed.

#### **Finding (refer to section 4.1)**

A contract administration framework (CAF) identifies planned activities to be performed to promote achieving best value during the delivery stage of the contract life-cycle. A CAF was in place for all sample contracts reviewed. Its degree of formality varied amongst the sample contracts reviewed. In one particular case, the CAF was documented and subject to review by ISB Management. This was a positive practice. The audit team noted that such a formal approach was not adopted on the largest contract subject to review (i.e. approximately \$225,000 in monthly expenditures). This is not to say that ISB officials are not effectively administering the contract. Rather, it is simply difficult

to conclude on the appropriateness of the CAF given that it is not evident which specific activities were planned, at the inception of the contract, to be undertaken to assess the quality of each specific area of contractor performance.

### **Recommendations #6**

We recommend that the COO:

- ! ensures that a CAF is formally documented by the ISB for all current and future significant contracts based on appropriate stakeholder consultations. The CAF should highlight whether there is a risk that particular aspects of performance, as defined in the contract, will not be subject to adequate quality control given current resources levels;
- ! ensures that the CAF is reviewed by the Information Technology (IT) Committee; and
- ! approves the CAF, based on the recommendation of the IT Committee, and receives periodic status reports as to its effectiveness.

### **Response # 6 :**

*Agreed.*

*It is proposed that the general guidelines for preparing CAF be included in CIPO's contracting guideline document.*

*ISB will put in place a process to approve the CAF for all significant contracts in accordance with CIPO's contracting guidelines. The CAF will identify the resource level required for the effective administration of the contract. ISB will also put in place a process to ensure consistency in the application of due diligence in reviewing and approving various deliverables under the contract.*

*Findings were that, while it is evident that ISB staff is expending considerable effort in administering the TechSource FM contract, there was no documented formal process for evaluating that appropriate service levels were achieved under the contract. It is important to emphasize here that the management processes in place to provide the necessary operational support to Techsource are mature and proven within the private as well as the public sector (best of breed). The evaluation of the services provided under the FM contract is monitored via:*

- 1) reports that are standard in the industry*
- 2) daily meetings between the contractor, ISB representatives and CIPO users.*
- 3) monthly meetings at which the previous month's performance, as well as upcoming commitments, are reviewed between the contracting staff and ISB. Performance requirements specified as part of the service level agreement are reviewed.*
- 4) The Techsource Operations Committee and the Techsource support group also meet monthly to review issues.*
- 5) Meetings are minuted detailing actions to be taken if the requirements/service levels are unsatisfactory.*

*While the above process has been followed diligently since the deployment of Techsource in June 1997, it was not documented.*

**Finding (refer to section 4.2)**

Three contracts reviewed dealt with the maintenance and enhancements to the Techsource and Intrepid systems. The associated CAFs varied greatly. The CAF applied to contracts related to the Intrepid system was much more detailed. Although there is no one way to administer a contract, the audit team did not expect to see such a wide variation in the respective CAFs given the similarity in the nature of the services provided. There is, therefore, likely some efficiency issues that deserve ISB Management's attention.

**Recommendation #7**

We recommend that the COO ensures that the CAFs associated with contract(s) for the maintenance and enhancements services related to the Techsource and Intrepid systems are reviewed for purposes of identifying best practices and potential efficiency improvements.

**Response # 7:**

*Agreed.*

*It is proposed that ISB Development Services undertake an analysis of the practices employed in the administration of service contracts for Intrepid and Techsource in order to assess their respective efficiency and effectiveness and make recommendations for improvement if necessary.*

**Finding (refer to section 4.3)**

ISB Management has endeavored to develop a solid professional relationship with contracted resources to assist in achieving best value. ISB staff, however, have commented that decisions made by ISB Management, based on close consultation and input from the contracted resources, were not always transparent in their mind. This is not to say that the relationship established between ISB Management and its contracted resources is inappropriate. It has, however, adversely impacted the morale of a small number of ISB staff that the audit team interviewed.

**Recommendation #8**

We recommend that ISB Management become increasingly aware of the staff sensitivities surrounding relationships it fosters with contracted resources. Decisions should, to the maximum extent possible, be made and communicated in an open and transparent manner as a means of better managing staff sensitivities.

**Response # 8:**

*It is very valid that staff sensitivities should be addressed, particularly in an environment where there is heavy reliance on outsourcing. Every effort will be made to maximize staff participation in relevant meetings with contractors, to give staff opportunities to raise their views and to maximize their input into the decision making process that affect the organization.*

**Finding (refer to section 4.4)**

Contract amendments were in, general, properly justified and exercised within delegated authority levels. The quality of the documentation with respect to price support and the negotiations undertaken could be improved. Although certification of services rendered in accordance with



Section 34 of the Financial Administration Act (FAA) was exercised by an individual with appropriate authority, the supporting detailed account verification was not consistently evident.

**Recommendation #9**

We recommend that the COO coordinates the development of:

- ! a concise user friendly contract administration guide, educate stakeholders and monitor closely its application. The focus of the guide should be similar to the one described under Recommendation 3 above; and
- ! a procedure to show that there is adequate evidence of the detailed account verification performed in support of the certification under Section 34 of the FAA.

**Response # 9:**

*Agreed. It is proposed that PFA plays a quality assurance role to ensure that contracting guidelines are being applied to all CIPO contracts. As stated in the response to recommendation #3, a training plan will be developed and implemented. The contracting guide will identify the roles and responsibilities of each organization, and the quality assurance and monitoring role will be clearly identified as part of the contracting guide.*

## Appendix V

### Action Plan Checklist - Management Response

Further to the audit report, ISB and PFA reviewed the recommendations put forward and then developed an action plan checklist for the nine recommendations presented. In particular, the roles and responsibilities of PFA, ISB, the Comptroller, the PFA Committee, the IT Committee and CIPO Exec were noted. The action plan checklist also noted target completion dates for each of the action plan deliverables.

The audit report commented on three main elements:

1. A vision
2. A governance
3. A contracting guide which would include the Contracting Administration Framework

The recommendations made and the actions to be taken are summarized in the table following:

(P)rime, (S)secondary, (A)pproval, (R)ecommend

Recommendation	PFA	ISB	Comptroller	PFA Committee	IT Committee	CIPO Exec.	Target Completion Date
1- LRSIP The LRSIP needs to be updated to reflect the corporate strategic vision and its current fiscal realities.	S	P			R	A	2 <sup>nd</sup> Q 2000-2001
2- Planning Establishment of IT governance structure and delivery of LTCP aligned with CIPO priorities. Documentation of and education relating to committees, mandates, process and deliverables.	P	S			R	A	2 <sup>nd</sup> Q 2000/2001
3- Contracting Guide User-friendly contracting guide to be delivered and training provided.	P	S	S	R		A	2 <sup>nd</sup> Q 2000/2001
4- Delegation/Review ISB director to review delegated authorities	S	P	S				1 <sup>st</sup> Q 2000-2001
5- SOW Clearly defined deliverables in contracts	P	S	S		See #3		2 <sup>nd</sup> Q 2000/2001
6- Contracting Administration Framework CAF established, approved by IT Committee	P	S	S		See #3		2 <sup>nd</sup> Q 2000/2001
7- Harmonization of practices (CAF)	S	P	S		See #3		2 <sup>nd</sup> Q 2000-2001

8- Communications Regular meetings, focus days, opportunities for staff input into decision making		P					ongoing
9 Educate (CAF), S34 Training plan developed and implemented	P	S	S		See #3		3 <sup>rd</sup> Q 2000/2001

Notes

- (1): In the above chart we address the second element (Governance) by identifying that the IT Committee and CIPO Exec. are part of the governance
- (2) The Contracting Administration Framework will be part of the Contracting Guide
- (3) ISB and PFA will jointly discuss any material between requesting approval.

Responses

Prime will prepare these in consultation with secondary.