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Final Report

Audit of the Management of the Government of Canada

Pension Modernization Project

2005-10-27

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Executive Summary

Objectives and Scope

The objectives of the audit were:

- To assess the adequacy of the management framework of the Government of Canada Pension Modernization Project (GoCPMP) intended to satisfy stated requirements as well as to produce planned deliverables on time and within budget; and,
- To assess the requirement for and the timing of future assessments of the management framework of the GoCPMP.

The audit examined the management framework of the GoCPMP that was in place during the period of the Project Definition Phase from February to May 2005. The audit also examined the management mechanisms, in place, to support the timely delivery of related concurrent initiatives, such as, the Data Correction Project, the Pension Services Delivery Project, and the development of pension web based applications needed in support of the GoCPMP.

The audit included interviews of key personnel and examination of relevant documents in the Accounting, Banking and Compensation Branch (ABCB) as well as within interfacing Public Works and Government Services Canada (PWGSC) and Treasury Board Secretariat (TBS) organizations. The audit findings were validated during the first quarter of 2005-2006.

Audit Conclusion

The GoCPMP has an adequate management framework aimed at meeting stated requirements as well as producing planned deliverables on time and within budget. Management mechanisms are in place to effectively monitor progress and to manage the related concurrent pension initiatives.

The Project is in transition moving from the evaluation of bids to the management of the “Commercial off the shelf” (COTS) solution contract for the Project Definition Phase. The GoCPMP management processes and resources although proven to be adequate to date have yet to be tested in response to interaction with the COTS solution contractor’s team.

The Internal Audit Services Business Plan (2005-2006 to 2007-2008) approved by the Audit Assurance and Ethics Committee (2005-04-07) includes a second audit of the design and application of the management framework to be commenced in the fourth quarter 2005-2006 prior to the development of the submission for Effective Project Approval. This audit will focus on contract management, risk management, planning, project financial and performance monitoring/reporting as well as intervening changes to the management framework.

1 Introduction

1.1 Authority for the Project

A request for a multi-year audit of the Government of Canada Pension Modernization Project (GoCPMP) was submitted for approval by the Public Works and Government Services Canada (PWGSC) Audit and Ethics Committee (AEC) on September 7, 2004 and was approved as proposed for fiscal year 2004-2005 by the AEC on November 25, 2004.

1.2 Objectives

The objectives of the audit were:

- To assess the adequacy of the management framework of the GoCPMP intended to satisfy stated requirements as well as to produce planned deliverables on time and within budget; and,
- To assess the requirement for and the timing of future assessments of the management framework of the GoCPMP.

1.3 Scope

The audit examined the management framework of the GoCPMP that was in place during the period of the Project Definition Phase from February to May 2005. The audit also examined the management mechanisms, in place, to support the timely delivery of related concurrent initiatives, such as, the Data Correction Project, the Pension Services Delivery Project, and the development of pension web based applications needed in support of the GoCPMP.

The audit included interviews of key personnel and examination of relevant documents in the Accounting, Banking and Compensation Branch (ABCB) as well as within interfacing PWGSC and Treasury Board Secretariat (TBS) organizations. The audit findings were validated during the first quarter of 2005-2006.

1.4 Background

The Compensation Sector, ABCB administers government payroll, pension and insurance processes, including the development and maintenance of computer systems and a national service office infrastructure. This allows departments to administer pay and benefits in accordance with collective agreements and compensation policies established by Treasury Board and certain separate employers, as well as to fulfill the requirements of the *Public Service Superannuation Act (PSSA)*.

To address the challenges of aging technology and increased client expectations the Compensation Sector has initiated a business transformation effort through its Compensation

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Modernization Directorate to renew GoC pension business processes, systems and working tools. As part of this effort, the GoCPMP is aimed at renewing the 30-year-old pension administration systems and providing the infrastructure to ensure that PWGSC can provide federal government employees, pensioners, departments and agencies with modern, timely, cost-effective pension administration services. The GoCPMP is expected to span eight (8) years and to cost \$115.5 million. This expenditure is supported by a formal Business Case.

The GoCPMP has as an overall objective to renew the pension systems and transform pension business processes managed by PWGSC to provide a modern pension administration infrastructure. The GoCPMP intends to:

- develop and implement business transformation and IT solutions for the renewal of PWGSC pension administration systems and services, and
- adopt “commercial off the shelf” (COTS) solutions for core pension administration, Customer Relationship Management (CRM), workflow, Data Warehousing/Reporting and Imaging.

The GoCPMP received Preliminary Project Approval (PPA) in May 2004. As the project includes a large information technology component and has an estimated cost in excess of \$100 million, it has been designated a Major Crown Project. At the time of the audit, the GoCPMP was in its PPA Project Definition Phase which includes the development of project infrastructure and the contracting of commercially available solutions to a defined requirement. The GoCPMP was completing the evaluation of proposals received in response to a publicly advertised Pension Modernization Request for Proposal (RFP) for the COTS solutions. The GoCPMP was also working towards a targeted Treasury Board Effective Project Approval (EPA) in November 2006. With approval, the EPA Phase would then proceed with the implementation and operation of modernized pension systems and services over several years with completion targeted for 2011.

While the Pension Modernization Project proceeds, there are several related concurrent initiatives such as the Data Correction Project, the Pension Services Delivery Project, and the development of pension web based applications. The Data Correction and the Pension Services Delivery Projects are managed jointly by the Pension Services Directorate, Compensation Sector and the Superannuation, Pension Transition and Client Services Sector (Shediac).

The objective of the Data Correction Project is to validate the data that will be converted from the current Superannuation systems to the Pension Modernization system solution. The objective of the Pension Services Delivery Project is to migrate pension advisory services currently conducted in client departments to PWGSC to centralize the pension advisory function within PWGSC. Some of the services will be in place in PWGSC prior to the delivery of the modernized pension system. This centralization is part of the pensions services business transformation which has been identified as a high risk by the GoCPMP risk management process. Timely delivery of the centralization of services is dependent on the delivery of the Pension Modernization solution which will provide modern support tools.

2 Issues Examined

This assurance audit was conducted in accordance with the April 1, 2001 Treasury Board Policy on Internal Audit.

Detailed audit criteria, presented in Appendix A, were developed to meet the objectives of the audit. The criteria were based on selected elements of the TBS policy: Management of Major Crown Projects; and, the TBS: Enhanced Framework for the Management of Information Technology Projects including its Project Management Guide and supporting models such as the Software Engineering Institute Capability Maturity Model. The intent of the Enhanced Framework is to ensure that government information technology projects fully meet the needs of the business functions they are intended to support, deliver all expected benefits and are completed on time to cost and functionality.

Consistent with the TBS Enhanced Framework for the Management of Information Technology Projects, the audit examination included the following subject areas:

- Project alignment with business directions, priorities, and requirements
- Governance, accountabilities and responsibilities
- Project managers are developed and work within corporate discipline
- Risk management based decisions
- Project management processes

The management framework of the GoCPMP was assessed against the audit criteria with evidence collected through interviews with eighteen key individuals from PWGSC and TBS as well as the analysis of relevant documentation.

3 Findings and Conclusions

Section 3 provides the key audit findings and conclusions for each of the five subject areas examined in the audit as well as overall conclusions against the audit objectives.

3.1 Project alignment with business directions, priorities and requirements

The Project's vision, objectives and expected benefits as stated in the Business Case, the PPA Project Summary, the Pension Modernization Request for Proposal (RFP (EN260-020123/B) are consistent with PWGSC's stated compensation mandate and government wide strategies and service delivery priorities.

The GoCPMP Business Case provided an options based support to the submission for the PPA in which a COTS based solution was recommended and approved.

The GoC pension business requirements which were accepted by the pension functional and operational authorities have been documented in the Pension Modernization RFP. The Information Technology Services Branch (ITSB) provided the technical requirements for the RFP. The GoCPMP procurement strategy included a Request for Information to validate the direction of the procurement and to improve the draft Request for Proposal document and evaluation processes. The decision to solicit a COTS solution was based on the analysis of the existing legacy systems, the costs to maintain/upgrade the legacy systems, and the availability of COTS in the marketplace.

The GoCPMP Communications Plan includes the identification of strategic, regulatory management, service delivery, service recipient, technical, periphery, as well as stakeholder groups and describes their roles with respect to change management.

Changes to the requirements that affect scope, schedule and cost must go through the Project Change Management Process which includes appropriate change control approvals. As of the completion of the audit examination there had not been any significant changes.

Based on the foregoing, it is concluded that the GoCPMP has adequate mechanisms in place to enable delivery of pension systems and business processes which meet stated GoC pension requirements while maintaining consistency with Departmental and Government wide strategies and priorities.

3.2 Governance, accountabilities and responsibilities

The Project management and governance structure including the accountabilities and responsibilities of the various stakeholders and oversight committees is clearly articulated. The Policy for Major Crown Projects requirements is recognized in the Project Charter and the Submission for the PPA. Accountabilities at the senior management level within PWGSC have been described for the GoCPMP with appropriate formal delegations of responsibilities and

accountability throughout the Project consistent with the TBS Enhanced Framework. The Project management and governance structure conforms with the Policy for Major Crown Projects including the establishment of a Senior Project Advisory Committee (SPAC) with membership from stakeholder departments.

Key personnel demonstrate an understanding and acceptance of the Project governance structures well as roles and accountabilities. In addition, the RFP for the Pension Modernization Project Definition Phase addresses the role and responsibilities of the Contractor with respect to fulfilling the contracted requirements.

The GoCPMP is proceeding within the context of several related initiatives which will factor in the success of the GoCPMP. These related projects are the Data Correction Project, the Pension Services Delivery Project, the Imaging Project and the development of specific web based pension services. An Integration Committee working within the governance structure of ABCB is equipped to monitor progress and to manage the issues of the related concurrent pension related initiatives. Project Managers from each of the initiatives including the GoCPMP are members of the Integration Committee. The Committee which is co-chaired by Director Pension Services Directorate, Compensation Sector and Director General, Superannuation, Pension Transition and Client Services has established mechanisms including the Pension Projects Master Deliverables and Milestones Plan to monitor the related initiatives at an appropriate level.

Based on the foregoing, it is concluded that ABCB has established effective governance mechanisms which comply with the TBS Enhanced Framework and the Policy for Major Crown Projects. The ABCB has established an Integration Committee which is equipped to effectively monitor progress and to manage the concurrent pension related initiatives.

3.3 Project team training and experience

The GoCPMP management team has experience managing information technology projects within the Federal Government including implementing COTS products. The Project team includes full-time participation from the functional authorities and the ITSB, for technical matters, as well as the Acquisitions Branch for the GoCPMP Project Definition Phase COTS procurement. In addition, the Project used the services of the National Research Council COTS Team to assist in the development of the requirements and bid evaluation criteria used in the RFP.

The GoCPMP has documented a Human Resources Framework which considers government wide disciplines and structures. The Project has identified its human resource requirements and is executing training plans, staffing and re-organization as required to meet its needs for the remainder of the Project Definition Phase.

The Project has implemented reporting mechanisms to provide PWGSC management and TBS with timely information on the Project's progress, risks and problems. The Project's spending and payment processes working within PWGSC financial systems conform with applicable

Financial Administrative Act (FAA) requirements. Expenditures are monitored with a comparison to the expected costs authorized under the PPA.

Based on the foregoing, it is concluded that the GoCPMP team is adequately experienced, trained and is working within PWGSC corporate disciplines and TBS best practices for IT project management.

3.4 Risk management based decision making

The Compensation Sector has developed a Risk Management Framework with a baseline risk assessment for the Compensation Modernization Project including the GoCPMP. The framework is based on PWGSC's Integrated Risk Management framework which is consistent with the Continuous Risk Management (CRM) Framework approach in the Enhanced Management Framework.

The Project Charter identifies major project control gates for the Project Definition Phase: draft RFP; final RFP; and, the upcoming Requirements Mapping and Gap Analysis (Fit Gap) input to a submission for Effective Project Approval (EPA) which will seek authority to proceed with the Implementation Phase.

The GoCPMP has defined and implemented a Risk Management Process which has scheduled risk review and management decision points with participation of key stakeholders. The process facilitates the continuous identification of potential risks with risks assessed and maintained on a Risk Database along with mitigation and action items. The audit examined Monthly Risk Review Sessions records (from July 2004 to March 31, 2005) supporting monthly risk monitoring and reporting to PWGSC senior management and key governance committees. There was evidence that the process is being applied as designed.

The management of the transition from the current pension management environment to the modernized COTS environment has been identified and is being tracked as high risk by the project in recognition that business processes will likely change significantly to adapt to the COTS solution and other related initiatives such as the Centralization Project. The upcoming Fit Gap process is intended to identify the full scope of the transition effort and to identify the steps to address the transition. The Project is preparing for the Fit Gap and will report results to PWGSC senior management. As part of its strategy to manage the business transition risk, the RFP for the COTS implementation requires that the contractor accepts full accountability for the transition management processes.

Based on the foregoing, it is concluded that the Compensation Sector has implemented and is applying a risk management function for the GoCPMP that is consistent with the TBS Enhanced Framework. PWGSC management and key governance committees are provided with risk management information to support decisions taken at key points in the Project's life cycle.

3.5 Project management processes

An overview of the project management framework is documented in the Project Charter, the Submission as well as in Project overview presentation material. Integral to the application of the project management framework is the Project Management Office (PMO) which provides project analysis and reporting, project scheduling/tracking, risk management, configuration management, change management, financial management and quality assurance services. The PMO procedures for the aforementioned functions are documented. The audit examined PMO documentation and found that the aforementioned functions are being conducted as designed, however, specific services such as configuration management, change control and quality assurance had not yet experienced significant volumes as the COTS solution contract had not yet been awarded.

The PMO integrates schedule and cost management for human resources based on the principles of Earned Value Management, a methodology intended to objectively match project management costs against activities and deliverables. The PMO reconciles financial information to performance information. This information forms part of monthly status report to PWGSC management and reporting to governance committees. The audit selected the February 2005 reconciliation for examination and found it to be conducted accurately.

The Project currently uses MS Project as an integrated planning and progress tracking tool. Examination of the application of this tool indicates that it is maintained current at a task level adequate to support current tracking needs. The COTS RFP requires that the vendor project management include a performance measurement tool that with time reporting. Project management has indicated that it will consider changes to its planning and performance measurement tools after contract award for the COTS solution to harmonize with the vendor's mechanism to facilitate integrated reporting. This harmonization, which may involve time reporting for the GoCPMP personnel is being considered by the project management to better meet the principles of Earned Value Management. The RFP identifies key contract interfaces and key contract management processes which the Project will apply with the award for COTS contract. Acquisitions Branch which has supported the GoCPMP throughout the development of the procurement strategy, the development of the RFP, the bid evaluation process will continue with advise and support upon contract award.

Based on the foregoing, it is concluded that the GoCPMP has implemented core management processes consistent with Preliminary Project Approval requirements. The Project is applying appropriate management tools and techniques aimed at producing planned deliverables on time and within budget consistent with the TBS: Enhanced Framework for the Management of Information Technology Projects.

The Project is in transition as it moves from bid evaluation to management of the COTS contract for the Project Definition Phase. PMO processes and resources although adequate to date have yet to be tested with significant volumes in response to interaction with the contractors team.

3.6 Conclusions

The GoCPMP has an adequate management framework aimed at meeting stated requirements as well as producing planned deliverables on time and within budget. Management mechanisms are in place to effectively monitor progress and to manage the related concurrent pension initiatives.

The Project is in transition moving from the evaluation of bids to the management of the COTS solution contract for the Project Definition Phase. The GoCPMP management processes and resources although proven to be adequate to date have yet to be tested in response to interaction with the COTS solution contractor's team.

The foregoing audit conclusion is supported by the following assessments applied against the audit subject areas:

- The GoCPMP has adequate mechanisms in place to enable delivery of pension systems and business processes which meet stated GoC pension requirements while maintaining consistency with Departmental and Government wide strategies and priorities.
- The ABCB has established effective governance mechanisms which comply with the TBS Enhanced Framework and the Policy for MCP. The ABCB has established an Integration Committee which is equipped to effectively monitor progress and to manage the concurrent pension related initiatives.
- The GoCPMP team is adequately experienced, trained and is working within PWGSC corporate disciplines and TBS best practices for IT project management
- The GoCPMP management has implemented and is applying a risk management function that is consistent with the TBS Enhanced Framework. PWGSC management and key governance committees are provided with risk management information to support decisions at key points in the Project's life cycle.
- The GoCPMP has implemented core management processes consistent with Preliminary Project Approval requirements. The Project is applying appropriate management tools and techniques aimed at producing planned deliverables on time and within budget consistent with the TBS: Enhanced Framework for the Management of Information Technology Projects. However, the Project is in transition as it moves from bid evaluation to management of the COTS contract for the Project Definition Phase. PMO processes and resources although adequate to date have yet to be tested with significant volumes in response to interaction with the contractors team.

The Internal Audit Services Business Plan (2005-2006 to 2007-2008) approved by the Audit Assurance and Ethics Committee (AAEC) (2005-04-07) includes a second audit examination of the design and application of the management framework to be commenced in the fourth quarter 2005-2006 prior to the development of the submission for Effective Project Approval (EPA). This audit will focus upon contract management, risk management, planning, financial and performance monitoring/ reporting as well as intervening changes to the framework.

Appendix A

The control criteria, published in the Preliminary Survey Report 2005-03-23, and applied in the conduct of the audit follow:

1.1 Project alignment with business directions, priorities and requirements.

Principal Criterion: The GoCPMP has adequate mechanisms in place to ensure that its delivered pension systems and business processes will meet stated GoC pension requirements as well as will be consistent with Departmental and Government wide strategies and priorities.

- Project goals and expected benefits are identified and have appropriate approvals.
- The Business Case analysis relates the investment directly to the business function.
- The Business Case is revalidated at scheduled gates and whenever there is significant change to project or business function.
- Project goals are compatible with the PWGSC's compensation mandate.
- Project vision is compatible with government-wide strategies and priorities for delivery of services.
- Stakeholders (strategic and regulatory management, service delivery, service recipient, technical, periphery, and project team) are formally involved in project activities such as requirements definition, design and implementation.
- An adequate business requirements management process is in place with the appropriate sign-offs at key milestones.
- The COTS procurement strategy is consistent with and will support business directions, priorities and requirements.

1.2 Governance, accountabilities and responsibilities are clear.

Principal Criterion: Accountabilities are established, clearly defined, and delegated authorities are specified.

- The Project Charter defines overall accountabilities (internal and external to the Department).
- The Charter is formally approved and is updated as the project progresses.
- PWGSC is accountable at a senior management level to TB for the authorities identified in the Preliminary Project Approval (PPA) TB submission.
- The Project Leader is visibly accountable for all aspects of the project.
- Project leader is a senior manager who reports directly to the Deputy Minister (Major Crown Policy (MCP) requirement).
- A Senior Project Advisory Committee (SPAC) is established with membership consisting of key stakeholders including senior representatives of departments participating in the project.
- The role of SPAC is to advise the project leader on all aspects of the project and to carry out the procurement review function. (MCP requirement).

- PWGSC senior management is actively overseeing and monitoring the project.
- The Project Director is accountable for achieving all defined objectives within the time and resources allocated. Is responsible for the overall strategic framework and performs the day to day management of the project. Roles and responsibilities are evident in project documentation.
- The Project Team has clearly defined roles, responsibilities and accountabilities.
- Each Project Team member understands his/her respective role, responsibilities and accountabilities.
- The Project Team has all the necessary competencies required by the project. Team members represent business, information technology, and procurement.
- Core project management responsibilities are performed by Crown management including managing and controlling project plan, scope, time, cost, quality, risk, human resources, procurement, contract and communications.
- Outsourced core project management functions are acquired from a supplier other than that involved in primary development contract.
- Roles and responsibilities of the contractor are clearly specified in contractual documents.

1.3 Project managers are developed and work within corporate discipline.

Principal Criterion: The GoCPMP team is adequately experienced and trained to work within PWGSC corporate disciplines and TBS best practices for IT project management.

- The Project Director and managers have the appropriate training, skills and experience required to manage the project's scope and risk.
- The Project Team is appropriately made up of project management, functional, procurement and technical specialists familiar with PWGSC and TBS best practices for IT project management.
- The Project Leader receives appropriate and timely information regarding the project's progress, cost, risk and problems.
- PWGSC and TBS receive appropriate and timely information regarding the project's progress, cost, risk and problems.
- The Project spending and payment processes conform to the *Financial Administration Act*.
- Requirements of the Treasury Board Policy for Major Crown Projects have been identified by the Project and are being met.
- The Project has an approved Procurement Strategy.

1.4 Risk management based decisions.

Principal Criterion: Project management decisions are based on risk management:

- The Project has a risk management strategy based on the Continuous Risk Management (CRM) approach in the Enhanced Framework.
- There is a documented risk management process which regularly assesses project risks in terms of likelihood and impact, determines the action to manage the risk as well as management involvement to ensure action is taken

- The Project risk management process is consistent with the PWGSC Integrated Risk Management framework.
- The Project complexity has been determined early in the project life cycle.
- Adequate representation of key stakeholders are involved in the risk management process.
- The Project has scheduled risk review and management decision points (gates) with documented criteria.
- The Project decision points tied are tied to funding.
- GoCPMP contracts are consistent with scheduled risk review and decision points (gates).

1.5 Project management processes

Principal Criterion: The project applies a core management process consistent with Treasury Board approval requirements and is supported by appropriate management tools and techniques.

- The Project management framework is documented and applied consistently.
- The Project timetable respects key TB approval milestones and affords gating opportunities.
- An integrated detailed project plan is developed and maintained, using a structured methodology supported by an appropriate planning tool.
- The project planning tool is under the responsibility of an individual who is experienced with project planning, the planning software tool.
- The project plan is updated regularly and kept current.
- Reports from the planning tool are the basis of information provided to PWGSC management to monitor project progress against the schedule.
- Processes are in place to manage the budget and to ensure good financial control, financial reporting and variance analysis.
- Contract management:
 - ♦ Acquisitions Branch is involved throughout from procurement strategy development through contract management.
 - ♦ The procurement plan aligns the contracted deliverables with the project plan.
 - ♦ Contract management processes are documented and applied consistently.
 - ♦ The GoCPMP has appropriate interfaces with the contractor to adequately manage the contract.
- The human resources management framework supports project needs for leadership, experienced team members, enabling work environment, and sustainable workforce .
- The Quality Assurance framework is documented and managed by an experienced individual who ensures discipline.
- There are configuration management processes for all project items - documents and software including the COTS product.
- The Communications Framework includes a communications strategy and plan which recognizes the needs of the various stakeholders.
- Change and transition management processes identify the impact of the project on business processes, assess the ability to adapt to changing internal and external conditions and implement measures to ensure the transition of business processes and staff acceptance.
- Change control processes are in place to document, approve and track changes to scope, time, cost, quality and risk profile.

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- Project reporting is supported by an adequate performance measurement tool to provide PWGSC Management with regular information on the time and money expended against work completed.