



# **Audit and Ethics Branch (AEB)**

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## Directed Audit Management of HP/Compaq Contracts

2003-732

Final Report

December 16, 2003



Public Works and  
Government Services  
Canada

Travaux publics et  
Services gouvernementaux  
Canada

Canada



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## Audit Qualification:

The Audit and Ethics Branch undertook this audit at the direction of the Deputy Minister. Management's overriding need for timely information necessitated a significantly compressed audit timeline. As a result, this audit report provides reasonable assurance regarding only the most material activities and the areas of highest risk associated with the contracts in question. Additional information may surface subsequent to the tabling of this report which could impact on the findings and conclusions reported herein.





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## Context:

- Over the past decade, PWGSC has established contracts with computer hardware and software suppliers to meet client needs. Hewlett Packard (HP) and its predecessors, Compaq Canada and Digital Equipment Canada (DEC), have been long-standing suppliers of these goods and services.
- In 1996, an amendment to the PWGSC Supply Manual outlined a division of responsibilities between PWGSC and DND (the client department for the subject contracts) for all major procurement and contract management activities relating to the acquisition of goods and services for DND.
- In keeping with the requirements of the Supply Manual, PWGSC uses its cost audit function to audit contracts which the department establishes. Over the past 5 years, cost audits have been performed on various DEC, Compaq and HP contracts.
- The results of cost audits performed on various HP/Compaq contracts, along with other "red flag" indicators, recently prompted PWGSC to review various 1996-2003 HP/Compaq contracts worth approximately \$250M.





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## Scope:

- Project coverage included:
  - five (5) HP/Compaq contracts and their amendments, as well as one (1) predecessor DEC contract
  - PWGSC managers and staff whose responsibilities warranted their involvement in the procurement, contract management and issues resolution processes associated with these contracts
  - processes used to inform PWGSC senior management of potential and/or confirmed issues stemming from the department's contracting activities (audit coverage was limited to the period ending May 2003)







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## Objectives:

- Determine the extent to which:
  - roles and responsibilities were clearly defined, fully documented, effectively communicated and understood
  - credible and timely information was available about these five contracts and was used by PWGSC's senior management for decision making
  - departmental oversight included a process to ensure PWGSC's senior management was advised immediately and on an ongoing basis of suspected or known issues stemming from these contracts
  - PWGSC management and staff exercised due diligence in discharging their procurement, contract management and oversight responsibilities





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## Methodology:

- Developed audit program/procedures/tests
- Reviewed/analyzed TBS/PWGSC authority/guidance documents
- Reviewed/analyzed contracts 054 and 056, associated amendments, contracting files, and other relevant PWGSC records
- Consulted with auditors/managers from Consulting and Audit Canada (CAC)
- Reviewed CAC cost audit files for contracts 054 and 056
- Prepared detailed chronologies documenting PWGSC's contracting, cost audit and management activities associated with contracts 054 and 056
- Reviewed/analyzed three (3) additional HP contract files (AE05, AL05, 0005)
- Reviewed cost audit results for contract AL01, the predecessor to contract 054
- Interviewed relevant PWGSC managers, procurement staff and cost auditors
- Consulted with DND auditors





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## Findings:

- Roles and responsibilities of PWGSC vs DND:
  - procurement - procurement roles and responsibilities are clearly defined, well documented, easily distinguishable between PWGSC and DND, and well understood.
  - contract management - although documented in key policies, contract management roles and responsibilities are less clearly defined and therefore open to interpretation. This lack of clarity risks misinterpretation and potential inaction. Other guidance documents do not provide additional clarity
  - internally, competing procurement vs contract management priorities and differing interpretations about PWGSC's contract management responsibilities detracted from the Department's ability to effectively risk manage these contracts. Service delivery (procurement) overshadowed control (contract management and oversight) responsibilities







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## Findings - continued:

- Senior management lacked credible/timely information for decision making
  - ➔ despite efforts to manage contracts 054 and 056, PWGSC procurement officers did not receive credible information in a timely manner from the Contractor (as required by the contracts) or from DND. PWGSC was subsequently unable to obtain credible information in a timely manner either through cost audits or through repeated requests to DND and the Contractor
  - ➔ problems encountered during 2001 and 2003 cost audits of contracts 054 and 056 resulted in unreasonably long audit completion times and negative audit results. A 1999 cost audit of DEC contract AL01 also produced negative audit results. However, PWGSC line managers did not understand the significance of the problems encountered during these audits and the implication of the negative audit results.







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## Findings - continued:

- PWGSC oversight function lacked adequate mechanisms to ensure management was advised of suspected or known issues stemming from these contracts
  - different PWGSC officials knew of different "red flags", but the oversight function lacked adequate mechanisms to ensure an appropriate sharing of information or the development of a holistic view of the overall contracting situation with this Contractor. Without this holistic view, line managers did not appreciate the significance of available audit information or the problematic nature of these contracts, and did not recognize in a timely manner issues that should have been escalated to senior management
  - organizational restructuring and ongoing personnel changes eroded the benefits otherwise available through continuity of oversight and experience with these contracts. Excessive procurement workloads and under-resourcing may also have been contributing factors





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## Conclusions:

- PWGSC's contract management role and responsibilities are not clearly defined and not well understood internally - PWGSC personnel did not (and still do not) share a common understanding of their contract management responsibilities.
- PWGSC was unable to (a) obtain credible information in a timely manner, (b) understand the significance of available audit information, (c) share information effectively and (d) develop a holistic view of these contracting situations. As a result, available information was not used effectively in contract management, risk management and decision making. This led to contract amendments being processed without sufficient challenge, and to line management not fully recognizing the problematic nature of these contracting situations. In the absence of this recognition, senior management were not advised in a timely manner and were therefore unaware of the problematic nature or the magnitude of the issues with these contracts





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## Conclusions - continued:

- Based on audit evidence obtained to date, PWGSC personnel exercised reasonable care in discharging their responsibilities as they understood them. However, the prevailing circumstances, when coupled with an emphasis on procurement over contract management and oversight, undermined efforts by PWGSC officials, both individually and collectively, to fully demonstrate due diligence in contract management and decision making. These prevailing circumstances included: the lack of clarity or a common view of PWGSC's contract management role and responsibilities; the lack of credible and timely information from the client or Contractor; the department's inability to use known cost audit information in contract management, risk management and decision making; the periodic organizational and ongoing personnel changes; and the resourcing and workload issues
- Current audit evidence does not indicate any PWGSC officials knowingly or willfully:
  - established the circumstances that allowed these contracting problems to occur
  - concealed or withheld any material information or documentation
  - acted with malice or material indifference







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## Recommendations:

- PWGSC, in collaboration with its procurement clients, should clarify and rebalance its procurement (service delivery) and contract management and oversight (control) roles and responsibilities, and establish a vigorous risk-based contract management process
- PWGSC should assess its current contract management capacity and, if necessary, enhance this capacity through the application of additional contract management resources and appropriate training. Consideration should be given to developing a case study based on the situation addressed by this report
- PWGSC should improve the sharing of vendor and cost audit information within PWGSC's procurement and contract management community, and reassess the use of the Vendor Information Management System as a viable method for sharing information
- PWGSC should capitalize on the benefits available from its cost audit function: by identifying and assessing, in collaboration with CAC, potential improvements to the cost audit delivery process; by effectively integrating cost audit information into contract management, risk management and decision making; and by determining whether the resource levels currently devoted to the cost audit function are appropriate





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## Post AEC ADDENDUM (March 10, 2004)

### Chronology of Events - PWGSC Advising DND of Concerns

- **2000 January** - From January 2000, and on an ongoing basis, PWGSC Supply Officers informed DND procurement officers (Paul Champagne, Marie Chamberlain, Bev Charette) of PWGSC concerns about the lack of reporting in accordance with contract requirements and of high contract expenditure rates on the Tempest (056) and non-Tempest (054) hardware maintenance contracts and requested official explanations from DND for these high contract expenditure rates.
- **2001 April** - CAC sent a copy of its March 23, 2001 Cost Audit Report of the Tempest contract (056) to DND Chief Review Services. The Cost Audit reported:
  - Denial of Opinion regarding subcontracted costs as no source documentation available
  - Significant amount of activity unauthorized yet billed under this contract
  - Denial of Opinion (on hours billed) - lack of proper audit trail
  - Evidence of contractual funding appropriated for other purposes
- **2001 June** - On June 1, 2001, PWGSC Cost Audit Group (Neena Khan) discussed the results of the Interim Contract Cost Audit on the 056 Tempest contract DND with DND Chief Review Services (André Couture). At this meeting, DND "expressed the same feeling that a united effort would be best" i.e. "client involvement to tackle these continuing issues." DND Chief Review Services indicated that DND was examining how IT maintenance contracts are managed and whether another type of contracting would be better (e.g. lump sum maintenance service).
- **2001 July** - PWGSC Director-IPD-SIPSS (Sharon Chamberlain) held meetings with DND procurement officers (Paul Champagne) to discuss PWGSC Supply Officers' ongoing concerns and the negative results of the May 2001 Interim Cost Audit on contract 056.
- **2002 November** - On November 22, 2002, PWGSC Director-IPD-SIPSS (Jerome Thauvette) provided DND Director DGEPS (Brian Watson) with an electronic copy of the preliminary findings of the non-Tempest (054) cost audit. The PWGSC Director requested a meeting with the DND Director to discuss [ \* ].

**Note:** The Deputy Minister PWGSC requested that Audit and Ethics Branch document, and report to the Audit and Ethics Committee, a chronology of all instances where PWGSC had notified DND of concerns/issues arising from the Compaq/HP contracts and cost audits. This chronology was prepared by AEB based on the documentation obtained during the Directed Audit Management of HP/Compaq Contracts and was presented to the Audit and Ethics Committee on March 10th, 2004.

