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2003-724

Final Audit Report

Audit of Low-Dollar Value Procurement

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Executive Summary

Audit Authority/Scope

The audit of Low Dollar Value (LDV) Procurement was approved by the Audit and Ethics Committee as part of the annual 2003-2004 audit plan. The audit reviewed data and files on contracts below \$25,000 for goods, services, and repair & overhaul undertaken by the Headquarters Sectors of the Acquisitions Business Line, for the fiscal year 2002/03 and for the period April 1, 2003 to March 31, 2004. LDV contracts excluded from the audit scope were: PWGSC offices outside Canada; Canadian Commercial Corporation; construction; Regions; and Standing Offers.

The Acquisitions Branch's policy on LDV Procurement (PN-64) was revised on November 21, 2003 in order to provide guidance on procuring LDV requirements using the most efficient and cost effective methods. Procurement Sectors and Regions were given until January 2004 to implement the changes.

A number of activities are underway that impact the LDV procurement including: Acquisition renewal; a Government-wide Task Force on Procurement reform; the Government of Canada E-Market Place project; and achievement of the 10/50/10 targets.

Audit Results

There are two Audit Conclusions, based on the three audit objectives and findings.

1. **Efficiencies in LDV contracting could be gained by: using the most efficient and cost effective methods for contractor selection as directed in the revised LDV policy; reducing documentation; improving data integrity; and enhancing performance and standards tools.**
2. **PWGSC in its role as the contracting authority does demonstrate value added service, and the management of the LDV contracts are generally compliant with the applicable policies and procedures.**

Opportunities for efficiencies include: implementing revised LDV policy, improving data integrity; reducing LDV flow-through days; reducing paperwork; increasing access to best practices; collecting and analysing baseline data; and completing current initiatives to address plain language, performance measures, standards, throughput time, and other acquisition tools.

PWGSC in its role as the contracting authority does demonstrate value-added service by ensuring that the Government of Canada receives a favourable price, and that principles of fairness and openness are respected.

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Ninety-nine percent (99%) of the sample contract files (358) were compliant with the LDV policies and procedures. Non-compliance issues (1%) were noted in the lack of evidence of: pre-contractual work approval; signed requisition amendments; and a contract administration role. Observations on the population (12,106) contract data include: 85% were not amended; 70-97% procure a Goods commodity; 30-70% were for <\$9.9K; and 75% were non-competitive. As of 2004, only a limited number of departments/agencies have chosen to take up the increased delegation of authority for goods procurement offered by PWGSC.

Recommendation

It is recommended that the Assistant Deputy Minister, Acquisition Branch should:

1. Undertake a review of Acquisitions Branch's procedures for policy consultation, promulgation, and implementation to determine the appropriate actions that will ensure, in the future, the realization of benefits and conversion to new practices. As well, undertake the preliminary review of the LDV policy to determine actions required to fully implement this policy.
2. Initiate and implement actions to improve the integrity and analysis of contract data reported in the Acquisition Information System that will ensure accurate information for reporting, performance monitoring, and decision making.
3. Prioritize and put into practise the current and future measures to improve the efficiencies of contracting, in order to demonstrate benefits as early as possible and to gain a commitment of support for new practices and approaches.

1 Introduction

1.1 Background

Low dollar Value (LDV) procurements are contracts below \$25,000 (including all applicable taxes), which are generally characterized as low risk and less complex requirements that do not meet the Treasury Board (TB) Contracting Policy and Government Contracts Regulations (GCR) thresholds.

In 2002, the Acquisitions Branch of Public Works & Government Services Canada (PWGSC), as a common service organization, issued 33,000 contracts and 11,000 amendments worth more than \$10B in goods, services and construction on behalf of approximately 100 federal departments and agencies. Of those contracts for goods and services, 62% were below \$25,000 (19.3/31.0K). When compared to Government-wide contracting activity for goods and services contracts below \$25,000, PWGSC issues less than 5% of the total contracts. (19,332/407,054) (Parliamentary Secretary's Task Force, Government-Wide Review of Procurement)

The Acquisitions Branch's policy on LDV Procurement (PN-64) was revised on November 21, 2003 in order to provide guidance to PWGSC Procurement Officers in their choice of an appropriate procurement strategy for requirements below \$25,000 (including all applicable taxes). The policy requires Procurement Officers to procure LDV requirements using the most efficient and cost effective method to select a contractor, either by soliciting bids or by directing the requirement to a single supplier.

A current Government-wide Task Force on Procurement reform is examining procurement changes that will better position the Government to achieve efficiencies and enhance accountabilities in the purchase of goods and services and support federal departments and agencies in the achievement of procurement objectives, as well as improving service delivery. Concepts for Discussion from the Task Force was released in September 2004.

The Government of Canada E-Market Place project (GoCM) is an initiative of PWGSC for the federal government that will move a full range of purchasing activities on-line. It is to save time and money by simplifying the purchasing process, reducing the costs of transactions, and providing information more quickly about what the Government buys. The project is being piloted with four departments in 2004/05. Commodities have been analysed based on the ease of implementation and costs. It has been proposed to populate the on-line purchasing with three to four waves of various commodities.

A number of priorities have been identified in 2004 for the Acquisitions Branch. One of the priorities is referred to as the 10/50/10 target, which is to develop a three-year plan that will:

- a) Cut the cost of government purchasing by 10%;
- b) Cut the time of transaction completion by an average of 50%; and
- c) Reduce the cost of goods and services by 10%.

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1.2 Objectives/Scope

This audit was approved by the Audit and Ethics Committee as part of the Audit & Ethics Branch's (AEB) 2003-2004 audit plan. The audit reviewed data on LDV contracts for goods, services, and repair & overhaul undertaken by the Acquisitions Business Line, for the fiscal year 2002/03 and for the period April 1, 2003 to March 31, 2004.

LDV contracts excluded from the audit scope were: PWGSC offices outside Canada; Canadian Commercial Corporation; construction; Regions; and Standing Offers. The first three were excluded due to the nature of the procurements, and the various conditions, as stated in the Supply Manual, under which contracts may be entered into. The Regional LDV data was analysed with the intention of sampling Regional contract files in June 2004, however due to other departmental priorities this audit was dropped from the 2004-2005 AEB's audit plan. As well, the call-ups on Standing Offers and Supply Arrangements were excluded as there is a proposed audit in 2004/05.

Preliminary work started in March 2004 and field work for the examination phase took place during May and June 2004.

1.3 Issues Examined

As per the audit Terms of Reference, the audit examined the following the stages of policy development and Acquisitions Renewal: Awareness; Exploration; Transition; Full Implementation; and Continuous Learning. (*Appendix A*)

Senior Acquisitions management and staff were interviewed to provide an understanding of the benefits of different tools or approaches; knowledge and understanding of the Policy Notification (PN-64) on LDV Procurement; and Acquisition Renewal.

The Sector and Regional data on LDV contracting for goods, services and repair & overhaul for the 2002/03 fiscal year (14,573 contracts) and for April 1, 2003 to March 31, 2004 (13,351 contracts) was analysed.

A sample of contract files (358) from Headquarters Sectors - Land, Aerospace, Marine Systems and Contract Management (LAMSCM), Commercial Acquisition and Supply Management (CASM), and Services and Technology Acquisition Management (STAM) - were selected for a detailed review. (*Appendix B*) The initial criteria used for the sample was a selection of contracts with: amendments greater than two; amendments greater than 50% of the value of the contract; requisitions greater than \$25K; repetitive contracts with one supplier; and posted Advance Contract Award Notices (ACANs). A second criteria was a percentage of contracts prior to and post January 2004. A third criteria was a random selection of remaining contracts. The audit reviewed the contract files focussing on the procurement approach and supporting documentation of the contractor selection process from the receipt of the requisition to the contract award.

Data on call-ups from Standing Offers and Supply Arrangements were briefly reviewed to determine the level of usage. The number of LDV call-ups was 2,583 for 2002/03 and 1,620 for 2003/04.

2 Findings

2.1 The first objective of the audit was:

- to determine the level of awareness of the revised LDV procurement policy and any benefits or opportunities that have been realized as a result of the modifications.

The changes to the policy on LDV procurement were primarily driven out of the Government's agenda for acquisition reform. The Acquisitions Policy and Process Directorate started the preliminary work to revise the policy on LDV procurement in 2002. Consultations were held with the Acquisition Policy Council up to July 2003 when the policy was directed to the Deputy Minister's (DM) office for approval. After approval in October 2003, the Acquisition Policy Committee was consulted secretarially, and provided 24 hours to give comments.

The Policy Notification (PN-64) was first released in November 2003 by an information communiqué e-mailed to Procurement Officers, Managers, and Senior Procurement Management however Acquisitions was given until January 2004 to implement the changes. The level of effort to promulgate this policy was complicated due to the organizational changes that assigned Procurement Officers in both the, then existing Operations Branch, and the Acquisitions Branch. A reminder e-mail was distributed on January 28, 2004. A requirement of the policy for a follow-up or preliminary review, within a year, to determine the steps taken to implement the LDV changes is being developed.

Through interviews, the audit attempted to determine the level of awareness of the revised LDV policy. Interviewees stated that there was little interest in the revised policy since: the timing of the release of the revised LDV policy coincided with major PWGSC organizational changes; the revisions were perceived as minor in nature; and time was at a premium. As a result, five months after its release, some of the interviewees had not read the revised policy.

In addition, other concerns were expressed such as: the compressed policy development process did not provide the opportunity to comment or identify issues; the global e-mail may not have reached all responsible Procurement Officers; and the Electronic Acquisitions Program that is responsible for modification to procurement systems such as the Automated Buyer Environment (ABE) was not given sufficient time to ensure that the policy modifications did not require changes to the system, which should have been in place before the policy release.

To assist in the review of the sample contract files the audit team found it beneficial to document a crosswalk of the changes from the former policy to the new policy. (*Appendix C*). The audit used the crosswalk to assist in measuring the stages of development from awareness, exploration, transition, full implementation, to continuous learning.

The population LDV data provided a three-month period (January - March 2004) within which Procurement Officers should have demonstrated modified LDV process or solicitation actions taken to incorporate or implement the revised LDV policy. The audit sample of contracts awarded after January 2004 (61/188) disclosed no difference in the actions taken by Procurement Officers prior to and post the issuance of the revised LDV policy.

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2.2 The second objective of the audit was :

- To assess the application of and compliance to the policies and procedures governing LDV procurement.

PWGSC plays a role in LDV procurements for several reasons.

1. The authority for LDV procurement is contained within the legislation that constitutes PWGSC as a Common Service Organization and confers certain powers on its minister. The Department of Public Works and Government Services Act gives the Minister of PWGS exclusive authority to acquire materiel or goods. However, within the same Act, the Minister of PWGS may delegate "... any of the Minister's powers, duties or functions under this Act to an appropriate minister within the meaning of the Financial Administration Act".
2. To date, only a limited number of departments/agencies, who use PWGSC procurement services (16 out of approximately 100), have chosen to take up the increased delegation of authority for Goods procurement (\$5K - \$25K), offered by PWGSC. These include: Correctional Service Canada, Indian and Northern Affairs Canada, Statistics Canada, Canadian Heritage, Canadian International Development Agency, Environment Canada, Department of Finance Canada, Foreign Affairs Canada, Health Canada, Royal Canadian Mounted Police, Treasury Board, Industry Canada, Veterans Affairs Canada, National Research Council Canada, Canadian Nuclear Safety Commission, and Canadian Food Inspection Agency. Discussions are currently underway with Canadian Border Services Agency, Citizenship & Immigration Canada, Infrastructure Canada, and Court Administration Services. Reasons cited by the clients for the rejection of increased contract delegation are interface system costs, mandatory reporting, and increased staffing costs. The LDV population data indicates that these clients are only a small percentage of the major users of PWGSC's LDV procurement services.
3. The existing need for competitive bulk-buys (i.e. spares). Approximately 25% of the LDV population data were contracts that relate to requirements for bulk goods, which are subject to a competitive process under the Trade Acts. This process results in multi-contracts per requisition. Acquisition Branch has suggested solutions such as: establish secondary contracts with the supplier(s) for a long-term supply of spares; solicit bids directly from United States vendors; and exclude the requirements from the Agreement on Internal Trade (AIT) as part of a blanket exemption for military products.
4. The requirement for sensitive or security-enhanced LDV contracts have specialized arrangements that limit the competitive solicitation to a number of suppliers (e.g. Tempest or Tackling buys).

An additional benefit of LDV procurement for PWGSC is the opportunity for new or junior Procurement Officers to experience hands-on training in the completion of contracts, which are lower risk and less complex. As well, these types of contracts increase efficiencies by acting as 'fillers' for senior Procurement Officers that have some downtime between larger contracts.

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In 99% of the sample contract files the management of the contract was in full compliance with the policies and procedures governing LDV procurement. Clients of the procurement services included PWGSC and other federal department and agencies. The following are observations on the LDV population contract data for 2002-03 and 2003-04, and a sample of 358 contract files.

LDV Population contract data:

- 85% of the contracts were not amended, which suggests that the majority of LDV requirements are well defined or understood by the client and supplier.
- 70-97% of the contracts procure a Goods commodity, which typically is of a lower risk and less complex than Services.
- 30-70% of the contracts are for less than \$9.9K (% range dependent on Sector/commodity)
- 75% of the contracts are non-competitive. The client identifies the supplier in its requisition. The remaining 25% of LDV procurements represent bulk-buy requisitions which result in a competitive contract less than \$25K.

Sample contract review:

- 76% of the contract files for non-competitive procurements contained evidence of a document provided by the client to justify sole source. Such a document is preferred, although not required, as the GCRs permit sole sourcing as a strategy for LDV contracts. An observation of the document is that clients could adequately justify their program/work but they could rarely justify why they wanted to sole source to a particular supplier.
- The procurement policy requires contract administration of performance and payments be done by Procurement Officers throughout the duration of the contract, notwithstanding the value of the contract. All sampled files (358) contained little evidence relating to Procurement Officer's review of supplier performance or involvement in the receipt/review of invoices. Given the low - value, risk, and complexity of LDV contracts, and the expectation of a rapid turnaround, the audit team deemed this non-compliance reasonable and concluded that improvements in the policy could be made.

Observations of non-compliance (1%) represented minimal risk commensurate with the sample.

- Five (5) files documented pre-contractual work. In the majority of cases there was evidence that the Procurement Officers had their Manager approve the contract prior to award. Only one contract was amended to backdate the period of work for maintenance and support services prior to the contract award with no evidence that the Procurement Officer obtained Manager approval.
- Seven (7) files contained no evidence of signed requisition amendments to significantly increase contract funding.

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2.3 The third objective of this audit was :

- To assess service outcomes through number of processing days, use of tools, and knowledge or training that assist in the determination of the most efficient and cost effective method of procurement.

The audit identified issues of Value-added service, Data integrity, and Efficiency Improvements within the third objective.

Value Added Service

Although the interviewees believe that Procurement Officers provide a value-added service they were not able to identify any examples or specific cases. It was generally felt that PWGSC has more rigor in compliance with rules and delegation and that client departments tend to sole source with the same supplier repeatedly if the supplier is meeting its needs. The principles of fairness and openness in contracting apply to all government procurement and PWGSC has the ability to ensure that these principles are respected.

The audit sample of LDV contract files disclosed the following examples of value-added services by Procurement Officers.

- Price verification and negotiation to ensure that the Government of Canada is receiving an equal or favourable price for its procurement;
- Confirming priority rights of Original Equipment Manufacturer (OEM);
- Recommending use of a Standing Offer (SO) to save monies. Example: A cleaning brush for a rifle could be obtained at \$2/item less on the SO.;
- Using procurement strategies to meet urgent needs but maintaining the openness principle of competition. Example: Two medical equipment units were sole-sourced to meet the client's urgent requirement for troop deployment but the remaining eight units were competed.
- Advising on benefits to the client. Example: By adding extra users to a server license the client would save monies due to a breakpoint in pricing structure;
- Ensuring clients evaluate the benefit of ownership of intellectual property and include the appropriate contract provisions;
- Fielding questions by bidders on specifications. Example: Clarifying aspects of a specification to build a landscape-type trailer to transport two large size motorcycles; and
- Searching for spare parts. Example: No-bids were received and dealt directly with OEM.

Data Integrity

Dependence on the data integrity provided by the Acquisitions Information System (AIS) for analysis of LDV contracts was problematic. Analysis of the data required correction or manipulation as it contained multiple data-entry errors. Examples of such errors are:

- The contract award value was reported in US dollars rather than Canadian Dollars. Between 15-30% of the contracts for US firms, in the sample, were incorrectly entered into ABE. The last step after the creation of the contract is the completion of a Procurement Summary at which point a Procurement Officer enters the Canadian dollar exchange rate (1.xx). The

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result of the data-entry error is reporting contracts, such as a contract for secure communications equipment at \$19,900 US\$, as LDV even though the contracts were greater than \$25K Canadian.

- The contract award value reported was zero. Forty-five (45) contracts of zero-value were reported in the population data for 2002/03 and 2003/04. Each contract reported a larger-than-usual amendment value. In ABE, a Procurement Officer is prompted and has to accept a warning flag that the contract value will be 'zero'. Once accepted, ABE protects the contract information and does not allow changes. The result is reporting contracts, such as a contract for repair & overhaul of radio equipment at \$0 and amended for a total of \$599,848, as LDV even though the contracts are greater than \$25K and competitive.
- The flow-through or workdays between the receipt date of the requisition and the award date were negative. An average of 1-6% of the contracts in the population data had a negative flow-through. One third of client's requisition for procurement services is input into ABE by the Branch Central Allocation Unit. The requisition provides the client's financial commitment, description of goods/services, and identification of sole-source supplier, as well as the authority for a Procurement Officer to proceed with a procurement. A reasonable explanation, which is supported by interview responses and in the data (highest percentage of negative workdays is non-competitive contracts) is that clients contact Procurement Officers directly and the contract is awarded prior to receipt of the paperwork. This explanation is consistent with the data that 65-75% of the negative workdays are between zero to five (one week). The result of negative workdays is a skew of the analysis of any performance or flow-through time.
- LDV population indicates Advance Contract Award Notices (ACANs) are posted for 1% of the contracts for a fiscal year. ACANs are to be posted 15 days prior to award to provide the supplier community the opportunity to challenge a proposed directed procurement. In the population data 20/133 ACANs contain a Contract Award Process (CAP) code for competitive procurement. If the procurement was competitive then an ACAN should not be necessary. This means either the CAP code or the ACAN code were a data-error.
- The selection of coding for CAP, NAFTA Commodity type, GSIN description are selected by the Procurement Officer based on their experience and knowledge of the procurement. An example of a data-error is: A contract to participate at a meeting to discuss the implementation of a centralized database for VHF Digital Selection Call System was coded as LDV, Goods, and radar equipment. Although it was follow-on work to a previous contract it would appear that this contract should have been coded as LDV, service, logistics support. The result of the data error is misinformation on the types of procurement undertaken for a client and the department.

Efficiency Improvements

Sole sourcing or non-competitive contracting for LDV procurement is authorized as one of the four exceptions of Section 6 of the GCR in which a contracting authority is permitted to set aside the requirement to solicit bids when the estimated expenditure does not exceed \$25,000. The analysis of the population data observed the following efficiency concerns or practices:

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- Within the first five (5) working days the awards for non-competitive LDV contracts range, by Sector, from 10 to 40%. Given that LDVs can be sole-sourced it was expected that the data would indicate a greater percentage of files with a rapid turn around.
- Sample contract files contained the same level of documentation as would be expected for contracts >\$25K. Given the authority to set aside the requirement to solicit bids it was expected that files would contain reduced paperwork. Evidence of documentation produced, or on file were: eight (8) copies of the contract were printed; the Contract Planning, Advance Approval document (CPAA), and Contract Summary were created in ABE and printed; and limited use of e-mails or faxes to confirm quotes.
- Inconsistent use of clauses in Requests for Proposals (RFP) for certain commodities that could reduce the number of LDV contracts created. Examples of such clauses were: use of the best-value by grouping method of bulk-buy (spares) that would permit the award by grouping rather than the lowest individual price; and renewal or option clauses in annual informatics (IT) maintenance or service contracts rather than repeatedly sourcing to the same service provider each year.
- Each Acquisitions Sector operates relatively independently of the other Sectors regarding such issues as Best Practices, methodology or templates, milestones, or workload assignment. Examples of templates specific to a Sector were: a simple series of yes/no questions for clients to determine if the Crown would benefit from ownership of Intellectual Property; a checklist of yes/no questions to determine whether an independent contractor or employee relationship exists; a checklist for planning a non-competitive procurement and approval authority at the Director General and below approval authority levels; a checklist for level of effort on a contract file; and a checklist of ten questions to close-out a contract file.
- It is rare for more experienced Procurement Officers to take refresher courses on ABE even though it is a complex, evergreen system that changes to meet new requirements and to increase the efficiency of procurement activity. Although hands-on experience is useful training, the knowledge of system modifications or shortcuts could help increase all Procurement Officers' skills and efficiency.
- Baseline acquisition information has not been collected and analysed, in detail, by Branch, Sector, Directorate, and/or Commodity, since 2002. The majority of interviewees were not able to provide information on the approximate number of LDV contracts prepared in their Sectors as a level of effort or percentage. Lack of time, staff, and lower priority were reasons cited as to why the baseline information is no longer easily available.
- As part of the development of a three-year plan for the 10/50/10 targets, the Policy, Risk, Integrity and Strategic Management Sector has started to address the use of plain language in standard solicitation and contract documents, performance measures, standards, baseline data, stop-the-clock process, throughput time, and other tools that would assist the Acquisitions Branch in improving efficiencies.
- The majority of the interviewees anticipate that the GoCM project will be the vehicle to secure the majority of efficiency gains. The GoCM initiative is to enable and support the

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Government's supply chain business processes - from electronic access, control, purchasing, payment, to reporting - within an efficient and secure electronic environment. The GoCM initiative has estimated a significant net savings to the Government of Canada in the first ten years of operations. The benefits of the initiative are dependent on: the adoption of GoCM by all departments; inclusion of the majority of commodities; completion of method of supply reviews; supplier capability and willingness; a minimum volume commitment; and attainment of the scheduled roll-out.

3. Conclusions

3.1 Revised LDV Policy

Efficiencies in LDV contracting could be gained by using the most efficient and cost effective methods for contractor selection as directed in the revised LDV policy. Communication and rapid implementation of a policy, whether new or revised, is important as such information could improve or correct the actions/services provided by employees. Although aware of the revised LDV policy to use the most efficient and cost effective method for contractor selection, the changes were discounted as minor, which has resulted in limited changes in the patterns of LDV contracting. Changes in Acquisition's systems, tools, and documentation could improve both the delivery time and cost, and assist in achieving the 10/50/10 targets.

3.2 Compliance to LDV policies/procedures

PWGSC will continue to play a role in LDV procurements unless there are changes to the legislative requirements and to the small number of clients that have accepted a higher level of contracting authority for Goods requirements.

Management of the LDV contracts are generally compliant with the policies and procedures. In 99% of the sample contract files the management of the contract was compliant with the policies and procedures governing LDV procurement. Improvements could be made by clearly defining in the contract that Procurement Officers will not undertake a role in contract administration relating to supplier/contractor performance or receipt/review of invoices, leaving this responsibility and risk to the client.

3.3 Service Outcomes

PWGSC in its role as the contracting authority does demonstrate value-added service by ensuring that the Government of Canada receives a favourable price, and that principles of fairness and openness are respected. The challenge will be to balance the costs to process small value contracts, which are often unique as opposed to being off-the-shelf, against value-added services.

Efficiencies in LDV contracting could be gained by improving data integrity. Dependence on the data integrity provided by AIS for reporting or performance purposes is problematic as the data contains multiple data-entry errors. This is important given that PWGSC uses the data collected in AIS for reporting to clients on their procurement activity for monthly or fiscal time-periods,

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and to Treasury Board for disclosure on government-wide procurement activities. In light of a new TB requirement to publicly post any contracts \$10K and over, it will be important to improve data integrity and reliability.

Efficiencies in LDV contracts could be gained through: 1) greater use of T-Buys; reduced documentation; and consistent use of contractual clauses; 2) increased accessibility or awareness of other Sector's best practices or templates that could be used or modified to improve service; and 3) completion of current initiatives to address performance measures, standards, throughput time, and other tools, which could assist in the collection and analysis of baseline data.

The achievement of the 10/50/10 target is a considerable task and there is an expectation by the Acquisitions Branch that the GoCM initiative will achieve the greater percentage of these targets. The greatest hurdle of this initiative will be a decision by Government that requires all Departments/Agencies to use GoCM as a mandatory tool for the majority of their procurement requirements. GoCM estimates that, even in the worst case scenario, there can still be savings in purchase costs, reduction in process time, and increase in efficiencies. Given that the first wave of commodities on GoCM will be those of high volume and low risk, it is reasonable to expect a benefit in reducing transaction numbers and increasing efficiencies for LDV procurement.

4 Recommendations

It is recommended that the Assistant Deputy Minister, Acquisition Branch should:

1. Undertake a review of Acquisitions Branch's procedures for policy consultation, promulgation, and implementation to determine the appropriate actions that will ensure, in the future, the realization of benefits and conversion to new practices. As well, undertake the preliminary review of the LDV policy to determine actions required to fully implement this policy.
2. Initiate and implement actions to improve the integrity and analysis of contract data reported in the Acquisition Information System that will ensure accurate information for reporting, performance monitoring, and decision making.
3. Prioritize and put into practise the current and future measures to improve the efficiencies of contracting, in order to demonstrate benefits as early as possible and to gain a commitment of support for new practices and approaches.

Appendix A
Terms of Reference

Project Title

Compliance audit of Low Dollar Value Procurement.

Authority

This audit was approved by the Audit and Ethics Committee as part of the department's 2003-2004 audit plan.

Background

The Acquisition Branch of Public Works & Government Services Canada (PWGSC) buys everything from toothbrushes and tile settings, to computers and consulting services from thousands of companies across Canada each year. In any one year, it deals with approximately 60,000 contracts totaling \$11.4 billion and acquires goods and services on behalf of approximately 100 federal departments and agencies. In 2002, PWGSC awarded 32,326 Low Dollar Value (LDV) original contracts and amendments for a value of over \$152 million. (Treasury Board 2002 Purchasing Activity Report)

The Acquisition Branch's policy on Low Dollar Value (LDV) Procurement was revised on November 21, 2003 in order to provide guidance to PWGSC Contracting Officers in their choice of an appropriate procurement strategy for requirements below \$25,000 (including all applicable taxes). This would assist them in obtaining and improving the timeliness and cost effectiveness of such procurements while respecting PWGSC's Guiding Principles. Officers procure LDV requirements using the most efficient and cost effective method to select a contractor, either by soliciting bids or by directing the requirement to a single supplier. LDV procurements are generally characterized as low risk and less complex requirements that do not meet the Treasury Board Contracting Policy and Government Contracts Regulations thresholds for competition. Approaches to LDV procurements include the use of 1) departmental electronic tools such as Supplier Registration Information service (SRI), Automated Vendor Rotation System (AVRS), SELECT, E-Purchasing, and online trade directories; 2) existing standing offers or supply arrangements; 3) Requisition for Quotation or a Telephone Buy; and 4) Government Electronic Tendering Service (GETS).

The objective of government contracting is to acquire goods and services in a manner that enhances access, competition and fairness, and results in best value to the government and the Canadian people. The challenge for government is to have a procurement framework that will enable them to: make strategic procurement decisions; understand and influence the market place; manage exposure to risk; develop innovative contracts; select the best business partners; and manage strategic and complex contracts as major buyers.

The current Government-wide review of Procurement is examining procurement changes that will better position the Government to achieve efficiencies and enhance accountabilities in the purchase of goods and services and support federal departments and agencies in the achievement of procurement objectives, as well as improving service delivery.

Appendix A
Terms of Reference

Objectives

The objective of this audit is to:

- determine the level of awareness of the revised LDV procurement policy and any benefits or opportunities that have been realized as a result of the modifications;
- assess the application of and compliance to the policies and procedures governing LDV procurement; and
- assess service outcomes through number of processing days, use of tools, and knowledge or training that assist in the determination of most efficient and cost effective method of procurement.

Scope

The audit will review data on LDV contracting for goods and services undertaken by the Acquisition Branch for the 2002/03 fiscal year and for April 2003 to February/March 2004. The audit will review a sample of contract files and relevant documentation from one or more sectors in Headquarters. In particular, the review will focus on the procurement approaches and supporting documentation of the contractor selection process from the receipt of the requisition to the contract award.

Preliminary work will start in March 2004 and field work for the detailed examination phase will take place during April and May 2004.

The following will be excluded from the audit scope: LDV contracts less than \$5,000; and contracts below \$25,000 for: PWGSC offices outside Canada; Canadian Commercial Corporation; and construction.

Approach and Methodology

It is recognized that the Acquisition Branch is undertaking organizational and process changes due to Branch Transition and Acquisition Renewal. As a result, the audit will utilize an approach, for the interim, that will measure the stages of Acquisition Renewal. These stages include:

1. Awareness. Recognition of issues of change and openness to the possibilities.
2. Exploration. Commitment to change and exploration of different approaches and ideas.
3. Transition. Conversion from old practices and move to new practices.
4. Full Implementation. Realize benefits, planning for continued support of new practices.
5. Continuous Learning. Periodic adjustment and update for continued acquisition renewal.

By providing a measurement of the stages of Acquisition Renewal the audit can provide observations, conclusions, and recommendations that are based on a moment in time in the progression of Acquisition Transition and Renewal. The elements of development for Acquisition Renewal include:

Appendix A Terms of Reference

1. Commitment. Organizational leadership and support for renewal
2. Results-based strategic planning. Link renewal to high-level organizational objectives;
3. Operational planning. Performance expectations and alignment to corporate outcomes;
4. Measuring results. Data measurement linked to planning and reporting; and
5. Reporting.

The audit methodology comprises three phases :

Phase I

- Develop and apply appropriate audit criteria and audit tests using a detailed audit program, Contract File Review, as a basis.
- Interview managers and staff to provide an understanding of the benefits of different tools or approaches, knowledge and understanding of the Policy Notification (PN-64) on LDV Procurement, Acquisition Renewal, and an assessment of key management controls.
- Review data of LDV contracting files for the fiscal years identified in the scope and select a sample of contract files.
- Document the LDV procurement process and its controls that will be used to ensure compliance.

Phase II

- Review and analyze contract files and records.
- Document and determine the compliance to the policies and procedures governing LDV and the adequacy of management systems and controls.
- Analyze and develop audit findings and conclusions.

Phase III

- Validate findings and conclusions with appropriate senior managers.
- Prepare an audit report of significant audit findings, conclusions, and recommendations.
- Prepare management letters, if applicable, for observations that may be of an administrative nature, are outside the scope of the project, or belong to decision-makers outside the audit area of focus.

Deliverables

a. Audit report

Target - June 30, 2004

Resources:

The project will be carried out under the general guidance of Serge Boucher, Director, Internal Audit and Review Directorate. The project will be managed by Leslie James, Audit and Review Principal, Audit & Ethics Branch. She will be assisted by audit team members Jacqueline Anawati and Daniel Giroux.

Appendix B - Audit of Low Dollar Value Procurement

Statistics on Population and Sample

SECTORS	Population			Audit Sample		
	2002-03	2003-04	Total	2002-03	2003-04	Total
STAM						
Informatics and Telecommunications Systems	91	89	180	7	13	20
Infrastructure and Systems	782	628	1,410	49	52	101
Science and Professional Services	249	168	417	24	26	50
Special Procurement Initiatives	16	15	31	0	0	0
Subtotal				80	91	171
Number of files that managers were unable to locate and not pursued				-5	-6	-11
Total	1,138	900	2,038	75	85	160
# of files awarded post Jan 2004		366			35	
CASM						
Commercial and Consumer Products	1,356	1,174	2,530	32	22	54
Communication Procurement	1,007	724	1,731	5	21	26
Logistics, Electrical, Fuel and Transportation	1,473	1,157	2,630	30	39	69
Real Property Contracting	167	124	291	0	0	0
Traffic Management Directorate	15	26	41	0	0	0
CCSB	1		1			
Subtotal				67	82	149
Number of files that managers were unable to locate and not pursued				0	-6	-6
Total	4,019	3,205	7,224	67	76	143
# of files awarded post Jan 2004		994			10	
LAMSCM						
Aerospace Equipment Program	1,024	1,243	2,267	13	18	31
Armoured Vehicles Projects	65	7	72	1	0	1
Aerospace Weapons Systems	1	0	1	0	0	0
Land Equipment Program	115	81	196	8	4	12
Marine Systems	68	47	115	5	6	11
Security & Information Systems	112	81	193	4	2	6
Subtotal				31	30	61
Number of files that managers were unable to locate and not pursued				-3	-3	-6
Total	1,385	1,459	2,844	28	27	55
# of files awarded post Jan 2004		623			16	
Sector Total	6,542	5,564	12,106	170	188	358
Atlantic	1,497	1,298	2,795			
Québec	1,853	1,864	3,717			
Ontario	1,871	2,099	3,970			
Western	1,776	1,666	3,442			
Pacific	1,034	860	1,894			
Total Regions	8,031	7,787	15,818			
Total Regions + Sectors	14,573	13,351	27,924			

Note: This LDV Acquisition Business Line data does not include: PWGSC offices outside Canada, Canadian Commercial Corporate, construction, Standing Offers or Supply Arrangements.

Appendix C - Audit of Low Dollar Value
Crosswalk of the changes from the former policy to the new policy

Supply Manual - LDV	PN-64 LDV Procurement	Changes
<p>Contracting Officers may invite selected suppliers to bid when it is cost effective to do so.</p>	<p>CHAPTER 5 - SOURCING STRATEGY Contracting Officer should use the most efficient and cost effective method for contractor selection. They can either solicit bids or direct the requirement to a single supplier.</p>	<ul style="list-style-type: none"> • Efficiency ranks equal to cost effectiveness. • Direct the requirement to a single supplier.
	<p>Contracting Officers shall use the electronic tools available to them.</p> <p>Order of precedence to select a supplier: 1) Departmental electronic tools such as e-purchasing; 2) Existing standing offers or supply arrangement; 3) Request for Quotation or a Telephone Buy; 4) GETS</p>	<ul style="list-style-type: none"> • Use of Electronic Tools recommended and identified. • Existing sources of pre-qualified suppliers are given preference over new suppliers
<p>Request for Quotes (RFQ) should normally be used.</p>	<p>Rationale to support the selection of the procurement strategy</p> <p>RFQ can be used to solicit bids. The response or quotation from the bidder may be used to form the applicable contract document.</p>	<ul style="list-style-type: none"> • Document, on file, the reason for the procurement strategy. • Response or quote from supplier may be considered a contract to supply if PWGSC accepts the offer and may be used to form the contract document.
<p>A telephone buy (T-Buy) is a form of RFQ, in which quotations are solicited and received by telephone for requirements valued up to \$5K (competitive) and \$10K (non-competitive).</p>	<p>A T-Buy can be used to solicit bids for requirements below \$25K.</p>	<ul style="list-style-type: none"> • Increase in value of T-Buy.

Appendix C - Audit of Low Dollar Value
Crosswalk of the changes from the former policy to the new policy

Supply Manual - LDV	PN-64 LDV Procurement	Changes
Bids resulting from a competitive RFQ estimated at \$5K or less, may be submitted to the Contracting Officer instead of a designated bid receiving area.	The bids can be sent directly to the Contracting Officer instead of a specific Bid receiving area when a competitive RFQ was used.	<ul style="list-style-type: none"> • Bids less than \$25K can be sent directly to Contracting Officer.
A purchase order may be issued immediately after quotations received before the specified date.	An appropriate contract document may be issued immediately after quotations received before the specified date.	<ul style="list-style-type: none"> • Use appropriate contract document.
The method of bid response by telephone can be used for requirements up to \$5K competitive and \$10K non-competitive.	The method of bid response by telephone can be used for requirements below \$25K (including all applicable taxes)	<ul style="list-style-type: none"> • Increase in value of T-Buy.
Reduction of the prescribed bidding period is a Contracting Officer's business decision. Sufficient support for the decision must be documented.	The bidding period may be for less than fifteen days as appropriate for efficiency and cost effectiveness.	<ul style="list-style-type: none"> • Authority provided to reduce bidding period.
When the solicitation method used is by telephone, the Contracting Officer must ensure that he/she signs the bid immediately.	When the solicitation method used is by telephone, the Contracting Officer must ensure that he/she initials the written record on file immediately.	<ul style="list-style-type: none"> • Initial the written record.
On receiving a bid over \$5K, the Contracting Officer must advise the supplier to confirm the bid in writing.		<ul style="list-style-type: none"> • Increase in value of bids from \$5K to \$25K.
CHAPTER 12 - GLOSSARY		
Low Dollar Value (LDV) A PWGSC purchase where the total cost is estimated to be \$25K or less.	Low Dollar Value (LDV) LDV requirements are characterized as being low risk, less complex procurements with an estimated total cost below \$25K (including all applicable taxes).	<ul style="list-style-type: none"> • LDV defined as low risk and less complex procurements. • Cost includes all applicable taxes.

Appendix C - Audit of Low Dollar Value
Crosswalk of the changes from the former policy to the new policy

Supply Manual - LDV	PN-64 LDV Procurement	Changes
<p>Request For Quotation (RFQ) An RFQ is normally sent out when a requisition is received for goods and services valued at less than \$25K.</p>	<p>Request For Quotation (RFQ) RFQs is a solicitation document used to solicit bids for LDV requirements from one or more suppliers.</p>	<ul style="list-style-type: none"> • RFQ document used for LDV solicitation.
<p>T-Buy A purchase whereby the telephone is used to solicit and receive bids for requirements valued up to \$5K competitive and \$10K non-competitive, and whereby purchase orders are placed by telephone and confirmed in writing.</p>	<p>Telephone Buy A purchase whereby the telephone is used to solicit bids for requirements valued up to \$25K (including all applicable taxes) and whereby a contract is placed over the telephone and confirmed in writing.</p>	<ul style="list-style-type: none"> • Increase in value of T-Buys. • Use of appropriate contract document.