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Final Report

Audit of the Contract Management of Selected AFD Contracts

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Executive Summary

Authority for the Project

This audit was part of the 2001-2002 Audit and Review plan as approved by Public Works and Government Services Canada's (PWGSC) Audit and Review Committee.

Objective

To assess the adequacy of the contract management in support of selected contracts within the PWGSC Alternate Forms of Delivery (AFD) Project.

Scope

In order to assess the design of the AFD contract management framework, the audit scope included an examination of relevant government policies, AFD contract documentation, supporting practices/mechanisms as well as the conduct of interviews with key personnel from both PWGSC and the AFD contractor.

The audit assessed the application of the AFD contract management framework in the administration of two selected AFD contracts (# 3 Manitoba and #6 National Capital Area 1 (NCA1)) during the 2001-2002 fiscal year. Where certain activities had not yet occurred in 2001-2002, the work done in the 2000-2001 fiscal year was examined.

The application of the control framework in regard to the following contract management activities was the focus of the audit examination for each of the selected AFD contracts:

- ongoing performance monitoring;
- management of contractual issues;
- management of amendments and change orders; and
- payment activities.

The scope did not include: project management practices applied in the establishment of current or future AFD contracts; the project management of the delivery of property management projects managed by the AFD contractor(s); tenant project services; retail letting activities; and/or, initiatives under the Management Value Incentive Program.

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Key Findings

Roles and responsibilities related to the management of AFD contracts as well as practices and tools to support AFD contract management have been developed and promulgated by the AFD and Maintenance Management Directorate, AFMS, Real Property Services Branch (RPSB).

The AFD contracts describe, in detail, the basis of the contract control framework. The AFD contracts are designed to be performance-based rather than prescriptive, with Key Performance Indicator (KPI) measurement mechanisms designed to determine whether the contractor's performance is sufficient to warrant performance payments. The KPI measurement process also provides, by default, evidence of structured evaluations of contractor performance in regard to the overall requirements of the contract. The KPIs as described in the AFD contract along with RPSB-provided tools such as the KPI Scoring Guide and User Manual are utilized by portfolio Asset Managers to monitor and evaluate the AFD contractor's performance.

For the period examined, for each of the two selected contracts, the management of contractual amendments, issues and payment activities was consistent with the AFD contract management control framework. There were changes requiring amendments which had been initiated at the National level but had not yet been formalized through amendments to the individual contracts at the time of the audit. Supply Operations Service Branch (SOSB) has indicated that these changes will have been formalized by the end of September 2002.

Overall, the KPI framework as described in the AFD contract along with RPSB provided tools, such as the KPI Scoring Guide and User Manual, were being utilized by portfolio Asset Managers to monitor and evaluate the AFD contractor's performance. The interpretation of certain of the KPI requirements by AFMS, Manitoba was not consistent with the intent of KPI framework. The areas in question were related to certain project delivery KPI evaluations and the selection of assets for KPI sample-based monitoring.

RPSB and SOSB have indicated, during the clearance of the audit findings, that changes to the AFD contract performance monitoring framework will be introduced in October 2002 through amendments to all AFD contracts. In place of the current checklist-based monitoring tools, PWGSC is implementing a quality management framework which will be supported by information from the AFD service provider's Quality Management System. The plans include implementation of quality assurance techniques, such as annual quality audits across all contracts to support consistent application¹. Western Region has indicated they will apply all of the National contract performance monitoring requirements associated with the planned amendment.

¹ The audit examination did not include an assessment of the planned quality management framework.

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Conclusions

During the period examined, there was a comprehensive contract control framework in place for the AFD initiative as described in the individual contracts as well as the supporting practices and management tools which were provided by the RPSB.

Common interpretation and application of the KPI requirements across all AFD contracts is important to support consistent calculation of performance payments as well as to provide clear evidence of consistent, structured evaluations of contractor performance in regard to the overall requirements of the contract. Although there were instances whereby the contract performance measurement framework was not interpreted and applied consistently, overall, the contract control framework was being applied for the two contracts examined. In addition, PWGSC plans to introduce a quality management framework in October 2002 which has elements to support consistent application of the framework.

Recommendations

No recommendations are required.

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1 Introduction

1.1 Authority for the Project

This audit was part of the 2001-2002 Audit and Review plan as approved by Public Works and Government Services Canada's (PWGSC's) Audit and Review Committee.

1.2 Objective

To assess the adequacy of the contract management in support of selected contracts within the PWGSC Alternate Forms of Delivery (AFD) Project.

1.3 Scope

In order to assess the design of the AFD contract management framework the audit scope included an examination of relevant government policy, AFD contract documentation, supporting practices/mechanisms as well as the conduct of interviews with key personnel from both PWGSC and the AFD contractor.

The audit assessed the application of the AFD contract management framework in the administration of two selected AFD contracts (#3 Manitoba and #6 National Capital Area 1 (NCA1) during the 2001-2002 fiscal year. Where certain activities had not yet occurred in 2001-2002, the work done in the 2000-2001 fiscal year was examined. Only where it was necessary to understand current processes and practices, was consideration given to information from earlier fiscal years.

The application of the control framework in regard to the following contract management activities was the focus of the audit examination for each of the selected AFD contracts:

- ongoing performance monitoring;
- management of contractual issues;
- management of amendments and change orders; and
- payment activities.

The scope did not include: project management practices applied in the establishment of current or future AFD contracts; the project management of the delivery of property management projects managed by the AFD contractor(s); tenant project services; retail letting activities; and, initiatives under the Management Value Incentive Program.

1.4 Background

The Real Property Services Branch (RPSB), PWGSC is responsible for providing affordable and productive accommodation and related services to federal tenants, clients and others. While

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many of the locations that federal employees occupy are leased (over 2,000 of the 2,500 locations housing 160,000 public servants), there are a significant number of buildings in the portfolio that are owned by the federal government. The RPSB is responsible, as custodian, for approximately 400 Crown-owned/lease purchase office buildings and non-office federal facilities (common purpose buildings, national treasures, dams, bridges, wharves and highways) across the country.

As a direct result of departmental commitments for cost reduction emanating from Program Review in the early to mid 1990's, the responsibility for the provision of real property management services for approximately 75% of PWGSC custodial properties located across the country was contracted to the private sector. A single firm was successful in all 13 of the private sector competitive opportunities and began delivering contracted property management services May 28, 1998. At approximately the same time, the RPSB also signed AFD agreements with agencies of the governments of British Columbia and Saskatchewan.

For each of the AFD contracts, the contractor is reimbursed for eligible costs plus related management fees within a predetermined ceiling. The contracts define the quality of work to be provided and include financial incentives based on results in its delivery of property management services. Key Performance Indicators (KPI) are used by PWGSC to monitor and measure contractor performance.

The AFD contracts were awarded for a three year period ending March 31, 2001 with options to extend for up to 4 years. PWGSC has extended all contracts for an additional 2 years ending March 31, 2003 and the Department intends to extend the contracts for another one year period.

2 Issues Examined

Relevant portions of the Canadian Institute of Chartered Accountants (CICA) Criteria of Control (COCO) (Appendix A) were applied in the Preliminary Survey Phase of the audit to aid in the understanding and assessment of the adequacy of the controls associated with the contract management of the AFD.

An assessment of the application of the contract control framework was conducted for two AFD contracts as the Detailed Examination phase of the audit. The contracts were selected based on factors such as portfolio size and geographic location. The audit work was conducted in Manitoba for Contract #3 and in the NCA1 for Contract #6 during February and March 2002.

The following key contract management activities and associated criteria were used to focus the assessment of the application of the contract control framework:

- ongoing performance monitoring:
 - Key Performance Indicators (KPIs) as set out in the contract are monitored and evaluated according to the framework established by the RPS; and
 - adequate documentary support exists for ratings given for KPI evaluations.

- management of contractual issues:
 - regular communication occurs between PWGSC and the AFD contractor; and
 - processes are in place to resolve contractual issues in a timely manner.

- management of amendments and change orders:
 - amendments and change orders are processed in a timely manner;
 - contract changes are appropriately approved and formalized through amendments;
 - Supply Manual practices and Delegation of Authorities are respected;
 - contract amendments are in accordance with the AFD contract approval document; and
 - amendments to the contract are approved within authorized limits.

- payment activities:
 - payments are made in accordance with the terms and conditions of the contract and the Financial Administration Act; and
 - costs are reconciled in a timely manner at fiscal year end.

This audit was conducted in accordance with April 1, 2001 Treasury Board Policy on Internal Audit. In order to support conclusions related to the audit objective, the audit approach used the examination and analysis of PWGSC records providing evidence of the application of the AFD control framework as well as interviews of personnel to determine their understanding and compliance with key control procedures.

3 Findings

3.1 AFD National Contract Management Framework

The legislative and policy context of the AFD contract management framework includes the PWGSC Act, the Federal Real Property Act, the Financial Administration Act, related Treasury Board policies as well as the AFD contract approval document.

The AFD contracts describe, in detail, the basis of the contract control framework. The AFD contracts are designed to be performance-based rather than prescriptive. The contractor is reimbursed for eligible costs plus related management fees within a predetermined ceiling. The contracts define the quality of work to be provided and include performance-based financial incentives.

The KPI measurement mechanisms are designed to determine whether the contractor's performance is sufficient to warrant performance payments. The KPI measurement process also provides, by default, evidence of structured evaluations of contractor performance in regard to the overall requirements of the contract. The KPIs as described in the AFD contract along with RPSB provided tools such as the KPI Scoring Guide and User Manual are utilized by portfolio Asset Managers to monitor and evaluate the AFD contractor's performance.

Roles and responsibilities related to the management of AFD contracts as well as practices and tools to support AFD contract management have been developed by the AFD and Maintenance Management Directorate, Asset and Facility Management Sector (AFMS), RPSB. The AFD Management Handbook, available on the intranet, describes AFD accountabilities and provides a series of standard operating procedures to guide portfolio asset managers. The Handbook continues to be developed with several standard operating procedures under development at the time of the audit.

(*) The Treasury Board Secretariat (TBS) and PWGSC agreed that, financially, the contract would be managed at the macro level. The year one contract amounts became the baseline budgets for each of the 13 private sector contracts.

Each AFD contract is managed and results are evaluated based on a budget that includes all buildings in the portfolio. Each contract and technical authority can amend the contract under their own authority as long as amendments are reported to the AFD Project Directorate, SOSB. Since year one, portfolio budgets have been adjusted annually and in some cases more frequently to fund contract amendments. The portfolio Building Management Plans are the major justification for the budget changes, however, during the year the portfolio budget and contract can be further amended for operational needs. In addition, there have been budget and contract amendments for increased Project Delivery Services (PDS) provided through the AFD contract as PWGSC and its clients increased funding for property management purposes.

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The AFD Project Directorate, SOSB tracks amendments from all AFD contracts. The SOSB figures project that at the end of year 7 there may be an approximate 20 - 25% overall increase in spending over what was originally approved.

Changes to requirements initiated at the National level have not been formalized through amendments to individual AFD contracts.

There have been changes initiated at the National level which had not been yet been formalized through amendments to individual contracts. Specific examples were:

- Letters of credit were returned, but, individual contracts had not yet been amended to reflect this change (Article 10.2 (a));
- Annex "B" to Schedule A, Statement of Work, describes the KPIs. As of the 2000-2001 fiscal year, SPM9, PWGSC Survey was no longer part of the KPI framework used to evaluate the contractor's performance and the points associated with this KPI were allocated to other KPIs. Contract #6 had not yet been amended to document the change; and,
- Annex C of the Statement of Work had not been updated for changes related to the specific requirements of the IRRS system that was developed for the contract.

The AFD Project Directorate, SOSB has indicated that these outstanding amendments will be completed by the end of September 2002.

During the clearance of this report the RPSB and SOSB indicated that changes to the AFD contract performance monitoring framework will be introduced in October 2002 through amendments to all AFD contracts. In place of the current checklist-based monitoring tools, PWGSC is implementing a quality management regime which will be supported by information from the AFD service provider's Quality Management System. The plans include implementation of quality assurance techniques, such as annual quality audits across all contracts to support consistent application

These changes which were being presented to PWGSC personnel in the second quarter 2002-2003 will result in modified performance monitoring and evaluation procedures in PWGSC. Since the Detailed Examination Phase had been completed the audit did not assess the adequacy of the planned quality management processes.

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3.2 Contract #3 Manitoba

This summary of findings reports on the administration of the AFD Contract #3 by the AFMS Group, Manitoba, Western Region and the Supply Operations Services Real Property Contracting Unit, Manitoba.

Ongoing Performance Monitoring

Where KPI evaluation activities had not yet occurred in 2001-2002, the audit team examined the evaluations conducted in the 2000-2001 fiscal year. As many evaluations are scheduled for yearend, of the 28 non-financial KPIs that were examined by the audit team, eighteen were from the 2000-2001 fiscal year and ten were from the 2001-2002 fiscal year. Performance monitoring activities in addition to the KPI performance measurement framework are conducted by AFMS, Manitoba, with support from other Western Region resources, as part of general contract oversight. These activities were not examined as the audit focus was on the formal AFD KPI measurement activities to determine the extent of compliance to the national AFD contract management framework.

The results of examination of the application of the AFD KPI measurement activities follow:

The KPIs as described in the AFD contract and supported by RPSB provided tools such as the KPI Scoring Guide and User Guide, the AFD User Manual as well as local checklists were being applied by AFMS, Manitoba to monitor and evaluate the contractor's performance.

There were three areas of application of the KPI evaluations in which interpretation of the KPI requirements was not entirely consistent with the intent of KPI framework:

- i) The maintenance of substantive evidence is important within the AFD contract control framework to prove that the PWGSC work done to evaluate contractor performance is done adequately.

Depending on the KPI selected for audit tests, there was not always substantive evidence on file in support of scorecard ratings and checklists. The audit found that for some of the KPI evaluations selected for examination from the 2000-2001 fiscal year there was no additional information on file to support the checklist and electronic scorecard ratings. Other evaluations such as those related to project delivery, environmental compliance and sustainable development did have additional supporting evidence on file. Although the maintenance of supporting evidence is in the subjective realm of good practice, the lack thereof impeded the assessment of the extent to which specific KPI evaluations were consistent with the AFD management framework.

Of a positive nature, for KPI evaluations completed as 2001-2002 progressed, there was evidence of an increasingly formal approach with examples of good documentation practices including, for example, obtaining the contractor Facility Manager signatures on inspections and photographic evidence.

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- ii) The application of the *FPR2 Estimates - Projects KPI* evaluation was not consistent with the intent of the KPI framework.

The *KPI - FPR2 Estimates - Projects* is a measure of the accuracy of project cost estimates. Different interpretations of which level of estimate to use for KPI-FPR2 will deliver variations in the score. Version 5.5 of the *KPI Scoring Guide & User's Manual* states (page 57): *FPR2: Estimates--Projects will be evaluated individually by PWGSC to determine the accuracy of the contractor's estimating practices. The estimates identified in the Portfolio Plan will be compared to the actual cost for the project to establish an absolute percentage variance. The actual cost will be the fixed price amount quoted by the contractor and approved by PWGSC after the contract has completed the project design and has obtained competitive proposals. The average of the individual variances will be used to generate the Actual Score."*

In order to calculate the *KPI-FPR 2 Estimates*, AFMS Manitoba compared the cost estimate at the plans and specifications stage (a class B or C estimate) to the final project cost which gives a more favourable score than the use of the BMP estimate (Class D) that is used to decide whether a project will be included in the approved projects for the year. The latter interpretation, the use of the BMP estimate, is the intent of the *KPI Scoring Guide*.

Western Region has indicated that they intend to use the BMP estimate for the *KPI FPR2 Estimates* for 2002-2003 until a planned amendment of all AFD contracts in October 2002 to implement a quality management regime will introduce revised processes.

- iii) The monitoring of several applicable KPIs did not comply with the National AFD performance monitoring KPI Scorecard.

One important dimension of the AFD performance monitoring is that KPI measurements should be taken at random points in time to obtain a statistically valid measure of contractor performance. As outlined in the *KPI Scoring Guide & User's Manual*, "*The Asset Manager is not expected to monitor the contractor's performance in all the buildings or all of the projects all of the time but rather must select specific buildings and projects which will be used as benchmarks in determining the contractor's overall performance. The results of the performance monitoring exercises will be shared with the contractor on a monthly basis to inform them of service delivery short comings and successes and to assist them in better understanding PWGSC expectations.*" The manual further notes that "*Asset Managers must rely on representative and systematically unbiased sample evaluations*".

The KPI Scorecard is a AFMS National Centre of Expertise provided tool designed to generate a list of buildings that are to be inspected during the year for those KPIs that are calculated at the building level. According to the *KPI Scoring Guide & User's Manual*, the system considers the number of buildings in the portfolio, the priorities assigned to the various buildings (for example, office buildings are assigned a higher priority than

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warehouses), and will identify the number of required inspections by building so that a statistically valid confidence level can be achieved.

The audit team compared the actual inspections undertaken in 2001-2002, as of February 2002, with the KPI Scorecard generated list. There were several variances as AFMS, Manitoba introduced changes to the KPI Scorecard sample based monitoring. These changes were due, partly, to delayed provision of the tool (July 2001) and, partly, in an effort to provide improved coverage. The AFMS, Manitoba changes, however, were not based on quantitative methods which means that a statistically valid confidence level would not be associated with the results of the subject KPI evaluations for 2000-2001.

Further, a key intent of the National AFD KPI evaluation framework is to apply the statistically valid KPI Scorecard generated list to ensure consistent treatment across all contracts. The related concern is that inconsistent application of the framework has the potential to generate contract management issues across AFD contracts.

RPSB and SOSB plan to amend all AFD contracts in October 2002, to implement a quality management regime which will modify the AFD KPI performance monitoring framework. The plans include implementation of quality assurance techniques, such as, annual quality audits across all contracts to support consistent application. Western Region has indicated they will apply the National monitoring requirements associated with the planned amendment.

Management of Contractual Issues

A regular and ongoing dialogue with the contractor was maintained at a working level throughout the period examined to address and resolve contractual issues.

Biweekly meetings were held on a consistent basis involving the PWGSC Asset Manager, Property & Facility Managers, Maintenance Management Specialists and the contractor Portfolio Manager, Project Manager and Facilities Managers. Minute-taking processes provided an indication of when certain items were first raised, the commitments made by the contractor to provide information, and the status of current outstanding requests. The meetings were supplemented by ongoing contact by telephone and in person between the PWGSC PFMs and the contractor Facility Managers with responsibility for particular buildings.

There was evidence that the PWGSC Asset Manager meets with the contractor Portfolio Manager on a bi-weekly basis. Notes from these meetings were kept and subsequent emails were used to confirm the details that were discussed.

Contractual issues were adequately managed.

Minutes of regular meetings between the contractor and PWGSC indicated that there were discussions throughout 2001-2002 about the process to be followed by the contractor for critical incidents and commissioning. The contractor's position as noted in the minutes to these items

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was that a procedure should be established and, in the case of commissioning, would provide a cost estimate to establish a procedure. AFMS, Manitoba reasonably maintained that the contractor should have provided these processes right from the commencement as part of its responsibilities under the contract. Western Region management was aware that the resolution of the issue was outstanding at the time of the audit and was working to resolve it.

Management of Amendments and Change Orders

Amendments and change orders for Contract #3 were properly approved within authorized limits with evidence of adequate justification.

Payment Activities

Payments for O&M costs and small projects were made as set out in the contract. At the end of the period, the costs were reconciled and adjusted as appropriate.

AFMS, Manitoba complied with the intent of the AFD contract in regard to the authorization of projects and the approval of related payments. Payments for the period examined were made in accordance with the approved Payment Milestone Schedule for the year and were reconciled in accordance with the contract.

As noted in the Preliminary Survey there is considerable reliance on the contractor's accounting systems to provide accurate billing. The contractor's costs were "reconciled" on an annual basis by a third party auditor as required by the contract. The audit firm certified that the costs incurred were consistent with the terms of the contract. A document was provided certifying the costs and indicating that Generally Accepted Auditing Standards had been utilized to audit the costs.

The contractor's cost certification for 2000-2001 was reconciled to PWGSC's records in early 2002 by the AFM Staff Advisor in Edmonton. Only minor differences were noted between it and PWGSC records.

Conclusions Contract #3

For the period examined, the management of contractual issues; amendments/change orders; and payment activities was consistent with the AFD contract management control framework.

Overall, the KPIs as described in the AFD contract along with RPSB provided tools such as the KPI Scoring Guide and User Manual as well as checklists were being utilized by AFMS, Manitoba, to monitor and evaluate the AFD contractor's performance. Audit testing identified certain KPI evaluations in which the AFMS, Manitoba interpretation of the requirements was not consistent with the intent of KPI framework. The areas in which interpretation of the requirements varied were:

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- i) For several KPI evaluations that were included in tests, the evaluations were not supported with substantive evidence. Although the maintenance of supporting evidence is in the subjective realm of good practice, the lack thereof impeded the audit team from assessing the extent to which specific KPI evaluations were consistent with the AFD management framework. The audit team noted that as the period under examination progressed, the KPI evaluations had increased documentary support;
- ii) The interpretation of the requirements in regard to the calculation of the *KPI-FPR 2 Estimates* (a measure of the accuracy of project cost estimates) was not consistent with the KPI Scoring Guide & User Manual; and
- iii) For several of the KPI evaluations that were included in tests, the evaluations were not in compliance with the KPI Scorecard.

Common interpretation of the KPI requirements across all AFD contracts is important to support consistent calculation of performance payments as well as to provide evidence of structured evaluations of contractor performance in regard to the overall requirements of the contract. Western Region has indicated they will apply the National requirements associated with the planned quality management regime which will modify the AFD KPI performance monitoring framework.

3.3 Contract #6 NCA 1

This summary of findings reports on the administration of the AFD contract for Portfolio #6 by the AFMS, National Client Service Unit (NCSUD) NCA 1, RPSB and the AFD Project Directorate of the Industrial and Commercial Products and Standardization Services Sector, SOSB.

Ongoing Performance Monitoring

An audit sample of 23 evaluations supporting twenty different KPIs or KPI subcomponents, that the AFMS utilized to record the contractor's performance during the 2000-2001 and 2001-2002 fiscal years was examined.

The results of the examination of the application of the AFD KPI measurement activities follows:

The KPIs as described in the AFD contract #6 and supported by RPSB provided tools such as the KPI Scoring Guide, the AFD User Manual as well as local checklists were being applied by AFMS, NCA #1, to monitor and evaluate the contractor's performance.

- i) The maintenance of substantive evidence is important within the AFD contract control framework to prove that the PWGSC work to evaluate contractor performance is done adequately. The KPI evaluations for Contract #6 were supported with substantive evidence;

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- ii) The KPI project delivery related evaluations in eight different buildings were selected for audit examination. The projects for KPI evaluation were identified at the start of the year and measured against the Building Management Plan estimate in accordance with the KPI Scoring Guide and Users Manual; and

- iii) The applicable KPIs were monitored and evaluated on a basis consistent with the AFD performance monitoring KPI Scorecard. The KPI framework is designed so that KPI evaluations are used to obtain readings at points in time to obtain measures of the contractor's performance. The NCA #1 utilized the inspection schedule generated by the KPI Scorecard as the basis for its schedule. There was evidence that inspections followed the guidance of the scorecard and were spread throughout the year where practical. Audit tests included comparison between when inspections had been scheduled and when they were actually completed as recorded in the KPI Scorecard. Only minor variances were noted and for the most part, inspections were carried out in the month scheduled.

Management of Contractual Issues

Regular and ongoing communication with the contractor was maintained to address and resolve contractual issues.

Minutes from monthly meetings were maintained by PWGSC. There was a consistent documented pattern of the contractor carrying out its responsibilities and providing the required information in a timely manner to PWGSC. As evidenced from minutes, monthly meetings were held on a consistent basis involving the PWGSC Asset Manager, contractor Portfolio Manager, and SOS Contract Authority and other PWGSC personnel as required. Agendas were sent out in advance of the meeting, topics in the minutes were numbered so as to identify which meeting it was discussed at, and the minutes are signed off by both the PWGSC Asset Manager and the contractor Portfolio Manager.

Management of Amendments and Change Orders

Amendments and change orders for Contract #6 were properly approved within authorized limits with evidence of adequate justification.

Payment Activities

Payments for O&M costs and small projects were made as set out in Contract 6. At the end of the year, the costs were reconciled and adjusted as required.

Costs were reconciled on an annual basis by a third party auditor as required by the contract. The audit firm certified that the costs incurred were consistent with the terms of the contract. There was evidence that the contractor's cost certification for 2000-2001 had been reconciled to PWGSC's records in April of 2001. A credit balance of some \$240,120 was found owing and the contractor properly submitted a cheque for this amount with its May 1st, 2001 invoice.

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AFMS, NCA 1 complied with the intent of the AFD contract management framework in regard to the authorization of projects and the approval of related payments. Examination of records indicated that the AFMS NCA #1 applied an effective process for approving project work with the contractor. There was evidence that the project related evaluations were being conducted effectively.

Conclusions Contract #6

For the period examined, the management of contractual issues, amendments/change orders and payment activities was consistent with the AFD contract management control framework

The KPIs as described in the AFD contract along with RPSB provided tools such as checklists and the *KPI Scoring Guide and User Manual* were applied by AFMS, NCA1 to monitor and evaluate the AFD contractor's performance. The examination of available documentation and interviews with key personnel indicated that, for the period reviewed, the AFD contract performance monitoring and evaluation had been carried out in a manner consistent with the KPI framework and guidelines.

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4 Conclusions

During the period examined, there was a comprehensive contract control framework in place for the AFD initiative as described in the individual contracts as well as the supporting practices and management tools which had been provided by the RPSB.

There were changes requiring amendments initiated at the National level which had not yet been formalized through amendments to the individual contracts at the time of the audit. SOSB has indicated that these changes will have been formalized by the end of September 2002.

For the period examined, for each of the two selected contracts, the management of contractual issues, amendments/change orders and payment activities was consistent with the AFD contract management control framework.

The AFD contracts are designed to be performance-based rather than prescriptive. The KPI measurement mechanisms determine whether the contractor's performance is sufficient to entitle payment of performance payments. The KPI measurement process also provides, by default, evidence of structured evaluations of contractor performance in regard to the overall requirements of the contract. Common interpretation of the KPI requirements across all AFD contracts is important to support consistent calculation of performance payments as well as to provide evidence of structured evaluations of contractor performance in regard to the overall requirements of the contract.

Overall, the KPI framework as described in the AFD contract along with RPSB provided tools, such as the KPI Scoring Guide and User Manual, were being utilized by portfolio Asset Managers to monitor and evaluate the AFD contractor's performance. The interpretation of the KPI requirements in Manitoba was not entirely consistent with the intent of KPI framework. The areas in question were related to certain of the project delivery KPI evaluations and the selection of assets for KPI sample-based monitoring.

During the clearance of findings, the RPSB and the SOSB indicated that changes to the AFD contract performance monitoring framework will be introduced in October 2002 through amendments to all AFD contracts. In place of the current checklist based monitoring tools, PWGSC is implementing a quality management regime which will be supported by information from the AFD service provider's Quality Management System. The plans include implementation of quality assurance techniques, such as, annual quality audits across all contracts to support consistent application. Since the Detailed Examination Phase had been completed the audit did not assess the adequacy of the planned Quality Management processes. Western Region has indicated they will apply all of the National contract performance monitoring requirements associated with the planned amendment.

The audit examination of KPI evaluation records for Manitoba Contract #3 indicated instances whereby documentary evidence was not always available or sufficient. The maintenance of substantive evidence is important within the AFD contract control framework to prove that the

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PWGSC work done to evaluate contractor performance is done adequately. Of a positive nature, there was evidence of an increasingly formal approach as the period under review progressed with examples of improved documentation practices.

Although there were instances whereby the contract performance measurement framework was not interpreted consistently, overall, the contract control framework was being applied for the two contracts examined. PWGSC plans to introduce a quality management regime which has elements to support consistent application.

5 Recommendations

No recommendations are required.

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6 Action Plan

Not required as there are no recommendations.

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Appendix A

The following Canadian Institute of Chartered Accountants (CICA) Criteria of Control (COCO) were applied in the conduct of the Preliminary Survey Phase of the audit to aid in the understanding and assessment of the adequacy of the controls associated with the contract management of the AFD:

Purpose

- A1 Objectives should be established and communicated;
- A2 The significant internal and external risks faced by an organization in the achievement of its objectives should be identified and assessed;
- A3 Policies designed to support the achievement of an organization's objectives and the management of its risks should be established, communicated and practiced so that people understand what is expected of them and the scope of their freedom to act;
- A4 Plans to guide efforts in achieving the organization's objectives should be established and communicated; and
- A5 Objectives and related plans should include measurable performance targets and indicators.

Commitment

- B1 Shared ethical values, including integrity, should be established, communicated and practiced throughout the organization;
- B2 Human resource policies and practices should be consistent with an organization's ethical values and with the achievement of its objectives;
- B3 Authority, responsibility and accountability should be clearly defined and consistent with an organization's objectives so that decisions and actions are taken by the appropriate people; and
- B4 An atmosphere of mutual trust should be fostered to support the flow of information between people and their effective performance toward achieving the organization's objectives.

Capability

- C1 People should have the necessary knowledge, skills and tools to support the achievement of the organization's objectives;
- C2 Communication processes should support the organization's values and the achievement of its objectives;
- C3 Sufficient and relevant information should be identified and communicated in a timely manner to enable people to perform their assigned responsibilities;
- C4 The decisions and actions of different parts of the organization should be coordinated; and

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- C5 Control activities should be designed as an integral part of the organization, taking into consideration its objectives, the risks to their achievement, and the inter-relatedness of control elements.

Monitoring and Learning

- D1 External and internal environments should be monitored to obtain information that may signal a need to reevaluate the organization's objectives or control;
- D2 Performance should be monitored against the targets and indicators identified in the organization's objectives and plans;
- D3 Not applicable;
- D4 Information needs and related information systems should be reassessed as objectives change or as reporting deficiencies are identified;
- D5 Follow-up procedures should be established and performed to ensure appropriate change or action occurs; and
- D6 Management should periodically assess the effectiveness of control in its organization and communicate the results to those to whom it is accountable.