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2001-644

Final Report

Audit of Electrical Contracting in AFMS

2003-03-25



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Executive Summary

Authority for the Project

The Audit and Ethics Branch was requested by the Assistant Deputy Minister (ADM), Real Property Services Branch (RPSB), in 2001-2002, to undertake an audit of electrical contracting in the Asset and Facilities Management Services (AFMS) Sector, RPSB.

Objectives

The following were the objectives of the audit:

- i) To assess the adequacy of the design and application of controls in place to support probity of the real property related electrical contracting conducted by, and on behalf of, the AFMS Sector, RPSB in the National Capital Area (NCA);
- ii) To assess the degree of compliance of real property related electrical contracting practices applied by, and on behalf of, the AFMS in the NCA to government contracting policy objectives aimed at enhancing access, competition, fairness and best value; and,
- iii) To determine if real property related electrical contracting practices applied by, and on behalf of, the AFMS Sector in the NCA are consistent, in general, with those employed in selected Public Works and Government Services Canada (PWGSC) organizations and with the Canadian real property industry, in general.

Scope

The scope of the audit included processes within the AFMS Sector and the supporting processes in the Supply Operations Services Branch (SOSB) as well as the Finance Sector, Government Operations Service Branch (GOSB) employed in the establishment and administration of contracts for electrical goods and services used to manage the construction of new facilities, to refit space, as well as the day-to-day operation, maintenance and repair of Federal office buildings and specialized facilities for PWGSC and by RPSB on behalf of other government custodial departments.

The audit did not include electrical contracting requirements included under the provisions of the Alternative Forms Delivery (AFD) initiative nor did it include requirements awarded under a general construction contract and then subcontracted. The audit did not include contracting conducted within other RPSB Sectors nor that conducted within National Client Service Unit Directorates (NCSUDs) by AFMS personnel under assignment to the respective NCSUD. The audit included an examination of PWGSC records and interviews with PWGSC personnel as well

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as consultation with comparable real property organizations. The selection of contracting records for audit examination were from the fiscal year 2001-2002.

Background

At the time of the audit examination, the RPSB had both functional and operational responsibility for providing affordable and productive accommodation and related services to Federal tenants, clients, and others. Subsequent to completion of the audit work, the operational real property management and service responsibilities were transferred to a newly created *Operations Branch while the real property program responsibility remained with the Real Property Program Branch*. As part of this reorganization, the RPSB NCSUDs which delivered service to client departments and provided property management for the asset portfolio were transferred to Operations Branch. The NCSUDs were combined with other PWGSC services into Service Sectors for specific client departments. Portions of the AFMS Sector including the Operational Support Services (OSS) Directorate were transferred to the Real Property Resource Management Sector of the Operations Branch.

Information collected in the Preliminary Survey of the audit indicated that the AFMS electrical contracting was typically low dollar value (less than \$25,000.00) conducted directly by the Maintenance Support Services (MSS) of the OSS Directorate. The NCSUDs were the direct clients of the MSS who responded to their electrical construction requirements through work performed by MSS employees or through firms under contract to supply, install, maintain and/or service electrical systems. This business relationship has been maintained between the MSS and the new Service Sectors.

Key Findings and Conclusions

The focus of the Detailed Examination was on the design and application of electrical contracting practices in the OSS, AFMS in regard to the three stated audit objectives with the following results:

- i) The OSS has made considerable progress towards implementing adequate management practices and controls designed to provide for probity in the contracting for AFMS electrical construction requirements. There are examples of good management practices including current, documented procedures and a new MSS organization structure which increased project management accountability. There are areas, however, which require strengthening, for example:
 - Procurement authority levels were respected in the contracts examined, however, MSS personnel are not supported with predefined criteria to support their project structuring decisions. The absence of clearly documented criteria defining what is acceptable in terms of project structuring increases risk that authorities may be circumvented. During the clearance of findings, the OSS indicated that project structuring criteria were being documented with a planned completion in the 4th quarter 2002-2003.

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- Contracts examined were administered in accordance with applicable financial policies, procedures and accepted financial control practices with the exception of some administrative oversights. OSS management indicated, during the clearance of findings, that these oversights would be corrected immediately.
- Of the 43 contracts examined in the audit, 30 had amendments. Written justification supporting contract amendments often did not provide an adequate explanation of the justification as well as the additional work required. MSS managers indicated they had initiated a priority to improve the quality of written amendment justifications.
- While there is evidence of supervision and monitoring over the contracting process, information available to OSS management is not adequate to support management oversight of the *electrical contracting processes*. OSS management indicated, during the clearance of findings, that the electrical contracting information requirements to support monitoring would be defined with improved reporting mechanisms planned for the 4th quarter 2002-2003.

ii) The OSS electrical contracting practices are generally consistent with government policy objectives aimed at enhancing competition, fairness and best value with attention required in increasing accessibility to certain requirements. The audit examination did not attempt to establish in a quantifiable sense whether "best value" had been obtained for electrical contracts included in the audit examination due to the many variables associated with single fixed price competitive bids which combine services and goods, however, it was evident that "best value" is being sought by soliciting bids from multiple sources when practical.

The MSS management had recognized access related deficiencies in certain of its sourcing mechanisms, in particular, the "rotational source list" for electrical opportunities. The audit identified similar concerns related to the "designated" firms who have been pre-qualified to meet specific needs. Access to register for these "designated" opportunities and the "rotational source list" has not been open to the contracting community and, thus, has not been consistent with contracting policies and approved practices aimed at providing open access to government contracts risking the development of negative perceptions. The OSS was changing the sourcing mechanisms available to MSS project managers during the second quarter 2002-2003 to introduce a sourcing mechanism which is open to the public for registration (SELECT). During the clearance of findings, the OSS indicated that the implementation of SELECT, in the MSS, had been halted due to issues related to the availability of training and functional needs.

iii) Selected electrical contracting practices employed by the MSS, operating in the NCA were compared to those applied within three PWGSC Regions, and, also, to those of a comparable operational unit of a National property management firm to meet similar contracting needs.

The comparison noted several environmental and operational differences between the Regions and the MSS in regard to electrical contracting. For example: the NCA has many more non-AFD assets in a smaller geographic area than does any single Region which gives rise to a higher volume of requirements; MSS has approximately 60 electricians on staff; Regions do not have trade shop facilities with staff electricians; contracting is often conducted directly by MSS

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whereas Regions typically utilize standing offers with electrical contracting firms or requisition the non-AFD needs through acquisition services.

Overall, the contracting practices applied by the MSS were found to be consistent with those applied by the property management firm. For example, in both organizations: contracting authority levels were similar; plans for low dollar value contracts were typically not detailed; projects were structured using similar construction categories; and, low dollar value contracts were awarded based on lowest price. There was a similar frequency of amendments per contract. The firm and the MSS used comparable hourly rates to estimate the cost of electrical requirements.

Recommendations

It is recommended that the Assistant Deputy Minister, Operations Branch ensure that:

1. *All delegations for procurement and Financial Administration Act (FAA) authorities be made current and formalized in the MSS, OSS;*
2. *Access to registration for contractors interested in bidding on OSS electrical contracting opportunities including "designated requirements" be made openly accessible to the contractor community;*
3. *Predefined criteria to support MSS project structuring decisions be developed and employed;*
4. *Contract amendments be supported with sufficient documentation to provide an adequate explanation of the justification as well as a description of the changes; and,*
5. *Information requirements be defined and reporting mechanisms developed to support OSS management in supervising and monitoring its electrical contracting.*

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1 Introduction

1.1 Authority for the Project

The Audit and Ethics Branch was requested by the Assistant Deputy Minister (ADM), Real Property Services Branch (RPSB), in 2001-2002, to undertake an audit of electrical contracting in the Asset and Facilities Management Services (AFMS) Sector, RPSB.

1.2 Objectives

The following were the objectives of the audit:

- i) To assess the adequacy of the design and application of controls in place to support probity of the real property related electrical contracting conducted by, and on behalf of, the AFMS Sector, RPSB in the National Capital Area (NCA);
- ii) To assess the degree of compliance of real property related electrical contracting practices applied by, and on behalf of, the AFMS in the NCA to government contracting policy objectives aimed at enhancing access, competition, fairness and best value; and,
- iii) To determine if real property related electrical contracting practices applied by, and on behalf of, the AFMS Sector in the NCA are consistent, in general, with those employed in selected Public Works and Government Services Canada (PWGSC) organizations and with the Canadian real property industry, in general.

1.3 Scope

The scope of the audit included processes within the AFMS Sector and the supporting processes in the Supply Operations Services Branch (SOSB) as well as the Finance Sector, Government Operations Service Branch (GOSB) employed in the establishment and administration of contracts for electrical goods and services used to manage the construction of new facilities, to refit space, as well as the day-to-day operation, maintenance and repair of Federal office buildings and specialized facilities for PWGSC and by RPSB on behalf of other government custodial departments.

The audit did not include electrical contracting requirements included under the provisions of the Alternative Forms Delivery (AFD) initiative nor did it include requirements awarded under a general construction contract and then subcontracted. The audit did not include contracting conducted within other RPSB Sectors nor that conducted within the 19 National Client Service Unit Directorates (NCSUDs) by AFMS personnel under assignment to the respective NCSUD. The audit included an examination of PWGSC records and interviews with PWGSC personnel as well as consultation with a comparable real property organizations.

The selection of contracting records for audit examination were from the fiscal year 2001-2002.

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1.4 Background

At the time of the audit examination, the RPSB had both functional and operational responsibility for providing affordable and productive accommodation and related services to federal tenants, clients, and others. Subsequent to completion of the audit work, the operational real property management and service responsibilities were transferred to a newly created Operations Branch while the real property program responsibility remained with the Real Property Program Branch. As part of this reorganization, the RPSB NCSUDs which delivered service to client departments and provided property management for the asset portfolio were transferred to Operations Branch. The NCSUDs were combined with other PWGSC services into Service Sectors for specific client departments. Portions of the AFMS Sector including the Operational Support Services (OSS) Directorate were transferred to the Real Property Resource Management Sector of the Operations Branch.

Amongst its responsibilities, the Operations Branch manages the construction of new facilities, the refit of leased space as well as the day-to-day operation, maintenance and repair of Federal office buildings and specialized facilities for PWGSC and other government custodial departments.

At the time of the audit several organizations in PWGSC conducted electrical contracting. In addition to the contracting conducted directly by the AFMS (under its own authority or through the SOSB), the NCSUDs and the Architecture and Engineering Sector also contracted for electrical services including the provision of electrical related goods. As well, the corresponding real property entities in the PWGSC Regional organizations conducted electrical contracting.

Information collected in the audit indicated that the AFMS electrical contracting was typically low dollar value (less than \$25,000.00) conducted directly by the Maintenance Support Services (MSS) of the OSS Directorate. The NCSUDs were the direct clients of the MSS who responded to their electrical construction requirements through work performed by MSS employees or through firms under contract to supply, install, maintain and/or service electrical systems. This business relationship has been maintained between the MSS and the new Service Sectors.

Under the provisions of the Alternate Forms of Delivery (AFD) contracts, the AFD service provider(s) continue to manage construction related projects up to \$200,000.00 involving assets covered under the AFD contracts. These projects can include electrical services subcontracting.

The authority to conduct the related real property services and contracting activity devolves primarily from the Public Works and Government Services Act, the Federal Real Property Act, the Financial Administration Act and related regulations.

1.5 Contracting Volumes

The determination of the number and dollar value of electrical contracts required to provide the population of records available for the purposes of the audit examination started with an analysis of account payments recorded on the Common Departmental Financial System/Financial

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Management System (CDFS/FMS). Payments made to firms that were recognized as electrical contractors were identified and traced to AFMS project and contract records to determine the specific contract documents. A comparison of the contract dollar totals to account payment totals was conducted to corroborate the representativeness of the OSS information.

The aforementioned process was applied as Departmental information repositories did not provide definitive volume information regarding the electrical contracting conducted by, and on behalf, of AFMS. The Departmental account coding structure is not designed to record information related to a specific type of good or service requirement. Similarly, the AFMS and SOSB contracting records are not catalogued within a coding structure designed to facilitate identification of a specific type of good or service requirement. Many of the contract records are in hardcopy format and are maintained in several physical sites.

According to the analysis, in fiscal year 2001-2002, the total value of electrical project work conducted by MSS was approximately \$3.6 million. This amount included work conducted by PWGSC trades personnel as well as 256 contracts awarded directly to 25 electrical contractors to a value of approximately \$1.7 million. The identified contracts which ranged in value from \$100.00 to \$50,000.00 provided a sufficiently representative population to assess the application of the AFMS electrical contracting processes.

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2 Issues Examined

The control and compliance criteria listed in Appendix A to this report were used to guide the design of audit programs, the analysis of audit test results and the development of conclusions in regard to the audit objectives. Interviews were conducted with PWGSC personnel and documentation was reviewed to assess practices guiding electrical contracting supporting the AFMS.

Information collected in the Preliminary Survey of the audit indicated that, in 2001-2002, most of the AFMS electrical contracting was typically low dollar value (less than \$25,000.00) conducted directly by Management Support Services (MSS) Group of the OSS Directorate. The audit volume analysis identified a single requirement which was requisitioned by the MSS to be acquired by the Real Property Contracting Directorate (RPCD), SOSB. Given the aforementioned information, the focus of the Detailed Examination was on the design and application of electrical contracting processes in MSS and the OSS in regard to the following issues:

2.1 Design and application of controls in OSS to support probity in contracting

Is the design and application of controls in OSS adequate to support probity of the real property related electrical contracting?

2.2 Degree of compliance to government contracting policy objectives aimed at enhancing access, fairness and best value

Is there an adequate degree of compliance of real property related electrical contracting practices in OSS to government contracting policy objectives aimed at enhancing access, competition, fairness and best value?

2.3 Consistency of electrical contracting in OSS to industry practices

Are electrical contracting practices applied by OSS consistent with industry practices?

The MSS, OSS electrical contracting practices for similar contracting needs were compared for consistency with those applied by a Nationally recognized property management firm and three PWGSC Regions. In addition, forty-three (43) out of 256 contracts, that were identified by the audit analysis as electrical service contracts within the scope of the audit, were selected on a judgmental sample basis to determine the extent to which processes were applied as designed.

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

3 Findings

The following subsections contain the findings for each identified issue and corresponding control criteria which are cross-referenced (by number) to those listed in Appendix A:

3.1 Design and application of controls in the OSS to support probity in contracting

3.1.1 Applicable policies and guidelines are current, documented and available to personnel along with training. (1.1)

The MSS has developed an internal procedures document entitled *Maintenance Support Trade Shop Goods and Services Procurement Procedures* which is a compendium of Departmental contracting policies and good practices to provide guidance to MSS managers and personnel. Copies were disseminated to MSS staff. The *Procurement Procedures* document was reviewed and compared to relevant portions of the TB Contracting Policy and to the Departmental Supply Manual. The document respects the intent of these documents. The personnel who were interviewed were aware of their responsibilities and obligations with respect to contracting. The results of the file examination indicated that procedures were being respected.

3.1.2 MSS roles, responsibilities, authority and accountabilities were being documented. (1.2)

The work of the MSS has evolved beyond providing maintenance and trade related service through its work force to the delivery of construction management services delivered through a combination of its own personnel and contractors. The MSS functions and services are briefly identified on the RPS Intranet site, however, there was concern amongst MSS managers that the organization's role, responsibilities, authorities and accountabilities regarding construction projects were not recognized and accepted.

Clearly documented roles, responsibilities, authorities and accountabilities regarding construction projects would assist relationship and project management for MSS personnel and their clients. During the clearance of findings OSS indicated that the MSS role, responsibilities, authorities, accountabilities regarding construction projects were being documented with a planned completion in January 2003.

A new organizational structure was introduced in MSS in December 2001. The new structure increased project management accountability as the same project manager is responsible for all aspects of the project.

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3.1.3 Contracting requirements are justified and supported by plans. (1.3)(1.4)(1.5)

Electrical contracting requirements originate from the asset planning process, scheduled preventative maintenance and emergency requests. Projects are approved and budgets are provided by the respective client NCSUD. The audit examination noted that, in some cases, the plans and specifications coming from NCSUDs were incomplete, however, the MSS was able to further define the requirement sufficiently to accomplish the work using either its own resources or contractors. MSS has established procedures to quality review plans prior to job showing. Job showings are often used to supplement the written description of the requirement.

3.1.4 Contract documents were being authorized by the responsible MSS Heads, however, due to an administrative oversight one authorizing individual did not have properly delegated authority. (1.7)(1.8)

The Work Order (PWGSC Form 338), is the contracting document used by MSS for requirements up to \$25,000.00. Work Orders are produced by the MSS project manager with a description of the requirements. These documents are reviewed and the procurement is authorized by the responsible Head prior to contracting. Each Work Order that was sampled had been authorized by the responsible Head.

Subsequent to the 2001-2002 re-organization, the delegation of authority for one of the Heads had not been changed to reflect his new responsibility thus an individual who did not have formally documented contracting authority was signing contracting documents through an administrative oversight. During the clearance of findings the OSS indicated that this oversight was being corrected immediately.

3.1.5 Procurement authority levels are being respected, however, MSS personnel are not supported with predefined criteria to support their project structuring decisions. (1.6)

Interviews indicated that there is a motivation within MSS to meet client expectations while working within the established authority levels. There are, however, no clear documented criteria available to both clients and to MSS to determine which work requirements should be undertaken by MSS, in whole or in part, and/or which should be procured in their entirety either by MSS or RPCD. MSS management and project managers identified pressure in balancing client expectations for an expedited solution while working in a rules based contracting environment.

Although MSS organizes projects following a standard industry approach, considerable judgement is required of MSS personnel to meet client expectations

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of fast track project delivery while respecting contract authority levels as these structuring criteria are not clearly documented. Audit testing did not identify clear examples which indicated that requirements had been organized with the intent to avoid seeking higher contracting authority, however, for some files the supporting project structuring rationale required additional explanation from MSS Heads.

The absence of clearly documented prerequisites to assist clients and MSS to determine which requirements should be undertaken by MSS introduces pressure on MSS to accept projects that might better be procured in their entirety by RPCD. Similarly, the absence of clearly documented criteria defining what is acceptable/not acceptable in terms of project structuring increases risk that authorities may be circumvented.

Mitigating these risks, to some extent, is an electrical contracting supply arrangement which was implemented in 2001-2002. The supply arrangement provides a method to MSS to contract up to approximately \$90,000.00 for electrical requirements. Although it had not yet been applied, the MSS indicated, during clearance of findings, that the electrical supply arrangement would be used as contracting requirements over \$25,000.00 were identified.

During the clearance of findings the OSS indicated that project structuring criteria were being documented with a planned completion in the 4th quarter 2002-2003.

3.1.6 Estimates examined were consistent with requirements, however, they often varied considerably from eventual contract values. (1.9)

MSS project managers develop estimates prior to soliciting bids for contracts. These estimates are the basis for the project budget committed by the client NCSUD. For several of those files selected for audit tests, the estimates varied considerably from the contracted amount. For 12 of the 23 files selected, the estimates varied by 30 to 60% with respect to the contract award. For 9 of the aforementioned 12 files, amendments resulted in the final total contracted amount approaching or exceeding the estimate amount.

Interviews and examination of procedures indicated that the estimates are developed using a conservative "Class D" approach. For example, unionized rates are used for labour estimates which are typically higher than what a non-unionized company may propose. Since electrical contracting firms in Ottawa are permitted to employ non-unionized electricians, in many cases, the competitive bid was less than the estimate depending on the labour/goods mix.

Examination of the amendments for the sampled files indicated that the amendments were supported by a written justification on file and the amendments were authorized by the responsible Head. The written detail, however, as

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discussed in sub-section 3.1.11, was often not sufficient to adequately describe the amendment justification. The combination of estimate variances, frequency and relative size of amendments highlights the importance of ensuring that all amendments are adequately justified, properly authorized and visible to OSS management.

3.1.7 Bids received are properly secured until bid closing. (1.10)

Procedures are in place to ensure that bids received on behalf of MSS are properly secured in the SOSB Materiel Management independent to MSS project managers until bid closing.

3.1.8 Bid evaluation provides evidence of objectivity and fairness. (1.11) (1.12) (1.13) (1.13)

The sole evaluation criteria for MSS bid evaluation is price - the lowest fixed price bid wins. Examination of sampled files indicated that all the contracts were awarded based on lowest bid.

3.1.9 Contract management practices are being applied. (1.15 (1.16)(1.17)

There is evidence that contracted work is monitored so as to support completion on time and within budget. The Heads, Estimating Group and Construction Management Group have regular meetings with their respective project managers to monitor project progress. Interviews with selected NCSUD personnel indicated that they are satisfied with the timing and quality of service managed by MSS.

3.1.10 Contracts examined were administered in accordance with applicable financial policies, procedures and accepted financial control practices with the exception of some administrative oversights. (1.18)

The examination of files indicated that, for the most part, the MSS was complying with applicable financial policies, procedures and accepted financial control practice. Two instances of non-compliance in this area were noted. One of the Heads had authorized 2 contracts acting beyond his \$25,000.00 level of contracting authority. It was also noted that two MSS individuals who were regularly signing under Section 34 of the FAA did not have this level of authority. The MSS was not in compliance with its delegated authority, however, it was clearly an administrative oversight in these cases.

OSS indicated during the clearance of findings that these oversights would be corrected immediately.

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3.1.11 Written justification supporting contract amendments often did not provide an adequate explanation of the justification as well as the additional work required. (1.19)(1.20)

Of the 43 contracts selected for audit examination 30 had amendments. There were 45 amendments in total for the selection which increased the total contracted amounts by 56% over the original contracts.

The respective Heads, Estimating Group and Construction Management Group authorize work order amendments based on written justification from MSS project officers. The audit examination noted, in several cases, that the level of detail justifying the amendment was not sufficient to explain exactly what was being changed and the exact reason for the amendment.

Interviews indicated that the MSS Heads had initiated a priority to improve the quality of amendment justification information on files.

3.1.12 There is evidence of AFMS management monitoring and supervision over the contracting process. (1.21)

(See narrative 3.1.14)

3.1.13 AFMS management monitors the application of procurement methods. (1.22)

(See narrative 3.1.14)

3.1.14 Information mechanisms are not adequate to support management oversight of the electrical contracting process. (1.23) (1.24) (1.25)

The Heads of the Estimating Group and the Construction Management Group monitor project progress as well as the contracting conducted by their project managers through document review and meetings. The Manager, MSS receives reports produced directly by the Heads Estimating and Construction Groups as well as a transaction level report from the CDFS/FMS. In addition, the OSS Business Manager provides an administrative oversight function which monitors individual MSS projects against approved budgets.

There is evidence of management monitoring activity, however, the current reporting mechanisms do not adequately support management oversight of the electrical contracting process in the OSS. Although there are operational reports produced by the Heads, there is no useful independent reporting to corroborate this information. Examples of information which, if provided from an independent source, would assist OSS and MSS managers in supervising contracting activity might include:

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- volume and value of contracts by firm;
- volume of contracts issued competitively;
- volume of sole source contracts;
- usage of designation letters;
- variance between estimates and contracted amounts; and,
- analysis of amendment justifications.

The OSS is responsible for several trades thus management has a considerable volume of projects and contracting activity to monitor. Without an independent source of corroborating information which is customized to assist in supervising and monitoring project management and contracting activity there is over reliance on the manually produced information coming from subordinates for monitoring purposes.

During the clearance of findings, the OSS indicated that electrical contracting information requirements to support monitoring were being defined with a planned implementation of improved reporting mechanisms in the 4th quarter 2002-2003.

3.1.15 There are examples of accepted management practices. (1.26)

Generally accepted management practices such as the following have been implemented and are functioning:

- Individual project budgets are approved by the client NCSUD and project spending is monitored by the OSS Business Management Unit;
- Accountability for project results is established with an assigned project manager;
- Planning for each project including an informal risk assessment is conducted;
- Procedures call for competitive bids to be sought where required by contract regulation and where practical for low dollar value (under \$25,000.) procurement, (discussed further in Objective 2); and,
- Elements of a quality assurance program have been implemented (verification of plans and specifications before job showings).

The following Section 3.2 is also control oriented, however, it focuses on practices that contribute to the attainment of government policy objectives related to access, competition, fairness and best value.

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3.2 Degree of compliance to government contracting policy objectives aimed at enhancing access, fairness and best value

3.2.1 Procurement methods available to MSS are consistent with contracting policies and practices aimed at enhancing access, competition, fairness and best value. (2.1)

The following methods of procurement were available to the MSS during 2001-2002:

- *Competitive tendering by inviting contractors selected from ACCORD (ACCORD was subsequently replaced by SELECT in 2002);*
- *Competitive tendering inviting contractors selected from a rotational source list (in process of being discontinued in 2002 in favour of SELECT);*
- *Competitive tendering through the RPCD, SOSB, typically, for contract opportunities greater than \$25,000.00;*
- *Single Tendering to pre-qualified firms designated as meeting specific technical needs (Designation letters);*
- *Supply Arrangement with electrical firms; and,*
- *Electrical goods are acquired through a requisition to SOSB Materiel Management who either supply stocked hardware or order the requirement.*

The aforementioned methods of procurement are consistent with related areas of the FAA Contracting Regulations, Treasury Board Secretariat (TBS) and PWGSC contracting policies and practices. For those files selected for audit tests, the procurement method selected was appropriate given the value of the opportunity, delegated level of authorization to MSS and compliant with the MSS procedures that were current at the time.

The rotational source list which was identified to be replaced in 2002-2003 had deficiencies in terms of open access for registration. These concerns are discussed under sub-section 3.2.3.

The audit examination compared the contract value to the procurement method chosen for 43 contracts:

- *3 contracts were over \$25,000 and all were sourced competitively;*
- *22 contracts were between \$5,000 and \$25,000 out of which 19 were competitive and 3 were single tendered to designated firms;*
- *18 contracts were between \$1- \$5,000 out of which 3 were competitive, 8 were single tendered to designated firms and 5 were selected off the rotation list and single tendered.*

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MSS practices encourage project managers to apply methods of procurement which provide for competition for all opportunities where practical in accordance with TBS contracting policy.

3.2.2 Access to opportunities offers competition in accordance with contracting policies and approved practices. (2.4)

(See narrative 3.2.3)

3.2.3 Specific MSS sourcing mechanisms do not offer open access to contractors to register. (2.3)

Several mechanisms have been employed to identify sources for AFMS electrical contracting needs:

- During 2001-2002, the MSS used a Departmental sourcing system called ACCORD for opportunities estimated between \$5,000.00 to \$25,000.00. Contractors had open access to register on ACCORD through SOSB who maintained the sourcing information. ACCORD was decommissioned in June 2002.
- Requirements estimated in excess of \$25,000.00 were sent to be contracted competitively by RPCD which, in 2001-2002, used either ACCORD or Internet accessible MERX as a sourcing tool.
- In 2001-2002, in conjunction with RPCD, a supply arrangement was developed competitively so that MSS could contract for electrical requirements up to \$90,000.00 with those firms with arrangements.
- During 2001-2002 (and into 2002-2003) the MSS used a locally maintained manual "rotational source list" for electrical opportunities that were estimated to be less than \$5000.00. Individual contractors were selected and invited to bid on a rotational basis.
- Designated firms have been pre-qualified by MSS to meet specific needs such as special immunization requirements required for access to quarantine areas and higher security clearance for certain areas. Access to register and to be pre-qualified for these special needs is not open to the contracting community.

Contractors have not had open access to register on the MSS "rotational source list". Therefore, the "rotational source list" has not been a sourcing mechanism which is consistent with contracting policies and approved practices aimed at providing open access to government contracts. The restricted access to registration on the rotational list has resulted in a relatively small community of contractors receiving opportunities to bid with the risk of negative perceptions being developed amongst the remainder of the contracting community. There is a similar concern connected to current closed access to registration of contractors for "Designation Letters" .

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The OSS was changing the sourcing mechanisms available to MSS project managers during the second quarter 2002-2003. This transition was still occurring at the completion of the audit examination. A new Departmental sourcing system SELECT was implemented by SOSB to replace ACCORD which was removed from service in June 2002. Due the timing of its introduction, SELECT was not examined in detail during the audit, however, SELECT is openly available to the public to register construction related services through the Internet.

MSS had partially implemented plans to utilize the SELECT sourcing system for requirements under \$25,000.00 and to cease use of the rotational source list. In June 2002, MSS had replaced the use of the "rotational source list" with the provision of the SELECT system and related training for its Construction Management Group. At the completion of the audit examination, the MSS Estimating Group had not yet been trained in the use of SELECT and thus were not using SELECT. The MSS Estimating Group was at that time relying on the Rotational Sourcing List as its sourcing mechanism for all of its competitive opportunities under \$25,000.00.

During the clearance of findings, the OSS indicated that the implementation of SELECT in the MSS had been halted due to issues related to the availability of training and whether *SELECT* meets MSS needs.

3.2.4 MSS practices encourage the use of competitive methods of procurement for opportunities. (2.2)

FAA contracting regulations for sole source tendering apply to requirements over \$25,000.00. The audit did not identify any sole source electrical contracts over \$25,000.00 during 2001-2002. Further, examination of MSS practices indicated that the use of competitive methods of procurement are encouraged where practical for opportunities regardless of value.

3.2.5 "Best value" is sought through competition where practical. (2.5)

The audit examination did not attempt to establish in a quantifiable sense whether "best value" had been obtained for electrical contracts included in the audit examination due to the many variables associated with single fixed price competitive bids which combine services and goods.

MSS, however, is seeking "best value" in its electrical contracting by soliciting bids from multiple sources when appropriate. MSS procedures encourage the use of methods of procurement that invite multiple contractors to bid. Examination of files selected for testing indicated that typically five firms were invited for opportunities between \$5,000.00 and \$25,000.00 .

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3.3 Consistency of electrical contracting in OSS to industry practices

Selected electrical contracting practices applied by MSS, OSS, AFMS were compared with those applied within three PWGSC Regions and within a comparable operational unit of a National property management firm to meet similar contracting needs. Interviews and the examination of procedures were conducted. No detailed testing was conducted.

3.3.1 Overall, the practices applied by the MSS were consistent with those of the property management firm.

Key areas of similarity included:

- The MSS electrical contracting authority levels were similar to the subject organization within the firm if the MSS electrical supply arrangement is considered;
- In both organizations plans for low dollar value contracts were typically not detailed and bids make reference to “as per plan” or “site visit”;
- Projects were structured into sub-projects using similar construction categories such as demolition, base building fit-up, tenants fit-up, and life support systems etc.;
- Low dollar value contracts were awarded based on lowest price;
- The firm experienced a similar frequency of amendments per contract;
- The firm and MSS used comparable hourly rates to estimate the cost of electrical requirements;

A noted difference was that the private sector firm can engage electricians on an hourly cost basis whereas MSS contracts are always fixed cost price basis.

3.3.2 Contracting is often conducted directly by MSS in the NCA whereas Regions typically utilize standing offers with electrical contracting firms or requisition non-AFD needs through acquisition services.

Three PWGSC Regions were contacted to determine if the MSS practices were consistent those applied in the Region. Regional interviews indicated that there is relatively little electrical work in their environment that is not accomplished either as an AFD project or as a subcontract to a general construction contract. The NCA has more non-AFD assets in a smaller geographic area than does any single PWGSC Region. MSS has approximately 60 electricians on staff to provide service as required. Electrical contracting is conducted by MSS when the internal resources cannot meet the demand for a specific need. Unlike the NCA, Regions do not have the trade shop facility with staff electricians that is provided by MSS. In order to provide ad hoc electrical project support and to respond to emergency needs Regions utilize standing offers with electrical contracting firms companies or requisition the need through acquisition services.

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4 Conclusions

Information collected in the Preliminary Survey indicated that, in 2001-2002, the AFMS electrical contracting was typically low dollar value (less than \$25,000.00) conducted directly by the MSS, OSS. Given the aforementioned information, the focus of the Detailed Examination was on the design and application of electrical contracting practices in the OSS, AFMS in regard to the three stated audit objectives.

i) The OSS has made considerable progress towards implementing adequate management practices and controls designed to provide for probity in the contracting for AFMS electrical construction requirements. There are examples of good management practices including current, documented procedures and a new organization structure in the MSS which increased project management accountability. There are management practices, however, which require strengthening, for example:

- An initiative with a planned completion in the 4th quarter 2002-2003 has been undertaken by the OSS to document the MSS roles, responsibilities, authorities and accountabilities in order to assist MSS personnel and their clients;
- Procurement authority levels were respected in the contracts examined, however, MSS personnel are not supported with predefined criteria to support their project structuring decisions. The absence of clearly documented prerequisites to assist MSS and its clients to determine which requirements should be undertaken by MSS introduces pressure on MSS to accept projects that might better be procured in their entirety by RPCD. Similarly, the absence of clearly documented criteria defining what is acceptable in terms of project structuring increases risk that authorities may be circumvented. During the the clearance of findings, the OSS indicated that project structuring criteria were being documented with a planned completion in the 4th quarter 2002-2003;
- Contracts examined were administered in accordance with applicable financial policies, procedures and accepted financial control practices with the exception of some administrative oversights. OSS management indicated, during the clearance of findings, that these oversights would be corrected immediately;
- Of the 43 contracts examined in the audit, 30 had amendments. Written justification supporting contract amendments often did not provide an adequate explanation of the justification as well as the additional work required. MSS managers indicated they had as a priority to improve the quality of written amendment justifications; and,
- While there is evidence of supervision and monitoring over the contracting process, information available to OSS management is not adequate to support management oversight of the electrical contracting processes. OSS management indicated, during the clearance of findings, that the electrical contracting information requirements to support monitoring would be defined with improved reporting mechanisms planned for the 4th quarter 2002-2003.

ii) The OSS electrical contracting practices are generally consistent with government policy objectives aimed at enhancing competition, fairness and best value with attention required in increasing accessibility for certain requirements.

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Procurement methods available to MSS encourage competition and fairness. For example, a supply arrangement was developed competitively, in conjunction with RPCD, so that MSS could contract for electrical requirements up to \$90,000.00 with those firms with arrangements. The supply arrangement had not yet been applied at the time of the audit.

The audit examination did not attempt to establish in a quantifiable sense whether "best value" had been obtained for electrical contracts included in the audit examination due to the many variables associated with single fixed price competitive bids which combine services and goods, however, it was evident that "best value" is being sought by soliciting bids from multiple sources when practical.

Prior to commencement of the audit, MSS management had recognized access related deficiencies in certain of its sourcing mechanisms. Of concern, was the locally maintained manual "rotational source list" for electrical opportunities. The audit identified similar concerns related to the "designated" firms who have been pre-qualified to meet specific needs. Access to register for these "designated" opportunities and the "rotational source list" has not been open to the contracting community and, thus, has not been consistent with contracting policies and approved practices aimed at providing open access to government contracts. This risks the development of negative perceptions. The OSS was changing the sourcing mechanisms available to MSS project managers during the 2nd quarter 2002-2003 to introduce a sourcing mechanism which is open to the public for registration (SELECT). During the clearance of findings, the OSS indicated that the implementation of SELECT, in the MSS, had been halted due to issues related to the availability of training and functional needs.

iii) Selected electrical contracting practices employed by MSS, OSS were compared to those applied within three PWGSC Regions and, also, to those of a comparable operational unit of a National property management firm to meet similar contracting needs. The practice areas that were compared are listed in Appendix A.

The comparison noted several environmental and operational differences between the Regions and the MSS in regard to electrical contracting. For example: the NCA has many more non-AFD assets in a smaller geographic area than does any single Region which gives rise to a higher volume of requirements; MSS has approximately 60 electricians on staff; Regions do not have trade shop facilities with staff electricians; contracting is often conducted directly by MSS whereas Regions typically utilize standing offers with electrical contracting firms or requisition the non-AFD needs through acquisition services.

Overall, the practices applied by MSS were found to be consistent with those applied by the property management firm. For example, in both organizations: contracting authority levels were similar; plans for low dollar value contracts were typically not detailed; projects were structured using similar construction categories; and, low dollar value contracts were awarded based on lowest price. There was a similar frequency of amendments per contract. The firm and the MSS used comparable hourly rates to estimate the cost of electrical requirements.

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One difference noted was that, in some cases, the firm engages electricians on an hourly cost basis whereas MSS contracts are always fixed cost price basis.

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5 Recommendations

It is recommended that the Assistant Deputy Minister, Operations Branch ensure that:

1. *All delegations for procurement and Financial Administration Act (FAA) authorities be made current and formalized in the MSS, OSS;*
2. *Access to registration for contractors interested in bidding on OSS electrical contracting opportunities including "designated requirements" be made openly accessible to the contractor community;*
3. *Predefined criteria to support MSS project structuring decisions be developed and employed;*
4. *Contract amendments be supported with sufficient documentation to provide an adequate explanation of the justification as well as a description of the changes; and,*
5. *Information requirements be defined and reporting mechanisms developed to support OSS management in supervising and monitoring its electrical contracting.*

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Appendix A

Objective 1: To assess the adequacy of the design and application of controls in place to support probity in electrical contracting in OSS:

- 1.1 Applicable policies and guidelines are current, documented and available to personnel along with training;
- 1.2 Responsibilities, authority and accountabilities for each phase of the contracting process are established and followed;
- 1.3 Requirements are justified (i.e. through Asset Planning, Preventative Maintenance or emergency);
- 1.4 Adequately detailed statement of specifications including specification standards or requirements with respect to performance, time, service and cost are provided to AFMS by the NCSUD or other requesters of electrical services;
- 1.5 Requirements are generic in nature;
- 1.6 Contracting is conducted within established procurement authorities and requirements are not divided in order to avoid obtaining either the approval required by statute, the Treasury Board (TB) Contracts Directive, trade agreement or appropriate management approval within the department or agency;
- 1.7 Work orders and procurement requisitions support requirements and are adequately approved;
- 1.8 Approval of documents is timely (approval is obtained prior to work initiation);
- 1.9 Estimates are consistent with requirements and to the extent possible will reduce the need for Change Orders and/or Amendments;
- 1.10 Bids received are properly secured until bid closing;
- 1.11 Evaluation criteria are established prior to solicitation;
- 1.12 Evaluation criteria are reasonable in accordance the requirements for the work;
- 1.13 Evidence exists that bid evaluations are carried out based on approved criteria;
- 1.14 Bid evaluation provides evidence of objectivity and fairness;

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- 1.15 Bid protests and contract disputes are appropriately addressed and resolved with the minimum of delay;
- 1.16 Electrical services were received on time and in accordance with requirements specified in the contract;
- 1.17 There is evidence that project and contracting authorities are managing contracts under their responsibility in a manner that effectively ensures the successful completion of such contracts in accordance with the prescribed terms of time, cost, quality and performance;
- 1.18 *Contracts are administered in accordance with applicable financial policies, procedures and accepted financial control practices including payment of invoices in compliance with the FAA with adequate supporting evidence of receipt of the services;*
- 1.19 Contract amendments and change requests are adequately justified and carried out in accordance with prescribed rules;
- 1.20 Contract amendments are properly authorized;
- 1.21 There is evidence of AFMS management monitoring and supervision over the contracting process;
- 1.22 AFMS Management monitors all of the procurement methods used to acquire electrical goods and services;
- 1.23 Management reports related to contracting activities are accurate, complete, timely and provide for management oversight;
- 1.24 Progress reports on the financial and technical status of the contract are maintained;
- 1.25 AFMS managers receive adequate information to control the ongoing performance of the contracting process and ongoing contracts;
- 1.26 Generally accepted management control practices are in place.

Objective 2: To assess the degree of compliance of real property related electrical contracting practices in OSS to government contracting policy objectives aimed at enhancing access, competition, *fairness and best value specifically:*

- 2.1 Procurement planning as required is conducted and the procurement method selected is appropriate and in compliance with contracting policies and approved practices;

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- 2.2 Adequate justification in accordance with FAA Contract Regulations exists for single tendering;
- 2.3 Use of Corporate and Non-corporate sourcing resources comply with contracting policies and approved practices and the information is adequately maintained;
- 2.4 Access to opportunities offers competition in accordance with contracting policies and approved practices;
- 2.5 Best value is sought through appropriate competition consistent with Supply Manual guidelines and through comparisons to historic or industry pricing when estimating the cost of a given project.

Objective 3: To determine if real property related electrical contracting practices are consistent, in general, with those employed in selected Public Works and Government Services Canada (PWGSC) organizations and with the Canadian real property industry, in general.

3.1 The following subject areas were compared:

- Documentation of procedures;
- Structure of projects prior to defining the contracting requirement;
- Use of internal trade resources;
- Use of competitive sourcing;
- Procurement authority;
- Bid response;
- Evaluation Criteria;
- Quality of plan and specifications;
- Contract Amendments; and
- Labour rates .

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Action Plan

Note

If the auditee provides an Action Plan or Management Response during the clearance of the Draft Final Report or at any appropriate time before tabling at the Audit and Review Committee meeting, it will be included in this Section of the report. If an Action Plan or Management Response is *not* provided in time for the Audit and Review Committee meeting, this Division will be deleted from the Final Report and the Action Plan or Management Response is then to be treated as a separate and distinct document.