



**AUDIT
OF
SERVICE CONTRACTING**

**OTTAWA
AUGUST, 2001**

Audit Division (SIV)

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EXECUTIVE SUMMARY

An audit of service contracts was carried out during February and March 2001 by the Audit Division (SIV) in response to the Department's contract reform commitments made to Treasury Board in February 2000. A preliminary survey was undertaken and was used as a base for development of a proposal for several approaches or options for further work. These were presented to and discussed with senior management. Agreement was obtained to carry out SIV's recommended option (see Appendix 1).

Audit work focussed on progress made to date from the February 2000 letter to Treasury Board outlining DFAIT's contract reform commitments. This work was based on interviews with key stakeholders, review of relevant documentation and reliance on the findings of consultants hired to review contracting practices in the fall of 2000.

Audit findings show that despite an ambitious timetable (under one year), significant progress has been made towards establishing a contracting function to assist Departmental managers with their contracting activities, to implement a contracting control framework and to lay the foundation for corporate analysis and reporting of contracting information. In particular the introduction of Contract Review Boards throughout the Department has brought rigour to contract processing both in terms of compliance to Departmental and Government policies and regulations and heightened awareness regarding contracting process requirements.

The audit, however, is recommending that management take action to ensure that contract reform initiatives underway are fully realized and that other outstanding issues from the 1998 Audit Report and the SMF Consultant's Report are also addressed.

The most significant challenges include adequately resourcing and staffing the corporate contracting unit and ensuring that system initiatives under development will be capable of providing corporate contracting information.

INTRODUCTION

1.1 Overview

1.1.1 The preliminary survey phase of the audit of service contracting in the Department of Foreign Affairs and International Trade (DFAIT) was conducted by the Audit Division (SIV). This audit was proposed by senior management one year after implementation of reforms to the Departmental contracting system. The purpose of the preliminary survey was to:

- consult with senior management and solicit input and information from key Departmental stakeholders regarding contracting issues;
- discuss suggestions and reach consensus as to audit issues to be addressed;
- approve a suggested audit approach; and
- serve as the basis for the Terms of Reference (TOR) for an in-depth audit of Service Contracts.

1.2 Results of the Consultations with DFAIT Senior Management

1.2.1 As part of the preliminary survey, the audit team prepared a discussion paper summarizing Departmental service contracting issues. The paper was submitted to the ADM Corporate Services, Passport and Consular Affairs, the ADM Human Resources, the DG Corporate Finance, Planning and Systems Bureau (SMD) and the Chair, Departmental CRB, for review and comment. The audit team then met with these officers to discuss the options presented.

1.2.2 These consultations resulted in the following option being selected as the preferred course of action at this time:

- That the audit team report on progress to date based on preliminary survey work, recognizing accomplishments and ongoing efforts. Reliance would be placed on the work and findings from the consultant's report (a review of contracting practices commissioned by the Financial, Compensation and Contracting Services Division (SMF) in the fall, 2000), discussions with Departmental personnel responsible for implementation of the new initiatives, and a review of new procedures. A brief report detailing the implementation status, good practices observed, work in progress and further action required would be issued to management.

- This option also recognizes the need for a comprehensive audit of service contracts (within 12 to 18 months) once the Department's contracting strategy has been fully implemented.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

3.1 Objectives and Scope

3.1.1 The primary objective of the preliminary survey phase was to examine service contracting processes, the extent of implementation of recommendations from the 1998 audit and progress made regarding the 2000 strategy on contract reform.

3.2 Methodology

3.2.1 The methodology comprised:

- a review of the recommendations of the 1998 audit of service contracting;
- interviews with Departmental contracting stakeholders in various divisions to determine the extent to which recommendations have been implemented and to determine current challenges surrounding the process;
- an overview of the function of the Departmental Contract Review Board (CRB) and Bureau CRBs;
- an attempt to review DFAIT service contracting activity by developing a financial and activity profile of contracting within the Department;
- the development of a discussion paper that outlined key issues surrounding service contracting; and
- consultation with and input from senior management regarding the definition of audit scope.

OBSERVATIONS AND RECOMMENDATIONS

4.1 Results of the 1998 Audit

4.1.1 The following are the main findings from the 1998 audit of contracting conducted by SIV:

- Contracting at DFAIT is highly decentralized, with no central unit providing advice and expertise surrounding the contracting process. This has contributed to gaps in consistency and standardization of contracting processes. Between the 1993/94 - 1997/98 fiscal years, there was a decrease in service contracting. However, the audit found that service contracts are frequently used as a resourcing tool used to avoid the time delays associated with sourcing through the Public Service staffing process.
- There is an absence of corporate focus for the contracting function which includes a deficiency in contracting information (financial and activity). There is no central repository of contract information.
- A preferred group of suppliers is repeatedly used, often for significant periods, leading to the existence of employer-employee relationships. The Department sole-sources approximately 95% of its service contracts. The number of contractors in relation to contracts is low and there is a high number of amendments to contracts.

4.2 Review of Post-Audit Activities

4.2.1 In December 1999, DFAIT submitted to Treasury Board (TB) an "Omnibus Submission" for retroactive contract approval for all known Departmental contracts entered into outside of existing authority levels. The goal of this initiative was to "clear the decks" for a reformed contracting system, including the implementation of recommendations from the 1998 audit. As part of Treasury Board's decision to retroactively approve the contract approvals submission, DFAIT was required to submit a plan to implement a strategy on contract reform to TBS by the end of February, 2000. In response to this requirement, the ADM Corporate Services, Passport and Consular Affairs prepared a memo to the Deputy Ministers of Foreign Affairs and International Trade, and all DFAIT staff defining the action plan and strategy for the implementation of internal procedures for contracting for services, including:

- Establishing a Departmental Contract Review Board to scrutinize all service contracts in excess of CAD\$80,900, including all amendments to these contracts.

- Increasing the authority for contract review of the Area Management Advisors (AMAs) to CAD\$80,000. In addition, AMAs are now responsible for their own Contract Review Boards.
- Requiring each Mission to establish a Contract Review Board to function independently of the Headquarters CRB.
- The provision that non-compliance with Departmental and TB policy (the Contracts Directive) and Government Contract Regulations may result in sanctions against offending managers by cancelling or reducing their signing authority.
- Initial training by the Canadian Foreign Service Institute (CFSI) to the offices of the AMAs, and to managers with the authority to sign contracts.
- Approval for a PG-06 position to serve as the Departmental procurement specialist to advise and assist in the preparation of all contracts, regardless of value. The goal was to provide this as a “walk-in contracting service centre” at DFAIT Headquarters.
- An audit of the reformed system one year after implementation.

4.3 Assessment of Progress

4.3.1 The contracting reforms implemented were targeted within an ambitious time frame. These were specified in a letter from MKM to DFAIT management and staff outlining the strategy and proposed course of action.

4.3.2 As a result of our review the audit team identified results to date regarding the implementation of the 1998 Audit Report recommendations and the 2000 contracting reforms. These include:

(A) Centre of Expertise

4.3.3 A PG-06 was hired within SMD as the Deputy Director, Contracting. This position was in addition to the existing AS-04 Contracting Advisor. The mandate of this section was to advise and assist in the preparation of all contracts regardless of value, in a walk-in Contracting Service Centre. Unfortunately, the PG-06 left the Department

in January 2001 and the AS-04 retired in December, 2000. An employee who has considerable contracting experience has been seconded to the unit from the Information and Technology Bureau (SXD). Management has taken steps to staff these positions.

(B) Contract Review Boards

4.3.4 Contract Review Boards (CRBs) have been established throughout the department for oversight and approval of all contracts. Contract Review Boards have been established at the group of Bureaux and Mission levels for all service contracts below the NAFTA threshold of \$80,900. A separate Departmental Contract Review Board reviews and approves all contracts above the \$80,900 threshold. Per recent Mission audits, discussions with AMAs and findings from the SMF Consultant's Report, CRBs are in place and are contributing to a higher quality of service contract and more importantly, ensuring that contracts are in accordance with Government legal and procedural requirements.

(C) Report on Service Contracts

4.3.5 In the fall 2000, SMF commissioned a study on the Departmental contracting processes. The DFAIT audit team reviewed this document, which provides a comprehensive overview of contracting activity at Headquarters and Missions, including the status of the implementation of audit recommendations, a review of best practices in OGDs, and testing of a sample of contracts. The significant work conducted and the associated findings included therein were considered by the audit team and used to support our findings and recommendations.

(D) Material Management Module

4.3.6 As part of the IMS functionality, a materiel management module has been developed to facilitate purchasing, the tracking of purchases and the provision of management information. This system is also intended for the procurement of services through contracting. In the past, use of this system was discretionary. As of April 1, 2001, all contracts are required to be processed using the materiel management module. Use of this system will promote more efficient and effective processing of contracts, will allow more effective intervention by the corporate contracting group to assist Departmental units with their contracting requirements and alert management to potential problems. More importantly it will enable the contracting group to compile a profile of contracting information allowing analysis and adjustment of contract management in the Department.

(E) Training

4.3.7 Two courses have been developed and are now offered by CFSI. One is a half-day course, Fundamentals of Contracting, and is aimed at managers involved in

the contracting process. A second course, Contract Management and Administration, is a two-day course intended to enable participants to administer and manage the contracting process. It is aimed at members of Contract Review Boards.

4.4 Areas Requiring Improvement

4.4.1 In addition, the audit team identified problems and irritants to the contracting process and control framework as it currently exists at Headquarters and at Missions.

4.4.2 In the 1998 audit it was pointed out that there were 357 points of contract administration in the Department. It is obvious that except for operations with large and continuous contracting activity i.e., SXD and the Physical Resources Bureau (SRD) who have dedicated contract resources, the processing of contracts is problematic in terms of the expertise required and the knowledge of and familiarity with contracting regulations and the Departmental contracting process.

4.4.3 A central contracting group needs to expand its capability and capacity in order to provide service to all Departmental units. A hierarchy of service levels needs to be offered to accommodate differing requirements. Operational units with on-going contracting activity and associated internal resources would likely require minimal assistance only in very specialized or unique situations. Others may need substantial assistance i.e., essentially having the contract group conduct contracting on their behalf. Conceivably, Missions would be less dependent seeking primarily advice.

4.4.4 An efficient and effective contracting group while providing service will, at the same time, perform a corporate role by providing analysis and reporting of contracting information and carrying out an oversight and monitoring function. Specific responsibilities would include establishing contracting policies and procedures, defining roles and responsibilities, ensuring that contracting information systems are in place and monitoring the contracting process to ensure that controls are functioning as intended and that the system is efficient. As part of the monitoring function, the contracting group will initiate corrective measures when and where controls need strengthening such as altering delegated authorities, strengthening training capabilities, etc.

4.4.5 Fundamental to the success of such a corporate role is accurate, relevant and timely information. At present there is no systematic and efficient way for DFAIT to produce contract information. As a result, there is no assurance that Departmental reporting on contracting activity is accurate. Furthermore, without reliable contracting information analysis is difficult to perform regarding types of contracts being used, by whom and for what. Without such information adjustments to contracting policies, processes, control framework and training needs cannot be properly addressed. This issue was raised in the 1998 Audit Report and in the SMF Consultant's Report.

4.4.6 Progress has been made towards development of a materiel management module to IMS. However, to date, use of this module for processing contracts has been limited. Mandatory processing of contracts utilizing this new module, accompanied by appropriate training is required.

4.4.7 Equally important to the success of the corporate contract group is the number of resources devoted to it. The present complement of one seconded staff is insufficient to provide even the most basic level of advice and service. To address the other components of corporate analysis, reporting, oversight and monitoring would require a minimum of three positions.

Recommendations for the ADM for Corporate Services, Passport and Consular Affairs (MKM)

4.4.8 Corporate Services adequately resource and staff a corporate contracting group with a minimum three FTEs.

4.4.9 Mandate the contracting unit as the: centre for contracting expertise, advice and assistance to the Department; the custodian of the contracting process and control framework; provider of corporate contracting information, analysis and reporting; and initiator of corrective compliance and efficiency measures.

4.4.10 To provide analysis and reporting from a corporate perspective, Corporate Services should ensure that existing systems and initiatives possess the capability and are used to capture information regarding the initiation, processing, payment and evaluation of all Departmental contracts.

Responses from the ADM for Corporate Services, Passport and Consular Affairs (MKM)

4.4.8 Pressures on Departmental resources are extremely acute. I will review the contracting resources under my domain and determine the feasibility of regrouping some resources to add to the FTE base of the Contracting Group.

4.4.9 In the DM's message of October, 1999, we outlined a strategy to improve the Department's performance in all areas of contracting for services. The strategy included the establishment of the Contract

Review Board Process, provision of training and advice to managers and specialists, and the use of IMS for registering and tracking contract and performance. The difficulty with staffing and retaining qualified staff has impeded some progress but, with the arrival of the individual to staff the PG-06 position in August 2001, the regularization of a PG-04/5 assistant and potentially additional resources as mentioned in 4.4.8, it will enable us to move forward on the recommendations such as refining IMS, enhanced compliance, communication and active monitoring.

- 4.4.10 The Contracting Group is working closely with our IMS Team and the Material Management Working Group to enhance the system to provide the capabilities as described in this section.**

Recommendation for SMD

- 4.4.11 SMD should ensure that the specific recommendations regarding process and system enhancements raised in both the 1998 Audit Report and the 2000 SMF Consultant's Report are actioned.**

Response from SMD

- 4.4.11 Both the 1998 and 2000 Audit Reports, plus the SMF Consultant's Report are excellent roadmaps for improving the function in the future. With the full complement of two FTE's and the potential increase of resources as stated above, major steps will be taken to action the recommendations outlined in the report. A detailed work plan will be developed in the fall of this year.**

APPENDIX 1

Proposed Course Of Action (Options)

As a result of preliminary survey work conducted to date, the audit team proposes the following three options:

Option 1

Report on progress to date based on preliminary survey work, recognizing accomplishments and on-going efforts underway. Reliance would be placed on the work and findings in the SMF Consultant's Report, discussions with personnel responsible for implementation of the new initiatives and a review of new procedures. Areas where more work is required or management input is needed will also be highlighted. (This approach would include scope area A listed in the Annex).

Deliverables:

A short report describing implementation status highlighting successes, work in progress and further action required.

Option 2

Proceed with a full audit of the effectiveness of recommendations and initiatives implemented to date, including a detailed review of processes, development of a contracting profile for the department and a sample test of current contracts. This would very likely mirror work and results reported in the SMF Consultant's Report dated November 24, 2000. (This approach would include scope areas A, B, C and E listed in the Annex).

Deliverables:

A comparison of the contracting function at DFAIT with other departments and organizations.

A profile of contracting in DFAIT by type, dollar amounts, program areas, etc.

An analysis of the contracting control framework in place.

A report including the above with related observations and recommendations.

Option 3

Proceed with a comprehensive audit based on one or more of the proposed scope items listed in the Annex to this document. Also indicated in the Annex are potential deliverables associated with each scope area. Terms of Reference would be determined through consultation with, input from and approval by senior management. (This approach could include any or all scope areas A to G listed in the Annex).

Deliverables:

Would be based on the various scope areas selected.

Recommendation

Option 1 Based on the findings in the recent SMF Consultant's Report and the results of our preliminary survey, the audit team believes that the information required to assess and report on the status of the new contracting initiatives is readily available and therefore would require minimal audit work. Resources could be better used by conducting a more comprehensive audit once most aspects of intended corrective actions are completely implemented. The audit, which would be scheduled between 12 and 18 month's time, would then be able to more fully assess the effectiveness of the controls in place, increased resources, automated processing and the compilation of information regarding contracting activity.

Response

Management accepted Option 1.

ANNEX

Detailed Potential Scope Areas

The following are potential areas of audit work for management's consideration that will, together or in part, constitute the scope of the audit. An audit methodology will be developed for each scope area which will involve interviewing relevant managers and staff, accessing systems and reviewing documentation as appropriate. It is also envisioned that experts in the area of contracting will be contacted at TB, PWGSC and other government departments.

- (A) Follow-up on 1998 Audit Recommendations
 - what has been conducted/implemented to date (will also serve as tracking of commitments to TB.)

- (B) Prepare Profile Analysis
 - contract \$ - % in terms of salary \$
 - number of contracts - by type, area and \$
 - rationale for contracting - expertise, staffing obstacles etc.
 - competitive versus non-competitive
 - number of amendments and \$

- (C) Document Control Framework
 - responsibilities - RC managers, functional groups, corporate
 - policy linkages
 - compliance
 - support services

- (D) Resources Allocated to the Contracting Process
 - workload assessment
 - training requirements
 - feasibility of centralizing of contracting function
 - recommendations as to resources required to achieve implementation goals
 - implementation time frame

- (E) Best Practices
 - private sector
 - OGDs

- (F) Effectiveness of Contracting (Results)
 - tie in with program objectives

- (G) Business Planning and Budgetary Process
 - contracting needs identified in business plans and budgets
 - prioritize for contingencies at higher authority levels

- (H) Management Information and Corporate Analysis
 - data input
 - information gathering
 - analysis capability
 - reporting