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Audit of the Contracting Process

AUDIT REPORT

PROJECT #05/06 01-01

**Prepared by the
Audit, Evaluation and Review Directorate**

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EXECUTIVE SUMMARY

The purpose of this audit project is to ensure that the existing management framework is adequate for ensuring the effective, efficient and cost-effective delivery of contracting and procurement services, while complying with legal, regulatory and ethical obligations.

Treasury Board's *Contracting Policy* states that the objective of government procurement contracting is to acquire goods and services in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown. It also states that government contracting should be conducted in a manner that will stand the test of public scrutiny in matters of prudence and probity, facilitate access, encourage competition and reflect fairness in the spending of public funds.

Our audit revealed that the contracting process is generally carefully and diligently managed.

Each steps of the contracting process were examined and we are in the opinion that the different steps required for the good operation of such a process, among other things, the identification of needs, the drafting of the statement of work, the contract award method selected, the timeframe of the project or the evaluation of submissions are administered taking into account, not only the public interest but also equity, concurrence, prudence and probity principles.

However, special attention needs to be paid to the following to ensure compliance with practices set out in all policies, acts and regulations:

- The existing procedure should be reviewed to ensure that individuals signing contracts and any contract amendments have the authority to do so.
- A monitoring system should be established to ensure that all pertinent documents related to decision-making (eg, rationale for contract amendments or sole source contracting) are kept in administrative contract files.
- The contract award process set out in Treasury Board's *Contracting Policy* with respect to the use of Advance Contract Award Notices (ACANs) should be fully adopted.
- In keeping with the spirit of the Treasury Board (TB) contracting policy and requirements, it should be ensured that the start date of the work, set out in the Period of the Contract clause, does not precede the issuance date of the contract. In cases where pre-contractual work is required, a clause should be included in the contract to that effect. Program managers should also be made aware of the importance of carefully planning their contract needs and contract processing and approval deadlines to avoid authorizing any work before the contract is signed by the contracting officer.
- The wording of the three signature blocks in the *Requisition for Goods and Services* form should be reviewed to clearly differentiate between the signature of the manager who approves the expenditure initiation and that of the contracting officer who asks Public Works and Government Services Canada (PWGSC) to obtain the goods and/or services, as needed.

This internal audit was carried out in accordance with the Treasury Board Secretariat's Policy on Internal Audit and the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. In our professional opinion, the audit procedures followed and evidence gathered were sufficient and appropriate and support the accuracy of the findings in this report, which are based on a review of the situations in question using established audit criteria. The findings apply only to the entity audited.



DESCRIPTION OF THE MANDATE

1.0 INTRODUCTION

1.1 RATIONALE FOR THE AUDIT

This audit project is in line with the 2005–2006 Audit Plan approved by the Audit Committee.

1.2 PURPOSE OF THE AUDIT

The purpose of this audit is to ensure that the existing management framework is adequate for ensuring the effective, efficient and cost-effective delivery of contracting and procurement services, while honouring legal, regulatory and ethical obligations.

Appendix A sets out the specific audit objectives and criteria used.

1.3 SCOPE

The audit covered goods and services procurement contracts awarded during the 2004 calendar year.

1.4 METHODOLOGY

This audit engagement was carried out in accordance with the Treasury Board Secretariat's *Policy on Internal Audit* and the Standards for the Professional Practice on Internal Auditing of the Institute of Internal Auditors, which require that audit objectives be set on the basis of audit criteria.

Audit standards also require that the audit engagement be conducted in a methodical manner, according to a process that includes:

- A planning and preliminary review phase
- An execution phase
- The reporting and disclosure of results

Various audit procedures were used, including interviewing employees and reviewing and analysing documents, records and reports.

1.5 PROFILE OF THE ENTITY AUDITED

At the CSA, contracting is managed by the Procurement and Contract Administration Division under Finance. For fiscal 2004–2005, the Division had eight FTEs, including one manager; it currently has only seven FTEs, as one position is vacant. The operating budget was \$482,500 for fiscal 2004–2005, of which \$432,199 went to salaries and \$50,301 to other operational expenses.

The Procurement and Contract Administration Division provides the CSA's various groups with contracting and procurement services. It negotiates and awards contracts for goods and services in compliance with the delegated authorities and advises management on policy, procedures, regulations and guidelines regarding contracting.



1.6 POPULATION TARGETED BY THE AUDIT

For the purposes of this audit, the following information on contracts awarded during the 2004 calendar year was obtained; it is on this basis that contracts are annually disclosed to PWGSC.

TABLE 1 – CONTRACTS AWARDED IN 2004	NUMBER	VALUE
Contracts < \$25,000 awarded by the CSA	1,791	\$5,908,853
Contracts > \$25,000 awarded by the CSA	140	\$32,489,000
Call-ups against standing offers	718	\$6,276,098
Contracts awarded by PWGSC	284	\$48,921,000
TOTAL	2,933	\$93,594,951
Note 1 – Source : Annual contracting activity report from PWGSC		
Note 2 – Source : Report from the Procurement and Contract Administration Division		

Three teams, each made up of a contracting officer and procurement assistant, carry out contracting activities at the Agency. For contracts awarded in 2004, each team processed nearly 1,000 contracts, corresponding to nearly 5 contracts per day. The complexity of the transactions ranged from basic call-ups against standing offers to highly technical contracts.

1.7 DESCRIPTION OF THE SAMPLE AUDITED

A total of 31 contract files were audited in detail. The contracts were selected based on the specific criteria that follow:

- Contracts from all CSA sectors
- Contract from the three contract management teams
- Contract value (< \$25,000 and > \$25,000)
- Type of award (competitive, non-competitive, Advance Contract Award Notice (ACAN), standing offer, awarded by PWGSC)
- Amended contracts

Table 2 provides the details of the sample audited.

TABLE 2 – SAMPLE AUDITED	NUMBER	VALUE	\$ %
Contracts < \$25,000 awarded by the CSA	11	\$814,073	13.8%
Contracts > \$25,000 awarded by the CSA	10	\$3,042,693	9.4%
Call-ups against standing offers	5	\$122,704	2.0%
Contracts awarded by PWGSC	5	\$13,927,846	28.5%
TOTAL	31	\$17,907,316	19.1%



AUDIT FINDINGS

2.0 CONTRACTING AUTHORITIES

Appendix C of The *Contracting Policy - Treasury Board Contracts Directive* sets out the financial limits below which a contracting authority may enter into or amend a contract without the approval of Treasury Board. The financial limits were incorporated into the CSA's financial delegation chart at various levels of authority. Each level of authority was delegated a maximum amount for which it was authorized to enter into or amend a contract on behalf of the Minister.

In addition, TB's *Contracts Directive* distinguishes between competitive and non-competitive contracts with respect to the maximum contract value that contracting authorities are authorized to approve. It also differentiates between the electronic bidding method and the traditional methods used in contracting. By having recourse to the electronic bidding process, the contracting authority increases its contracting and contract amendment powers. In cases where contracts are not "competitive" as per the definition, the maximum limits for non-competitive contracts apply.

The audit revealed that, of the 31 contracts audited:

- Nine had been signed on behalf of the Minister by someone who did not have the financial delegation to do so for contracting purposes.
- Sixteen contract amendments had been signed on behalf of the Minister by someone who did not have the financial delegation to do so for contracting purposes.

Table 3 shows the values of the nine above-mentioned contracts and the contracting officers' financial limits for contracting purposes.

In eight of the nine cases above, the individual who had signed the contract ensured that the "Contract Approval Document" had been signed by someone with the appropriate delegated authority before signing the contract. This practice shows that the contract had been reviewed and approved by a person with the appropriate delegated authority for contracting purposes before its signature.

The Procurement and Contract Administration manager said that this approach was the procedure in place in his Division and that it was similar to the one used by PWGSC.

CONTRACT	CONTRACT VALUE	MAXIMUM DELEGATION
Contract 1	\$17,976	\$5,000
Contract 2	\$22,470	\$5,000
Contract 3	\$411,329	\$100,000
Contract 4	\$451,803	\$100,000
Contract 5	\$53,548	\$10,000
Contract 6	\$42,800	\$25,000
Contract 7	\$303,262	\$100,000
Contract 8	\$80,250	\$25,000
Contract 9	\$81,819	\$25,000

Following a review of the delegation of contracting authority in effect at PWGSC and the CSA, it was noted that PWGSC makes a distinction between the contracting "approval" authority and contracting "signing" authority. Unlike PWGSC, the CSA has only one delegation of contracting authority. Therefore, the individual with the required contracting authority must sign the contract on behalf of the Minister as the contracting authority.



TB's *Policy on Delegation of Authorities* states that:

- The Minister and deputy heads must formally delegate and communicate financial authorities in writing to ensure and establish an appropriate division of responsibilities to ensure that controls are applied in the spending of public money.
- No person shall be permitted to exercise authorities unless the Minister or Deputy Minister has formally delegated these authorities and the officer to whom the incumbent of the position reports has formally designated the person.
- Persons properly designated to exercise authorities may not delegate these authorities.

In keeping with this policy, the CSA should review practices currently used by its Procurement and Contract Administration Division.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

The existing procedure should be reviewed to ensure that the person approving contracts and signing contract documents (ie, contracts and amendments) has the delegated authority to do so.



3.0 CONTRACT FILES

TB's *Contracting Policy* states that contracting authorities must ensure that contracting files are properly documented.

Consequently, and with respect to best practices, PWGSC's Supply Manual states that it is essential that files be kept up to date, as they serve as an accurate audit trail in the event of a financial review, legal action or official complaint. Current files are also useful to anyone who may have to consult them or assume responsibility for them during the process.

In the course of the audit, it was found that contract files could be better documented with respect to the following items.

3.1 SOLE SOURCE CONTRACTING

TB's *Contracting Policy* states that the *Government Contracts Regulations* require that the contracting authority solicit bids before any contract is entered into. The competitive approach in determining a contractor should therefore be the norm. Because it is not always possible, practical or cost-effective to seek bids for every proposed contract, the *Government Contracts Regulations* permit certain exceptions:

- The need is one of pressing emergency in which delay would be injurious to the public interest.
- The estimated expenditure does not exceed \$25,000 (\$100,000 where the contract is for the acquisition of architectural or engineering services for the construction or repair of a work).
- The nature of the work is such that it would not be in the public interest to solicit bids.
- Only one person or firm is capable of performing the contract.

According to the *Contracting Policy*, any use of the four exceptions to the bidding requirement must be fully justified in the contract file.

According to the same policy, even if a proposed directed contract (ie, a contract awarded to a contractor pre-selected by the contracting authority) for goods and services qualifies under one of these four exceptions, the contracting authority is encouraged, whenever possible, to use the electronic bidding method to advertise the proposed award through an Advance Contract Award Notice (ACAN). If no statement of capabilities meeting the requirements set out in the ACAN is received within 15 calendar days, the proposed contract is deemed to be competitive and may be awarded using the electronic bidding contracting authority.

The audit revealed that of the 31 files selected for auditing purposes, 11 consisted of sole source contracts; of those, only five were fully justified and properly documented.

The six others could have been better documented. The following was noted:

- Three contracts for less than \$25,000 were awarded without any mention in the file as to the basis on which they had been awarded. The financial system coding led us to conclude that the exception pertaining to the low dollar-value of the contracts had been used to justify the fact that the contracts had been awarded without soliciting bids.



- One contract for \$24,824 was awarded on the basis of the contract's low dollar-value and a rather insufficient rationale. Furthermore, the contracting officer mentioned that the time required for the type of service requested (dispute resolution) was always uncertain. Bid solicitation would have likely better served the public interest in this case. A subsequent amendment increased the contract's value to \$36,902.
- Two contracts between \$25,000 and \$100,000 were awarded on the basis that only one contractor was capable of providing the services requested.
 - In one case, the rationale was not satisfactory, particularly since the contract file indicated that a competitive bid solicitation process would be held for the same services the following year. Better planning on management's part would have ensured that the contract had been awarded through a competitive process.
 - In the other case, the exception used had not been clearly indicated in the contract file. The reasons could have also been stronger.

As mentioned above, any use of the four exceptions to the bidding requirement must be fully justified in the contract file.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

When using any of the four exceptions to the bidding requirement, the nature of the exception used and the rationale for sole source contracting must be indicated in the contract file.

3.2 CONTRACT AMENDMENTS

During the selection of files for the audit, a number of amended files were purposely chosen to determine whether the amendments had been fully justified and properly documented in the contract file.

TB's *Contracting Policy* states that even though the *Contracts Directive* allows for amendments, contracts should not be amended unless such amendments are in the best interests of the government, because they save dollars or time, or because they facilitate the attainment of the primary objective of the contract. The policy also states that work definitions should be carefully developed and contracts should then be properly administered to avoid unanticipated amendments, except to change the scope of the work.

Amendments to existing contracts often call for more administrative work. To that effect, the *Contracting Policy* states that every effort should be made to avoid:

- Inadequate initial funding, resulting in amendments to increase the contract value.
- Inadequate pre-planning, resulting in amendments to change the design, specifications or quantity involved.
- Improper administrative procedures, necessitating amendments to change the specifications and delivery or other requirement in order to protect the contractor or government agency involved.



Furthermore, still in accordance with the Policy, contract amendments are, in fact, prudent. Contract amendments can often be foreseen when the initial contract is contemplated. In such cases, the contract file should indicate the likelihood of such amendments, including a maximum cost limit.

Contract amendments must also be used carefully to avoid the perception of contract splitting, which is defined in Appendix A of the *Contracting Policy* as the practice of unnecessarily dividing an aggregate requirement into a number of smaller contracts, thereby avoiding controls on the duration of assignments or contract approval authorities. The Policy also states that contracting authorities must not split contracts or contract amendments in order to avoid obtaining the approval required under TB's *Contracts Directive*.

The audit of the 14 amended files revealed that a total of 45 amendments had been made. Most of the amendments resulted in an increase in the contracts' values or an extension of the contracts' terms.

Of the 14 amended files, no reasons were given for 25 amendments made to 11 of the files.

With respect to contracts for less than \$25,000 awarded without soliciting bids, the audit showed that the eight sole source contracts awarded on the basis of the contracts' low dollar value were subsequently amended, with the contracts' values exceeding the \$25,000 threshold, in which case the CSA must proceed with a full competitive tendering process. The CSA failed to avoid the perception of contract splitting.

No rationale was given for five of the eight above-mentioned contracts in support of the increase in contract values.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

Amendments made to contracts should be monitored more closely so as to ensure that the amendments are fully justified and properly documented by requesters, meet *Contracting Policy* requirements and avoid the appearance of contract splitting.

3.3 AUDIT TRAIL

TB's *Contracting Policy* states that procurement files have to be established and structured to facilitate oversight with a complete audit trail that contains contracting details related to relevant communications and decisions, including the identification of the officials and contracting approval authorities involved.

In addition to the findings set out in paragraphs 3.1 and 3.2 of this report, the audit revealed that some contract files were not properly documented. The following was noted:

- The original copies of six contract amendments kept in contract files had not been signed by the contractors involved. These amendments pertained to five different contracts.
- There was one case for which the contract file contained neither the contractor's bid nor the statement of work required, and one case for which the contract file did not contain the statement of work.



- The approval documents signed by the President of the CSA pertaining to two contracts (justification – 4 months and more) and for which the purpose is to justify and approve their duration were not in the contract files.
- In one case, a contractor had been asked for a price certification, which was not in the contract file.
- In one case where a call for tenders was posted on the electronic tendering system (MERX), a copy of the document was not in the contract file.
- All of the files audited failed to include information pertaining to contract performance appraisal upon the completion of the contract.

In order to avoid potential legal action and to ensure a complete audit trail, the Procurement and Contract Administration Division should keep all documents relevant to the decision-making process in the contract files and ensure that the contractors sign contract amendments.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

A monitoring system should be established to ensure that all documents related to the decision-making process are kept in contract files.



4.0 CONTRACT AWARD

The objective of government procurement contracting is to acquire goods and services and to carry out construction in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown. With respect to the contract award process, the CSA has used various selection methods.

4.1 ADVANCE CONTRACT AWARD NOTICE (ACAN)

According to TB's *Contracting Policy*, an Advance Contract Award Notice (ACAN) allows departments and agencies to post a notice, for no less than 15 calendar days, indicating to the supplier community that it intends to award a good, service or construction contract to a pre-identified contractor. If no other supplier submits, during the 15 calendar day posting period, a statement of capabilities that meet the requirements set out in the ACAN, the competitive requirements of the government's *Contracting Policy* have been met. Following written notification to suppliers informing them that their statements of capabilities do not meet the requirements set out in the ACAN, the contract may be awarded taking into account TB's established delegation of financial authority for electronic bidding process.

However, if other potential suppliers submit statements of capabilities during the posting period and meet the requirements set out in the ACAN, the Department must proceed to a full tendering process on either the government's electronic tendering service or through traditional means in order to award the contract.

The audit revealed two cases (see Table 4) in which, following the publication of an ACAN, contracts had been awarded in a manner that failed to comply with the standard process for awarding contracts following the publication of an ACAN, as stipulated in the Policy.

TABLE 4 – CONTRACTS AWARDED FOLLOWING THE PUBLICATION OF AN ACAN	INITIAL	AMENDMENTS
Contract 1	\$411,329	\$292,342
Contract 2	\$451,803	\$573,226

In each case, a contractor had submitted a statement of capabilities following the publication of an ACAN. Contractors that had submitted their statements of capabilities within the time prescribed were notified in writing that their proposals would not be selected even if they potentially met the requirements for rendering the services. The letter also stated that "*The Canadian Space Agency (CSA) will not give further consideration to your statement of capabilities.*"

Because a contractor had submitted a statement of capabilities within the time prescribed in each case, the CSA should have proceeded with a full tendering process to award the contracts in order to comply with the *Contracting Policy*. In both cases, the CSA failed to treat the contractors fairly and failed to honour the principles of competition, prudence and probity.

The manager of the Procurement and Contract Administration Division said that these had been special cases for which the contracting authority had to be transferred from PWGSC to the CSA. In both cases, the contracts with PWGSC had expired. The original contracts with PWGSC had provided for option years, but PWGSC had not exercised them before the contracts expired. The ACAN stated that, owing to an administrative change, the CSA was exercising its right to award a



new contract to the contractor by invoking its right to extend the original contract. It should be noted that, because the contracting authority had changed, the contract could not be extended under the *Contracting Policy*. Furthermore, the manager told us that he needed to issue an ACAN in both cases to comply with TB's *Contracts Directive* in terms of the delegation of financial authority required.

Although the entire process had been transparent, if the CSA had been required to publish an ACAN to award the contract, then it also had to comply with the process set out in TB's *Contracting Policy* before awarding the contracts.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

Ensure to follow the contracting process set out in TB's *Contracting Policy* when a contract is awarded following the publication of an ACAN.

4.2 CALL-UPS AGAINST STANDING OFFERS

According to TB's *Contracting Policy*, a standing offer is an offer from a supplier to supply goods, services or both on the basis of pricing and under the terms and conditions stated in the standing offer. Standing offers are established by competitive bidding or negotiation. A separate contract is entered into each time a call-up is made against a standing offer.

When a call-up is made, it constitutes an unconditional acceptance by the Crown of the supplier's offer for the provision, to the extent specified, of the goods and/or services described in the standing offer. The Crown's liability shall be limited to the actual value of the call-ups made by the duly authorized user(s) representing the Crown within the period specified in the standing offer.

When contracting officers make call-ups against standing offers, they must ensure that the call-ups' pricing and terms and conditions correspond to those set out in the standing offer.

In two out of the five call-ups against a standing offer audited, no sign of a verification of the call-up with the pricing and terms and conditions set out in the standing offer appeared in the contract files. Furthermore, pricing information in the call-ups could not be corroborated with that in the corresponding standing offers.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

Ensure that contract files include an audit trail to the effect that the pricing and terms and conditions of call-ups were verified and fully correspond to those set out in the standing offers.

4.3 RETROACTIVE CONTRACTING

TB's *Contracting Policy* states that once a contract proposal is approved by the appropriate authority, the actual contract documents may be executed. On the other hand, as a comparison, we noted that a PWGSC's notice regarding procurement practices states that the start date of the work, set out in the Period of the Contract clause, must be the date of issuance of the written contract. The CSA has no such directive.

The audit of 31 contract files revealed that the commencement dates of 10 of the files preceded the date on which the contracting officer signed the contract. The discrepancies varied between 5



and 60 days. In one of the files, a call-up against a standing offer was made after the fact. In that particular case, the services had been rendered from February 5 to March 31, 2004, while the call-up was made on April 5, 2004. None of the 10 files contained a special clause on pre-contractual work or pressing emergencies.

So as not to put the Crown at risk, before the contractual work begins, the CSA should ensure that it has a copy of the contract signed by the Minister's CSA representative and the contractor. The lack of a signed contract could expose the CSA to a number of problems, including:

- The lack of documents on the quality control and approval mechanisms agreed on by the two parties with respect to the goods and/or services to be delivered.
- The lack of written conditions setting out the terms and conditions of the contract may, in certain cases, result in the absence of any appeal possibility by the CSA if the goods or services delivered do not meet the CSA's expectations. In such a case, the CSA would still have to pay the amount agreed upon by the CSA representative and the contractor.
- Persons without contracting authority who give the go-ahead orally make themselves liable to disciplinary measures.
- If TB's *Contracting Policy* is not complied with or if the contracting method or contract administration is unacceptable, TB may order sanctions (disciplinary measures) against the contracting authority.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

- i) In keeping with the spirit of TB's contracting policy and requirements and to avoid the CSA making itself liable to the above-mentioned problems, the Procurement and Contract Administration Division should ensure that the start date of the work, set out in the Period of the Contract clause, does not precede the date of issuance of the contract.**

However, in exception cases, the contracting officer could approve a contract project verbally or through an email to the contractor as far as the delay between this approval and the actual signature of the contract documents is reasonable and fully documented in the contract file.

In the event pre-contractual work is required, the CSA should ensure that a clause to that effect is included in the contract.

- ii) Program managers should also be made aware of the importance of carefully planning their contract needs and the deadlines required for contract processing and approval to avoid authorizing any work before the contract is signed by the contracting officer.**



5.0 REQUISITION FOR GOODS AND SERVICES

TB's *Policy on Delegation of Authorities* states that the spending authority consists of four elements: expenditure initiation, commitment control, contracting and confirmation of contract performance and price.

The Policy specifically states that the authority to initiate an expenditure is exercised when decisions are made to obtain goods or services that will result in the eventual expenditure of funds. The objective of this authority is to give operational managers primary responsibility for initiating expenditures charged to their budgets.

5.1 SIGNATURE BLOCKS

At the CSA, the process of procuring goods and services is initiated by completing the *Requisition for Goods and Services* form, which, when signed by the manager responsible for a budget, consists in the source document supporting the expenditure initiation.

Our review of the signature blocks on the *Requisition for Goods and Services* form, as shown here, revealed that none of the blocks clearly indicate that the manager is responsible for approving the expenditure initiation.

Recommended by - Recommandé par					
_____			_____		
Signature			Date		
PURSUANT TO SUB SECTION 32(1) OF THE FINANCIAL ADMINISTRATION ACT, FUNDS ARE AVAILABLE. EN VERTU DU PARAGRAPHE 32(1) DE LA LOI SUR LA GESTION DES FINANCES PUBLIQUES, DES FONDS SONT DISPONIBLES.					
_____			_____		
Signature			Date		
The Undersigned approves this requisition and certifies that the necessary approvals have been obtained and requests SSC to acquire the goods and/or services described herein. Je, soussigné, approuve la présente demande, certifie, que les approbations requises ont été obtenues et demande à ASC d'obtenir les biens et services décrits dans les présentes.					
_____			_____		
Signature			Date		

In fact, we noted that:

- The first signature block is intended for the person recommending the expenditure initiation (as opposed to its approval). Administrative assistants usually sign here.
- The second signature block is signed by the financial officer who proceeds with the commitment of funds once the expenditure is approved.
- The third signature block is used not only by the manager to approve the expenditure initiation, but also by contracting officers requesting that PWGSC (formerly SSC – Supply and Services Canada) acquire the goods and services.

Furthermore, the audit of the 31 contract files showed that managers had signed the *Requisition for Goods and Services* form on the right line in only three cases.

The audit also revealed that the *Requisition for Goods and Services* forms forwarded to PWGSC to initiate the contracting process or amend an existing contract were regularly amended by a CSA contracting officer and signed by him or her, without the manager responsible for the cost center necessarily being notified that the form had been modified.



Discussions with the contracting officers revealed that amendments to requisitions regarding contract values and the cumulative values of contracts were common. The amendments were necessary because contracts awarded by PWGSC often show discrepancies between the actual amount of the contract and the estimated values initially indicated on the forms. At the time, the SAP v4.0 financial system did not allow managers to modify amounts entered in the system. SAP v4.7 now allows managers to modify different lines of the requisition to indicate the correct amounts.

In addition to amendments pertaining to contract value, the contracting officer also has to enter additional information on the *Requisition for Goods and Services* form with respect to PWGSC's contracting authority responsible for the contract file and the delivery and billing addresses. The amended *Requisition for Goods and Services* form is then signed by the CSA contracting officer and sent to PWGSC, requesting that it obtain the goods and/or services described.

As mentioned on the previous page, the wording of the third signature block is unclear as to the obligation arising from its signature.

If amounts in *Requisition for Goods and Services* forms have to be changed, it is the responsibility of the manager to submit a new form duly signed by him or her, not by the contracting officer.

RECOMMENDATIONS

FINANCE – CENTRAL ACCOUNTING

- i) **The wording of the three signature blocks in the *Requisition for Goods and Services* form should be reviewed in order to distinguish between the signature of the manager approving the expenditure initiation and that of the contracting officer requesting that PWGSC acquire the goods and services, as needed.**

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

- ii) **When amendments have to be made to amounts in a *Requisition for Goods and Services* form before it is sent to PWGSC, the contracting officer should notify the manager of the changes required, because the manager is responsible for approving those changes.**

FINANCE

- iii) **Once the signature blocks on the *Requisition for Goods and Services* form have been reviewed and corrected, managers should be made aware of the importance of their signing on the right line when approving an expenditure initiation.**



6.0 USER'S GUIDE

In response to the September 1998 internal audit report on the contracting process, management implemented a number of remedial measures to compensate for the shortcomings observed. One of the measures consisted in preparing and publishing a *Contracting User's Guide*. The guide was published in December 1998 and is available on the CSA's intranet site.

The purpose of the guide is to facilitate contract management. The main acts, policies and major guidelines related to contracting are explained so as to ensure program managers clearly understand their roles and obligations, as well as those of the other specialists, such as contract administration and financial and legal services officials, involved.

The content of the *Contracting User's Guide* was reviewed. It remains as pertinent and useful as ever when it comes to the services offered to users by the Procurement and Contract Administration Division.

However, we noted that the following items should be updated in the guide:

- On page 10, references to the Senior Vice-President and Vice-President, Science, Technology and Programs are missing.
- On pages 10 and 11, reference is made to contracts with the Canada Communication Group; it would be advisable to check whether the reference is still required and to make any subsequent changes, if needed.
- Following the action plan to be implemented in response to item 5.1 iii) of this report, section 5.1 of the guide could be reviewed to reflect the procedure to be followed with respect to the expenditure initiation.

On the other hand, in response to some shortcomings noted during this audit (sections 4.3 ii) and 5.1 iii)) regarding users' awareness of the services offered by the Procurement and Contract Administration Division, it would be advisable to remind users about the guide, which can be consulted on the intranet.

RECOMMENDATIONS

FINANCE – PROCUREMENT AND CONTRACT ADMINISTRATION

- i) The *Contracting User's Guide* should be updated.**
- ii) Users should be reminded that the *Contracting User's Guide* can be consulted on the intranet.**



APPENDIX A – AUDIT OBJECTIVES AND CRITERIA

The overall objective of this audit is to ensure that the existing management framework for contracting activities is adequate for the effective, efficient and cost-effective delivery of contracting and procurement services, while honouring legal, regulatory and ethical obligations.

The specific objectives were as follows:

Objective #1 Ensure that the contracting process complies with the Treasury Board Secretariat's *Contracting Policy*.

Criterion 1.1 Contracting contributes to achieving an objective or solving a current problem (ie, it is not a substitute for ongoing staffing requirements).

Criterion 1.2 A competitive process must be followed, except as permitted by the *Government Contracts Regulations* (Appendix B of the *Contracting Policy*) when it is not possible, practical or cost-effective to solicit bids. These exceptions are:

- The need is one of pressing emergency in which delay would be injurious to the public interest.
- The estimated expenditure does not exceed \$25,000.
- The nature of the contract is such that it would not be in the public interest to solicit bids.
- Only one person or firm is capable of performing the contract.

Criterion 1.3 The Advance Contract Award Notice mechanism is used appropriately.

Criterion 1.4 For service contracts, the statement of work or the requirements description clearly describes the work to be carried out, the objectives to be attained, and the time frame and working arrangements to safeguard against the creation of an employer–employee relationship.

Criterion 1.5 Contracts for services awarded to former public servants receiving a pension or a lump-sum payment reflect sound contracting practices, including fairness in selection and compensation. Such contract awards are subject to prior approval by the contracting authority to avoid the creation of the perception of favouritism toward these individuals.

Criterion 1.6 Due diligence has been exercised to avoid conflicts of interest in the awarding of contracts.

Criterion 1.7 Due diligence has been exercised to prevent contract splitting in the awarding of contracts.



Objective #2 Ensure that the management and financial services control mechanisms and work methods used are effective, efficient and cost-effective.

Criterion 2.1 An appropriate mechanism is in place for initiating expenditures in compliance with existing financial delegations.

Criterion 2.2 There is a proper contract coding and filing system so that contract files can be easily retrieved and missing contract files will be quickly identified.

Criterion 2.3 There is a complete and signed copy of every contract and amendment on file.

Criterion 2.4 The circumstances justifying sole source contracting are properly documented.

Criterion 2.5 When a competitive process has not been followed, reasonable steps have been taken and documented to ensure fair-market value of goods or services acquired.

Criterion 2.6 A documented contractor performance evaluation mechanism is in place.

Criterion 2.7 Lists of pre-determined criteria for evaluating bids have been prepared.

Criterion 2.8 Proposal evaluation committees have been formed.

Criterion 2.9 Rationales for contract amendments are properly documented and reasonable.

Criterion 2.10 Planning for the awarding of contracts takes into account service standards (PWGSC or CSA) set out in the CSA's *Contracting User's Guide*.



APPENDIX B – MANAGEMENT ACTION PLAN

Ref.	RECOMMENDATION	DESIGNATED AUTHORITY		ACTION PLAN DETAILS	TIMETABLE
		ORGANIZATION	FUNCTION		
2.0 CONTRACTING AUTHORITIES					
	The existing procedure should be reviewed to ensure that the person approving contracts and signing contract documents (ie, contracts and amendments) has the delegated authority to do so.	Corporate Management	Manager, Contract Administration	All the employees of the division were informed to the effect that all contractual documents (contracts and amendments) requiring an approval at a higher level must be signed by the person who possesses the adequate financial delegated authority to approve such contractual documents.	Completed



Ref.	RECOMMENDATION	DESIGNATED AUTHORITY		ACTION PLAN DETAILS	TIMETABLE
		ORGANIZATION	FUNCTION		
3.0 CONTRACT FILES					
3.1 SOLE SOURCE CONTRACTING					
	When using any of the four exceptions to the bidding requirement, the nature of the exception used and the rationale for sole source contracting must be indicated in the contract file.	Finance	Manager, Contract Administration	From now on, the nature of the exception to the bidding requirement used as well as the justification for the sole source contracting will be indicated in the contract file.	Completed
3.2 CONTRACT AMENDMENTS					
	Amendments made to contracts should be monitored more closely so as to ensure that the amendments are fully justified and properly documented in the contract files, meet <i>Contracting Policy</i> requirements and avoid the appearance of contract splitting.	Finance	Manager, Contract Administration	In order to avoid the appearance of contract splitting, amendments to contracts will be adequately documented in the contract file and managers will, from now on, approve all amendments that will bring the initial amount of the contract above the level of \$25,000.	Completed
3.3 AUDIT TRAIL					
	A monitoring system should be established to ensure that all documents related to the decision-making process are kept in contract files.	Finance	Manager, Contract Administration	A checklist will be developed, completed, signed and kept in contract files in order to ensure that all required documentation is kept on file.	Completed



Ref.	RECOMMENDATION	DESIGNATED AUTHORITY		ACTION PLAN DETAILS	TIMETABLE
		ORGANIZATION	FUNCTION		
	4.0 CONTRACT AWARD				
	4.1 ADVANCE CONTRACT AWARD NOTICE (ACAN)				
	Ensure to follow the contracting process set out in TB's <i>Contracting Policy</i> when a contract is awarded following the publication of an ACAN.	Finance	Manager, Contract Administration	Other than the 2 special cases, we consider that the division complies with all the requirements relating to the ACAN process. Moreover, from now on, the contract award process following the publication of an ACAN will be in compliance with the policy.	From now on
	4.2 CALL-UP AGAINST A STANDING OFFER				
	Ensure that contract files include an audit trail to the effect that the pricing and terms and conditions of call-ups were verified and fully correspond to those set out in the standing offers.	Finance	Manager, Contract Administration	The procurement assistant and the contracting officer will be informed of that requirement during the next management meeting..	Completed in February 2006
	4.3 RETROACTIVE CONTRACTING				
	<p>i) In keeping with the spirit of TB's contracting policy and requirements and to avoid the CSA making itself liable to the above-mentioned problems, the Procurement and Contract Administration Division should ensure that the start date of the work, set out in the Period of the Contract clause, does not precede the date of issuance of the contract.</p> <p>However, in exception cases, the contracting officer could approve a contract project verbally or through an email to the contractor as far as the delay between this approval and the actual signature of the contract documents is reasonable and fully documented in the contract file.</p> <p>In the event pre-contractual work is required, the CSA should ensure that a clause to that effect is included in the contract.</p>	Finance	Manager, Contract Administration	In agreement with the recommendation. A reminder will be made during the next management meeting with the contracting officers..	Completed in February 2006



AUDIT OF THE CONTRACTING PROCESS

AUDIT REPORT

Ref.	RECOMMENDATION	DESIGNATED AUTHORITY		ACTION PLAN DETAILS	TIMETABLE
		ORGANIZATION	FUNCTION		
ii)	Program managers should also be made aware of the importance of carefully planning their contract needs and the deadlines required for contract processing and approval to avoid authorizing any work before the contract is signed by the contracting officer.	Finance	Manager, Contract Administration	An email will be sent to all users to remind managers once again of the importance of carefully planning their contract needs.	Completed in May 2007



AUDIT OF THE CONTRACTING PROCESS

AUDIT REPORT

Ref.	RECOMMENDATION	DESIGNATED AUTHORITY		ACTION PLAN DETAILS	TIMETABLE
		ORGANIZATION	FUNCTION		
	5.0 REQUISITION FOR GOODS AND SERVICES				
	5.1 SIGNATURE BLOCKS				
i)	The wording of the three signature blocks on the <i>Requisition for Goods and Services</i> form should be reviewed in order to distinguish between the signature of the manager approving the expenditure initiation and that of the contracting officer requesting that PWGSC acquire the goods and services, as needed.	Finance	Central Accounting Manager, Contract Administration	The central accounting group will review the signature blocks and the financial system group will correct them.	Completed
ii)	When amendments have to be made to amounts on a <i>Requisition for Goods and Services</i> form before it is sent to PWGSC, the contracting officer should notify the manager of the changes required, because the manager is responsible for approving those changes.	Finance	Manager, Contract Administration	In agreement. This item will be discussed over during the next meeting with the contract officers. They will be reminded of the fact that managers must approve all amendments regarding amounts appearing on the <i>Requisition for goods and services</i> form.	Completed in February, 2006
iii)	Once the signature blocks on the <i>Requisition for Goods and Services</i> form have been reviewed and corrected, managers should be made aware of the importance of their signing on the right line when approving an expenditure initiation.	Finance	Senior manager sector financial operations	In agreement. The sector financial officer will inform manager to that end.	Completed



Ref.	RECOMMENDATION	DESIGNATED AUTHORITY		ACTION PLAN DETAILS	TIMETABLE
		ORGANIZATION	FUNCTION		
6.0 USER'S GUIDE					
i)	The <i>Contracting User's Guide</i> should be updated.	Finance	Manager, Contract Administration	In agreement.	Completed
ii)	Users should be reminded that the <i>Contracting User's Guide</i> can be consulted on the intranet.	Finance	Manager, Contract Administration	In agreement. A email will be sent to all users as a reminder to that end..	Completed

