

**TRANSPORTATION SAFETY
BOARD OF CANADA**

**COMPLIANCE AUDIT REPORT
ON STANDING OFFER**

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EXECUTIVE SUMMARY

The Transportation Safety Board of Canada (TSB) is a small agency of the federal government created in 1990 with a mandate to advance safety in the marine, rail, pipeline and aviation modes of transportation.

In April 2005, the Government of Canada instituted a new policy mandating the use of standing offers for the acquisition of goods and services included in 10 designated commodities. An Audit of the Standing Offer Process was part of the 2005 audit plan proposed by the Transportation Safety Board (TSB).

Methodology

A total of 64 records were selected for review to determine the extent of compliance to the Standing Offer Agreement (SOA) process. This represents approximately 10% of the records in the Transportation Safety Board's purchasing database. They also represent a value of over \$655,000.

These initial files were randomly selected using ACL software, and were supplemented in consultation with the project authority to ensure that there was an appropriate mix of type, program and dollar value. Some emphasis was placed on reviewing purchases with higher values. We reviewed all of the mandatory categories of Standing Offers where we were able to determine there had been activity in the period under review.

Key Findings

Overall there was a high percentage of files which were fully compliant with policy mandating the use of standing offers for the acquisition of goods and services included in 10 designated commodities.

The level of activity varied by category; from very low in several categories to quite high in three of the categories. In the categories that are centrally controlled, call-ups were generally well managed. In the categories where authority is distributed, the call-up process could be improved upon. This applies mainly to the hiring of support services, especially temporary help.

Better management of the Temporary Help Standing Offers would enhance fairness and transparency and contribute to obtaining better value. Currently, while such Standing Offers are awarded to relatively large numbers of suppliers, work within TSB is concentrated with a few firms with little consideration of cost differentials. This means that premiums may be paid for work of similar quality and that work is not awarded in a fashion that is open, fair and transparent.

This situation can be remedied quite easily as there is a relatively small number of people who initiate call ups for temporary help services. Proper training of several people and the introduction of simple monitoring should rectify the situation.

It is our opinion that once these changes are made, the use of the mandatory Standing Offers will represent value for money for the Transportation Safety Board.

Key Recommendations:

- TSB should provide training on the appropriate process to the small number of Administrative Officers and Managers who make the majority of call ups against Standing Offers for temporary help.
- Copies of all call ups, for temporary help should be provided to the Coordinator, Materiel and Facility Services, for ongoing monitoring and continuous process improvement.
- Files for all call ups against Standing Offers should provide sufficient documentation to demonstrate that the process has been carried out in accordance with the respective commodity requirements.

I. INTRODUCTION

The Audit of the Standing Offer Process was part of the 2005 audit plan proposed by the Transportation Safety Board.

1. Background

The Transportation Safety Board of Canada (TSB) is a small agency of the federal government created in 1990 with a mandate to advance safety in the marine, rail, pipeline and aviation modes of transportation.

The TSB operates independently from other government departments and agencies and reports to Parliament through the President of the Privy Council. The TSB has approximately 230 employees of which 125 work at the Head Office in Gatineau, Québec, and 25 work at the Engineering Laboratory in Ottawa, Ontario and the remainder work in the 8 regional offices located across the country.

In April 2005, the Government of Canada instituted a new policy mandating the use of standing offers for the acquisition of goods and services included in 10 designated commodities. Goods and services covered within these 10 designated commodities must be purchased through a standing offer if available in such a manner. A process was also established to seek approval of exceptions. The TSB implemented this new policy effective April 29, 2005.

The 10 designated commodities are as follows:

1. Ground effect vehicles, motor vehicles, trailers and cycles
2. Telecommunications equipment and accessories
3. IT equipment, software, supplies and support equipment
4. Office furniture
5. Office machines, text processing systems and visible recording equipment
6. Office supplies and devices
7. Clothing, accessories and insignia
8. Fuels, lubricants, oils and waxes
9. Information processing and related telecommunications services
10. Professional, administrative and management support services

2. Audit Objectives

The objectives of this compliance audit were to determine the extent of compliance to the PWGSC policy on the mandatory use of standing offers and to document in details the specific problems encountered by users.

3. Audit Scope

The scope of this audit included:

- review of current procurement policy for 10 designated commodities;
- review of current compliance levels against the approved policy;
- document the rationale for non-compliance, where applicable;
- document problems encountered by users in implementing the policy;
- identify best practices, where applicable;
- identify areas for improvements;
- validate findings with materiel management group; and
- formulate recommendations.

The scope of this audit included Head Office, the Engineering Branch and the regional offices. TSB Finance staff extracted transaction reports from the departmental financial system based upon line object coding that corresponds with the 10 designated commodities. This included approximately 600 transactions. Using these reports, we reviewed a sample of transactions processed for payment in the departmental financial system during the period from June 1, 2005 to March 31, 2006 and retraced the steps to verify that the appropriate procurement methodology had been complied with. The audit methodology consisted of documentation review and interviews with regional and Head Office administrative officers and managers as required. PWGSC procurement staff was also contacted for clarification as necessary.

4. Methodology and Approach

An initial group of records was selected using the ACL software to provide a random sample. These records were then supplemented, on a judgemental basis, by a selection of higher risk files made in consultation with the project authority to ensure that an appropriate mix of type, program and dollar value were subject to review. The initial high risk files were selected based on dollar value. This group was supplemented by pulling financial data by line object to ensure that high risk areas within the management of standing offers were addressed. A total of 64 records and files were reviewed to ensure adequate coverage.

Using the PWGSC Standing Offer Index (SOI) we reviewed all selected transactions to determine if a Standing Offer existed for that particular good or service. If the record clearly stated that it was a call-up against a standing offer, the Standing Offer Index was searched by standing offer number. If it was a purchase made by means other than a call-up, for example, a contract or a purchase order, then the Standing Offer Index was searched by Supplier and Product/Service. This was done to determine if that purchase should have been made by the call-up process. If further follow up was required then the file itself was pulled and reviewed and as necessary the person responsible for the purchase and/or PWGSC was contacted.

II. OBSERVATIONS AND RECOMMENDATIONS BY THE 10 COMMODITY GROUPS

1. N23 Ground effect vehicles, motor vehicles, trailers and cycles

This category had no impact on our study as no new vehicles were purchased since 2003. Furthermore, purchasing is centralized through PWGSC.

It should be noted that a credit card is assigned to each vehicle. Operating and maintenance expenses are charged to the vehicles via this method and handled by an account managing company. Payments to this company were made according to the Standing Offer Agreement.

2. N58 Telecommunications equipment and accessories

These standing offers are for the procurement of pagers, radios, blackberries, AV equipment and telephone hardware. We reviewed five records from this commodity group. In all cases, due process was followed.

3. N70 General Purpose Automatic Data Processing Equipment, Software, Supplies and Support Equipment

This includes desktop and notebook computers, mainframe systems, storage devices, networking hardware, software, printers and supplies including discs and cartridges.

A large part of TSB's purchasing activity falls under this commodity group. In general, the standing offer process was followed where applicable. Equipment on Standing Offer was acquired through authorized re-sellers.

Purchases of equipment not covered by Standing Offer were justified due to the unique nature of the product. We noted only one exception where a 'one off' purchase of equipment was made using a Standing Offer call-up, where it would have been better processed as a Purchase Order.

Purchases of proprietary software were well justified and documented on files.

Although we were able to confirm the justification for purchases outside of Standing Offers, proper documentation was not always available on file. Proof that the particular product is authorized and acquired through an authorized re-seller, if applicable, was not always documented. It is important that this be done at the time of purchase because a

product or re-seller's status can change over time. Exceptions should include valid justification on file.

RECOMMENDATION 1

All necessary documentation to demonstrate that the acquisition process has been followed should be maintained on file. This includes verification that the vendor is an authorized reseller.

4. N71 Office Furniture

The purchasing of furniture is a fairly low risk activity as it is ordered from supplier catalogues, procurement within TSB is centralized and, according to a PWGSC contracting officer, the chance of a supplier offering an unauthorized product to a government buyer is extremely low. Only two of the records selected dealt with the acquisition of furniture; indicating that this is a small part of TSB's purchasing. Of the two records reviewed, one was procured centrally, while the other was a low dollar credit card transaction of an authorized vendor's products.

5. N74 Office machines, text processing systems and visible recording equipment

This is another low risk area. Only one record from our sample selected pertained to this category. Voice recorders were purchased using a credit card. There was no Standing Offer for this product in that region.

6. N75 Office supplies and devices

This group includes pens, pencils, files, etc. There were two cases related to this commodity group where the standing offer process was bypassed, however the supporting rationale was easily determined during our file review.

We confirmed through matching invoices to catalogues that the maximum discount was given to TSB. Furthermore, there is a high level of service associated with this Standing Offer and no time wasted by staff in "shopping" for products.

7. N84 Clothing, accessories and insignia

Minimal risk is associated with this commodity group. Only four records fell within this category and the dollar amounts were fairly low; the highest being just over \$1000.

Furthermore, we confirmed with PWGSC that there are few Standing Offers for footwear or clothing available.

We noted that TSB has however, recently established a Standing Offer through PWGSC for fire retardant clothing. This is a proactive step on behalf of TSB.

In our review we did note one transaction for the purchase of clothing items which was after the fact, without any supporting rationale.

8. N91 Fuels, lubricants, oils and waxes

An account management company has a Standing Offer to provide credit cards to be used for fleet services. Where applicable, services were purchased via credit card on this company's account. Otherwise, items from this commodity group are not generally purchased by TSB.

9. D - Information Processing and Related Telecommunications Services

This group relates to telecommunications delivery services and information technology consulting. This includes system and network architects, programmers, IT project managers, web designers and other related consulting services.

For the records, we reviewed the value of any transaction under \$89,000. Therefore, the client was required to invite a minimum of three Supply Arrangement holders to bid, rather than all SA holders for the stream of service. Furthermore, "the proposal must be evaluated consistently with evaluation factors identified in the RFP" before a contract is awarded (PWGSC, n.d. b: 11).

The results were mixed regarding the extent of compliance in this category.

One case showed that some work had been performed in order to determine the supplier's suitability. Evaluation criteria were used and the supplier was awarded the contract. There was however, no supporting documentation on file that the published GOL/IPS process had been followed. Furthermore, we noted that the supplier's evaluation score was 58 out of 100 and raises the question of whether this bidder was 'technically acceptable.'

Another case was a model in demonstrating that the published process had been followed. The IPS search, a record of other suppliers contacted and a record of the successful applicant's evaluation results were all on file.

Other IT professional service files reviewed were not covered by Standing Offers.

RECOMMENDATION 2

All supporting documentation for supplier selection should be maintained on file. This includes the initial estimate of the requirement, a statement of work, the security level required, the basis and method of payment, evaluation criteria, basis of selection, bidding period and RFP. For requirements under \$89,000 the search criteria and the search results from the IPS marketplace should also be put on file. Proof that at least three SA holders were invited to bid and the signed summary sheet of the evaluation of the proposals should also be on file.

RECOMMENDATION 3

For all evaluation processes a minimum score should be established to ensure that the eventual supplier is ‘technically acceptable.’

10. R - Professional, Administrative and Management Support Services

This group addresses consulting, temporary help and courier services. This commodity group can be broken down into Standing Offers that are established for professional consulting related to change management and mediation, those that are found through Temporary Help Services (THS) and those for courier services. We have broken our discussion down between consulting and Temporary Help Services.

Contracting for services related to temporary help generally presents a higher risk for non compliance with published procedures. In our review, we noted that a significant percentage of files did not satisfy the published criteria for utilizing the Standing Offers.

a. Consulting Services

There were only a few records relating to non IT consulting services.

In one case, a previous bid solicitation process was used as the justification to award a contract. We confirmed that no Standing Offer existed for that service. For the new requirement, TBS is going through ACAN to ensure no other suppliers are available.

In another case, the file was well documented and contained a record of an approval from PWGSC for an exemption from using the existing Standing Offer.

The others had no issues or no Standing Offer was in place.

b. Temporary Help Services

There is a wide range of services found under the umbrella of THS. Under THS, we reviewed records that can be divided into 3 categories:

- Computer Support
- Office Support
- Courier Services

THS Guidelines

The key features for using THS are as follows:

- “Clients should...conduct a search to identify the suppliers and the rates for the proposed work.
- Negotiations are not to form part of the dialogue with the supplier...Clients should ensure that prior information of rates is obtained before contacting the supplier.
- ...the Client should contact the supplier quoting the lowest rate. Another Supplier in the list, other than the Supplier quoting the lowest rate can be contacted; however support should be on the client’s file as to why the lowest was by passed.
- The Federal government department or agency user must print the Search / Call-up-Search Results screen immediately after conducting the search. A copy of the call-up form (PWGSC – TPGSC 8251 – S: within the THS online system) and a copy of the ‘Search / Call-up – Search Results’ screen must be on the federal government department or agency file ...
- Contracting authorities should not automatically select the same source for all requirements.” (PWGSC, n.d. a: 3- 7)

Call-ups for Temporary Help services are made directly by Administrative Officers on behalf of Managers. Our review revealed several instances where established processes or procedures were not adhered to. The primary reasons given for non compliance with established PWGSC practices was the time consuming nature of the procedures and the desire to engage high calibre resources.

It must be noted that we contacted PWGSC staff responsible for the maintenance of the Standing Offers. They confirmed that the process can be time consuming and labour intensive. They also state that there are wide spread inconsistencies across government with the application of rules as published. It is their intent to begin to audit clients in order to ensure fairness in the awarding of work.

Due to the variety of services available, we have commented by category in the following section.

THS: Computer Support

In one case the supplier chosen is 27th on a list generated by the THS system, ranking suppliers by price. There is no record on file that the first 26 suppliers were contacted and no record of why they were rejected. Furthermore, it appears that after that supplier had been chosen, the hourly rate of the individual chosen through the supplier was negotiated. The individual was not prepared to work for the hourly rate listed under the supplier in the THS system. As a result the hourly rate in the THS system was adjusted upwards to meet the negotiated price. The new higher rate actually moved the supplier to 43rd on the list. The administrative officer who originally placed the order on the behalf of the project authority even recognized that the supplier should have been “dropped” rather than change rates.

In another case, there is a record on file that a search on the THS system was performed. It appears that the supplier selected is somewhere in the middle of the companies that came up with respect to their pricing. The search criteria are also not visible on the print out on file. It has been recorded on file that two other companies of ‘similar caliber’ were ruled out due to higher cost. There is not however, adequate documentation as to how it was determined that these companies were of similar caliber and no evidence on file of any effort to contact the lower priced suppliers. Furthermore, the higher rates of the alternate suppliers used to rationalize the final selection were among the highest listed.

Finally, it appears that an individual was ‘payrolled’ using the standing offer process. Services from this person were engaged by means of a call up against a standing offer of a given supplier. His services were retained by a subsequent call up under a different supplier. The retention of a competent individual with a proven track record is a valid objective. However, Standing Offers are not intended to be used to circumvent the staffing process.

RECOMMENDATION 4

All documentation should be on file. A copy of the call – up form (8251 – S) and a copy of the Search / Call-up – Search Results screen, printed immediately after the search was conducted, should be on file. Justification for why the lowest supplier has been by passed, if applicable, should also be on file.

RECOMMENDATION 5

Rates should not be negotiated when utilizing the Standing Offer call up process.

THS: Office Support

In a number of cases the records indicate that several suppliers were contacted before one was chosen. There is however, no evidence that a list had been made and all of the suppliers on that list were contacted, in order, and ruled out for a particular reason.

Furthermore, we noted that the majority of all temporary help contracting is directed to one firm. While this is not necessarily contrary to the guidelines surrounding call-ups, it could appear as undue favoritism.

RECOMMENDATION 6

That TSB provide training on the appropriate process to the small number of Administrative Officers and Managers who make the majority of call ups against Standing Offers for temporary help.

THS: Courier Services

We reviewed a number of courier related transactions. In all cases there were appropriate Standing Offers in place.

11. Others

Six records were of purchases outside the 10 designated commodity groups. As a result the Standing Offer process did not apply.

Summary of File Review					
Commodity Group	Files reviewed	Complied	Did Not Comply	N/A	Comments
IT equipment, software, supplies & support equipment	23	19	1	3	Centrally controlled – well managed
Professional, admin. and management support services	18	7	8	3	Higher risk activity – call ups distributed to Admin Officers or Managers
Information processing & related telecommunications services	3	3	0	0	Higher risk activity – call ups distributed to Admin Officers or Managers
Telecommunications equipment & accessories	5	2	0	3	Relatively low risk – little or no activity
Clothing, accessories and insignia	4	3	0	1	Low risk item - little activity in TSB
Office furniture	2	2	0	0	Low risk item – little activity in TSB – centrally controlled
Office supplies and devices	2	0	0	2	Low risk item – only \$ 3 K in activity in TSB
Office machines, text processing systems and visible recording equipment	1	1	0	0	Relatively low risk – little or no activity
Ground effect vehicles, motor vehicles, trailers and cycles	0	0	0	0	Low risk item - no activity in TSB
Fuels, lubricants, oils and waxes.	0	0	0	0	Low risk item - no activity noted in TSB
Outside of Standing Offer Process	6	3	0	3	Professional services where no SOA exists
Totals:	64	40	9	15	

Overall there were a high percentage of files which were fully compliant with policy mandating the use of standing offers for the acquisition of goods and services included in 10 designated commodities.

Non compliance was concentrated in the call up of Office and Computer Support. The primary reasons given for non compliance with established PWGSC practices was the time consuming nature of the procedures and the desire to engage high calibre resources.

PWGSC staff responsible for the maintenance of the Standing Offers confirmed that the process can be time consuming and labour intensive.

III. GENERAL OBSERVATIONS AND RECOMMENDATIONS

1. Documentation

In general, the documentation of the utilization of the Standing Offer call up process needs to be improved.

TBS policy states that: “Contract files should be established which will provide a complete audit trail containing details on matters such as options, decisions, approvals, amendments, if any, etc., and identifying the officials or authorities who made them. This is extremely important for answering questions and evaluating results.”

PWGSC have no internal guidelines for their staff other than the following element of their contracting manual 2.002 (23/06/94). “A current file serves as a historical record and an accurate audit trail in the event of a financial review, subsequent legal action or an official complaint. Current files are also important for anyone who may have to consult the file or assume responsibility for it at a later date.”

In our review we noted that there were gaps in the available information on the actual contract/payment files in providing complete information for an adequate audit trail. Regarding the database itself, all types of purchases; Standing Offers, purchase orders, contracts and credit card payments are consolidated in this system.

2. Oversight and Monitoring of Standing Offer Activity for THS

We noted that at present there is no central tracking of call ups against Standing Offers. Currently, the Coordinator of Materiel and Facility Management has no means of knowing what the activity levels are for activities related to Temporary Help. In order to ensure that the basic procedures related to making call ups against Standing Offers are complied with, there needs to be an ongoing monitoring of activity.

The purchasing officer has recently begun to track purchases using an excel spreadsheet. This will be of assistance in any future monitoring of contracting activities. This system could be easily expanded to capture all call ups for Standing Offers as well.

RECOMMENDATION 7

Copies of all call ups for temporary help should be provided to the Coordinator, Materiel and Facility Services, for ongoing monitoring and continuous process improvement.

RECOMMENDATION 8

In order to facilitate the tracking of Standing Offer call ups, a field should be added to the purchasing officer’s Excel Spreadsheet, to identify the type of transaction.

IV. CONCLUSION

Overall there were a high percentage of files which were fully compliant with policy mandating the use of standing offers for the acquisition of goods and services included in 10 designated commodities.

The sample of records we reviewed revealed that the level of purchasing activity was quite high in three key areas and relatively low in most others. The three high use categories are:

- General Purpose Automatic Data Processing Equipment, Software, Supplies and Support Equipment.
- Information processing and related telecommunications services.
- Professional, Administrative and management support services.

In all categories, documentation for purchases requires improvement. Specific recommendations have been made in this regard.

In the categories that are centrally controlled, call-ups were generally well managed. In areas where authority is distributed, the call-up process could be improved upon. This applies mainly to the hiring of support services; especially temporary help services.

Better management of Standing Offers would enhance fairness and transparency and contribute to obtaining better value. Currently, Standing Offers are awarded to relatively large numbers of suppliers yet work within TSB is concentrated with a few firms with little consideration of cost differentials. This means that premiums may be paid for work of similar quality and that work is not awarded in a fashion that is open, fair and transparent.

This situation can be remedied quite easily as there is a relatively small number of people who make purchases. Proper training of several people and regular monitoring through the provision of copies of call ups to the Coordinator Materiel and Facilities Management should rectify this situation.

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