Audit of the Management and Delivery of Procurement

Final Report

Audit and Evaluation Branch
November 2016
List of Acronyms

AEB    Audit and Evaluation Branch
ECCC   Environment and Climate Change Canada
FAA    Financial Administration Act
FB     Finance Branch
FY     Fiscal Year
MSC    Meteorological Service of Canada
PCD    Procurement and Contracting Division
PRB    Procurement Review Board
PSPC   Public Services and Procurement Canada
SAP    Systems, Applications and Products
STB    Science and Technology Branch
SOW    Statement of Work
TB     Treasury Board

Prepared by the Audit and Evaluation Branch

Acknowledgments
The audit team, led by Lise Gravel under the direction of Stella Line Cousineau, would like to thank those individuals who contributed to this project and, more particularly, employees who provided insights and comments.

Version Control
File Name: Final Report for the Audit of the Management and Delivery of Procurement
Date: November 22, 2016
# TABLE OF CONTENTS

EXECUTIVE SUMMARY ..................................................................................................1

1. INTRODUCTION AND BACKGROUND ................................................................ 3

2. OBJECTIVES, SCOPE AND METHODOLOGY .................................................... 5

3. FINDINGS AND RECOMMENDATIONS ................................................................ 7
   3.1 Management Control Framework ................................................................... 7
   3.2 Compliance .................................................................................................. 11
   3.3 Recommendations ....................................................................................... 15

4. CONCLUSION ..................................................................................................... 15

Annex 1 Methodology, Audit Criteria and Detailed Testing Results ....................... 16
EXECUTIVE SUMMARY

The Audit of the Management and Delivery of Procurement was included in the Audit and Evaluation Branch’s (AEB) 2013 Integrated Risk-Based Audit and Evaluation Plan, as approved by the Deputy Minister, upon recommendation of the External Audit Advisory Committee.

The objectives of the audit were to:
- determine if key elements of a management control framework support efficient procurement activities aligned with departmental operational needs; and
- provide assurance that ECCC’s procurement transactions were in compliance with Government of Canada requirements and departmental and central agency policies and guidelines.

Contracting and procurement activities are essential to support the Department in achieving its objectives. In 2013-2014, there were approximately 8,900 procurement transactions processed for an estimated total value of about $148 million, representing approximately 15% of the Department’s total budget.¹

Over the last few years, the Procurement and Contracting Division of the Finance Branch has made a number of changes to improve overall procurement operations. For example, key senior positions that had been vacant for an extended period have been staffed, the service standards have been revised and the ECollab tool is now being used to centralize procurement information and documentation.

The Division continues to evolve and the audit found that, overall, many key elements of an effective procurement management framework were in place. For example, the audit noted that roles and responsibilities and procurement delegation of authorities were well defined. In addition, very noteworthy progress has been made to ensure procurement transactions are processed more evenly throughout the year. However, the audit also noted some areas for improvement, such as strengthening quality assurance, better monitoring and reporting of service standards, and reviewing the guidance to improve consistency in the application of policies and directives.

In addition, the audit found that procurement and contracting activities were mostly in compliance with policy requirements, with some exceptions noted in the following areas: approval of procurement transactions, signing and dating of contracts, and maintaining an adequate audit trail of procurement and contracting documentation.

To address the findings outlined in this report, the following recommendations are presented.

Recommendations

1. The Assistant Deputy Minister, Corporate Services and Finance Branch should review and enhance the procurement management framework to ensure that:
   - a formal quality assurance program is developed and implemented;
   - guidance to procurement officers is further developed and communicated to improve consistency in the application of the legislation, policies and procedures;

¹ Source: 2013-14 Public Accounts of Canada, Volume II
• files are maintained such as to include a complete audit trail of key documentation; and,
• increased monitoring and analysis of contract trends is carried out regarding, for example, sole-source contracts.

2. The Assistant Deputy Minister, Corporate Services and Finance Branch should review the approach to monitoring the efficiency of procurement and contracting activities in order to:
   • better include both procurement and client (program) key activities as part of the service standards; and
   • periodically monitor and report actual results against the established service standards.

**Management Response**

Management agrees with the above recommendations, and the branch has already begun implementing elements on the management action plan.
1. **INTRODUCTION AND BACKGROUND**

This audit was included in the AEB’s 2013 Integrated Risk-Based Audit and Evaluation Plan, as approved by the Deputy Minister, upon recommendation of the External Audit Advisory Committee.

The procurement of goods, services and construction in the Government of Canada is recognized as a high-risk area as it is complex, highly regulated and subject to public scrutiny. For instance, the Office of the Comptroller General of Canada identified the risk associated with procurement and contracting as significant, as challenges with contracting directly impact the delivery of government programs and services. The following presents some of the key legislative and policy elements that govern procurement activities:

- **Financial Administration Act (FAA);**
- **Government Contracts Regulations;**
- **Treasury Board (TB) Contracting Policy;**
- **Directive on Delegation of Financial Authorities for Disbursements;** and
- Several international trade agreements (such as the North American Free Trade Agreement).

At ECCC, the TB Contracting Policy, along with the Department’s set of procurement and contracting guidance documents constitute the cornerstone of the management control framework for procurement activities. In the last two years, there were no ECCC issues flagged or raised by suppliers to the Procurement Ombudsman or to trade tribunals.

In November 2013, the responsibility for the ECCC’s Procurement and Contracting Division (PCD) was transferred from the Corporate Services Branch (CSB) to the Finance Branch (FB). This was to optimize interdependencies between procurement and finance functions.

Since the transition, PCD has gone through a number of challenges including the hiring of three key procurement positions (chiefs), the staffing of the Director General position, which had been vacant for one year, and the replacement of the Director. Changes also included the adoption of the Systems Applications and Products software (SAP). This major departmental project involved changing the financial system and implementing new business processes for procure to pay. Furthermore, Finance Branch went through organizational changes, and a new service delivery model for accounting operations was implemented. As a result, branch resources were engaged primarily in meeting operational requirements while readying for this implementation.

During the course of this audit, other departmental corporate initiatives also took place, such as the implementation of the new travel and telephone systems and the email transformation initiative. These initiatives impacted all employees, including those of PCD.

---

2 Source: Office of the Comptroller General, Three-Year Risk-Based Internal Audit Plan 2014-15 to 2016-17
3 Finance Branch was merged with the Corporate Services Branch in May 2016 to become the Corporate Services and Finance Branch.
While TB is the primary body responsible for procurement policy, the PCD is mainly responsible for the development of procedures and guidelines, the provision of advice, and the implementation of monitoring and quality assurance processes surrounding procurement and contracting activities. Purchasing roles and responsibilities are detailed on the Procurement intranet site.

ECCC’s procurement officers have been delegated the authority to issue and approve contracts. Procurement operations are channeled through six regional offices (formerly seven offices, as ECCC’s Dorval office closed during the course of the audit).

For significant acquisitions (i.e., over $25K), both the selection of the contracting methods and the selection of suppliers through the tendering process are the responsibility of the procurement officers. They are also responsible, in consultation with the program areas, for overseeing the tendering process, evaluating financial components of bids, managing the evaluation of the technical component by program staff; awarding the contract, and keeping an audit trail (proper documentation) to support decisions surrounding procurement and contracting activities. In addition, procurement officers must ensure conformity with numerous complex rules implemented by the GoC, regarding, for example, security requirements, integrity and supplier status. They must also determine whether any of these will affect the procurement method.

Program managers are responsible for most of the upfront work leading to the issuance of a contract, such as the definition of the requirement (Statement of Work). They are also responsible for the subsequent administration of the contract to ensure that goods and services are delivered and paid in accordance with the terms and conditions of the contract.

Contracting and procurement activities are essential to support the Department in delivering programs and services. In 2013-2014, 8,869 procurement transactions were processed, for a total value of about $148 million, representing approximately 15% of the total budget. The following table presents ECCC’s procurement types, number of transactions and value for fiscal years (FY) 2011-2012 to 2014-2015.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Contracts</td>
<td>Value</td>
<td>Number of Contracts</td>
<td>Value</td>
</tr>
<tr>
<td>Construction</td>
<td>43</td>
<td>$3,249</td>
<td>67</td>
<td>$4,452</td>
</tr>
<tr>
<td>Goods</td>
<td>4,997</td>
<td>$78,101</td>
<td>4,147</td>
<td>$62,442</td>
</tr>
<tr>
<td>Services</td>
<td>4,922</td>
<td>$81,148</td>
<td>4,675</td>
<td>$86,215</td>
</tr>
<tr>
<td>Total</td>
<td>9,963</td>
<td>$162,498</td>
<td>8,889</td>
<td>$153,109</td>
</tr>
</tbody>
</table>

Source:
4 2013-2014 ECCC’s Financial System (data extractions from Discoverer, report titled EC Audit 2014-7)
5 2013-14 Public Accounts of Canada, Volume II (all votes)
Procurement is defined as the function of obtaining goods and services, whereas contracting is the agreement between the Department and the supplier for appropriate consideration. For the purpose of this audit, a procurement transaction includes a purchase order, a contract, a call-up against a standing offer agreement or a supply arrangement, and any related amendments.

2. OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of this audit were to:
- determine if key elements of a management control framework support efficient procurement activities aligned with departmental operational needs; and
- provide assurance that ECCC’s procurement transactions were in compliance with Government of Canada requirements and departmental and central agency policies and guidelines.

Scope

The scope included an examination of the following key elements supporting the procurement management control framework in place at the time of the audit:
- monitoring, reporting and oversight;
- roles and responsibilities;
- workload planning and priorities;
- service standards; and
- guidance.

The audit also included compliance testing of procurement transactions processed during fiscal year 2013-2014, as further detailed in the audit methodology section.

The audit did not include transactions related to petty cash, purchases on government acquisition cards or other purchases such as utilities, as these types of expenditures follow a separate process and may be considered in a planned Audit of Expenditure Management and Control.

Methodology

The audit was based on a combination of interviews, documentation review, data analysis and file examination for the testing of efficiency and compliance against TB Contracting Policy and ECCC’s departmental guidance documents. The detailed methodology is provided in Annex 1.

A judgmental sample of 70 transactions was examined for compliance against key audit criteria. The sample covered the period from April 1, 2013, to March 31, 2014, and included transactions from the four branches in the table below, representing 70% of ECCC’s total transactions and 73% of the total value. The testing of these transactions was carried out on site in the following regions: NCR, Ontario, Montreal and Edmonton.
While testing of the transactions focused on 2013-2014, the audit included other procedures, analysis and interviews with managers conducted until the end of the fieldwork in the fall of 2015. The audit did not identify any significant changes in procurement operations, processes or controls between 2013-14 and 2014-15, particularly as the Department was preparing for the 2015 SAP implementation.

The audit methodology also requires consideration of previous related work pertaining to procurement or contracting. Specifically, AEB, in collaboration with Deloitte, conducted a fraud risk assessment in 2015 with the objective of identifying potential scenarios where fraud could occur. The assessment reviewed a number of functional areas and scenarios, including the area of procurement and contracting. While the objective was not to uncover fraud, Deloitte provided a number of suggestions to improve procurement controls.

Observations made in the context of this audit are mostly consistent with the suggested improvements highlighted in the fraud risk assessment. However, AEB’s recent follow-up on the status of the recommendations which ensued from that assessment\(^6\) indicates that suggestions are being reviewed and considered by the Finance Branch.

### Statement of Conformance

This audit conforms to the *Internal Auditing Standards for the Government of Canada* as supported by the results of the quality assurance and improvement program.

In our professional judgement, sufficient and appropriate audit procedures have been conducted and evidence gathered to provide a high level of assurance on the accuracy of the conclusions reached and contained in this report. The conclusions relevant to the testing were based on a comparison of the situations as they existed at the end of the fieldwork in November 2015\(^7\) against the audit criteria.

---

\(^6\) AEB Summary Report of the Fraud Risk Assessment and Governance

\(^7\) Refer to the Project Key Dates section of this report for reason for delay in project
3. FINDINGS AND RECOMMENDATIONS

3.1 Management Control Framework

TB Contracting policy states that “it is the responsibility of departments and agencies to ensure that adequate control frameworks for due diligence and effective stewardship of public funds are in place and working.” In the context of this audit, it was expected that the following elements of a sound management control framework would be in place: formal monitoring, reporting and oversight; clear roles and responsibilities; identified workload planning and priorities, defined service standards and established guidance.

PCD has made a number of changes to improve the overall efficiency of the Division. For example, key senior positions have now been staffed, the service standards have been revised to align better with the reality of the time it takes to process a request and ECollab is now being used to centralize procurement information and documentation.

Overall, AEB concluded that while key elements of a management framework are in place, there is room for improvement in some areas.

Monitoring, Reporting and Oversight

ECCC had previously relied on a number of governance mechanisms related to the oversight of procurement and contracting activities. The mandate of the Procurement Review Board (which was renamed the Contract Review Committee during the course of this audit) was revised to make it a more strategic decision-making and approval body for procurement and contracting activities. The new Contracting Review Committee has a dual mandate (transactional and strategic). However, procurement staff indicated that this committee was mostly inactive during the course of the audit.

The audit also noted that there was no formal quality assurance process in place at the time of the audit. Some quality reviews were conducted by PCD, but these were done on an informal or ad hoc basis and included, for instance, reviews of non-competitive contracts and amendments that increased the total contract value over $25,000 or by more than 50%. We did not find evidence of regular quality control over procurement compliance with key policy requirement and guidelines (for example, contract splitting, employer-employee relationship, repetitive non-competitive contracts to the same suppliers or retroactive contracting activities). The results of the audit testing (Section 3.2) revealed some issues with procurement and contracting activities that would be addressed through more formal quality controls.

As a related point, we found no evidence of regular monitoring or analysis of various procurement trends, related for instance to competitive and non-competitive contracts, number and value of contract amendments, procurement methods used (e.g., contracts, purchase orders and call-ups against standing offer agreements), and frequently used suppliers. Better monitoring would supplement transactional quality controls, allow for better identification of procurement risks, and help increase procurement control and efficiency.

The financial system provides information for tracking the financial aspects of contracting activities and reporting annually to Treasury Board on procurement activities, such as total contracts greater than $25,000, total contract amendments, total...
non-competitive contracts and contracts falling under international trade agreements. Also, as required by all departments, ECCC reports the proactive disclosure of contracts over $10K and service contracts with former public servants on its website on a quarterly basis.

Up until fall of 2015, weekly reports of procurement activities were provided to ECCC’s Executive Management Committee members for review. These reports included all proposed contracts over $25K and sole source contracts.

More formal quality control, monitoring and reporting of procurement activities would lead to improved compliance and procurement practices and to the identification of issues or corrective measures.

**Roles and Responsibilities**

ECCC’s procurement and contracting intranet site lists the general roles and responsibilities of both procurement officers and program managers in the administration of each stage of the procurement process (from initiation to close-out). In addition, delegation procurement authorities are clearly defined in ECCC’s delegation instrument. Roles and responsibilities are also defined in the different guidelines available to program managers.

Lead procurement officers indicated that they were well aware of their roles and responsibilities, including oversight of procurement activities within their regions by providing guidance and expert advice and assigning contractual duties to procurement officers based on their level of experience.

Similarly, program managers also indicated that they understood their overall role and responsibilities regarding the procurement of goods and services. However, half of the managers interviewed indicated that the level of involvement and support by procurement officers in the preparation of the purchase requisitions and supporting documents varied across the Department. They were concerned that the more technical contracts were difficult to process on time due to the limited availability of experienced procurement officers who understood the complexity of their business. As well, managers commented that there was a lot of back and forth to track and process their requisitions.

While their roles and responsibilities related to procurement and contracting have been defined, documented and communicated on the procurement website since 2014, program managers are still unclear as to the level of assistance to be expected from PCD.

**Workload Distribution**

As noted in the table below, FB has made very noteworthy progress ensuring procurement transactions are processed more evenly throughout the year, thus minimizing the peak in the last quarter and improving procurement efficiency and service to the managers. FB presents similar analysis to the EMC on a regular basis.

A call letter for the purpose of preparing the fiscal year-end procurement and contracting activities is sent to staff reminding them of the importance of submitting their requisitions
as early as possible to provide the best assurance that their requirements can be secured within the timelines needed.

**Number of Procurement Transactions Processed per Quarter**

It is also recognized that the activities of PCD cannot be fully planned as it is responsive and subservient to the programs’ demands for services. While in some regions, there are consultations between the programs and PCD on anticipated workload, this is not common practice throughout the Department. The program managers interviewed indicated that the time it takes to communicate their procurement needs often depends on the complexity of the requirements and the timing of budget allocation.

At the time of the audit, there was no clear process for distributing the procurement workload among the different regions, as the regional workload is basically driven by regional demand. This method does not account for the existing regional workload and may create backlogs when regional demand exceeds capacity. Procurement staff indicated that PCD was in the process of altering the service delivery model to have one central process for workload distribution. FB’s continued efforts to improve work distribution and procurement planning should help further improve efficiencies in procurement activities.

**Service Standards**

The existing procurement and contracting service standards measure the number of working days between the time a fully funded requisition has been submitted (with all the required documents needed by the contracting officers to prepare the contract) and the time the contract is awarded. Table 3 below presents the service standards that were in place during the audit.
Table 3
Comparison of Service Standards

<table>
<thead>
<tr>
<th>Procurement Types</th>
<th>Processing Time (in working days)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013(^8)</td>
</tr>
<tr>
<td>Requisitions to Public Services and Procurement Canada (PCD to PSPC)</td>
<td>10</td>
</tr>
<tr>
<td>Call-up against a standing offer (incl. temp. help services)</td>
<td>5</td>
</tr>
<tr>
<td>Goods or services contract under $25,000</td>
<td>10</td>
</tr>
<tr>
<td>Competitive services contract between $25,000 and $80,400, or contract against a supply arrangement</td>
<td>55</td>
</tr>
<tr>
<td>Competitive services contract over $80,400 (includes the 40 days solicitation period required for competitive contracts)</td>
<td>52</td>
</tr>
<tr>
<td>Respond to questions sent to the mailbox</td>
<td>2</td>
</tr>
</tbody>
</table>

While PCD has developed the above service standards, we found no evidence of formal ongoing monitoring and reporting of actual processing time against these standards. This limits PCD’s ability to determine if standards are met and if service to the client is satisfactory. Furthermore, monitoring results would identify significant processing-time delays and possible measures to improve the situation. This is important as the timeliness of procurement service was previously noted as a concern by many senior managers.

Based on its audit sample, AEB determined the time required to process a requisition from the date the original requisition is signed to the date the contract is awarded. We compared the actual processing time to the current 2014 standards. While not fully comparable, the results of our testing nonetheless indicated that only 55% (38 out of 70) of the contracts were processed within the service standards (Table 4).

Table 4
Assessment of Processing Time Against the Service Standard

<table>
<thead>
<tr>
<th>Procurement Types</th>
<th>Audit Sample Results</th>
<th>Number of Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Met</td>
<td>Not Met</td>
</tr>
<tr>
<td>Requisitions to PSPC</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Call-up against a standing offer (including temporary help services)</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Goods or services contract under $25,000</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>Competitive services contract $25,000 to $80,400 or contract against a supply arrangement</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Competitive services contract over $80,400</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>29</td>
</tr>
</tbody>
</table>

\(^8\) Service standards effective during the audit (these timeframes are for the initial processing only).

\(^9\) Service standards were revised on June 30, 2014.

\(^{10}\) N/A means information not available (e.g., no date on the requisition).
In addition, the current service standards do not cover the entire procurement process from start to finish. The time taken by PCD to assess completeness of the requisition and the time taken by the program area to return a completed requisition with proper supporting documentation are not taken into consideration in the current standards. The current standards only start after the requisition and supporting documents are complete. Half of the managers interviewed were not aware that the back and forth exchange of information was not part of the service standard timelines. However, PCD managers indicated that they do not have the necessary tools to record and track the service times on this more complete basis.

Guidance

Guidance is a key component in ensuring consistent treatment of procurement processes. The audit examined whether ECCC’s Procurement and Contracting Division provided adequate guidance to both procurement and program staff. ECCC’s Procurement and Contracting intranet site provides contracting guidelines, however, as previously mentioned it is mainly geared to the client’s needs.

PCD developed several internal guidance documents for procurement officers, and while these documents have had some updates over the past few years, they have not been finalized and consistently communicated to procurement staff in the regions. The guidance includes details on procurement principles such as competitive and non-competitive contracts, information on how to comply with international trade agreements, and instructions on how to use supply arrangements and standing offers.

Regional procurement officers interviewed earlier in the audit were not aware of these guidance documents and, as a result, were maintaining their own set of guidance documents and tools taken from various sources, including PSPC. This lack of common guidance across the Department increases the risk of inconsistencies in the application of procurement policies and directives, and could also increase the risk of challenges to contract award decisions.

More recently, however, PCD has been in the process of implementing common business processes for procurement staff, through the development and publication of more standard guidance documents, tools and templates.

3.2 Compliance

TB Contracting Policy contains many requirements, and the selection of the key requirements to be examined was based on risks to the organization. Annex 1 lists the major policy requirements that were tested, the number of contracts tested for each requirement, the number of times the tests were performed and the results.

Based on the results of the testing, AEB concluded that procurement and contracting activities were mostly in compliance with policy requirements, with some exceptions. Opportunities for improvement were noted in the following areas: approval of procurement transactions, signing and dating contracts, and maintaining an adequate audit trail of procurement and contracting documentation. The results of the compliance testing are summarized below.
Procurement Initiation

This phase included activities related to defining the requirements and ensuring that the appropriate procurement methods were selected and that all authorities and approvals were respected.

Contracting Requirements

TB Contracting Policy requires that contracting authorities prepare a description or statement of work (SOW), that service contracts do not result in an employer-employee relationship and that provisions of the Government Security Policy are observed. In addition, the SOW must address ownership of intellectual property.

A total of 70 contracts were examined. As previously mentioned, some tests did not apply to all samples, depending on the nature of the transaction. The audit found five cases (out of 27) where there were discrepancies in the security requirements, such as:

- security requirements not identified on the requisition or in the contracts;
- requirements on the requisition not aligned with the Master agreement.

The lack of a required security level properly identified on the requisition form increases the risk that suppliers may access the organization’s assets without the proper security clearance and expose the Department to potential security issues.

Procurement Method

The documentation on file was assessed to determine if it was sufficient to support the chosen procurement method. Compliance with international trade agreement requirements was also tested (e.g., threshold limits) to ensure they were respected. In addition, the rational for non-competitive contracting was examined to ensure that it met one of the four exceptions.

The audit team found one occurrence of contract-splitting: two contracts of the same nature were awarded to the same supplier to avoid the $25,000 threshold.

The audit also found, through analysis of contract trends, repeated contracts awarded non-competitively to the same suppliers. While in some circumstances it may be normal practice to award multiple contracts to one supplier depending on the nature of the procurement activity, it may also be indicative of a risk of contract-splitting. AEB did not perform additional testing to corroborate whether there were actual issues. The concern was also supported by interviews with PCD staff.

Authorities and approvals

The decision to obtain goods or services can only be taken by an individual who has the authority to initiate expenditure (requirement under the ECCC’s Delegation of Spending and Financial Signing Authorities Policy). Once the expenditure initiation approval has been obtained, another pre-approval is necessary to confirm that sufficient funds are available in the budget to cover the expenditure (commitment requirement under section 32 of the FAA). Other approvals are also required for some types of expenditures, such as information technology, film, video and multi-media production, public opinion research and vehicle acquisitions.
The test included both original requisitions and amendments. The audit found 27 instances (approximately 16%) were the required approvals were not properly exercised. This included instances where:

- the requisition was not signed for FAA section 32;
- there was no expenditure initiation approval.

Lack of complete approvals for initiating purchases and committing funds increases the risk that procurement transactions are processed by unauthorized individuals and that budgets are exceeded. The audit also found two cases where the amendments were prepared after the work start date. Amendments done after the fact may also result in budgets being exceeded or may increase the risk of conflict with suppliers.

**Contract Tendering and Award**

**Bid solicitation**

The audit examined whether the bid solicitation method (request for proposals, invitation to tender, request for quotes, standing offers or supply arrangements) and related documents were appropriate. For example, we expected that evidence of the notification posted on websites for those procurement transactions requiring a bid solicitation would be on file and that register documentation would be signed and dated to ensure that opening and closing times were respected.

Results of the audit determined that the few transactions requiring bid solicitation contained appropriate evidence on file and were properly registered.

**Evaluation Criteria and Bid Assessment**

TB Contracting Policy requires that, where applicable, bid evaluation criteria to address socio-economic factors in relation to the total cost of a contract before bids are solicited are established and communicated to the bidders, that an evaluation report for each of the bidders is well documented and contains ranking rationales, and that all final evaluation summary reports are signed by all members of the evaluation team (a minimum of two signatures is required).

The audit found that the evaluation criteria are well communicated. However, the requirement to keep a signed and dated evaluation report on file was not met in four out of six cases. Not documenting the bid assessment and not signing and/or dating the evaluation report could expose the Department to potential legal liability in the event of a challenge by one of the bidders.

**Contract Award**

Legal requirements and normal practices require that all contracts be signed and dated by both the contracting authority and the supplier prior to the commencement of the work. In order for a contract to be valid, the signature of both parties on the contract is required as it is evidence that both have agreed to the terms of the contract, thereby helping to avoid questions of enforceability. A signed contract is also useful in determining which version of a document is the final in the event that there are negotiations preceding the contract award.
The audit noted that the requirement for the supplier to date the contract was not met in seven cases (approximately 10%). For those contracts, we were unable to assess whether the contractor had commenced work prior to accepting the terms of the contract. Starting the work prior to having a valid contract could expose the Department to unknown liability in the event of a conflict.

**Contract Administration**

**Contract Management**

This phase included activities related to the management of the contract ensuring that goods and services are delivered and paid in accordance with the terms and conditions of the contract and that payments respect the payment schedule and are certified according to sections 34 and 33 of the *FAA*.

All invoices with the exception of three were properly certified according to section 34 of the *FAA* (signed but not dated) and all invoices were paid in accordance with section 33 of the *FAA* with the exception of one, for which there was an error in the payment amount (an amount was not withheld from the payment, but subsequently corrected). In all other instances, sections 34 and 33 were properly applied, and the issues identified were not overly significant in proportion to the total sample size (190 invoices tested).

**Procurement Documentation**

TBS Contracting Policy requires that procurement files be established and structured to facilitate management oversight with a complete document trail (i.e., audit trail) that includes contracting documents and details related to relevant communications and decisions, as well as the identification of involved officials and contracting approvals.

The audit noted that substantive improvements are needed in this area. The audit found that 18 of the 70 contracts selected (approximately 26%) did not meet the requirement for documentation or organization of files. Considerable information was being maintained electronically by procurement staff on their personal computer drives, but was not readily accessible. Some of the files tested had to be rebuilt from different sources (e.g., accounting files and/or electronic requisition from the system) and some files contained documents that belonged to other contract files. It was also noted that information contained in the files and the file structure varied among the regions.

Although a file documentation checklist was available, none of the procurement files tested had either been signed off by the procurement officer or utilized some type of checklist to certify completeness of the documentation.

The absence of complete and up-to-date documentation on every aspect of the contract to provide a record of action taken and to protect Canada’s interest under the contract could expose the department to legal liability in the event of a challenge from the supplier.

---

11 *Financial Administration Act*, Sections 34 and 33. **Section 34** requires authorized managers to certify that the goods or services have been fully delivered before payment is made; and **Section 33** requires authorized financial officers to make payments in a form as prescribed by the Treasury Board.
3.3 Recommendations

1. The Assistant Deputy Minister, Corporate Services and Finance Branch, should review and enhance the procurement management framework to ensure that:
   • a formal quality assurance program is developed and implemented;
   • guidance to procurement officers is further developed and communicated to improve consistency in the application of the legislation, policies and procedures;
   • files are maintained such as to include a complete audit trail of key documentation; and,
   • increased monitoring and analysis of contract trends is carried out regarding, for example, sole-source contracts.

2. The Assistant Deputy Minister, Corporate Services and Finance Branch Finance Branch, should review the approach to monitoring the efficiency of the procurement and contracting activities in order to:
   • better include both procurement and client (program) key activities as part of the service standards; and,
   • periodically monitor and report actual results against the established service standards.

Management Response:

Management agrees with the above recommendations, and the branch has already begun implementing elements on the management action plan.

4. CONCLUSION

The overall results indicated that while most key elements of a management control framework exist, the audit noted some areas for improvement, such as strengthening quality assurance, better monitoring and reporting of service standards, and reviewing the guidance to improve consistency in the application of policies and guidelines.

In addition, the audit found that procurement and contracting activities were mostly in compliance with policy requirements, with some exceptions noted in the following areas: approval of procurement transactions, signing and dating of contracts, and maintaining an adequate audit trail of procurement and contracting documentation.
Annex 1
Methodology, Audit Criteria and Detailed Testing Results

Methodology

The audit was conducted in accordance with the Internal Auditing Standards of the Government of Canada, as supported by the results of the AEB’s Quality Assurance and Improvement Program.

The audit was based on a combination of interviews, documentation review, data analysis and file examination for the testing of efficiency and compliance against TB Contracting Policy and ECCC’s departmental guidance documents.

Audit methodologies included the following:

- **Interviews**: Key individuals from both the functional and program areas were interviewed to obtain a better understanding of the procurement and contracting processes and related contract files. Employees from Montreal, Ontario, National Capital and Edmonton regions were interviewed.

- **Documentation review**: Government of Canada procurement and contracting policies, statutes and regulations, such as the TB Contracting Policy and the Financial Administration Act, and ECCC’s guidance documents, processes and other documents relevant to procurement and contracting were reviewed.

- **Data analysis**: Data analysis was used to identify potential anomalies, such as contract splitting, retroactive contracting and repetitive non-competitive contracts covering three fiscal years from 2011-2012 to 2013-2014. Data was extracted from ECCC’s financial system.

- **Sample selection**: Procurement transactions in the period from April 1, 2013, to March 31, 2014, were selected based on a risk assessment and data analysis. For the purpose of this audit, a procurement transaction is defined as a procurement financial operation, including a purchase order, a contract, a call-up against a standing offer agreement or a supply arrangement, and any amendments. The sample included goods, services and construction contracts awarded using competitive sourcing methods, such as traditional competitive sourcing, standing offers, supply arrangements and advance contract award notices, and non-competitive sourcing. AEB selected the sample from the three branches having the highest volume of transactions (MSC, STB and CSB) and from the Communication Branch, because of the type of procurement transactions. The four branches represent a broad range of ECCC’s activities, covering both program and support functions.

- **Efficiency testing**: Using the same procurement transactions selected for the compliance testing; the files were reviewed to determine the time it takes to process a requisition from start to finish based on key control dates. The intent was to compare the results against both the service standards in place at the time of the audit and current service standards.
• Compliance testing: The selected contract files were examined to determine compliance against key contracting policy requirements, including procurement initiation, contract bidding and award process, administration, approvals and close-out. For the verification of the approvals of the different procurement phases, a verification of the signature against the Specimen Signature Record was done to validate that the individual had the proper approval authority at the time of the transaction. For FAA sections 34 and 33, additional verification was done to ensure the payment was made to the right supplier, and that the amount paid matched the invoice amount and the amount recorded on the batch payment. If more than one payment was made, the testing included all those invoices issued within the audit period. For more details on the key requirements that were tested and the equivalent number of tests conducted, see Annex 1.

• Guidelines for Assessments against Criteria:
The assessment of transaction audit results against audit criteria are partially a matter of professional judgement, informed by the number, significance and nature of the errors or issues identified (e.g., exceptional nature or conditions). With respect to the number of errors identified, the following is used as guidance for large sample sizes (minimum 50 items):
  o Met: errors equal/less than 4%
  o Partially met: errors between 4-8%
  o Not met: errors greater than 8%

• It is important to note that our conclusion on whether a criterion is met, partially met or not met is based on and applies to the sample examined.

Project Key Dates

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening conference (launch memo)</td>
<td>April 2014</td>
</tr>
<tr>
<td>Audit plan approved</td>
<td>November 2014</td>
</tr>
<tr>
<td>Fieldwork Completion</td>
<td>November 2015</td>
</tr>
<tr>
<td>External Audit Advisory Committee recommendation</td>
<td>June 2016</td>
</tr>
<tr>
<td>Deputy Minister Approval</td>
<td>November 2016</td>
</tr>
</tbody>
</table>

Note: The audit was initially launched in December 2013 and was subsequently postponed at FB’s request to accommodate year-end priorities. In addition, AEB’s unusual capacity shortfalls in 2014-15 contributed to the delays (including long-term medical leave and staff turnover).
Audit Criteria

Objective 1 - The audit objective is to determine if key elements of a management control framework support efficient procurement activities aligned with departmental operational needs.

<table>
<thead>
<tr>
<th>Audit Criteria</th>
<th>Key elements Covered</th>
</tr>
</thead>
</table>
| Review of the key elements of ECCC’s procurement management framework. | • Monitoring, reporting and oversight practices  
• Roles and responsibilities  
• Workload planning and priorities  
• Service standards  
• Guidance |
| Procurement requests are processed within defined service standards | The following key dates were to be taken into consideration:  
• Request date  
• Internal request approval  
• External approval  
• Tendering period  
• Evaluation selection  
• Contract award date |

Objective 2 - Provide assurance that ECCC’s procurement transactions were in compliance with GoC requirements and departmental and central agency policies and guidelines.

<table>
<thead>
<tr>
<th>Phases</th>
<th>Audit Criteria</th>
<th>Criteria Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Initiation</td>
<td>Requirements are clearly defined (including amendments)</td>
<td>Partially met</td>
</tr>
<tr>
<td></td>
<td>Appropriate procurement methods are selected</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>All authorities and approval respected (including amendments)</td>
<td>Not met</td>
</tr>
<tr>
<td>Contract Tendering and Award Process</td>
<td>The process for soliciting bids is in compliance with the regulatory requirement and respect authorities</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Evaluation criteria are relevant and appropriate to the work being undertaken</td>
<td>Met</td>
</tr>
<tr>
<td></td>
<td>Complete evaluation assessments are documented and on file</td>
<td>Not met</td>
</tr>
<tr>
<td></td>
<td>Awarding contracts is in compliance with the regulatory requirement and respect authorities</td>
<td>Partially met</td>
</tr>
<tr>
<td>Contract Administration</td>
<td>Contract is managed to ensure that goods and services are delivered and paid according to the terms and conditions of the contract</td>
<td>Met</td>
</tr>
<tr>
<td>Procurement File Documentation</td>
<td>The whole procurement process was fully documented to ensure that a complete audit trail is available</td>
<td>Not met</td>
</tr>
</tbody>
</table>

---

12 This result is based on a very limited sample
## Detailed Testing Results

<table>
<thead>
<tr>
<th>Audit Step</th>
<th>Requirements Examined</th>
<th>Samples for which the Test Applied</th>
<th>Number of Tests Conducted</th>
<th>Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Procurement Initiation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Description/Statement of Work</td>
<td>70</td>
<td>70</td>
<td>1</td>
</tr>
<tr>
<td>24.</td>
<td>Requisition for Amendment on File</td>
<td>13</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>28.</td>
<td>Amendment Made Before Work Started</td>
<td>13</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>2.</td>
<td>Employer-Employee Relationship</td>
<td>18</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>Security Clearance</td>
<td>27</td>
<td>27</td>
<td>5</td>
</tr>
<tr>
<td>4.</td>
<td>Intellectual Property</td>
<td>27</td>
<td>27</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>International Trade Agreements</td>
<td>2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>6.</td>
<td>Rational for Non-Competitive</td>
<td>31</td>
<td>31</td>
<td>2</td>
</tr>
<tr>
<td>7.</td>
<td>Procurement Method Appropriateness</td>
<td>70</td>
<td>70</td>
<td>2</td>
</tr>
<tr>
<td>25.</td>
<td>Amendment is Reasonable</td>
<td>13</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>8.</td>
<td>Expenditure Initiation Approval</td>
<td>70</td>
<td>70</td>
<td>4</td>
</tr>
<tr>
<td>9.</td>
<td>Fund Commitment (FAA s. 32) Approval</td>
<td>70</td>
<td>70</td>
<td>13</td>
</tr>
<tr>
<td>26.</td>
<td>Amendment - Expenditure Initiation Approval</td>
<td>13</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>27.</td>
<td>Amendment Fund Commitment (FAA s. 32) Approval</td>
<td>13</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>10.</td>
<td>Additional Approval for Specific Items</td>
<td>11</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td><strong>Contract Tendering and Award Process</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Notification on File</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>12.</td>
<td>Registered Bids Dated and Time-Stamped</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>13.</td>
<td>Evaluation Criteria Communicated</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>15.</td>
<td>Evaluation Report Signed and Dated</td>
<td>6</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>16.</td>
<td>Contract Signed by Contracting Authority</td>
<td>70</td>
<td>70</td>
<td>-</td>
</tr>
<tr>
<td>17.</td>
<td>Contract Signed by Suppliers</td>
<td>70</td>
<td>70</td>
<td>1</td>
</tr>
<tr>
<td>18.</td>
<td>Contract Dated by Supplier</td>
<td>70</td>
<td>70</td>
<td>7</td>
</tr>
<tr>
<td>19.</td>
<td>Intellectual Property Addressed in Contract</td>
<td>22</td>
<td>22</td>
<td>-</td>
</tr>
<tr>
<td><strong>Contract Administration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.</td>
<td>Evidence of Signature for FAA s. 34</td>
<td>70</td>
<td>190</td>
<td>3</td>
</tr>
<tr>
<td>21.</td>
<td>Evidence of Signature for FAA s. 33</td>
<td>70</td>
<td>190</td>
<td>1</td>
</tr>
<tr>
<td>22.</td>
<td>Payment Made to Right Supplier</td>
<td>70</td>
<td>190</td>
<td>-</td>
</tr>
<tr>
<td>23.</td>
<td>Invoice Dated After Contract Start Date</td>
<td>70</td>
<td>190</td>
<td>11</td>
</tr>
<tr>
<td><strong>Procurement File Close-Out</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29.</td>
<td>Procurement File Properly Organized</td>
<td>70</td>
<td>70</td>
<td>18</td>
</tr>
<tr>
<td>30.</td>
<td>Close-out Checklist on File / Signed-off</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

Note: The number of tests under the Contract Administration section exceeds the number of samples as there was more than one amendment made for some of the contracts sampled and all amendment made within the audit period were examined.