



Correctional Service
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Service correctionnel
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SAFETY, RESPECT
AND DIGNITY
FOR ALL

LA SÉCURITÉ,
LA DIGNITÉ
ET LE RESPECT
POUR TOUS

Audit of Low Value Contracts

Internal Audit Sector

378-1-289

January 13, 2014

Canada

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Executive Summary

Background

The *Audit of Low Value Contracts* was included in the 2012-2015 Risk-Based Audit Plan and was conducted in concert with the 2013 *Audit of Contracting and Procurement Processes*. Both audits link to: Correctional Service Canada's (CSC) priority of "efficient and effective management practices that reflect values-based leadership"; CSC Values Statement which includes fairness and accountability; and, the *Values and Ethics Code for the Public Sector*.

Contracting for goods and services represents a significant expenditure for CSC. CSC purchases a wide range of goods and services to secure its offender population and to deliver services in specific fields such as health care, education and informatics. In 2011¹, CSC entered into 116,997 contracts totaling \$508,128,000². Of this total, 116,373 contracts were valued below \$25,000 for a total expenditure of \$272,953,000. This represents more than 99% of all CSC contracts awarded, and 54% of CSC's spending on contracts.

The audit objectives were to:

- assess the extent to which a framework is in place, meets departmental and Treasury Board requirements, and is functioning as intended; and
- provide assurance that contracts less than \$25,000 are processed in compliance with relevant Government of Canada legislation, policies and guidelines.

The audit was national in scope covering the five regions and National Headquarters (HNQ), and included goods and service contracts for CSC including CORCAN³, originating below \$25,000, during the period of April 1, 2011 to December 31, 2012.

Conclusion

In relation to the first audit objective, and as established by the results of the 2013 *Audit of Contracting and Procurement Processes*, which was conducted in conjunction with this audit, CSC directives and guidance were consistent with government policy relating to contracting and procurement; roles and responsibilities were defined and documented; and, external monitoring and reporting requirements were being met.

¹ January-December 2011.

² Data obtained from TB Purchasing Activity Report 2011

³ CORCAN is a Special Operating Agency (SOA) within CSC, which allows it to operate in a business-like manner while respecting government policies and regulations. CORCAN is a key rehabilitation program of CSC and it contributes to safe communities by providing offenders with employment and employability skills training while incarcerated in federal penitentiaries, and for brief periods of time, after they are released into the community.



Nonetheless, this audit identified areas of concern, specifically:

- clear national guidance was not centrally available to support consistent low value contracting and procurement activities across the organization;
- non-procurement staff who support contracting and procurement activities were not targeted to receive mandatory training on financial systems used; and
- low value contracting activity was not centrally or consistently monitored in order to provide senior management with the information required to make informed decisions on risk management or operational efficiency issues.

With respect to the second objective, the audit results demonstrated that low value contracts were generally processed in compliance with Government of Canada legislation, policies and guidelines. Some errors and incidents of non-compliance were detected in contracting and procurement activity below \$10,000, indicating weaknesses in the control framework that require attention.

Given the large and increasing volume, and total dollar amount represented by contracts below \$25,000, particularly those below \$10,000, improvements should be made to enhance the overall compliance and effectiveness of low value contracting activities.

Recommendations have been issued in the report to address these areas for improvement, in conjunction with recommendations issued in the 2013 *Audit of Contracting and Procurement Processes* (Annex C).

Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by November 1, 2014.



Statement of Conformance

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the area examined.

The audit conforms to the Internal Auditing Standards for Government of Canada, as supported by the results of the quality assurance and improvement program. The evidence gathered was sufficient to provide senior management with proof of the opinion derived from the internal audit.

Date: _____

Sylvie Soucy, CIA

Chief Audit Executive



1.0 Introduction

1.1 Background

The *Audit of Low Value Contracts* was conducted as part of Correctional Service Canada's (CSC) 2012-2015 Risk-Based Audit Plan, and links to: CSC's priority of "efficient and effective management practices that reflect values-based leadership"; CSC Values Statement which includes fairness and accountability; and, the *Values and Ethics Code for the Public Sector*.

CSC senior management identified this area as one requiring attention due to both its volume of activity and materiality. As well, contracting and procurement in the public sector can be challenging, given the complexity of the policies and regulations established by central agencies, as can the scrutiny of multiple audiences who include the public, potential suppliers, the media, oversight tribunals, and Parliament. As a consequence, this audit sought to provide assurance that a management framework for contracting is in place and that contracts below \$25,000 are being processed in compliance with relevant legislation, policies and guidelines.

The audit was conducted in concert with the *Audit of Contracting and Procurement Processes*, which provided assurance that practices were in place to support the effective and compliant use of contracts over \$25,000. The audits were conducted separately in order to address the different risks and processes associated with low value contracts and contracts over \$25,000. Both audits build on the 2007 CSC internal audit, the *Audit of Contracting for Goods and Services*.

1.2 Legislative and Policy Framework

The *Financial Administration Act* (FAA), states that the Government of Canada is committed to taking appropriate measures to promote fairness, openness and transparency in the bidding process for contracts with Her Majesty for the performance of work, the supply of goods or the rendering of services⁴.

Treasury Board's (TB) *Contracting Policy (the Policy)* outlines the objective of government procurement contracting which 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 and the Canadian people"⁵.

The Policy states that "government contracting shall be conducted in a manner that will:

- a. stand the test of public scrutiny;
- b. ensure the pre-eminence of operational requirements;
- c. support long-term industrial and regional development and other national objectives; and

⁴ FAA Section 40.1

⁵ TB Contracting Policy p 1



- d. comply with the government's obligations under the *North American Free Trade Agreement*, the *World Trade Organization – Agreement on Government Procurement* and the *Agreement on Internal Trade*"⁶.

Additional legislative and policy requirements are as follows:

- *Government Contracts Regulations*; and
- *TB Guidelines on the Proactive Disclosure of Contracts*.

At CSC, further internal guidance is provided in the following documents:

- Financial Directive (FD) 350-3, on Contracting;
- CSC National Standards, Procurement Delegation Instrument; and
- Commissioner's Directive⁷ (CD) 350, Materiel and Supply Management Services.

PWGSC provides additional guidance for Low Value Contracts through their Departmental Standard Procurement Documents, which can be found on their [website](#).

1.3 Contracting and Procurement at CSC

As defined by *the Policy*, a contract is “an agreement between a contracting authority and a person or firm to provide a good, perform a service, construct a work, or to lease real property for appropriate consideration”⁸.

Contracting and procurement activities are significant, both in quantity and dollar value at CSC, as the organization purchases a wide range of goods and services to secure its offender population and to deliver services in specific fields such as health care, education and informatics. In 2011⁹, CSC entered into 116,997 contracts, totaling \$508,128,000. Of this total, 116,373 contracts were valued below \$25,000 for a total expenditure of \$272,953,000. This represents more than 99% of all CSC contracts awarded and 54% of CSC's spending for contracts. Table 1 provides further detail.

⁶ TB Contracting Policy sec 2

⁷ Commissioner's Directives (CDs) and Financial Directives (FDs) provide direction on areas prescribed by the CCRA/CCRR and on fundamental areas of corrections that require consistent application.

⁸ TB Contracting Policy – Appendix A

⁹ 2011 Refers to calendar year (Jan-Dec)



Table 1 below illustrates CSC’s purchasing activity for the calendar years 2008 to 2011¹⁰.

Table 1 – CSC Purchasing Activity Reports 2008-2011	2008		2009		2010		2011	
	# of Contracts	\$ (000's)	# of Contracts	\$ (000's)	# of Contracts	\$ (000's)	# of Contracts	\$ (000's)
Contracts Awarded <\$25K	77,660	\$98,600	82,474	\$115,613	78,971	\$107,694	116,373	272,953
Total Awarded > \$25K	895	\$264,486	832	\$417,522	794	\$400,201	624	235,174
Total Contracts Awarded	78,555	\$363,086	83,306	\$533,135	79,765	\$507,895	116,997	508,128

CSC utilizes various methods for contracting and procuring goods and services to ensure that best value and open access are achieved and are defined in FD 350-3.

Competitive methods include:

- Traditional competitive – a process used for the solicitation of bids that enhances access, competition and fairness and assures a reasonable and representative number of suppliers is given an opportunity to bid;
- Electronic bidding – public notice of procurement opportunities using the Government Electronic Tendering Service (GETS); and
- Advance Contract Award Notice (ACAN) – the public posting of a goods, service or construction contract to a pre-identified contractor.

A Non-competitive method is any contract for which bids were not solicited or, if bids were solicited, the conditions of a competitive contract were not met. Section 6 of the *Government Contracts Regulations* contains four exceptions that permit the contracting authority to set aside the requirement to solicit bids:

- 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 work is such that it would not be in the public interest to solicit bids; or
- only one person is capable of performing the contract.¹¹

¹⁰ Source: TB Purchasing Report publication – July 17, 2013.

¹¹ Government Contracts Regulations section 6



CSC also uses Standing Offers to procure a wide range of goods, such as food and pharmaceuticals, and services such as couriers and temporary help. Standing Offers are arranged by Public Works and Government Services Canada (PWGSC), to provide departments with a more efficient means of procuring goods and services at prearranged prices with set terms and conditions, for set periods of time. Presently there are five types of standing offers:

- National Master Standing Offer (All departments across Canada);
- Regional Master Standing Offer (All departments for a specific region);
- National Individual Standing Offer (One department across Canada);
- Regional Individual Standing offer (One department for a specific region); and
- Departmental Individual Standing offer (One department – PWGSC, not the department, has the authority to enter into a contract).

1.4 Organizational Structure

Contracting and procurement activities are decentralized at CSC. There is a Contracting and Materiel Services (CMS) group and a Contract Review Board (CRB) located in each region, including NHQ. While NHQ provides functional guidance for the organization, the regional CMS groups report to their respective regions.

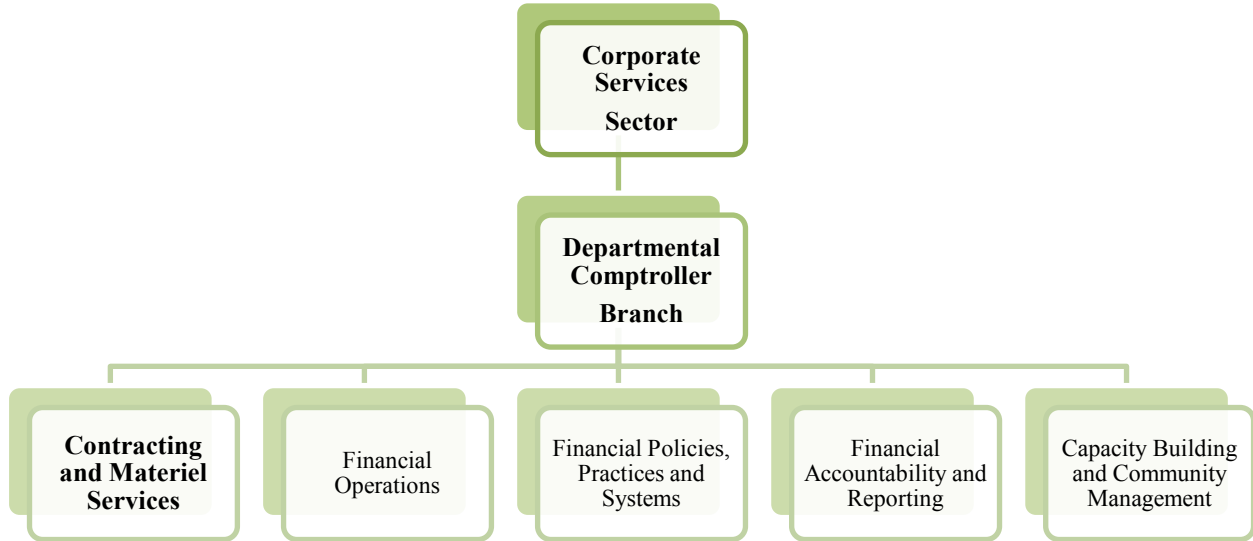
National Headquarters

The Departmental Comptroller's Branch is responsible for the planning, development, implementation, administration, integration and monitoring of contracting and procurement activities at CSC. NHQ CMS ensures:

- policies generated by central agencies are explained and communicated to the regions;
- CSC and central agency reporting requirements are met; and
- ongoing application of contract monitoring measures and initiatives to enhance probity and use of good contracting practices.



The chart below sets out the reporting structure at CSC:



Regional Headquarters (RHQ)

Regional Managers or Chiefs of CMS report to the Regional Comptrollers who in turn report to the Assistant Deputy Commissioners, Corporate Services in the regions. RHQ CMS ensures:

- policies generated by central agencies are implemented;
- adherence to CSC practices; and
- ongoing application of contract monitoring measures and initiatives to enhance probity and use of good contracting practices.

Manager/Project Authority - Institution and Sector Levels

Budget managers and contract project authorities in all institutions and sectors are responsible for ensuring adherence to CSC practices and *the Policy* for all contracts within their delegated authority. They are able to contact CMS for advice and support; however, it is their individual responsibility to ensure that:

- contract requirements are clearly defined;
- criteria for selection, supplier proposals and final evaluation results are documented; and
- completed work is evaluated.



Contract Review Boards

The Policy states that “contracting authorities should establish and maintain a formal challenge mechanism for all contractual proposals, including those within departmental authority, those sent to the Department of Public Works and Government Services Canada, and those submitted to the Treasury Board”¹².

CSC has established CRBs at the regional and local levels, and they meet on a weekly or bi-weekly basis as required. The regional CRB for the NHQ region also serves as the National CRB for contracts with issues of national importance, such as contracts with former public servants. CRBs are responsible for reviewing and approving submissions within their respective authorities, which includes goods and services contracts over \$10,000, to ensure adherence to contracting legislation and contracts achieve the best value for money. Contracts that are less than \$10,000 do not require CRB review and approval, unless certain conditions apply, such as a service contract with a former public servant. More details on the CRB mandate are available on CSC’s [website](#).

¹² TB Policy sec 11.1.1



2.0 Audit Objectives and Scope

2.1 Audit Objectives

The audit objectives were to:

- assess the extent to which a framework is in place, meets departmental and Treasury Board requirements, and is functioning as intended; and
- provide assurance that contracts less than \$25,000 are processed in compliance with relevant Government of Canada legislation, policies and guidelines.

Specific criteria related to each of the objectives are included in *Annex A*.

2.2 Audit Scope

The audit was national in scope covering the five regions and NHQ, and included goods and service contracts, including CORCAN, originating below \$25,000, during the timeframe of April 1 2011 to December 31 2012.

Risk Identification and Assessment

A risk assessment was completed based on interviews with the Office of Primary Interest (OPI), members of the CMS Branch at NHQ and a review of policies, past audit work, previous fraud risk assessment work, and other documentation related to contracting and procurement. Overall, the assessment identified that the main risks to CSC relate to the impact that incidents of perceived and actual non-compliance have on the organization.



3.0 Audit Approach and Methodology

Audit methodology built on the 2007 *Audit of Contracting for Goods and Services*. A similar approach was utilized and audit evidence was gathered through the following methods.

Interviews: Interviews were conducted with, and internal questionnaires were completed by 26 CSC employees, including CMS staff, senior management at NHQ and RHQ, and with staff involved in the management and administration of contracts in the regions and at selected institutions and sites across Canada.

Review of documentation: Relevant documentation, such as legislation, FDs, CDs, corporate documents, process maps, and reports were reviewed.

Testing: File examination was performed to provide assurance that contracts were processed according to legislation, policies, and CSC procedures, and included proper form completion, adherence to time frames, receipt of goods, and approval by appropriate delegated authorities.

Sample Selection

A directed judgment sample of 150 files was selected from sites (see Annex B) from all six regions including CORCAN, for contracts initially valued at below \$25,000 for the period from April 1 2011 to December 31 2012. Sites were selected based on the number and value of contracts, the percentage differential between the number and value of contracts, previous audit exposure, and proximity to RHQ.

Files were selected based on a set of pre-established criteria: goods and services contracts above and below \$10,000; contract amounts just below approval limits; and duplicate contracts. Additionally, the audit team examined anomalies such as repeat vendor, multiple amendments, and contract amounts higher than original approval amount.

Of the 150 files: 50 were from a competitive process, 87 were from a non-competitive process, and 13 were call-ups against standing offers. Of the 150 files: 79 were for services; 66 were for goods; and 5 were construction contracts.

Table 2 - Audit File Sample

Contract Amount	# of Contracts	Total Value
\$10,000- \$25,000	60	\$1,129,090
\$5,000 - \$9,999.99	31	\$244,283
\$1000 - \$4999.99	42	\$82,771
\$100 - \$ 999.99	17	\$7927
Total	150	\$1,464,071



4.0 Audit Findings and Recommendations

4.1 Management Framework for Low Value Contracting Activities

CSC's management framework for contracting was examined from four perspectives: policy framework; roles and responsibilities; communication and training; and, monitoring and reporting of contracting activities.

4.1.1 Policy Framework

We expected to find that CSC directives and guidance were consistent with government policy relating to low value contracting and procurement activities.

CSC CDs and FDs were consistent with relevant legislation and the Policy.

The 2007 *Audit of Contracting for Goods and Services* found that CSC policies were consistent with TB requirements, but needed to be better integrated and updated. In 2012, the Commissioner's Directive *CD 240 Contracting* was updated and renamed to Financial Directive 350-3. The audit team compared both CD 240 and FD 350-3 with *the Policy* to ensure consistency and found no issues.

National guidance to support low value contracting activities was found in the contracting training material for the following courses: CONTRA2 - Contracting and Procurement Delegation Orientation, and CONTRA3 – Service Contract Delegation for Budget Managers.

The audit team found additional guidance pertaining to low value contracting on some regional CMS websites, most notably on the Prairie's regional intranet site. While the training material is provided to course attendees, it was not centrally located on-line where it could be easily accessed by all CSC employees engaged in low value contracting activities. It was reported to the audit team that this training material will be posted on CSC's intranet for ease of reference for all budget managers across the organization.

4.1.2 Roles and Responsibilities

We expected to find that CSC's organizational structure and roles and responsibilities with respect to contracting were defined and documented.

Roles and responsibilities were clearly defined and documented.

Roles and responsibilities are clearly defined in FD 350-3, and terms of reference exist for all CRBs. All 26 questionnaire respondents (which included budget managers, project authorities, procurement specialists and members of CRBs) indicated that they understood their roles and responsibilities with respect to contracting and procurement.



The 2013 *Audit of Contracting and Procurement Processes* found that all regions had procurement specialists (PGs) who report to the regional chief/manager of CMS. It was also determined that there are PG resources within the community in some regions who report to the Assistant District Director, Management Services. Additionally, there are site coordinators at institutions, who are not PGs and do not report to CMS, as well as numerous officers supporting the procurement of goods and services across the organization, who do not have a specific defined role within the contracting process.

With multiple lines of reporting, there is an increased risk for instances of inconsistent and non-compliant contracting and procurement practices. As such, robust training, communication and monitoring are necessary to mitigate the risks associated with a decentralized operating environment.

4.1.3 Communication and Training

We expected to find that communication and training for contracting was available and provided where required.

Communication occurs between NHQ and the Regions; however, the form and frequency of communication between CMS groups at NHQ and RHQs require attention.

As reported in the 2013 *Audit of Contracting and Procurement Processes*, NHQ communicates changes in policies and procedures via bulletins and internal emails (GEN-COMs) to RHQs, which in turn are communicated to the local level via regional bulletins or regional intranet sites. Staff from the districts and institutions in all regions reported that the level of service and communication received from regional CMS groups was very good; however, internal audit questionnaire results indicated that five of the six regional respondents believed that communication between RHQ and NHQ required improvement.

The concern with improving communication was addressed in the 2013 *Audit of Contracting and Procurement Processes*; as such, no additional recommendations will be issued in this audit.

Mandatory training was available at the national and regional levels for all budget managers and contracting staff; however, there was no mandatory training for staff supporting the administration of contracts.

CSC's mandatory training, referred to as the National Training Standards, includes the Canada School of Public Service (CSPS) mandatory training for PGs and as a prerequisite for budget managers to obtain their delegation of authority. CSC also provides additional contract training for budget managers, which upon completion, allows them to issue service contracts up to \$10,000. Courses are tracked through the Human Resources Management System (HRMS)¹³.

¹³ The Government of Canada Human Resources Management System (GC HRMS) is a government Shared Human Resources Information and Management System endorsed by the Treasury Board Secretariat (TBS) under the Shared System Initiative



The 2013 *Audit of Contracting and Procurement Processes* confirmed that mandatory training was taken by procurement specialists and budget managers as required.

The audit team noted that there was no mandatory training for non-procurement staff supporting contracting and procurement activities. As an example, administrators who are responsible for entering contract data do not receive mandatory training on the financial system they use, called iProcurement. This staff deals primarily with contracts below \$10,000, which are not reviewed by the CRBs and are not monitored on a consistent basis across the organization (see section 4.1.4). As such, there is a risk that a lack of training may lead to data-entry errors, affecting monitoring and reporting results. Given the volume of transactions, errors could potentially have significant financial implications.

During the time period of the audit, the iProcurement e-Learning module was posted on CSC's intranet. This module provides budget managers and administrative assistants with the necessary tools to originate procurement requests, perform budgetary approvals and create receipts for goods and services. Mandatory training for all users of the system would address the risk identified above.

4.1.4 Monitoring & Reporting

We expected to find that monitoring practices were in place to ensure compliance with contracting policies and practices, and that results of monitoring were reported with corrective action taken.

CSC met its external reporting requirement; however, monitoring and reporting of contracts below \$10,000 was limited to two regions, with no overall monitoring and reporting activities in place.

In line with TB's *Policy on Internal Control*¹⁴ and as per section 5.1.1 of *the Policy*, CSC must "ensure that adequate control frameworks for due diligence and effective stewardship of public funds are in place and working"¹⁵. As reported in the 2013 *Audit of Contracting and Procurement Processes*, CSC met its external reporting requirements as an annual report on all contracting activities was submitted to TB, and a monitoring and reporting process was in place to support the proactive disclosure of all contracts over \$10,000. Proactive disclosure results are further discussed in section 4.2.7.

While a monitoring and reporting process for contracts over \$10,000 was in place, an equivalent overall monitoring and reporting process for contracts below \$10,000 was not, with monitoring activities occurring in two regions only.

As depicted in Table 3 below, the majority of contracting activity below \$25,000 in the audit sample is not monitored consistently, representing 37,853 contracts with a total value of \$44,626,645.

¹⁴ TB Policy on Internal Controls 5.1

¹⁵ The Policy section 5.1.1



Table 3 – Audit Sample Contracting Activity < \$25,000 from sites selected (Annex C) during the time period of April 2011- December 2012

Contract Amount	# of Contracts	Total Value
\$10,000- \$25,000	991	\$15,181,561
\$5,000 - \$9,999.99	1948	\$13,533,497
\$1000 - \$4999.99	10,185	\$22,239,330
\$100 - \$ 999.99	20,155	\$8,574,937
0 - \$99.99	5565	\$278,881
Total	38,844	\$59,808,206

Limited monitoring coupled with the lack of mandatory iProcurement training for staff supporting this activity increases the risk for inaccurate reporting information.

While conducting the file examination, the audit team observed data entry errors in 36/150 (24%) files examined. The majority of errors detected were missing or incorrect dates 15/36 (41%). As the date field has become mandatory since the time period of the audit, there is an expectation that the error rate for these entries will be considerably reduced. Other errors found were inaccurate numbers of amendments recorded, duplicate contract entries, and incorrect award methods (competitive vs non-competitive). Of the errors detected, 21/36 (58%) were found in contracts below \$10,000.

While the amount of each low value contract itself is small, the aggregate spending is material. The volume and value of contract activity below \$25,000 increased significantly in 2011 to represent 54% of CSC’s total contracting spending. As the majority of low value contracts are not monitored, there is a risk that CSC will be unable to provide senior management with the information required to make informed decisions on risk management or operational efficiency issues regarding this significant CSC activity. Moreover, there is a risk that erroneous or inappropriate expenditures will not be detected. Issues of appropriate contract selection and contract administration are discussed in section 4.2.

Good Practice
The Prairie Region has an active monitoring process in place for contracts and procurement below \$10,000. CMS reviews the contracting and procuring activities of each institution twice a year to identify issues such as instances of possible contract splitting and the improper use of standing offers and agreements. The results of these reviews are provided to institutional heads and a response, demonstrating that corrective action has been taken, is required.

Conclusion

As established by the results of the 2013 *Audit of Contracting and Procurement Processes*, CSC directives and guidance were consistent with government policy relating to contracting and



procurement; roles and responsibilities were defined and documented; and external monitoring and reporting requirements were being met for contracts above \$10,000.

Nonetheless, this audit identified areas of concern, specifically:

- CSC-wide guidance was not centrally available to support consistent low value contracting and procurement activities across the organization;
- non-procurement staff who support contracting and procurement activities were not targeted to receive mandatory training on financial systems used; and
- low value contracting activity was not centrally or consistently monitored in order to provide senior management with the information required to make informed decisions on risk management or operational efficiency issues.

Recommendation 1 (Recommendation requires management’s attention, oversight and monitoring)

The Assistant Commissioner, Corporate Services should ensure clear CSC-wide guidance is posted and centrally available to all employees in order to support consistent contracting and procurement activities below \$10,000 across the organization.

Management Response

We agree with this recommendation. By April 2014, the ACCS will:

- further enhance its training by converting the existing training to the User Productivity Kit (UPK) format which will be mandatory to complete for any Budget Manager seeking low dollar value delegation of service authority; and
- develop a UPK online training tool for CSC employees to provide step by step processes for low dollar value goods and services procurement.

Recommendation 2 (Recommendation requires management’s attention, oversight and monitoring)

The Assistant Commissioner, Corporate Services should make iProcurement training mandatory for non-procurement staff responsible for supporting contracting and procurement activities.



Management Response

We agree with this recommendation. By November 2014, the ACCS will:

- further enhance its training by converting the existing training to the UPK format which will be available for use online for all CSC employees;
- require completion of the mandatory training prior to receiving an iProcurement account for all new requests; and
- require completion the training to ensure awareness of systems changes and compliance requirements for all existing account users.

Recommendation 3 (Recommendation requires management's attention, oversight and monitoring)

The Assistant Commissioner, Corporate Services should conduct an in-depth analysis and risk assessment of low value contracting activity below \$10,000 in order to:

- identify possible risk areas; trends in procuring specific goods and services; and, opportunities for efficiencies; and
- determine which monitoring activities are required to provide assurance on the compliance and overall effectiveness of low value contracting activities.

Management Response

We agree with this recommendation. By July 2014, the ACCS will:

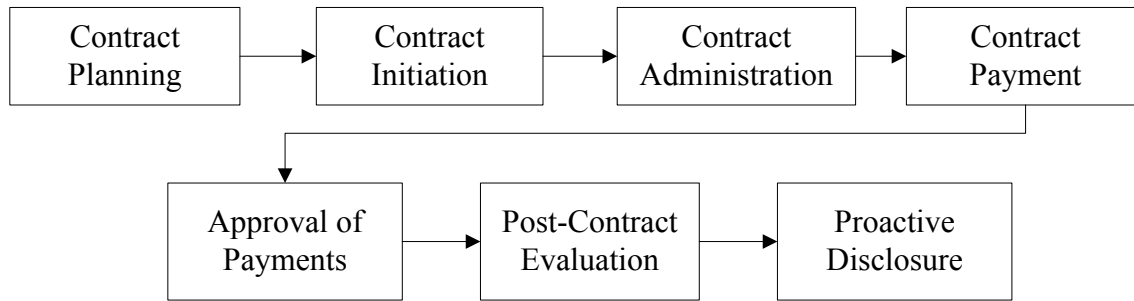
- complete an in-depth analysis and risk assessment of low value contracting activities below \$10,000 to determine recommendations for streamlining, as well as identification of risks;
- evaluate first year results of the current monitoring process in place for low dollar value contracts issued at NHQ to determine recommendations for next steps as well as the risk determination of the quantity of reviews required nationally to assess and review compliance and establish greater compliance measures; and
- further enhance its tools by converting the existing contract review checklist into a UPK based training module which will be available for use online for all CMS employees, which will include compliance measures for review.



4.2 Compliance with Legislation, Policies and Guidelines

The second objective of this audit was to provide assurance that contracts less than \$25,000 were processed in compliance with Government of Canada legislation, policies and guidelines.

CSC contracting and procurement follows a standard seven phase process as per *the Policy*:



An examination of 150 files was conducted to determine if those contracts were processed in compliance with *the Policy* and CSC directives in each of the above areas. Audit results showed a higher percentage of errors and incidents of non-compliance than the results of the 2013 *Audit of Contracting and Procurement Processes*, which focussed on contracts above \$25,000. Details are provided below.

4.2.1 Contract Planning

We expected to find that contract requirements were determined and appropriate methods were selected.

Contract requirements were identified as required.

For the purpose of this audit, a file was considered to be complete if it included elements such as: a completed CSC Form 286 “Request for Contract/Amendment/Extension” on file; evidence of CRB approval for contracts above \$10,000; or communication supporting the need to acquire a good or service. Most files reviewed had sufficient information on file to determine contract requirements, as 37/41 (90%) contracts had a completed Form 286 on file.

Appropriate contracting methods were selected for the majority of files reviewed; no evidence of contract-splitting was detected, however, justification for the contracting method was not always on file.

For the purpose of this audit, appropriate contracting methods were determined by weighing the contract requirements against the available methods, while adhering to policies and regulations, such as, using mandatory standing offers where applicable, using a competitive process to contract for a recurring service, or sole sourcing when one of *the Policy* exceptions applied. The audit team also looked for indications of contract-splitting; no evidence of contract-splitting was detected.



The audit team determined that 4/150 (2.5%) files were not contracted by appropriate methods, as follows:

- 3/34 (8%) competitive contracts had no documentation to support the process; and
- one sole source contract reviewed had no justification on file to demonstrate how only one person was capable of performing the contract, as per *the Policy*¹⁶.

Regions with monitoring activities for contracts less than \$10,000 had no inappropriate files.

As noted in the 2013 CSC *Audit of Contracting and Procurement Processes*, it is important that CSC provide and document solid justification when selecting one of the exceptions above, in order to uphold transparent and fair contracting practices that will stand the test of public scrutiny.

Of the 13 contracts that were call-ups against standing offers, mandatory offers were used when required; however, the audit team did note five other contracts that did not use an existing standing offer when procuring a good or service. While this practice is not inappropriate or non-compliant, it could lead to inefficiencies, as standing offers are in place to minimize the administrative burden of contracting and procuring goods and services and to obtain value for money.

4.2.2 Contract Initiation

We expected to find that contracts were reviewed and approved as required, and that appropriate *FAA* section 32 approvals were in place prior to expenditure.

Section 32 approvals were in place prior to expenditure, with minor exceptions.

Appropriate pre-approvals were in place for 144/150 (96%) of files reviewed, and funds were committed by creating a requisition or purchase order in iProcurement,¹⁷ or a commitment in the Integrated Financial and Material Management System (IFMMS). As per Financial Directive Fops-2006-5, “funds (excluding salaries) must be committed prior to all expenditures of \$500 or more” and commitments for purchases over \$500 must not be made after receipt of goods or services or their corresponding invoices¹⁸. Of the 150 files reviewed, those that did not have funds committed prior to the start of the contract, were purchase orders for goods or services between \$500 and \$2500 that were requisitioned after the goods were received or the services were rendered.

¹⁶ TB Policy 10.6

¹⁷ iProcurement is the purchasing module that interfaces with IFMMS to create and process purchase orders for goods and services.

¹⁸ Financial Directive Fops-2006-5



4.2.3 Contract Administration

We expected to find that contract files contained a complete audit trail that included details such as decisions and contract content.

Most files examined included supporting documentation in accordance with TB policies and CSC directives; however, documentation was lacking in some files.

The Policy requires that contract files be documented in such a way that all options, decisions, approvals and justifications are documented. For the purpose of this audit, a file was considered to have a complete audit trail if it included: a statement of work; timeframes; deliverables and payment terms and schedule; the signed contract; and evidence to support a traditional competitive process if applicable.

Of the 150 files examined, all were found to have a clear statement of work, deliverables, and terms of payment. The audit team found issues with untimely signatures by the contracting authority in three contracts (2%); consequentially, a verbal agreement was in place until the contract was signed.

In 31/34 (91%) traditional competitive contracts, evidence was on file to support the decision-making process. Four files included emails or notes to file alluding to the fact that three quotes had been obtained, and the other files had the quotes themselves on file. The remaining three files had no evidence on file to demonstrate that the contract had been awarded competitively.

If competitive processes are not adequately documented, there is a risk that CSC will be unable to demonstrate that a contract has been awarded in a manner that enhances competition, fairness and will stand the test of public scrutiny.

4.2.4 Contract Payments

We expected to find that invoices submitted for payment were in accordance with contract terms, contained sufficient information for certification of payment, and were approved by an individual with delegated authority under section 34 of the *FAA*.

No major concerns were noted with respect to certification of invoices under section 34 of the FAA.

All but one invoice was signed by a budget manager certifying that goods and services had been received, as per section 34 of the *FAA*. The remaining 149 files were signed by individuals with delegated authority. Further, all invoices tested were found to be in accordance with contract terms.



4.2.5 Approval of Payments

We expected to find that the verification of invoices under Section 33 of the FAA was performed in accordance with TB policy and CSC directives.

A documented, standardized approach to invoice verification and certification under section 33 of the FAA has not been finalized; some improper payments were noted.

As previously reported in the 2007 *Audit of Contracting for Goods and Services*, CSC has not finalized or fully implemented its documented process in place for section 33 of the FAA. As confirmed by the 2013 *Audit of Contracting and Procurement Processes*, 100% of all invoices were verified; however, unlike the 2013 audit, which noted no errors in payments for the files reviewed, file examination for this audit detected errors with 5/150 (3%) payments, as follows:

- one payment was processed without section 34 approval;
- one payment was made improperly using a purchase order; and
- three payments exceeded the terms of the contract.

This subject was addressed in the 2013 *Audit of Contracting and Procurement Processes*, where Recommendation 3 states that CSC should fully implement a standardized process across all regions for the certification and verification of contract invoices under section 33 of the FAA. As a result, no additional recommendations will be issued in this report.

4.2.6 Post-Contract Evaluation

We expected to find that post-contract evaluations were completed in accordance with policy and guidelines.

Contract evaluation templates met the Policy requirements; however, evaluations were not always found on file.

The Policy requires that, upon completion of a service contract, the contracting authority evaluates the work performed by the consultant or professional¹⁹. The 2007 CSC *Audit of Contracting for Goods and Services* and the 2010 CSC *Review of CORCAN Construction Contracts* both found that evaluations were not always completed as required. While all files reviewed for the 2013 *Audit of Contracting and Procurement Processes* had a post-contract evaluation on file as required, 12/34 (35%) of service contracts over \$10,000 reviewed during this audit did not have a post-contract evaluation on file.

¹⁹ TB Policy sec 16.11.8



4.2.7 Proactive Disclosure

We expected to find that contract and amendment information was disclosed, as required.

Contracts and amendments were disclosed as required, the majority of the time.

As reported earlier in section 4.1.4, each region prepares a monthly list of contracts over \$10,000, referred to as Buyers Reports, which is sent to NHQ for review prior to publication on the CSC [website](#). The majority of files examined as part of the audit were disclosed as required; 5/57 (8%) were not, showing some improvement from the 2007 *Audit of Contracting for Goods and Services* where 16/131 (12%) of contracts were not disclosed. CSC should continue to strive for 100% accuracy in its proactive disclosure reporting.

Conclusion

Contracts less than \$25,000 were generally processed in compliance with Government of Canada legislation, policies and guidelines, with some errors and incidents of non-compliance in contracting and procurement activity below \$10,000. This indicates weaknesses in the control framework that require attention.

Given the large and increasing volume and total dollar amount represented by contracts below \$25,000, particularly those below \$10,000, improvements should be made to enhance the overall compliance and effectiveness of low value contracting activities.

Recommendations have been issued in the report to address these areas for improvement, in conjunction with recommendations issued in the 2013 *Audit of Contracting and Procurement Processes* (**Annex C**).



5.0 Overall Conclusion

In relation to the first objective and as established by the results of the 2013 *Audit of Contracting and Procurement Processes*, CSC directives and guidance were consistent with government policy relating to contracting and procurement; roles and responsibilities were defined and documented; and, external monitoring and reporting requirements were being met.

Nonetheless, this audit identified areas of concern, specifically:

- CSC-wide guidance was not centrally available to support consistent low value contracting and procurement activities across the organization;
- non-procurement staff who support contracting and procurement activities were not targeted to receive mandatory training on financial systems used; and
- low value contracting activity was not centrally or consistently monitored in order to provide senior management with the information required to make informed decisions on risk management or operational efficiency issues.

With respect to the second objective, the audit results demonstrated that low value contracts were generally processed in compliance with Government of Canada legislation, policies and guidelines, with some errors and incidents of non-compliance detected in contracting and procurement activity below \$10,000. This indicates weaknesses in the control framework that require attention.

Given the large and increasing volume and total dollar amount represented by contracts below \$25,000, particularly those below \$10,000, improvements should be made to enhance the overall compliance and effectiveness of low value contracting activities.

Recommendations have been issued in the report to address these areas for improvement, in conjunction with recommendations issued in the 2013 *Audit of Contracting and Procurement Processes* (**Annex C**).

Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by November 1, 2014.



Annex A

Audit Objectives and Criteria

Objectives	Criteria
<p>1. Assess the extent to which a framework is in place, meets departmental and Treasury Board requirements, and is functioning as intended</p>	<p>1.1 Policy Framework - CSC Policies, guides and manuals are consistent with government policies relating to contracting for goods & and services.</p> <p>1.2 Roles & responsibilities – CSC organizational structure, roles and responsibilities are clearly defined, understood and documented.</p> <p>1.3 Communication/Training – Communication and training for contracting is available and is provided where required in a timely manner.</p> <p>1.4 Monitoring & Reporting - Monitoring practices and controls are in place to ensure compliance with contracting policies and practices. Information is reported and includes a formal follow-up mechanism.</p>
<p>2. Provide assurance that contracts under \$25,000 are processed in compliance with relevant Government of Canada legislation, policies and guidelines.</p>	<p>2.1 Contract Planning – Requirements are clearly defined, appropriate contracting methods are selected, and justification is documented.</p> <p>2.2 Contract Initiation – Appropriate approvals are in place for each contract and funds are committed.</p> <p>2.3 Contract Administration – The content of each contract for goods and services is in accordance with TBS and CSC policy and directives.</p>
	<p>2.4 Contract Payments – Invoices submitted by contractors meet the contract terms of reference and provide sufficient information for the certification of section 34 of the FAA.</p> <p>2.5 Approval of payment – Verification of invoices under Section 33 of the Financial Administration Act is in accordance with TBS and CSC policy and directives.</p> <p>2.6 Post-Contract Evaluation – Post contract evaluations are completed in accordance with policy and guidelines.</p> <p>2.7 Proactive disclosure - Mandatory publication of applicable contracts (contracts >\$10,000) and amendments are pro-actively disclosed, as required.</p>



Annex B

Sites Selected

Region	Sites
National Head Quarters	<ul style="list-style-type: none"> • Aboriginal initiatives • Information Management Services
Atlantic	<ul style="list-style-type: none"> • RHQ • Dorchester (Institution and CORCAN) • Moncton Parole Office
Québec	<ul style="list-style-type: none"> • RHQ (CORCAN) • Federal Training Centre • Montreal Metro District Office • Martineau Community Correctional Centre • Ville-Marie Parole Office
Ontario	<ul style="list-style-type: none"> • RHQ (CORCAN) • Central ONT District office* • Downtown Toronto Parole Office* • Keele Community Correctional Centre* • Bath Institution* • Ottawa Parole Office
Prairies	<ul style="list-style-type: none"> • RHQ • Stony Mountain (Institution and CORCAN) • Manitoba, Saskatchewan, North West District Parole Office • Osbourne Community Correctional Centre • Saskatchewan Area Office – North Central Parole Office
Pacific	<ul style="list-style-type: none"> • RHQ • Matsqui • Mission (CORCAN) • New Westminster Parole office

* Pilot sites – not included in overall audit results



Annex C

Recommendations from the Audit of Contracting and Procurement Processes

Recommendation 1 (Recommendation requires management's attention, oversight and monitoring)

The Assistant Commissioner, Corporate Services should re-establish regular communications between NHQ CMS and Regional CMS to support the application of policies, enhance opportunities for problem solving and information sharing, and ensure the consistent application of good contracting practices across CSC.

Recommendation 2 (Recommendation requires management's attention, oversight and monitoring)

The Assistant Commissioner, Corporate Services should implement the consolidation of current monitoring and reporting mechanisms to increase the efficiency in the reporting of contracting activities at CSC.

Recommendation 3 (Recommendation requires management's attention, oversight and monitoring)

The Assistant Commissioner, Corporate Services should strengthen administrative procedures to support contract planning, initiation, administration and payments by:

- implementing consistent documentation requirements, including those supporting the CRB decision-making process, to ensure files contain a complete audit trail to support contract administration, including the timely signing of contracts; and
- fully implementing a standardized documented process across all regions for the certification and verification of invoices under section 33 of the FAA.



Annex D

List of Acronyms

ACAN	Advance Contract Award Notice
ACCS	Assistant Commissioner Corporate Services
CD	Commissioners Directive
CMS	Contracting and Material Services
CRB	Contract Review Board
CSC	Correctional Service Canada
CSPS	Canada School of Public Service
FAA	Financial Administration Act
FD	Financial Directive
GETS	Government Electronic Tendering Service
HRMS	Human Resources Management System
IFMMS	Integrated Financial and Material Management System
NHQ	National Headquarters
OPI	Office of Primary Interest
PG	Procurement Specialist
PWGSC	Public Works and Government Services Canada
RHQ	Regional Headquarters
TB	Treasury Board