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## Audit of Contract Amendments



August 2018

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## **Acronyms and Abbreviations**

ADM(Mat)	Assistant Deputy Minister (Materiel)
ADM(RS)	Assistant Deputy Minister (Review Services)
CA	Contracting Authority
CAF	Canadian Armed Forces
CDMS	Contract Data Management System
DND	Department of National Defence
DPS	Defence Procurement Strategy
OPI	Office of Primary Interest
PAM	Procurement Administration Manual
PSPC	Public Services and Procurement Canada
SI	Sustainment Initiative
SSE	Canada's defence policy: <i>Strong Secure Engaged</i>
TA	Technical Authority

## Results in Brief

The Department of National Defence (DND) and the Canadian Armed Forces (CAF) form the largest organization in the Government of Canada and account for billions of dollars in government contracting for goods and services each year. DND/CAF's procurement and contracting is governed by a complex legislative and policy framework. Within this framework, some responsibilities for contract management, including amendments, are shared between DND and Public Services and Procurement Canada (PSPC). While many contract management responsibilities are shared between PSPC and DND, the audit findings are solely related to the activities and procedures within DND/CAF's purview in the management of contract amendments, and are based solely on the documentation contained in DND files.

Amendments to contracts may be necessary to accommodate unforeseen changes and are also used to achieve best value for money. Amendments need to be administered with the same care and attention that went into establishing the initial contract to ensure that they are conducted with fairness, openness and transparency.

As a result of these factors and identified as a topic of interest through an ADM(RS) contract analysis, the audit was included in the ADM(RS) Risk-Based Audit Plan. The objective was to assess whether the governance, risk management and control processes for contract amendments are in place, effective and serve the best interests of the Crown. The audit focussed only on the Department's responsibilities related to contract management and amendments.

Under Canada's defence policy: *Strong Secure Engaged* (SSE) and the Defence Procurement Strategy, defence procurement processes will be streamlined and DND/CAF will be delegated with higher limits for its contracting authorities (CA). As a result, DND/CAF is expected to benefit from more timely delivery of defence goods and services. At the same time, the Department will be required to manage a higher volume of contracts and contract amendments – activities that would have traditionally been managed by other CA such as PSPC.

### Key Findings

**Processing of Contract Amendments.** Overall, contract amendments were processed in accordance with contracting policy and regulations. The review of the sampled contract files demonstrated that proper signing authorities and appropriate segregation of duties were maintained in all files, with one exception where the delegation documentation was not available. In addition, there was no indication that contract amendments were used to circumvent contract authority levels, or the use of mandatory contracting instruments. Some exceptions were noted with respect to needed documentation to explain why the sequence of approvals was

### Overall Assessment

Overall, the contract amendments reviewed were processed in accordance with contracting policy and regulations. The governance and controls for contract amendments could be strengthened by clarifying and communicating DND/CAF policy requirements and guidelines. A risk-based approach to monitoring contract amendments would also help to mitigate contract management risks and allow DND/CAF to adequately demonstrate fairness and transparency and the achievement of best interests of the Crown.

not followed when processing contract amendments. These amendments were subsequently approved and the work involved was legitimate and reasonable. The contract files, however, did not include sufficient substantiation to identify why appropriate approval could not be obtained before the goods or services were received. Proper documentation and sequence of approvals is essential to justifying the course of action and required to facilitate appropriate management and stewardship of public funds.

**Planning and Controls for Contract Amendments.** The audit found that inadequate planning and/or initial funding of the contracts led to the need for amendments in most of the files reviewed. In addition, some of these contract amendments may have warranted a new contract, for which a competitive process would have been required. These contract files did not include documentation to sufficiently justify how the use of a contract amendment, instead of a new contract, facilitated the best interest of the Crown. It is important to justify the use of contract amendments in lieu of establishing new contracts to demonstrate adherence to an open, competitive and fair contracting process. A lack of clarity in the departmental Procurement Administration Manual (PAM) to guide procurement staff on how to effectively apply the principle of protecting the best interest of the Crown is a likely contributing factor to these issues. High staff turnover, inconsistencies in the level of staff knowledge and experience and insufficient funding when establishing the initial contracts could have also contributed to these issues.

**Documentation, Information for Decision Making and Risk Management.** Various required key documentation was missing from the majority of the contract amendment files reviewed. While staff indicated that risk management activities for contract amendments were done informally, they were not evidenced in the files reviewed. Additionally, most of the DND/CAF awarded contract files had data quality issues. Access to reliable, complete and accurate information on contract amendments is required for effective oversight and monitoring and to support informed decision making. These issues are due to informal and undocumented contract management activities and unclear documentation requirements in the PAM. Inconsistencies in the level of staff knowledge and experience and high staff turnover may have also contributed to these issues.

While some documentation was missing for the majority of individual amendments reviewed, the overall procurement files contained sufficient information to determine that those amendments were administered according to policy.

## Recommendations

1. It is recommended that ADM(Mat) update and communicate the requirements of the PAM as they relate to the management of contract amendments.
2. It is also recommended that ADM(Mat) formalize a risk-based approach to monitor contract amendments including:
  - Adding monitoring specific to contract amendments to the existing contracting oversight mechanism;
  - Ensuring data accuracy and completeness of CDMS to improve information for decision making.

**Note:** Please refer to [Annex A—Management Action Plan](#) for the management response to the ADM(RS) recommendations.

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## 1.0 Introduction

### 1.1 Background

#### Contracting and Contract Amendments

Procurement is an end-to-end acquisition process that includes a number of steps from identifying a requirement and available funding, the delivery of contracted goods and services and the closure of all associated contracts and procurement files. Contracting is an integral part of procurement and is essential to the delivery of organizational programs and services. Among other things, contracting requires thorough planning to anticipate future needs and to provide the right resources at the right time. Government contracting is governed by a complex legislative and policy framework which includes the *Financial Administration Act*, the Government Contracts Regulations, the Treasury Board of Canada Contracting Policy<sup>1</sup> and other related guidance documents.

It is often necessary to amend initial contracts as a result of additional negotiations with contractors, changes to the original requirement, or unforeseen events (such as extension of the contract term). Amendments may also be required to act on pre-arranged contract terms such as exercising a planned and pre-approved contract option. Contract amendments should be administered with the same level of care and attention that was applied in establishing the initial contract to promote the prudent use of public resources and demonstrate value for money. A well-managed contract requires effort from multiple stakeholders as the technical authority (TA), procurement authority and CA each play an important role in its day-to-day management including contract amendments. For example:

- TA (DND) are responsible for all matters concerning the technical content of the work under the contract, such as defining requirements and statements of work;
- Procurement authorities (DND) provide procurement, materiel management, contracting and financial management advice, such as validating requirements, reviewing statements of work and developing procurement documents; and
- CA (DND or PSPC, depending on the value and type of contract) enter into contracts and sign and amend contracts in accordance with the level of responsibility of the position they occupy.

[Annex C](#) provides additional information on some of the key roles and responsibilities pertinent to managing contract amendments.

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<sup>1</sup> Under Treasury Board of Canada Secretariat Policy Reset Initiative, the existing policy suite for the Management of Assets and Acquired Services, where the Contracting Policy falls into, will be redeveloped into a single policy. The proposed policy - Policy on Management of Assets, Procurement and Projects Summary – is currently in draft; <http://www.gcpeia.gc.ca/gcwiki/images/c/c1/Summary.pdf>.



## DND/CAF Governance in Contracting

DND administers the award of routine, low-value contracts and is responsible to manage the performance of all DND contracts, including contracts that are awarded on their behalf. PSPC acts as the CA for the Government of Canada and generally administers the award of complex, high-value contracts. While most DND/CAF organizations can procure routine goods and services within their delegated authorities, Assistant Deputy Minister Materiel (ADM(Mat)), as the Department's functional authority and business owner for procurement and contracting, is responsible for the majority of the contracting activities for DND/CAF.

The departmental PAM defines a common and standard approach to procurement and provides the necessary procedures for conducting procurement functions, including contracting and contract amendments, across DND/CAF. In March 2017, Director General Materiel Systems and Supply Chain, under the authority of ADM(Mat), promulgated the Materiel Acquisition and Support Procurement and Contracting/Materiel Management Compliance Program Framework. This Framework aims to provide guidance for training requirements, compliance activities and the delivery of risk-based compliance reviews for procurement and contracting activities.

Formal and informal oversight of procurement and contracting takes place at various levels throughout the Department. These activities range from senior management oversight committees to day-to-day supervisory reviews. Management, approval and control of contracting activities are also guided by the delegation of authorities matrix – an instrument that formally delegates specific financial and/or CA to a position within the Department.

## Recent Changes in Contracting

***Strong Secure Engaged (SSE)***. The new defence policy, announced in June 2017, introduces some important changes to how the defence budget will be managed. This includes informed, evidence-based budgeting, fully supported long-term funding, and a simplified management and planning process for capital expenditures. Together with the Defence Procurement Strategy, SSE is expected to provide funding stability, certainty and flexibility to allow the Department to effectively manage key investments in defence capability. These initiatives could provide additional flexibility when planning contracts and alleviate the need for unanticipated contract amendments.

**Defence Procurement Strategy (DPS)**. Based on a whole-of-government approach to defence procurement, the Defence Procurement Strategy was launched in 2014. One key objective was to streamline the defence procurement processes by increasing the CA delegated to the Department. As a result, DND/CAF is expected to play a greater role in procurement and contract management. SSE envisions that 80 percent of procurement contracts and their associated amendments will be managed within the Department by 2019. DND/CAF's delegation of authorities for contracting will also increase to \$5 million from previous authorities of \$25,000 for goods and \$2 million for services.

**Sustainment Initiative (SI)**. Officially launched in mid-2016, the SI is a DND-initiated interdepartmental undertaking to strengthen the basis of decision-making when considering



solutions for the sustainment<sup>2</sup> of defence equipment. The SI<sup>3</sup> requires that every procurement or contract over \$20 million that includes sustainment components be submitted to the Sustainment Business Case Analysis Process and DPS governance committee approval. The initiative aims to take a holistic approach to identify the sustainment needs, analyse procurement options, and recommend and develop the best possible solutions. The SI is expected to enable better procurement planning as the requirements to sustain equipment throughout its useful life can be identified and planned for in the early stages of procurement. As a result, it is anticipated that this could assist in minimizing the need for unanticipated contract amendments for the contracts applicable to this initiative.

## 1.2 Rationale

ADM(RS) routinely performs analysis of the Department's contracting activities to identify individual contracts that could benefit from audit coverage. In the March 2012 contract analysis, eight of the 25 top risk-ranked contracts<sup>4</sup> had amendments that increased the value of the contract in excess of 50 percent. This audit provided the opportunity to understand the use of, and to assess the administration of contract amendments. The audit is included in the ADM(RS) Risk-Based Audit Plan for the fiscal years 2015/16 to 2017/18.

## 1.3 Objective

To assess whether the contract amendment governance, risk management and control processes are in place, effective and serve the best interests of the Crown.

## 1.4 Scope

The scope of the audit was contract amendments on active contracts<sup>5</sup> as of March 31, 2016 that:

- had initial contract value of greater than \$10,000; and
- were amended to change the dollar value of the original contract.

While many contract management responsibilities are shared between PSPC and DND, the audit findings were developed based on the required documentation and procedures within the DND/CAF's purview in the management of contract amendments.

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<sup>2</sup> "Within the defence equipment context, sustainment is all-encompassing and includes all types of support to military equipment including maintenance, repair and overhaul; engineering changes; supply, inventory; lifecycle materiel assurance; technical data, technical publications; training related to the equipment; information technology; and infrastructure." Source: [www.gclopedia.gc.ca/wiki/Defence\\_Sustainment](http://www.gclopedia.gc.ca/wiki/Defence_Sustainment).

<sup>3</sup> SI only applies to the Materiel group's managed equipment, and does not include IM support contracts

<sup>4</sup> Six risk attributes – materiality, cost increase, contract award process, basis of payment, method of payment, and contract duration – were used to identify the highest 25 risk-ranked contracts for further analysis. March 2012 Contract Analysis.

<sup>5</sup> Active contracts are contracts recorded in the contract data Management systems that are opened and have not formally closed.

The scope of the audit excluded:

- administrative contract amendments;<sup>6</sup>
- PSPC standing offer call-ups;
- PSPC contracting and contract amendment processes; and
- pre-contract award (for example, Request for Proposal, bid evaluation, and project documents), verification of contract deliverables, work performance or payment.

## 1.5 Methodology

During the examination phase from October 2016 to June 2017, the following audit procedures were performed:

- A review of contracting policies and guidelines, and other relevant DND/CAF documents;
- Interviews with subject matter experts within ADM(Mat); and
- Examination of a non-statistical sample of contract amendments, selected as follows:
  - 18 amended DND/CAF contracts: DND/CAF was the procurement and TA for all 18 of these contracts and the CA for six. Examination of the CA practices for the 12 contracts where DND/CAF was not the CA was excluded from the audit scope as explained in Section 1.4 of this report.
  - the 18 contracts had:
    - A total combined initial contract value of \$319 million,
    - A total combined amendment value of \$422 million as of March 31, 2016, and
    - A total of 124 amendments issued as of March 31, 2016.
  - One contract amendment with the highest amendment value from each selected contract file was reviewed:
    - A total combined amendment value of \$29 million was reviewed.

## 1.6 Audit Criteria

The audit criteria can be found at [Annex B](#).

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<sup>6</sup> Administrative contract amendments are used to modify non-financial terms and conditions of the existing contracts. For example, amendments that are used to change contact information for the contract, to exercise a contract option that has been pre-approved and funded at the requisition stage, etc.

## 1.7 Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit, and apply only to the entity examined.

## 2.0 Findings and Recommendations

### 2.1 Processing of Contract Amendments

The DND/CAF contract amendments reviewed were generally processed in accordance with contracting policy and regulations, with some exceptions related to the sequence of processing and approvals.

#### 2.1.1 Compliance with Contracting Policy and Regulations

The financial and operational controls established in the departmental Financial Administration Manual and the PAM assist the Department in complying with the government-wide legislative and policy framework when processing contracts, including contract amendments. Some of the key control requirements for contract amendments include approval by individuals with the appropriate delegation of authority, appropriate segregation of duties, and using the appropriate contracting instruments.

The approval authorities and duties for contract amendments are governed by the delegation of authority forms, where specific authorities are formally granted to a position within DND/CAF. This promotes an appropriate level of management and review of contract amendments by an authorized delegate. For all files reviewed, the individuals who authorized the contract amendments held the appropriate delegated authorities, with one exception where the delegation documentation was not available. In addition, there was no evidence in any of the files reviewed that contract amendments were used to avoid exceeding contract thresholds and bypassing the otherwise required management and approval process.

For the files reviewed:

- No indication that contract amendments were used to bypass the required financial authorizations.
- Segregation of duties<sup>7</sup> was maintained for financial, procurement initiation and CA.

Policy and legislation also require proper segregation of duties to promote an appropriate level of management and approval of contract amendments, and to prevent errors and irregular activities. The authorities to confirm that sufficient funding was available before amending the contract, to initiate the procurement, and to amend and sign the contract amendments were exercised appropriately by different individuals for all 18 files reviewed. This does not pertain to the verification of contract performance, deliverables, or payment as these areas were not within the scope of the audit.

DND/CAF uses a variety of contracting instruments to meet its procurement requirements. Some of these instruments are pre-arranged by PSPC<sup>8</sup> and their use is mandatory in order to save time

<sup>7</sup> This does not pertain to the verification of contract performance, deliverables or payment as these areas were not within the scope of the audit.

<sup>8</sup> Examples of PSPC pre-arranged contracting instruments include standing offers and supply arrangements. A standing offer is an offer from a potential supplier to provide goods and/or services at pre-arranged prices, under set

and money for government purchases. All of the reviewed amendments used the appropriate instruments.

### 2.1.2 Exceptions Related to the Sequence of Processing

To comply with government contracting policy and maintain stewardship of public funds, the proper approval authorities must be exercised, prior to the delivery of the contracted goods and/or services, in the following order:

- Financial authority (in this case, the commitment authority) - the authority delegated to incumbents of positions to confirm the availability of funds before a contractual arrangement is entered into;
- Procurement initiation - the delegated authority to approve a procurement instrument, which is a document to request contracting services from the CA; and
- CA - the authority delegated to a specific position, to enter into and sign contractual documents on behalf of the Department.

The sequence of approvals was properly followed in 12 of the contract files reviewed. In 6 cases, documentation was not on file to explain why the sequence of approvals was not followed when processing the contract amendments. In these cases, contracts were either amended before the financial authorities were obtained, or after the delivery of the contracted services. These amendments were subsequently approved as the requests for amendment were time sensitive and work involved was legitimate and reasonable. Policy, however, requires the rationale to be documented in cases where the required approval process cannot be followed.

### 2.1.3 Conclusion

The audit examined a number of key controls and found that contract amendments were generally processed in accordance with contracting policy and regulations. Some exceptions were noted related to the sequence of processing approvals. ADM(Mat) has established a group that monitors compliance and conducts risk-based compliance reviews on DND/CAF contracting practices at large. These activities are not targeted to address risks that are specific to contract amendments. Strengthened risk-based oversight and monitoring will allow the Department to mitigate risks and to identify and prevent potential errors in administering contract amendments. Refer to Section 2.4 of this report for the recommendation.

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terms and conditions, when and if required. A supply arrangement includes a set of predetermined conditions that will apply to bid solicitations and resulting contracts. It allows client departments to solicit bids from a pool of pre-qualified suppliers for specific requirements.

## 2.2 Planning and Controls for Contract Amendments

Improvements in the planning of contracts would help to control and optimize the use of contract amendments. Furthermore, improved justification is required to demonstrate that amendments are in the best interests of the Crown.

The long-term funding commitment and model included in Canada's defence policy, together with a better approach to budgeting, are expected to bring about financial stability and certainty in defence investments. In addition, the DND/CAF's Sustainment Initiative is expected to strengthen planning for contracts with sustainment components and provide a long-term-focused approach to delivering sustainment solutions. Collectively, it is expected that these will help to improve procurement planning and alleviate the use of unanticipated contract amendments. Nonetheless, the Department could make some improvements in the planning and justification of contracts to further reduce their need and to maintain fairness and transparency in contracting activities.

### 2.2.1 Planning for Contract Amendments

For 12 of the 18 contract amendments reviewed, there was insufficient information in DND's files to demonstrate that the initial contracts were adequately planned and/or sufficiently funded by the Department. Some of these contracts required amendments because the initial funding committed to the contract was insufficient to cover all the requirements. In other instances, not all of the requirements had been adequately identified when the contracts were established or a replacement contract was not put in place before the original contract expired. Contracting policy stipulates that every effort should be made to avoid inadequate pre-planning,<sup>9</sup> improper administrative procedures and insufficient funding to minimize costly and time consuming contract amendments.

### 2.2.2 Changes to the Contract Requirements

While Treasury Board policy allows for amendments, contracts should not be amended unless they are in the best interest of the Crown. In other words they save dollars, time, or facilitate the attainment of the primary objective of the contract, as amendments often require costly administrative work and are awarded without re-competition.

The PAM provides guidance on how to assess changes to initial contract requirements to ensure they do not constitute a new requirement, where they would need to be re-competed to maintain fairness in the contracting process. The PAM currently does not provide sufficient guidance on how to interpret and apply the concept of serving the best interest of the Crown.

While some contracts may require an amendment to accommodate unforeseen changes, as allowed per policy, it is important that the reason is sufficiently documented by DND's procurement staff to demonstrate that best interest of the Crown was considered when choosing to amend a contract instead of initiating a new contract. Of the 18 files reviewed, five contract

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<sup>9</sup> Term used in Treasury Board Contracting Policy

amendments may have merited a new contract, as defined by DND policy. In these cases, the changes:

- were not documented to sufficiently justify how the amendment contributed to the attainment of the primary objective of the contract;
- demonstrated some of the attributes of a new requirement; or
- constituted a significant change in the contract requirements and nature of the work when compared to the initial contract.

For example, one amendment increased the initial contract<sup>10</sup> value by 230 percent to take on a related but separate project not included in the initial contract requirements; the PAM suggests that any increase greater than 50 percent could be considered a new requirement. This reinforces the need for the PAM to provide proper support and guidance to staff to ensure adequate documentation of these changes, as more contracts are processed by the Department under its increased CA.

### 2.2.3 Conclusion

Most of the contract amendments reviewed were the result of insufficient funding of the initial contracts. Justification of these contract amendments was also insufficient to demonstrate how they facilitated the primary objective of the contracts. A lack of clarity in the PAM, a lack of staff continuity and a varied level of staff knowledge and experience may have contributed to these issues. The underlying frameworks supporting SSE and SI implementation are expected to help the Department minimize the need for unanticipated contract amendments. However, improvements are required to further reduce the need for amendments, and to ensure their use is appropriately justified. Improvements in the planning of the initial contracts and the justification of contract amendments would promote fairness, transparency and accountability for the Department in conducting contracting activities. Refer to Section 2.4 of this report for the recommendation.

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<sup>10</sup> A sole-sourced research and development contract initially valued at \$25,000.



## **2.3 Documentation, Information for Decision Making and Risk Management**

The majority of contract amendment files did not include some of the required key documentation, justification and information for decision making. In addition, risk management practices could be improved by ensuring they are sufficiently documented.

### **2.3.1 Contract File Documentation and Justification**

According to the PAM, contracting and procurement staff are responsible to retain all pertinent documentation in contract files and to maintain both electronic and paper-based files. This requirement ensures that the Department has a complete record of all procurement activities and provides the basis for decision making and evidence of fairness and transparency. A well-documented contract file also provides important information to allow the contracting and procurement staff to manage contract performance and to enforce contract terms and conditions.

A review of the 18 files maintained by DND procurement staff found that some required key documentation was missing or incomplete for the majority of the contract amendment files. These documents ranged from signature-required documentation such as a copy of the signed contract amendment or task authorization, to record-control documentation such as contract summary sheets and vendor quotes. While some documentation was missing for the majority of individual amendments reviewed, the overall procurement files contained sufficient information to determine that those amendments were administered according to policy.

### **2.3.2 Contract Data Management System**

The PAM requires that every DND/CAF awarded contract and issued contract amendment be entered into the Contract Data Management System (CDMS). CDMS is a DND/CAF maintained contract data management system which is used to produce official reports to meet government reporting obligations. For the six contracts that were required to be reported into CDMS, four had inaccurate, incomplete and/or untimely data records related to the contract amendments. According to analysis conducted by the CDMS team, only 50 to 60 percent of DND/CAF contracts that are reported in the departmental financial system have been recorded in CDMS. Inaccurate and incomplete contract data reported in CDMS hinders the Department's ability to meet its reporting obligations.

### **2.3.3 Risk Management for Contract Amendments**

With the exception of some low risk purchases,<sup>11</sup> the PAM requires procurement staff to develop and implement a procurement risk management strategy. This includes completing a Procurement Risk Assessment and Strategy form for all new requirements for goods and/or services valued greater than \$25,000. The PAM also requires risks be reviewed periodically and adjustments be made to control the risks throughout the procurement lifecycle.

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<sup>11</sup> A risk management strategy is not required, regardless of dollar value, for call-ups against standing offers, local purchase orders or acquisition card procurements. The PAM Section 3.1.5.2, May 2016.

Of the 18 files reviewed, 14 required the Procurement Risk Assessment and Strategy form to be completed; in 10 files it was not completed or was not available. This form identifies the risks and the associated risk level of the procurement. It also establishes how the procurement and contracting risks will be managed for the contract. Furthermore, identification and management of risks specific to contract amendments was not evidenced in any of the 18 contract files

reviewed. According to the PAM, contract amendments that increase the value of an initial purchase requisition by 30 percent or more may be considered as high risk and are subject to additional internal review. While four of the reviewed files exceeded this threshold, none had completed the required additional review procedures. In addition, the responsible procurement staff for these contract amendments were not aware of this requirement. The contracting and procurement staff indicated that risks were managed informally through day-to-day activities; however, they were not formally documented in the file.

### Good Practices

The ADM(Mat) internal procedures have been recently updated to require risk assessments be revised when amending a contract, for procurements over \$25,000.

### 2.3.4 Conclusion

The majority of contract amendments reviewed were missing some required key documentation and sufficient justification for contract amendments. This could be attributed to the lack of clarity in the PAM relating to contract amendment documentation requirements, as well as a lack of staff continuity and varied level of staff knowledge and experience, which needs to be compensated for by supportive mechanisms. Improved information and record keeping would enhance the Department's ability to fulfill government reporting obligations. Moreover, this information will enable the Department to carry out risk-based monitoring, identify opportunities for improvements, and make informed decisions for its procurement and contracting activities associated with the increased CA. Refer to Section 2.4 of this report for the recommendation.

## 2.4 Recommendations

1. It is recommended that ADM(Mat) update and communicate the requirements of the PAM as they relate to the management of contract amendments. This is to include:

- a. improving the clarity, completeness and currency of the procedures and guidelines surrounding contract amendments for managing contract requirement changes and contract planning in order to reduce the need for unanticipated contract amendments. Also include examples, lessons learned, and appropriateness of amending a contract vice creating a new contract;
- b. standardizing tools to facilitate documentation requirements and review, including decisions pertaining to changes to original requirements and the demonstration of in the best interest of the Crown; and
- c. increasing the awareness of policy requirements and effective communication of the roles and responsibilities in the management of contract amendments for all procurement staff (for example, refresher training, lessons learned, info sessions).

**OPI:** ADM(Mat)

2. It is also recommended that ADM(Mat) formalize a risk-based approach to monitor contract amendments including:

- a. Adding monitoring specific to contract amendments to the existing contracting oversight mechanism;
- b. Ensuring data accuracy and completeness of CDMS to improve information for decision making.

**OPI:** ADM(Mat)

### **3.0 General Conclusion**

Overall, the contract amendments reviewed were processed in accordance with contracting policy and regulations. The governance and controls for contract amendments could be strengthened by clarifying and communicating DND/CAF policy requirements and guidelines. Together, with the implementation of SSE and SI, these improvements would promote adequate contract planning, the maintenance of adequate documentation and evidence of sufficient review and management, and risk management. They would also increase the reliability and accuracy of information to support the effective management of contract amendments. A risk-based approach to monitoring contract amendments would also help to mitigate contract management risks and allow DND/CAF to adequately demonstrate fairness and transparency and the achievement of best interests of the Crown by saving dollars or time, or by facilitating the attainment of the primary objective of the contract.

## Annex A - Management Action Plan

ADM(RS) uses recommendation significance criteria as follows:

**Very High**—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

**High**—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

**Moderate**—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

**Low**—Controls are in place but the level of compliance varies.

**Very Low**—Controls are in place with no level of variance.

### Processing of Contract Amendments; Planning and Controls for Contract Amendments; Documentation, Information for Decision Making and Risk Management

#### ADM(RS) Recommendation (Moderate)

1. Update and communicate the requirements of the PAM as they relate to the management of contract amendments. This is to include:

a. improving the clarity, completeness and currency of the procedures and guidelines surrounding contract amendments for managing contract requirement changes and contract planning in order to reduce the need for unanticipated contract amendments. Also include examples, lessons learned, and appropriateness of amending a contract vice creating a new contract;

b. standardizing tools to facilitate documentation requirements and review , including decisions pertaining to changes to original requirements and the demonstration of in the best interest of the Crown; and

c. increasing the awareness of policy requirements and effective communication of the roles and responsibilities in the management of contract amendments for all procurement staff (for example, refresher training, lessons learned, and information sessions).

#### Management Action

ADM(Mat) will update the policy requirements of the PAM as they relate to contract amendments and will communicate these requirements.

- a. The PAM sections detailing the contract amendment process as well as roles and responsibilities will be updated to ensure the amendment process and procedures are clear and complete;
- b. The PAM will be updated to ensure the documentation requirements for amendments is standardized, clear and can be easily reviewed.

- c. To increase awareness of policy requirements related to contract amendments information sessions will be delivered (these would include examples and lessons learned) and related courses will be reviewed and updated, as required, to ensure compliance with PAM policies, procedures and guidelines on the management of contract amendments.

**OPI:** ADM(Mat)/DGMSSC

**Target Date:** December 2019

#### **ADM(RS) Recommendation (High)**

2. Formalize a risk-based approach to monitor contract amendments including:
  - a. Adding monitoring specific to contract amendments to the existing contracting oversight mechanisms;
  - b. Ensuring data accuracy and completeness of CDMS to improve information for decision making.

#### **Management Action**

- a. ADM(Mat) will include contract amendments in its existing formal risk-based Procurement and Contracting/Materiel Management Compliance Program Framework.

**OPI:** ADM(Mat)/DGMSSC

**Target Date:** December 2019

- b. ADM(Mat) will review, analyze and validate contract information available from various sources such as the Defence Resource Management Information System; with the objective of improving data accuracy in CDMS.

**OPI:** ADM(Mat)/DGMSSC

**Target Date:** December 2019

## **Annex B—Audit Criteria**

### **Criteria Assessment**

The audit criteria were assessed using the following levels:

#### **Assessment Level and Description**

**Level 1**—Satisfactory

**Level 2**—Needs Minor Improvement

**Level 3**—Needs Moderate Improvement

**Level 4**—Needs Significant Improvement

**Level 5**—Unsatisfactory

### **Governance**

1. Effective governance is in place to ensure amendments to existing contracts are in the best interest of the Crown, and are processed in compliance with relevant contracting policies and guidelines.

**Assessment Level 3** – Moderate improvement is required to provide DND/CAF with access to accurate, complete and timely information to allow the Department to fulfill government reporting obligations; carry out effective oversight, risk-based monitoring and risk management; and identify opportunities for continuous improvement of the contract amendment processes.

### **Risk Management**

2. Processes to identify, escalate, and report risks associated with contract amendments are in place.

**Assessment Level 4** – Significant improvement is required in this area to ensure risks related to the administration of contract amendments are systematically identified and managed throughout the lifecycle of procurement.

### **Controls**

3. Controls are in place to ensure amendments to existing contracts are in the best interest of the Crown.

**Assessment Level 3** – Moderate improvement is required in this area to ensure that the principle of serving the best interest of Crown is applied effectively when considering amendments to existing contracts and that decisions are justified and documented.

4. Controls are in place to ensure contract amendments are processed in compliance with relevant contracting policies and guidance.



**Assessment Level 2** – Minor improvement is required in this area to identify irregularities and anomalies early when processing contract amendments to ensure appropriate corrective actions can be taken in a timely manner, to facilitate risk-based oversight and monitoring, and to ensure the Department's continuous compliance with contracting policy and regulations.

**Source of Criteria**

- Treasury Board Contracting Policy
- PSPC Supply Manual
- DND/CAF Procurement Administration Manual (PAM)
- DND/CAF Financial Administration Manual (FAM)

## Annex C—Procurement Roles and Responsibilities

The following table provides the roles and responsibilities of the key designated staff, pertinent to administering contract amendments, as they relate to the findings presented in this audit:

Stage	Roles and Responsibilities		
	Technical Authority (TA), Procurement Initiation Authority (PIA) <sup>12</sup>	Procurement Authority (PA)	Contracting Authority (CA)
	DND is the TA and the PIA for all 18 contracts in the sample	DND is PA for all 18 contracts in the sample	DND is the CA for 6 of the 18 contracts in the sample
Procurement Planning – requirement for procurement	<ul style="list-style-type: none"> <li>TA to write statement of work in support of the operational need, prepare an estimate of the associated cost, and confirm the funding availability.</li> </ul>	<ul style="list-style-type: none"> <li>Validate procurement requirement to ensure it is appropriate, adequate and it has the required approvals;</li> <li>Review and refine statement of work;</li> <li>Validate cost estimate and secure funding for the procurement instrument;</li> <li>Approve procurement instrument (the requisition).</li> </ul>	
Procurement Planning – procurement plan <sup>13</sup>	<ul style="list-style-type: none"> <li>Where applicable, PIA to approve the requisition documents (for example, PSPC 9200 requisition form).</li> </ul>	<ul style="list-style-type: none"> <li>Develop procurement plan with target cost and cash flow plan.</li> <li>Develop procurement documents.</li> <li>The PA and the TA must consider the possibility of establishing a multi-year contract when it is an economic advantage to the department, such as including option years in the initial contract.</li> </ul>	<ul style="list-style-type: none"> <li>Obtain approval of procurement plan.</li> <li>Action the requisition.</li> </ul>

<sup>12</sup> Procurement Initiation Authority (PIA) is required for requisitions to PSPC, Defence Construction Canada, Shared Services Canada, ADM(Mat) directorates. PAM section 1.4.3

<sup>13</sup> “Procurement plan is required for procurement over \$5,000 for goods and over \$25,000 for services.” PAM section 3.1.

Stage	Roles and Responsibilities		
	Technical Authority (TA), Procurement Initiation Authority (PIA) <sup>12</sup>	Procurement Authority (PA)	Contracting Authority (CA)
	DND is the TA and the PIA for all 18 contracts in the sample	DND is PA for all 18 contracts in the sample	DND is the CA for 6 of the 18 contracts in the sample
Procurement Planning – risk management	<ul style="list-style-type: none"> <li>TA plays a consultation role.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement a procurement risk management strategy including the completion of the Procurement Risk Assessment and Strategy form for each new procurement valued greater than \$25,000.</li> </ul>	
Procurement Execution	<ul style="list-style-type: none"> <li>TA to evaluate proposals and bids.</li> </ul>	<ul style="list-style-type: none"> <li>Participates in the bid evaluation process.</li> </ul>	<ul style="list-style-type: none"> <li>Manages bid evaluation process.</li> <li>Draft and award contract.</li> <li>Report the contract (and the associated amendments) in the CDMS.</li> </ul>
Procurement Control – monitoring and management	<ul style="list-style-type: none"> <li>TA to identify changes in requirements to the PA.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor and manage contract cash flow and to ensure the contracted work does not exceed the authorized value of the contract.</li> <li>Ensure Crown commitments in the contract are met.</li> <li>Inform CA if the contract amount requires adjustment (see Procurement Control – contract amendment).</li> </ul>	
Procurement Control – contract amendment	<ul style="list-style-type: none"> <li>TA to identify and request changes to the PA.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that the request is for a change and not a new requirement.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that the request is for a change and not a new requirement.</li> </ul>

Stage	Roles and Responsibilities		
	Technical Authority (TA), Procurement Initiation Authority (PIA) <sup>12</sup>	Procurement Authority (PA)	Contracting Authority (CA)
	DND is the TA and the PIA for all 18 contracts in the sample	DND is PA for all 18 contracts in the sample	DND is the CA for 6 of the 18 contracts in the sample
		<ul style="list-style-type: none"> <li>Communicate the change to the concerned parties (may include the contractor).</li> <li>Draft the amendment documents (for example, PSPC 9200 requisition amendment if applicable).</li> <li>Ensure amendment documents are processed and approved at the appropriate level.</li> <li>Submit amendment documents to the CA.</li> </ul>	<ul style="list-style-type: none"> <li>Action the contract amendment request, including obtaining contractor's consent to the change.</li> <li>Award contract amendment.</li> </ul>
Procurement Control – risk management		<ul style="list-style-type: none"> <li>Continue to track and implement the current risk management strategy.</li> <li>Document any amendments that result in an increase of 30 percent or more of the original value of the 9200 requisition for a special annual reporting.</li> </ul>	
Procurement Control – file management	<ul style="list-style-type: none"> <li>See PA's responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>The CA/PA is responsible to create and maintain the contract / procurement file with all pertinent information (i.e. documents associated with the requirement, financial information, correspondence, signed 9200 requisitions and associated</li> </ul>	

	Roles and Responsibilities		
	<p><b>Technical Authority (TA), Procurement Initiation Authority (PIA)<sup>12</sup></b></p> <p>DND is the TA and the PIA for all 18 contracts in the sample</p>	<p><b>Procurement Authority (PA)</b></p> <p>DND is PA for all 18 contracts in the sample</p>	<p><b>Contracting Authority (CA)</b></p> <p>DND is the CA for 6 of the 18 contracts in the sample</p>
<b>Stage</b>		<p>amendments, signed contract documents and associated amendments, and supporting documentation and justification).</p>	

**Table 1. Summary of Key Procurement Roles and Responsibilities.** This table provides the roles and responsibilities of key designated staff.