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## Follow-up on Audit of Professional Services Contracting

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## Acronyms and Abbreviations

ADM (Mat)	Assistant Deputy Minister (Materiel)
CDMS	Contract Data Management System
CRS	Chief Review Services
DND	Department of National Defence
MAP	Management Action Plan
OPI	Office of Primary Interest



## Introduction

The Internal Auditing Standards for the Government of Canada require Chief Review Services (CRS) to conduct follow-ups on the progress of implementation of management action plans (MAP). The purpose of this follow-up is to determine the progress made on the implementation of the MAPs in response to the 2010 Audit of Professional Services Contracting. This follow-up was included in the CRS Risk-based Audit Plan for 2013/14 to 2015/16.

The objective of the 2010 audit was to assess professional services contracting activities within the Department of National Defence (DND), more specifically to determine whether the following activities are taking place:

- contracting strategies and their terms and conditions promote value for money;
- training, monitoring, and oversight ensure compliance and encourage best value; and
- information is complete, consistent, and sufficient for management purposes.

The findings of the 2010 audit are summarized as follows:

**Contracting Strategies.** There was a lack of documented evidence to prove that alternatives were taken into consideration to promote value for money and that the use of professional services contractors was rationalized.

**Contract Terms and Conditions.** Terms and conditions in professional services contracts did not always optimize value for money and did not address the risk of employer-employee relationships.

**Monitoring, Oversight, and Training.** While mandatory training on contracting was in place and reference material was available, a risk-based monitoring program on the use of professional services activities within DND was needed to identify and address key risk areas.

**Information and Reporting.** Professional services contracting information was insufficient to track trends, measure progress, and identify areas of risk for monitoring purposes.

## Methodology

This follow-up does not represent a second audit of the same issues, but rather it is an assessment of the progress made in implementing the MAP items. Accordingly, no retesting was done to determine if these action plans were achieving the desired results. The following methods were used:

- Detailed assessment of the progress of the MAP items reported by the Office of Primary Interest (OPI).
- Interviews with OPIs.
- Examination of information and documentation.

The overall criteria to assess the progress can be found at [Annex A](#).



## Statement of Conformance

The audit follow-up 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 follow-up thus conforms to the Internal Auditing Standards for the Government of Canada, 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 follow-up and apply only to the entity examined.



## Overall Assessment

The original audit contained four recommendations and MAPs. This follow-up found that two MAPs are fully implemented and two MAPs that have multiple action items are partially implemented. Departmental policy on procurement now provides more guidance on risks associated with professional service contracting. Such guidance not only brings to light the risks of certain contract terms that managers should avoid if possible, but also requires them to create an audit trail to confirm that such risks were taken into consideration. This guidance has been reflected in the training material that is relevant to professional services contracting, and it is required to obtain contracting authority. Instructions on these risks improves risk management and leads to a better understanding of the purpose of collecting contract details in the Department's Contract Data Management System (CDMS). While this database has been improved to capture areas of risk specific to professional services contracts, this information is not currently being used for risk-based monitoring.

There remains a risk that contracting for professional services is not subject to an appropriate level of monitoring to help promote effectiveness and efficiency. While the monitoring unit initiated a framework for formal risk-based reviews, in November 2013 this unit was amalgamated with another directorate of Assistant Deputy Minister (Materiel) (ADM(Mat)) that is not currently focused on monitoring professional services contracting.

The OPI concurs that not all MAPs are fully completed and indicated that staff will continue to work on outstanding actions.

A scorecard of the MAP items can be found in [Annex B](#), and a more detailed assessment of progress with updated target dates of completion can be found at [Annex C](#).



## Annex A—Assessment Criteria

These are the criteria used to assess the level of completion for each MAP identified in the 2010 Audit of Professional Services Contracting:

### **1. No Progress or Insignificant Progress (0-24% complete)**

No action taken by management or insignificant progress. Actions such as creating a new committee, having meetings, and generating informal plans are insignificant progress.

### **2. Planning Stage (25-49% complete)**

Formal plans for organizational changes have been created and approved by the appropriate level of management (at a sufficiently senior level, usually at the Executive Committee level or equivalent) with appropriate resources and a reasonable timetable.

### **3. Preparation for Implementation (50-74% complete)**

The entity has begun necessary preparation for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.

### **4. Substantial Implementation (75-99% complete)**

Structures and processes are in place and integrated into some parts of the organization, and some achieved results have been identified. The entity has a short-term plan and timetable for full implementation.

### **5. Full Implementation (100% complete)**

Structures and processes are operating as intended and are implemented fully in all intended areas of the organization.

### **6. Obsolete or Superseded**

Audit recommendations that are deemed to be obsolete or have been superseded by another recommendation.



## Annex B—MAP Scorecard

Recommendation	MAP	OPI	CRS Assessment of Progress on MAP(s)
1. Contracting Strategies	Amend policies and training material to ensure that other human resources alternatives are considered and that justification for decisions is documented.	ADM(Mat)	<b>Full Implementation</b>
2. Contract Terms and Conditions	Ensure policies and training packages discourage payment based on per diem rates.	ADM(Mat)	<b>Full Implementation</b>
3. Monitoring, Oversight, and Training	Capture information regarding primary areas of high risk in the CDMS and create a more formal risk-based monitoring system.	ADM(Mat)	<b>Planning Stage</b>
4a. Capturing Information	Determine the information requirements of contracting for professional services and apply a consistent definition of professional services in the Department.	ADM(Mat)	<b>Full Implementation</b>
4b. Reporting Tools	Amend the CDMS to be a more robust reporting tool and consider the creation of a more formal monitoring system.	ADM(Mat)	<b>Planning Stage</b>

**Table 1. MAP Scorecard.** This table shows the CRS assessment of progress on the MAP.



### Annex C—Summary of MAP Status

Recommendation 1 – Contracting Strategy				
Consider alternatives to contracts for professional services and document the rationale for contracting to ensure value for money.				
MAP	OPI	Target Date	Progress to Date	Status of Action Item
The policies and procedures will be amended to ensure that other human resource alternatives are considered and that decisions for high-risk contracts (e.g., on-site, per diem rates, longer term), as opposed to an alternative human resource option, be documented in the file prior to contracting for professional services. This requirement will also be added to the Basic Contracting and Procurement Course and the Contracting Direct-with-the-Trade course being developed.	ADM(Mat)	March 2011	DND procurement policy has been updated to list indicators of high-risk contracts for professional services. In relation to this MAP, the policy now emphasizes the requirement to keep on file documentation of the rationale for decisions to enter into professional service contracts. This will provide an audit trail to demonstrate that alternative, lower-risk and lower-cost options were considered. This information and guidance has also been reflected in the training courses entitled Basic Procurement and Contracting Direct-with-the-Trade.	<b>Full Implementation</b>

**Table 2. Status of the Implementation of the MAP Items for Recommendation 1.** This table summarizes progress on implementing the MAP items for Recommendation 1.



Recommendation 2 – Contract Terms and Conditions				
Use fixed-price contracts with performance-based payment terms when appropriate instead of per diem payment structure to encourage efficiency and the appropriate management of contractors.				
MAP	OPI	Target Date	Progress to Date	Status of Action Item
Existing policies, procedures, and training already make it clear that terms and conditions should include payment based on deliverables whenever possible. Nonetheless, related policies and training packages will be reviewed and changes will be made to reinforce the need for payments to be based on fixed-price terms and to reinforce that payment based simply on per diem rates should be avoided.	ADM(Mat)	March 2011	DND procurement policy does reinforce payments based on fixed-price terms and avoiding per diem rates. The training material for the courses Contracting Direct-with-the-Trade and Basic Procurement have both been updated to include a reference to this section of the policy.	<b>Full Implementation</b>

**Table 3. Status of the Implementation of the MAP Items for Recommendation 2.** This table summarizes progress on implementing the MAP items for Recommendation 2.

Recommendation 3 – Monitoring, Oversight and Training				
Implement a formal risk-based plan to monitor and manage the use of professional services contracts to help identify, assess, and address risk areas.				
MAP	OPI	Target Date	Progress to Date	Status of Action Item
The existing CDMS includes information on direct-with-the-trade contracts, as well as the use of standing offers. This includes the bulk of the professional services contracts that are of concern. The reporting fields within the CDMS will be amended to collect basic information (e.g., on-site versus off-site, payment based on per diem rates versus deliverables and duration) that is necessary to perform a monitoring function. Additionally, the possibility of creating a more formal risk-based monitoring system or the feasibility of creating a monitoring cell will be investigated.	ADM(Mat)	October 2010	<p>The CDMS has been updated to include the basic information listed in the MAP as necessary to perform a monitoring function. It is now mandatory to complete these fields.</p> <p>Since the 2010 audit, the monitoring cell had made progress towards a more formal risk-based monitoring system. This included developing a calendar of site visits, updating review procedures, checklists, and presentations of regulations. While reviews had been performed at bases and wings, contracting for professional services had not been their main focus in recent years. In addition, the monitoring cell had not performed reviews of DND directorates located in the National Capital Region since the 2010 audit.</p> <p>In November 2013, the contract monitoring cell was transferred from the Director of Materiel Policy and Procedures to the Director of Supply Chain Operations. This directorate has a function that focuses on the review of materiel acquisition and support business functions; however, this does not currently include professional services contracting.</p> <p>CRS was advised that a compliance program is being funded for fiscal year 2014/15, and that the expected date of completion of this MAP is February 29, 2016.</p>	Planning Stage

**Table 4. Status of the Implementation of the MAP Items for Recommendation 3.** This table summarizes progress on implementing the MAP items for Recommendation 3.

Recommendation 4a – Information and Reporting				
a. Determine professional services contracting information requirements and apply a consistent interpretation of the definition of professional services throughout the Department.				
MAP	OPI	Target Date	Progress to Date	Status of Action Item
a. The current definitions (from the Treasury Board Secretariat) cover a very broad range of activities. The primary area of high risk is considered to include contracts where the resource works on-site, where payment is based on per diem rates, and where the duration is lengthy. The changes to the CDMS and training packages (addressed in Recommendation 3) will focus on such contracts.	ADM(Mat)	March 2011	As stated in Recommendation 3, the CDMS has been updated to include the primary areas of high-risk listed in the original MAP. In addition, DND procurement policy and the training material for the courses Basic Procurement and Contracting Direct-with-the-Trade identify areas of risk pertaining to professional services contracting.	<b>Full Implementation</b>

**Table 5. Status of the Implementation of the MAP Items for Recommendation 4a.** This table summarizes progress on implementing the MAP items for Recommendation 4a.

Recommendation 4b – Information and Reporting				
b. Implement tools to facilitate the consolidation and reporting of professional services contracting information and enforce the reporting of such information.				
MAP	OPI	Target Date	Progress to Date	Status of Action Item
b. The modifications to the existing CDMS that will be implemented will assist in meeting this requirement. The investigation into the creation of a more formal monitoring system (Recommendation 3) may also provide the necessary tools.	ADM(Mat)	December2010	As stated in Recommendation 3, the CDMS has been updated to meet the requirements of the MAP.  The creation of a more formal monitoring system has been adjourned. The current target date of resumption is December 31, 2015, and the expected date of completion is February 29, 2016.	Planning Stage

**Table 6. Status of the Implementation of the MAP Items for Recommendation 4b.** This table summarizes progress on implementing the MAP items for Recommendation 4b.