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ASSISTANT DEPUTY MINISTER (REVIEW SERVICES)



Readiness Assessment for Defence Procurement Strategy – Increased Contracting Authorities (Phases 2 and 3(a))

December 2017

1259-3-0014 (ADM(RS))

Reviewed by ADM(RS) in accordance with the *Access to Information Act*. Information

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Canada



Acronyms and Abbreviations

ADM(Mat)	Assistant Deputy Minister (Materiel)
ADM(RS)	Assistant Deputy Minister (Review Services)
CAF	Canadian Armed Forces
DND	Department of National Defence
DPS	Defence Procurement Strategy
MMI	Materiel Management Instruction
OPI	Office of Primary Interest
PSPC	Public Services and Procurement Canada



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 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 and apply only to the entity examined.



Background

- 2014 – Announcement of the Defence Procurement Strategy (DPS) and initiative to increase contracting authorities for the Department of National Defence (DND) and the Canadian Armed Forces (CAF).
- May 2015 – Assistant Deputy Minister (Review Services) (ADM(RS)) completed a Readiness Review of DPS – Increased Contracting Authorities (Phase 1) – (see Annex B for the Summary of Results).
- June 1, 2015 – A new request and authorization instrument was received from the Minister of Public Works and Government Services Canada (presently referred to as Minister of Public Services and Procurement Canada).
- February 11, 2016 – The Minister of National Defence signed the Delegation of Authority to increase contracting authorities for Assistant Deputy Minister (Materiel) (ADM(Mat)) for goods up to \$400,000.
- April 1, 2016 – ADM(Mat) roll out of Phase 1 of increased contracting authorities. Public Services and Procurement Canada (PSPC) is no longer processing new files that fall within DND's new authorities.



Background (p.2)

- The DPS initiative to increase contracting authorities will authorize the Minister of National Defence to procure and acquire goods and services up to the following contract entry and aggregate amendment limits:

Phase	Goods Authority	Services Authority	Span of Delegation	Approval Status
Prior to April 1, 2016	\$25,000 (Electronic / Traditional Competitive / Non-competitive)	\$2 million (Electronic) \$400,000 (Traditional Competitive) \$100,000 (Non-competitive)	ADM(Mat)	Approved
1	\$400,000 (Electronic) \$400,000 (Traditional Competitive) \$40,000 (Non-competitive)	\$2 million (Electronic) \$400,000 (Traditional Competitive) \$100,000 (Non-competitive)	ADM(Mat)	Approved
2	\$ 1million (Electronic) \$1 million (Traditional Competitive) \$100,000 (Non-competitive)	\$2 million (Electronic) \$1 million (Traditional Competitive) \$100,000 (Non-competitive)	ADM(Mat)	Pending
3(a)	\$5 million (Electronic) \$5 million (Traditional Competitive) \$250,000 (Non-competitive)	\$5 million (Electronic) \$5 million (Traditional Competitive) \$250,000 (Non-competitive)	ADM(Mat)	Pending
3(b)	Up to \$5 million (Electronic) \$5 million (Traditional Competitive) \$250,000 (Non-competitive)	Up to \$5 million (Electronic) \$5 million (Traditional Competitive) \$250,000 (Non-competitive)	DND/CAF	Pending

Table 1. Increased Contracting Authority. This table lists the proposed limits for the delegation of contracting authority for goods and services by phase.



Context

- DND, PSPC and Innovation, Science and Economic Development Canada are involved in defence procurement in Canada. This requires collaboration and coordination between the departments and adds to the overall complex nature of the procurement of goods and services for the CAF.
- June 7, 2017 – Announcement of *Strong, Secure, Engaged: Canada's Defence Policy*
 - One of the themes of the new policy, Modernizing the Business of Defence, includes the following activities:
 - Improving Defence Procurement
 - Modernizing Defence Infrastructure
 - Greening Defence
 - As part of Improving Defence Procurement, DND is to streamline defence procurement, better meet the needs of the military and deliver projects in a more timely manner through, among other things, the following initiative:
 - “Work with partners to increase the Department of National Defence’s contracting authorities for goods up to \$5 million by 2018, allowing over 80 percent of defence procurement contracts to be managed by Defence.”



Objective, Scope and Criteria

Objective

- To assess the Department's readiness for phases 2 and 3(a) of the increase in contracting authorities as part of the DPS.

Scope

- Phases 2 and 3(a) of the initiative on Increased Contracting Authorities
- ADM(Mat) / National Capital Region
- Contracts tendered for which DND is both the technical authority and the contracting authority
- Contract activities from April 2016 to April 2017
- Exclusion: Phase 3(b) as implementation is devolved to other Level 1s and regional operations
- Examination of 12 sub-criteria in line with ADM(RS) Review of DPS – Readiness for Increased Contracting Authorities (Phase 1)



Objective, Scope and Criteria (p.2)

Criteria

- Appropriate governance structures and processes are in place to support the increase in contracting authorities.
- An internal control framework exists to support the effective implementation of the planned changes in contracting authorities.
- A risk register has been prepared, consideration of significant risks has been documented, and high risks have been managed.



Summary of Results

Overall Assessment

- Improvements in the areas of training, performance measurement and management, as well as the approach and validation of delegation of authorities, would increase the readiness of the implementation of phases 2 and 3(a).

	Areas Examined	Results
Governance	Training	◐
	Oversight and Monitoring	●
	Human Resources	◡
	Performance Measurement and Management	◐
	Communications Strategy	●
	Policy and Procedures	●
	Organization Structure	●
Internal Control	Segregation of Duties	●
	Approach to Delegation of Contracting Authorities	◐
	Validation of Risk-based Delegation of Contracting Authorities	◐
Risk Management	Risk Identification	●
	Risk Mitigation	●

Legend	
●	Considered, documented and assessed as reasonable
◐	Some deficiencies or areas for improvement
○	Not considered, documented or reasonable
◡	Unable to assess

Table 2. Summary of Results by Area Examined. This table summarizes the areas examined and the corresponding results.



Main Findings – Governance

● Training

- A mandatory online course, “Contracting in Excess of \$25,000,” has been developed and completed by 87 percent of procurement officers in ADM(Mat).
- Policy for the Delegation of Authority form needs to be updated to reflect this new requirement, and monitoring is required to ensure compliance.

ADM(RS) Recommendation

1. It is recommended that ADM(Mat) ensure the “Required Training Section” in the Delegation of Authority form reflects the required training and undertake periodic review or monitoring to ensure that contracting authorities complete the required training.

OPI: ADM(Mat)



Main Findings – Governance (p.2)

● Oversight and Monitoring

- Significant progress has been made to address issues identified in the ADM(RS) Review of DPS – Readiness for Increased Contracting Authorities (Phase 1). This includes the following:
 - Publication of the Material Acquisition and Support Procurement and Contracting / Materiel Management Compliance Framework established by Director General Materiel Systems and Supply Chain;
 - Increased contract monitoring capacity within ADM(Mat); and
 - Inclusion of contract files under increased contracting authorities in the sampling methodology and testing criteria for contract monitoring activities.



Main Findings – Governance (p.3)

▲ Human Resources

- The Department's initial business case for increased contracting authorities indicated that an additional 33 full-time equivalents would be required to handle the increased workload anticipated in Phases 1 to 3(a). A Resource Transfer Agreement was made between DND and PSPC to transfer funding for 33 full-time equivalents. DND received partial funding for Phase 1 implementation for fiscal year 2016/17.
- This increase was incorporated into ADM(Mat)'s human resources plans.
- An assessment of whether the estimated additional human resources requirements met the increased workload could not be made for the following reasons:
 - There is no direct linkage that would demonstrate whether the additional resources were allocated to the affected sections to process the increased workload related to Phase 1 implementation.
 - There is insufficient information to determine whether DND has improved or met the service standards previously accomplished by PSPC prior to the implementation of Phase 1 as the methodology to capture this information differs between the two departments.



Main Findings – Governance (p.4)

● Performance Measurement and Management

- The need to improve performance measurement and management was previously identified in the ADM(RS) Review of DPS – Readiness for Increased Contracting Authorities (Phase 1).
- Contracting cycle time (time from initiation of the Request for Quote to issuance of the Purchase Order) is currently used as the key performance indicator to measure the success of increased contracting authorities. The target for contracting cycle time is 90 days or less, 80 percent of the time. For fiscal year 2016/17, ADM(Mat) reported an average processing time of 82 days and achieving the standard 59 percent of the time. However, this measure does not consider all data for contracts still in process at the time of measurement.
- Contracting cycle time information prior to the implementation of increased contracting authorities was not available to establish a baseline for comparison.
- The adherence to contracting standards of contracts completed is not currently tracked as a performance metric for increased contracting authorities. Results from contracting compliance reviews conducted by ADM(Mat) could be leveraged to monitor the quality of contracts completed under increased contracting authorities.



Main Findings – Governance (p.5)

● Performance Measurement and Management (cont'd)

ADM(RS) Recommendation

2. It is recommended that ADM(Mat) establish both quantitative and qualitative measures to manage the performance of contracting under increased contracting authorities and establish baselines for performance measures in order to be able to measure the success of the initiative to increase contracting authorities.

OPI: ADM(Mat)



Main Findings – Governance (p.6)

● Organization Structure

- The DPS Implementation Team was established and assigned the responsibility to coordinate and implement the DPS. The DPS Implementation Team reports directly to the Director General Procurement Services.
- Regular updates on DPS were provided to ADM(Mat) and the Materiel Acquisition and Support Oversight Committee to facilitate resolution of issues.

● Communications Strategy

- Changes to contracting authorities were communicated to the ADM(Mat) procurement community through the issuance of Materiel Management Instruction (MMI) 1355.
- Procurement officers can raise questions or provide feedback via links on GCpedia and MMI 1355.

● Policy and Procedures

- The DPS Implementation Team and the Director Materiel Policies and Procedures coordinate to periodically revise and update MMI 1355 as required.



Main Findings – Internal Controls

● Segregation of Duties

- The implementation of increased contracting authorities augments the risk of a single individual carrying out both the contracting authority function and the Responsibility Centre Manager function to perform certification of Section 34 of the *Financial Administration Act* as PSPC no longer acts as the contracting authority.
- This risk is mitigated as follows:
 - Delegation of authorities for financial administration for the DND/CAF and the Financial Administration Manual require that the contracting authority and the Section 34 certification authority be separate individuals.
 - ADM(Mat) monitors compliance with this requirement through its contracting compliance reviews, which have indicated full compliance in this area for the files reviewed.



Main Findings – Internal Controls (p.2)

● Approach to Delegating Contracting Authorities

- A risk-based approach to delegation of contracting authorities is being practiced to determine the level of contracting authority for contract approval.
- A Complexity and Risk Assessment form is completed as part of the procurement plan to determine the rank or level of contracting authority required to approve the contract.
- Although the majority of the assessment is objective and fact based, some of the areas remain unclear or are subject to interpretation as identified in the ADM(RS) Review of DPS – Readiness for Increased Contracting Authorities (Phase 1). The Complexity and Risk Assessment form is being reviewed in order to address questions that are confusing, subject to interpretation, or that are not relevant to the needs of the procurement community.



Main Findings – Internal Controls (p.3)

● Validation of Risk-based Delegation of Contracting Authorities

- Currently, there is no process to review the Complexity and Risk Assessment forms, allowing the risk of under-assessed scores and the assignment of a lower level of delegation than appropriate. This was observed in the ADM(RS) Review of DPS – Readiness for Increased Contracting Authorities (Phase 1). The DPS Implementation Team has drafted revisions to the form and the MMI 1355 to require secondary-level approvals for the completion of the form. The changes have been submitted for publication.
- Validation of risk-based delegation of contracting authorities by a secondary or independent reviewer could strengthen compliance with contracting practices and provide quality assurance on the completion of the Complexity and Risk Assessment form.

ADM(RS) Recommendation

3. It is recommended that ADM(Mat) implement the proposed changes to the Complexity and Risk Assessment form to require secondary or independent approval, as well as to clarify questions on the form that are subject to interpretation or that are not relevant to the needs of the procurement community.

OPI: ADM(Mat)



Main Findings – Risk Management

● Risk Identification and Documentation for DPS Implementation

- Risks related to implementation of increased contracting authorities, including significant risks, have been identified and documented.
- Periodic updates to the risk register have been observed.

● Contingencies / Risk Mitigation Strategies for DPS Implementation

- Mitigation strategies and action plans have been developed and documented in the risk register.
- There was evidence that significant and high risks were managed or mitigated.



General Conclusion

ADM(RS) has reviewed the implementation of Phase 1 and has assessed the readiness for phases 2 and 3(a) of the increase in contracting authorities as part of the DPS. Improvements in the following areas would increase the readiness for the implementation of phases 2 and 3(a):

- **Training:** The “Contracting in Excess of \$25,000” course was made mandatory and delivered in order to obtain contracting authority over \$25,000 as per MMI 1355. However, there are insufficient controls in place to ensure that procurement officers have completed the course prior to their delegation for contracting authorities over \$25,000.
- **Performance Measurement and Management:** The current performance expectations are based on timeliness in the awarding of contracts. Other performance measures, such as compliance, error rate or the quality of the contract files processed, have not been considered. Baselines for performance measures are needed to demonstrate improvements and efficiencies gained through the initiative.



General Conclusion (p.2)

- Approach to Delegating Contracting Authorities: A risk-based approach to delegation of contracting authorities was being practiced through the use of the Complexity and Risk Assessment form. Some questions on the form are being improved to enhance clarity and to improve objectivity.
- Validation of Risk-based Delegation of Contracting Authorities: The Complexity and Risk Assessment completed in the procurement planning phase is an effective tool to determine the appropriate level of approval. However, without independent validation, scores could be under-assessed, leading to a lower approval level than appropriate. This issue is being addressed by the DPS Implementation Team.
- An opinion could not be rendered for the Human Resources sub-criterion as there was insufficient information to conclude whether the additional resources estimated in the business case are sufficient, or whether they have been put in place to support the increased workload.



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.



Annex A—Management Action Plan (p.2)

Governance – Training

ADM(RS) Recommendation (Moderate)

1. It is recommended that ADM(Mat) ensure the “Required Training Section” in the Delegation of Authority form reflects the required training and undertake periodic review or monitoring to ensure that contracting authorities complete the required training.

Management Action

ADM(Mat) supports this recommendation.

The Procurement Administration Manual (PAM) and the Material Management Instruction (MMI) 1355 will be amended to include the contracting course(s) as mandatory training before delegating new authorities to any staff and/or contracting authorities.

Coordination will be done with Assistant Deputy Minister (Finance) to ensure this requirement is in the standard operating procedures, which require confirmation that the required training has been successfully completed by the staff and/or contracting authorities prior to validating the Delegation of Authority forms. This will ensure that ongoing monitoring of the required training becomes part of the daily business practice.

This MAP will be considered closed once the following items are completed:

- ADM(Mat) updates the PAM and MMI to reflect the changes outlined in this Management Action; and
- Assistant Deputy Minister (Finance) / Chief Financial Officer and ADM(Mat) ensure that ongoing monitoring of the required training becomes part of the daily business practice.

OPI: ADM(Mat) – Director General Procurement Services / Director General Materiel Systems and Supply Chain

Target Date: March 31, 2019



Annex A—Management Action Plan (p.3)

Governance – Performance Measurement and Management

ADM(RS) Recommendation (High)

2. It is recommended that ADM(Mat) establish both quantitative and qualitative measures to manage the performance of contracting under increased contracting authorities and establish baselines for performance measures in order to be able to measure the success of the initiative to increase contracting authorities.



Annex A—Management Action Plan (p.4)

Governance – Performance Measurement and Management (cont'd)

Management Action

ADM(Mat) supports this recommendation.

In accordance with the MAF – Management Accountability Action Plan, a Performance Measurement Framework will be implemented by FY 2018/19 and will include quantitative and qualitative measures. The initial baselines will be established based on current data or on PSPC standards. This will allow ADM(Mat) to improve the management of the performance of contracting and increased contracting authorities. MMI 1355 will be amended to mandate the use of data captured in the Defence Resource Management Information System. Measures may include different aspects, such as the following:

- The contracting process cycle time;
- The ratio of contracts subject to competitive tendering;
- Customer satisfaction data; and
- The quality of contracting process reflected in the number of irregularities.

This Management Action will be considered closed once the following items are completed:

- ADM(Mat) implements the Performance Measurement Framework; and
- ADM(Mat) amends MMI 1355, mandating the use of data captured in the Defence Resource Management Information System

OPI: ADM(Mat) – Director General Procurement Services

Target Date: March 31, 2018



Annex A—Management Action Plan (p.5)

Internal Controls – Approach and Validation of Risk-based Delegation of Contracting Authorities

ADM(RS) Recommendation (Moderate)

3. It is recommended that ADM(Mat) implement the proposed changes to the Complexity and Risk Assessment form to require secondary or independent approval, as well as to clarify questions on the form that are subject to interpretation or that are not relevant to the needs of the procurement community.

Management Action

ADM(Mat) supports this recommendation.

To ensure the benefits related to an increased contracting delegation are achieved, oversight must be provided for the high-risk areas. The Complexity and Risk Assessment form is part of the contract file, and a secondary or independent review will be formalized by adding the requirement for signature by both the contracting authority performing the work and the contract approval authority in accordance with the Delegation of Authority.

To address the clarity of the questions, the Complexity and Risk Assessment form will also be revised to clarify the questions that were subject to interpretation. This new version is expected to be published in 2018.

This MAP will be considered closed once the following item is completed:

- ADM(Mat) publishes the revised Complexity and Risk Assessment form.

OPI: ADM(Mat) – Director General Procurement Services

Target Date: March 20, 2018



Annex B—ADM(RS) Review of Defence Procurement Strategy – Readiness for Increased Contracting Authorities (Phase 1) – Summary of Results

	Area Examined	Considered, Documented and Assessed as Reasonable	Some Deficiencies or Areas for Improvement	Not Considered, Documented or Reasonable
Governance	Training	Yes		
	Oversight and Monitoring		Yes	
	Human Resource Requirements	Yes		
	Organization Structure	Yes		
	Communications Strategy	Yes		
	Policy and Procedures	Yes		
	Performance Management	Yes		
Internal Control	Segregation of Duties	Yes		
	Risk-based Approach to Delegation of Contracting Authorities	Yes		
	Monitoring of Risk-based Delegation of Contracting Authorities		Yes	
Risk Management	Risk Identification	Yes		
	Risk Mitigation	Yes		

Table B-1. Summary of Results for the ADM(RS) Review of Defence Procurement Strategy – Readiness for Increased Contracting Authorities (Phase 1). This table summarizes the areas examined in Phase 1 and the corresponding results.