



Unclassified

Review of Contract Management

Final Report

March 2022





Review of Contract Management

This publication is available for download at canada.ca/publiccentre-ESDC.

It is also available upon request in multiple formats (large print, Braille, audio cassette, audio CD, e-text diskette, e-text CD, or DAISY), by contacting 1 800 O-Canada (1-800-622-6232).

By teletypewriter (TTY), call 1-800-926-9105.

© Her Majesty the Queen in Right of Canada, 2020

For information regarding reproduction rights:
droitdauteur.copyright@HRSDC-RHDCC.gc.ca.

PDF

Cat. No. Em20-160/2022E-PDF

ISBN: 978-0-660-43645-6





TABLE OF CONTENTS

1. Background.....	1
1.1 Context.....	1
1.2 Review Objectives.....	2
1.3 Scope.....	2
1.4 Methodology.....	3
2. Findings	3
2.1 Tools and guidance to support Cost Centre Managers exist, however some additions are required and overall awareness could be improved.....	4
2.2 Contract management improvements are needed to facilitate better manager oversight and information management.....	5
2.3 Elements of oversight for contract management have been established, however, gaps exist.....	6
3. Conclusion	8
4. Statement of Assurance	8
5. Appendix A: Glossary.....	9



1. BACKGROUND

1.1 Context

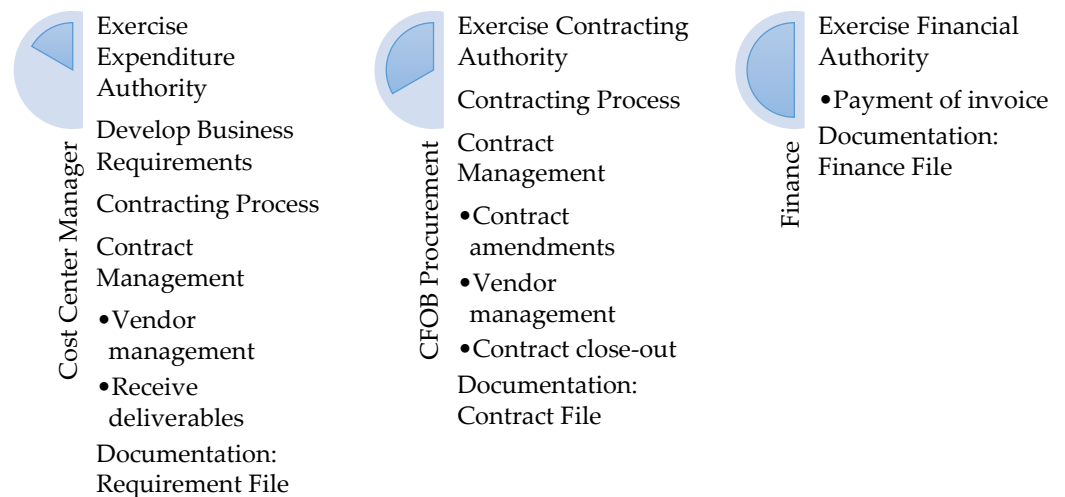
The Treasury Board (TB) *Contracting Policy* states that the objective of government procurement contracting is to acquire goods and services and to carry out construction in a manner that enhances access, competition and fairness and results in best value.

Achieving best value should begin in the planning and appraisal of alternatives and continue through the definition of requirements, which would include assessment and award criteria, evaluation of sources, selection of contractor, preparation, negotiation, execution, and award of contract, contract administration, and post-contract evaluation.

To comply with the TB *Contracting Policy*, the Department established a Procurement Roadmap in July 2018 which provides an overview of the four main phases in the procurement contracting management process, including:

1. Procurement Strategy;
2. Requirements Definition;
3. Acquisition; and,
4. Contract Management, Payment, and Close-Out.

To define the Roles and Responsibilities in managing the procurement contracting process, the Department has also developed a chart that illustrates the key accountabilities amongst the stakeholders of Funds/Cost Center Managers as well as the ESDC Procurement team within the Chief Financial Officer Branch (CFOB) and Finance team (Integrated Corporate Accounting and Accountability Directorate).



For 2018-2019, the Department processed a total of 3,535 contract transactions, with 1,352 contracts and 2,183 amendments.

1.2 Review Objectives

The objective of this review was to assess whether the contracting process is managed according to the Departmental Procurement Roadmap and TB *Contracting Policy*.

Two Lines of enquiry, which links to the key risks and the overall review objective outlined above, were examined throughout the review.

Line of Enquiry A: Adequacy of Contract Management

It was expected that:

- Cost centre managers administer contracts in accordance with the terms of the contract, including time, cost and performance.
- ESDC procurement team (CFOB) provides cost centre managers with the necessary guidance, training, tools, resources and information to support the discharge of their responsibilities.
- Contract files are established and structured to facilitate manager oversight with a complete audit trail that contains contracting details.

Line of Enquiry B: Oversight and Monitoring

It was expected that:

- Adequate monitoring activities are undertaken on a risk-basis in an effort to identify and correct any identified significant issues within individual contracts or systemic procedural or control framework issues.

1.3 Scope

The scope of this review included:

- Contracts and amendments completed between January 1, 2019 and June 30, 2020, in the four ESDC regional offices and the National Capital Region (NCR).

This review did not include the contracting practices under the North American Free Trade Agreement. The Office of the Procurement Ombudsman completed a review on ESDC's Procurement Practices in 2020. The review examined whether the practices were consistent with Canada's obligations under national and international trade agreements.

1.4 Methodology

Given the current COVID-19 pandemic, most of ESDC's employees are working remotely. Therefore, the review was conducted remotely. It used a number of methodologies, which included:

- Electronic documentation review and analysis;
- Virtual walkthroughs;
- Virtual interviews and email questionnaires with management and staff from the four regional offices and selected cost centre managers in the NCR;
- Data analytics; and,
- File sampling.

The approach and methodology followed the *TB Policy on Internal Audit* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards required that audits be planned and performed in such a way as to obtain reasonable assurance that the audit objectives are achieved.

2. FINDINGS

Contract Management at ESDC

The functional authority for contracting at Employment and Social Development Canada resides within the Chief Financial Officer Branch (CFOB). CFOB provides guidance, support and oversight of the procurement process through the Investment, Procurement and Project Management (IPPM) directorate. The directorate is responsible for the management of ESDC's investments, assets, departmental procurement, and project and programme management and their alignment and compliance to Treasury Board's policies and standards. One of IPPM's responsibilities and core activities is procurement management.¹ The IPPM delivers this service through several groups, including Procurement Operations, Procurement Planning and Advisory Services, Procurement Asset and Intellectual Property, Reporting and Audit and Compliance. The IPPM has created a procurement roadmap among other tools. The roadmap outlines the key responsibilities of the different parties involved in the contract management process. Cost

¹ <https://esdc.prv/en/cfob/ippm/index.shtml>

Centre Managers across ESDC are responsible for managing their contracts in accordance with the agreed terms and conditions of the contract as per Treasury Board Policy and the Financial Administration Act (FAA). Cost Centre Managers are supported by their Business Management Services groups who provide administrative support for the management of contracts and manage many of the day-to-day requirements of the contracts.

2.1 Tools and guidance to support Cost Centre Managers exist, however some additions are required and overall awareness could be improved

Guidance and Tools

The IPPM has developed clear guidance and tools to help support Cost Centre Managers understand their contract management roles and responsibilities. An Intranet site exists for Cost Centre Managers where they can find the guidance and tools as well as frequently asked questions (FAQs). The FAQs explain in detail common issues for all areas of contracting with links to the related policy, guidance and training. A toolkit was developed which includes checklists to support the Cost Centre Manager's delivery of their responsibilities. A roadmap that outlines the major responsibilities for contracting, including contract management, is available as well. In addition, Procurement Officers are available to assist Cost Centre Managers with contract management issues. Cost Centre Managers need to seek out this service.

Interview results noted that many Cost Centre Managers and their supporting Branch Management Services (BMS) employees were unaware of the intranet site and toolkit. There is an opportunity, through improved communication with Cost Centre Managers and BMS staff, to increase the efficiency of contract management. By directing Cost Centre Managers and BMS staff to the intranet site and decreasing their reliance on procurement officers for answers to common, or basic contracting questions.

The new Directive on the Management of Procurement highlights a key management responsibility, in collaboration with the contracting authority to:

- Document, share and apply lessons learned and best practices where possible

The audit team did not find guidance related to how Cost Centre Managers could carry out the documenting, sharing, or applying lessons learned. By identifying lessons learned in contract management Cost Centre Managers would be better positioned to manage their contracts in an efficient and effective manner and would be able to provide useful information to the contracting authority on the effectiveness of the contracting process.

Training

Managers must complete a number of courses that relate to procurement functions within the departmental financial management system, System Applications and Products (SAP). IPPM also hosts monthly procurement awareness sessions for new Cost Centre Managers. In addition, in the past there was a course offered to Cost Centre Managers covering contract management titled “Procurement 202: Managing Contracts.” This course is currently not offered, and was not available for assessment as part of this review. It is currently under review and is being updated.

Interviews with Cost Centre Managers and BMS staff noted that further guidance and training were needed related to the ability to identify contract management concerns/risks and manage higher risk, or complex contracts. In the absence of a defined criteria for contract risks in the guidance material, the Internal Audit team defined higher-risk contract categories as those with the potential for fraud, employee-employer relationships, conflict of interest, contract splitting and sole source contracting.

RECOMMENDATIONS:

- 1) Guidance for Cost Centre Managers and BMS staff should be updated by CFOB to include direction on the lessons learned process, and include how to: identify concerns with, and manage higher-risk or complex contracts.
- 2) A communication plan should be developed by CFOB to improve the awareness of the guidance, tools and training available to Cost Centre Managers.
- 3) Procurement training should be updated by CFOB to guide Cost Centre Managers on how the lessons learned process, and include how to identify and manage of higher-risk or complex contract.

2.2 Contract management improvements are needed to facilitate better manager oversight and information management

The Cost Centre Manager is required to establish a requirements file and maintain key documents, which support the contract management process. Elements of the required documentation are uploaded to SAP, generally supporting payment. However, other documents are typically stored on a common drive, employee drive, or filed in emails by the Cost Centre Manager, or BMS staff.

The Internal Audit team randomly selected 25 contract files and reviewed each file to determine whether contract managers managed their contracts in accordance with the agreed terms of time, cost and performance. When documentation was found, Cost

Centre Managers consistently demonstrated the proper management of their contracts in accordance with contract terms. One key area reviewed was the basis of payment for the contracts. The audit compared payment documentation to the basis of payment as identified in the contract terms. The most common basis of payment found within contracts were contractor timesheets, status updates, or final delivery of services or goods. In total, 10 files had missing documentation to demonstrate that the basis of payment was met. Some files had multiple overlapping issues, including: files with missing timesheets (4); missing status updates (5); and, missing deliverable documentation (5). The absence of this documentation means the Department did not retain evidence to support Section 34 Approval as defined by the FAA.

Interviews with Cost Centre Managers and BMS staff noted that poor document storage practices, and BMS staff turnover, were the cause of documentation issues. Employee turnover poses a further risk given the lack of a common document repository for required documentation. Currently contract documents are most often maintained in an ad hoc and unorganized manner by individual Cost Centre Managers.

Given the level of non-compliance identified by the Internal Audit team, we see an elevated FAA compliance risk that could impact the Department's ability to maintain its authority to contract if the issue is not addressed.

Interviewees expressed a desire to have a single document storage solution to address the information management problem. Interviews with BMS staff noted that they already have knowledge of SAP and if the possible, storing all required documents in SAP would be an agreeable solution.

RECOMMENDATION:

- 4) CFOB should provide cost centre managers and their supporting BMS teams with a centralized storage solution for all required procurement documentation and periodically monitor whether mandatory documentary evidence is maintained

2.3 Elements of oversight for contract management have been established, however, gaps exist

The Internal Audit team expected to find risk-based oversight mechanisms in place to proactively identify contract management issues and to determine the level of Cost Centre Manager compliance with contract management requirements.

Oversight of procurement at ESDC occurs in several different ways. A Procurement Review Committee (PRC) exists with the objective to ensure that ESDC's procurement and contracting activities are carried out in accordance with the applicable legislation,



policy and procedures, as well as considers national and departmental priorities². In addition, IPPM provides oversight through guidance, advice and monitoring of specific aspects of the procurement process. The audit team noted that, from an oversight perspective, these two groups focus their attention on the establishment of the contract and gaps exist within the oversight of contract management.

However, the audit team did not find a risk-based oversight mechanism to proactively identify contract management non-compliance or other concerns. The current process requires the Cost Centre Manager to proactively highlight concerns to IPPM in order to receive guidance on how to manage contract issues or disputes. The Internal Audit team found evidence of procurement officers providing advice in these situations. That said, in many cases the Cost Centre Manager and/or BMS staff are not aware of contract risks, or it may not be in their personal interest to bring an issue forward. Furthermore, Cost Centre Managers and BMS Staff stated that they do not feel they have sufficient knowledge, or training to recognize potential contract risks.

The Internal Audit team noted substantial compliance issues with the maintenance of payment information to demonstrate the proper management of contracts. In 10 out of 25 files reviewed, proof of the basis of payment being met was not on file for all payments. For example, not all timesheets, or status updates, which were the basis of payment were available to be reviewed by the audit team. While there is a Prepayment Verification sampling process completed by CFOB, it does not review the basis of payment supporting documents (i.e., timesheets, status updates) and therefore is not designed to find any documentary evidence deficiencies.

The audit did find that a procurement dashboard has been created which examines the contracts that have been flagged as having a risk of not meeting timelines. This dashboard could be used as a template and be expanded to include other contract management-related risks.

Risk-based oversight of the contract management process that considers both high-risk contract concerns and contract management compliance would address the oversight gaps noted and help the Department demonstrate compliance with the Treasury Board Contracting Policy and FAA requirements.

² <https://iservice.prv/eng/finance/purchasing/procurement-review-committee-tor.shtml>

RECOMMENDATION:

- 5) CFOB should develop and implement a risk-based approach to the oversight of the contract management process to support the identification and management of higher-risk contracting activities.
-

3. CONCLUSION

The review concluded that the Department has developed guidance, tools and training to support Cost Centre Manager administration of contracts in accordance with TB Policy. However, more work is required to address all major policy requirements, maintain required documentation, and communicate to Cost Centre Managers in an effective way. In addition, while oversight of the contract management process is established, gaps remain in monitoring Cost Centre Manager compliance, particularly with information management requirements.

4. STATEMENT OF ASSURANCE

In our professional judgment, the audit team gathered and analysed sufficient and appropriate evidence to support the accuracy of conclusions found in this report. The audit team based these conclusions on observations and analyses at the time of the audit. These conclusions are applicable only for the Review of Contract Management. The audit team followed the Treasury Board *Policy on Internal Audit* and the *International Standards for the Professional Practice of Internal Auditing*.

5. APPENDIX A: GLOSSARY

BMS	Branch Management Services
CFOB	Chief Financial Officer Branch
FAA	Financial Administration Act
HRC	High-Risk Contracts: contract splitting, fraud, employee employer relationships, conflict of interest and sole source
IPPM	Investment, Procurement and Project Management
PRC	Procurement Review Committee
SAP	System Applications and Products
TB	Treasury Board