



Canadian Space Agency  
Agence spatiale  
canadienne



# Internal Audit of Procurement and Contract Management

## Audit Report

**Project # 10/11-01-02**

Prepared by  
Audit and Evaluation Directorate

**March 2011**

**Canada**



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## 1.0 SUMMARY

### 1.1 Audit objective

The objective of the audit project was to determine whether a management framework is in place to ensure that contractual agreements are established in accordance with Treasury Board Secretariat (TBS) and Canadian Space Agency (CSA) policies, and that contract-related payments are authorized in accordance with delegated authorities and the *Financial Administration Act* (FAA).

### 1.2 Audit opinion

In my opinion, concerning payments associated to contracts, the entity examined is well controlled. However, concerning the management control framework in place pertaining to contractual agreements, deficiencies presenting important risks were identified.

### 1.3 Statement of assurance

As Chief Audit Executive, it is my opinion that the audit procedures applied and the evidence gathered are sufficient and appropriate to support the opinion formulated in this report. This opinion is based on a comparison of existing conditions and audit criteria established before the audit and accepted by management. The opinion applies only to the organization reviewed.

### 1.4 Summary of recommendations

Our audit showed that the CSA has implemented policies and procedures to ensure that contracts are awarded and administered in accordance with current regulations and TBS and central agency policies.

However, we found certain deficiencies that led us to formulate the following recommendations, the benefit of which will be to create a more rigorous and robust procurement management control framework:

1. Update the CSA Contracting – User’s Guide, which was published in May 2007.
2. Implement a contract quality control system;
3. Update the financial delegation instrument and monitor more closely delegated contracting authorities. Furthermore, no distinction should be made between the authority to approve contracts and the authority to sign them;
4. Implement more rigorous mechanisms for the receipt, custody, opening and recording of bids;
5. Develop standards for the content of contract files and verify that these standards are applied; and
6. Remind finance clerks that payments must be made in accordance with the basis of payments in contracts and that minor deviations must be documented. Major deviations should be corrected by the contractor, or contracts should be modified by Procurement and Contract Administration before payments are made.

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**Signature of the Chief Audit Executive**

**Member of the audit team**

Joseph Caramagno, Senior Auditor



## 2.0 AUDIT REPORT

### 2.1 Background

The Government of Canada, through its acts and regulations, has implemented a policy to monitor contracting activities carried out by the various federal departments and agencies that must contract a portion of their activities in order to deliver the various programs for which they are responsible. The purpose of this policy on public procurement is to allow goods and services to be procured and construction to be carried out in a manner that contributes to increasing the access, competitiveness and equity in the most profitable way possible or, if applicable, in the way that is most in keeping with the interests of the Canadian government and people.

This policy is based on the *Government Contracts Regulations* (GCR), which provide a legal framework for public procurement. The Regulations stipulate, among other things, that all contracts must be awarded following a competitive bid process, except in very specific circumstances. There are four such circumstances, which can be summarized as follows:

- an extremely urgent need which, if not met, would be detrimental to the public interest;
- the estimated expense is low, and it would not be economical to solicit competitive bids;
- the nature of the work is such that it would not be in the public interest to solicit bids; and
- only one person or company is capable of performing the contract.

If a contracting authority uses another reason to recommend that a contract be awarded without competition, such a contract can be awarded only through an order in council. These measures are intended to ensure access, fairness and transparency in public contract management, and to guarantee the integrity of the process leading to the awarding of said contracts.

This is why the TBS encourages and recommends that its departments and agencies post their contracting plans on an electronic message board accessible to all businesses. In this way, departments can award higher-value contracts than if they had carried out a traditional solicitation of bids and invited pre-selected companies to bid. Using such a system also ensures that the process complies with requirements regarding trade agreements.

### 2.2 Audit purpose, scope and method

#### OBJECTIVES:

The audit has two purposes: to determine whether contractual agreements are established in accordance with TBS and CSA policies, and to determine whether associated payments are approved in accordance with delegated authorities and the FAA.

#### SCOPE:

The files that were audited include the files of contracts awarded from April 1, 2009, to March 31, 2010. Furthermore, requests for payment processed between April 1, 2009, and September 30, 2010, were included in the scope of the project.

#### METHOD:

The audit involved various audit procedures, including interviews with staff, reviews of policies, directives and procedures, as well as document analyses that included a sample of 30 contract files and 35 payment transactions.

The audit criteria were established according to the best management practices, policies and directives issued by the CSA and by the central agencies, including the TBS and Public Works and Government Services Canada (PWGSC). The following list is not exhaustive:

- TBS' *Contracting Policy*, including the GCR;
- *PWGSC Supply Manual*;
- CSA Contracting – User's Guide, May 2007;
- The CSA's financial delegation instrument, signed by the Minister on February 12, 2009.

### 2.3 Findings, recommendations and management response

2.3.1 A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.

In order to ensure contractual agreements are in accordance with TBS and CSA, the CSA must integrate into its environment a management framework to guide employees. In this matter, we expected to find the following components:

- Policies, directives and guidelines of the central agencies and the CSA that are respected;
- Financial delegation control procedures that operate in accordance with the delegation of authority instrument;
- Roles and responsibilities assigned to procurement program managers that are clearly defined and applied;
- Procedures used by the Procurement and Contract Administration Sector for contracts, for the bidding process and for the public opening of bids that are appropriate; and
- Contract files kept by the Procurement and Contract Administration Sector that contain all relevant information supporting decision making.

Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.		
<b>FINDINGS</b>	Sub-criterion 1	The policies, directives and guidelines of the central agencies and the CSA are respected.
	Condition	<p>CSA’s Procurement and Contract Administration Sector must comply with the regulations, policies and directives issued by the TBS and the central agencies (such as PWGSC) which, in collaboration with the TBS, provide common services, some of which must be used by all departments. The national standing offers for 10 categories of goods and services are part of the mandatory common services.</p> <p>Furthermore, since PWGSC is the primary organization of the government apparatus to negotiate and implement contracts, its policies and directives must serve as a reference framework for the implementation of best practices in the departments that have internal procurement services. The CSA is one of the departments with such a procurement service. The CSA awarded almost \$25 million in contracts in 2009-2010.</p> <p>CSA’s Procurement and Contract Administration Sector has been delegated the authority to award contracts and modify them as required. Planned contracts that exceed the CSA’s delegated authority are forwarded to PWGSC, which negotiates the contracts on behalf of the CSA. In 2009-2010, PWGSC granted over \$125 million in contracts on behalf of the CSA. Once issued, these contracts are managed jointly by both departments.</p> <p>In order to carry out its task, CSA’s Procurement and Contract Administration Sector distributed to its internal clients in May 2007 the CSA Contracting – User’s Guide. This guide, inspired by the TBS <i>Contracting Policy</i> and the PWGSC <i>Supply Manual</i>, is the frame of reference for contracting practices.</p> <p>To verify whether these practices comply with current policies, we assembled and examined a sample of about 30 procurement files. The value of the contracts in the sample is \$4 million: 17% of the value of contracts awarded by the CSA in 2009-2010.</p> <p>The examination of the elements of the reference framework, of the interviews conducted and of the examination of the sample of files leads us to the following observations:</p>



Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies. (cont.)		
		<ol style="list-style-type: none"> <li>Some inconsistencies were found between the information contained in the instrument of financial delegation, the Contracting – User’s Guide, and the information contained in the GCR and Appendix C of the TBS’ <i>Contracting Policy</i>. Thus, the CSA Contracting – User’s Guide states that the limit for local purchases is \$5,000, while the instrument of delegation sets that limit at \$25,000. The guide also states that contracts with a value of under \$100,000 can be awarded without competition to the Canada Communication Group, while TBS offered this option only until March 7, 2002. The guide states that the CSA has the delegated authority to award printing contracts worth up to \$400,000. However, according to the GCR, printing contracts fall under the definition of goods contracts for which the CSA has been delegated authority for only \$25,000;</li> <li>In five of the 30 contracts, the start date for work was prior to the date the contract was awarded. The gap varied from a few days to several months. The largest gaps concerned software procurement. However, discussions took place with PWGSC regarding the limitations of responsibility with the companies involved. The most serious case involved the ratification of a verbal contract for work completed before a contract was awarded;</li> <li>The strategy for selecting the supplier for a directed procurement was unjustified or poorly justified in three out of 30 cases. The value of these contracts ranged from \$30,000 to over \$88,000;</li> <li>In the case of directed procurements, when a single bid was received or in the event of a modification (i.e. in 12 cases out of 19), the justification for the price was non-existent or insufficient. One of these cases involves a \$399,000 change to a contract with an initial value of \$208,325; and</li> <li>The TBS policy requires that the performance of suppliers of professional services be assessed at the end of their contracts. However, only one file out of six contracts reported such an assessment when it would have been required for the 6 contracts.</li> </ol>
	Cause	The primary causes associated with the deficiencies observed are primarily associated with a CSA Contracting – User’s Guide that is not up-to-date. The absence of systematic procurement quality control measures explains some of the deviations from the applicable policies.
	Effect	The causes identified above result in contractual risks and inadequate management of the delegated authority.
<b>RECOMMENDATION</b>	<ol style="list-style-type: none"> <li>Update the CSA Contracting – User’s Guide, which dates from May 2007.</li> <li>Implement a contract quality control system.</li> </ol>	
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	Finance Directorate
	Function	Manager, Procurement and Contract Administration



<b>Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies. (cont.)</b>		
<b>MANAGEMENT RESPONSE</b>	We agree with most of the findings (see "Details of the action plan").	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	1. Update the Contracting – User’s Guide to reflect the following findings: <ul style="list-style-type: none"> <li>a. Update to incorporate the changes associated with the new financial delegation instrument, the <i>Government Contracts Regulations (GCR)</i> and Appendix C of the <i>TB Contracting Policy</i>;</li> <li>b. Add explanations regarding the approval process to the Contracting – User’s Guide;</li> <li>c. Ensure that the guide regarding directed contracts is explicit in terms of:                         <ul style="list-style-type: none"> <li>i. reasons this type of contract is used;</li> <li>ii. information on selection strategies;</li> <li>iii. price justifications.</li> </ul> </li> <li>d. Add the reasons for changes to a contract;</li> <li>e. Add information regarding the pre- and post-contract quality control system.</li> </ul>	March 31, 2012
	2. Implement a contract quality control system. For the moment, each invitation to tender document will be assessed and approved by the technical specialist, as will the resulting contract.  Note: We wish to implement an assessment process only for the suppliers with whom we have negative experiences. This process will be implemented in order to be able to justify certain future decisions regarding these suppliers.	November 30, 2011



Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.		
<b>FINDINGS</b>	Sub-criterion 2	Financial delegation control procedures operate in accordance with the delegation of authority instrument.
	Condition	<p>The delegated authorities involved in awarding and managing contracts are derived from the FAA and are detailed in the financial delegation instrument. These authorities include, in particular, expenditure initiation, certification that the appropriations are available (FAA section 32), contract approval (FAA section 41) and certification that goods have been delivered and that services have been rendered in accordance with the terms of the contract (FAA section 34).</p> <p>The current financial authority delegation instrument is to the effect that the CSA has the authority to enter into printing contracts of \$400,000 following an electronic bidding process and of \$10,000 following a traditional bidding process. After checking, it appears that this delegation is incorrect, since, according to the GCR, printing work falls under the definition of contracts for goods for which the CSA has been delegated authority for only \$25,000.</p> <p>The review of the sample files led to the following observations:</p> <ol style="list-style-type: none"> <li>1. In four cases out of 30, the expenditure initiation or certification under section 32 of the FAA was non-compliant. Two of these cases involve pre-contract work;</li> <li>2. In two cases out of 29, the contract approval authority (FAA section 41) was or will be exceeded; and</li> <li>3. There was no deficiency in applying the delegation under section 34 of the FAA.</li> </ol>
	Cause	Regarding the contract approval authorities, the causes can be attributed to the fact that only those holding the authority ensure that they have the delegated authority and that a distinction is made between contract approval authority and contract signing authority when no such distinction is made in the delegation instrument.
	Effect	The delegated authorities at the level of employees and at the level of the CSA can be exceeded.
	<b>RECOMMENDATION</b>	3. Update the financial delegation instrument and monitor more closely the contracting authorities delegated. Furthermore, no distinction should be made between the authority to approve contracts and the authority to sign them.
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	Finance Directorate
	Function	Manager, Procurement and Contract Administration and Manager, Accounting Operations and Financial Policies



<b>Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.</b>		
<b>MANAGEMENT RESPONSE</b>	We agree with the recommendation.	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	1. Update the financial delegation instrument for printing contracts: We had discovered this error before this audit was conducted. A new delegation of financial signing authorities chart was signed by the Minister on September 14, 2010, and corrects the situation. The revised Schedule A (where we find financial restrictions for the issuing of printing contracts) which accompanies the new chart was signed by CSA’s President on December 21, 2010.	100% Complete
	2. Implement tighter control of delegated contract awarding authority: <ul style="list-style-type: none"> <li>• Remind front-line finance clerks to properly check the authority to initiate expenditures (two cases noted).</li> <li>• Give quality assurance accounting clerks the additional task of verifying contract awarding authority.</li> </ul> These actions will be explained during team meetings.	April 30, 2011
3. Communicate and explain to contract officers the distinction between the approval of a procurement plan and the authority to approve contracts and modifications. These explanations will be distributed by e-mail, in our team meetings and in the user’s guide.	April 30, 2011	



<b>Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.</b>		
<b>FINDINGS</b>	Sub-criterion 3	The roles and responsibilities assigned to procurement program managers are clearly defined and applied.
	Condition	The CSA Contracting – User’s Guide clearly defines the roles and responsibilities of program managers and of those in charge of procurement and contract administration throughout and at each stage of the process of entering into and managing contracts.  The sample file review shows that the roles and responsibilities of the various parties involved in entering into and managing contracts have been properly applied.
	Cause	N/A
	Effect	N/A
<b>RECOMMENDATION</b>	N/A	
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	N/A
	Function	N/A
<b>MANAGEMENT RESPONSE</b>	N/A	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	N/A	

Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.		
<b>FINDINGS</b>	Sub-criterion 4	The procedures used by the Procurement and Contract Administration Sector for contracts, the bidding process and the public opening of bids are appropriate.
	Condition	<p>TBS policy emphasizes that departments must ensure that sufficient management controls are applied in order to protect the integrity of the bidding process, and that these controls address the receiving, custody, opening, and recording of bids. No written procedures on this subject were available at CSA. Bids are received in the mail room and are then forwarded to the procurement service.</p> <p>The sample file review revealed the following deficiencies:</p> <ol style="list-style-type: none"> <li>1. Bids were not time stamped, and there was no signed register to record the receipt and opening of bids (seven cases out of seven); and</li> <li>2. In one case, the bids had been solicited and received by the scientific authority and not by the mail reception unit.</li> </ol> <p>We noted that, once bids were received, the assessment process was lacking in some respects (eight files out of eight):</p> <ol style="list-style-type: none"> <li>1. In two cases, the terms and conditions of the call for tender had not been complied with at the time of the assessment. For example, the assessment grid of technical data was to be compiled on 1,000 points, but was calculated based on only 650 points. Although this error did not affect the final selection, it could have been otherwise for this contract, which was valued at more than \$600,000. Furthermore, the ratings assigned did not correspond to the pre-established rating scale;</li> <li>2. In four of these cases, the assessment reports were not signed and/or the assessors were not identified;</li> <li>3. In one case, no bid solicitation document was placed on file; and</li> <li>4. In one case, a standing offer for temporary help, there was no explanation as to why the companies offering lower labour rates were not considered.</li> </ol> <p>Some observations concerning the processing of contract modifications:</p> <ol style="list-style-type: none"> <li>1. In one case out of 18, changes were made although the contract had expired two months earlier.</li> <li>2. In addition, changes adding up to over \$400,000 were made to a contract initially valued at \$208,325. The additional work was part of the initial call for bids, but had not been assessed at that time.</li> <li>3. Two other cases of modifications are also questionable.</li> </ol>



<b>Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.</b>			
	Cause	Weakened control mechanisms.	
	Effect	The integrity of the bidding and contract management processes are weakened.	
<b>RECOMMENDATION</b>	4. Implement more rigorous controls for the receiving, custody, opening, and recording of bids.		
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	Finance Directorate	
	Function	Manager, Procurement and Contract Administration	
<b>MANAGEMENT RESPONSE</b>	We agree with the recommendation.		
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan		Timetable
	1. Implement a rigorous official mechanism for the receiving, custody, opening, and recording of bids.		June 1, 2011
	2. Send an official communication to all employees to emphasize the importance of accurate assessments according to the criteria of the request. At the same time, officers and clients will be reminded of the importance of following the bid assessment procedure (from receipt to signature).		March 31, 2011
	3. Involve Legal Services in all sensitive files to obtain their written opinion and thereby ensure proper management of contract risks.		March 31, 2011



<b>Criterion 1: A management framework is in place to ensure that contractual agreements are established in accordance with TBS and CSA policies.</b>		
<b>FINDINGS</b>	Sub-criterion 5	The contract files kept by the Procurement and Contract Administration Sector contain all relevant information supporting decision making.
	Condition	Of the 30 contract files reviewed, 23 did not contain sufficient documentation to provide a complete audit trail. The primary deficiencies observed concerned the following: <ul style="list-style-type: none"> <li>• no recording of the opening of bids,</li> <li>• incomplete bid assessment reports,</li> <li>• no justification of prices,</li> <li>• no excerpts from the standing offers to justify prices and financial limitations for subsequent orders; and</li> <li>• no documentation regarding the performance evaluation of professional services contractors.</li> </ul> It should be noted that one procurement file could not be traced.
	Cause	Contract officers are solely responsible for ensuring that all relevant documentation is placed in their contract files.
	Effect	The contents of the files processed by the officers are not uniform from one officer to the other. The lack of documentation could, in some cases, prevent the Agency from being able to respond to Access to Information requests.
<b>RECOMMANDATION</b>	5. Develop standards for the content of contract files and verify that these standards are applied.	
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	Financial Services Directorate
	Function	Manager, Procurement and Contract Administration
<b>MANAGEMENT RESPONSE</b>	We agree with the recommendation.	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	1. Establish a checklist to identify all documentation required for procurement files; 2. Implement a random quarterly audit of procurement files at the Canadian Space Agency; this audit will be used to identify weaknesses associated with contract awarding procedures. Following these audits, contract officers will be individually met with to initiate corrective action and to provide the explanations required to comply with the laws and regulations of the Treasury Board. Furthermore, this process will be used to establish the entire team’s training needs.	



**2.3.2** Contract-related payments are authorized in accordance with delegated authorities and the FAA.

In order to ensure compliance with FAA related to payment, the CSA must integrate into its environment a management framework to guide employees. In this matter, we expected to find the following components:

- Procedures exist to ensure that goods have been delivered, services have been rendered and work has been carried out in accordance with the terms and conditions of the contract ;
- Controls are in place to determine whether the price paid matches the terms and conditions of the contract; and
- Payment procedures comply with the FAA.

Criterion 2: Contract-related payments are authorized in accordance with delegated authorities and the FAA.		
<b>FINDINGS</b>	Sub-criterion 1	Procedures exist to ensure that goods have been delivered, services have been rendered and work has been carried out in accordance with the terms and conditions of the contract.
	Condition	Interviews were conducted with procurement and finance staff. Payment verification procedures were obtained and analyzed. Responsibilities are clearly established among the various stakeholders regarding the receipt of and payment for goods and services. The requirements regarding sections 33 and 34 of the FAA are specified, and the controls ensure that the terms and conditions of the contracts are met.
	Cause	N/A
	Effect	N/A
<b>RECOMMENDATION</b>	N/A	
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	N/A
	Function	N/A
<b>MANAGEMENT RESPONSE</b>	N/A	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	N/A	



Criterion 2: Contract-related payments are authorized in accordance with delegated authorities and the FAA.		
<b>FINDINGS</b>	Sub-criterion 2	Controls are in place to determine whether the price paid matches the terms and conditions of the contract.
	Condition	<p>The documentation provided and the interviews conducted with the Accounting Service show that procedures are in place to ensure that the prices paid match the terms and conditions of the contracts. The verifications in this respect are carried out jointly by finance clerks in the operational sectors and the central accounts payable service.</p> <p>However, the review of sample payment transactions showed that, in some cases, the prices paid were not entirely in accordance or could not be reconciled with what appeared in the basis of payments of the corresponding contracts.</p> <p>In one case, resources invoiced in March-April 2010 were not added to the contract until July 2010. In another case, three categories of labour did not appear in the basis of payments of the corresponding standing offer.</p>
	Cause	N/A
	Effect	The terms and conditions of contracts may not be complied with and thus result in excess payments.
<b>RECOMMENDATION</b>	6. Remind finance clerks that payments must be made in accordance with the basis of payments in contracts and that minor deviations must be documented. Major deviations should be corrected by the contractor, or contracts should be modified by the Procurement and Contract Administration Sector before payments are made.	
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	Finance Directorate
	Function	Manager, Accounting Operations and Financial Policies
<b>MANAGEMENT RESPONSE</b>	We agree with the recommendation.	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	Remind finance clerks during a team meeting.	April 30, 2011

<b>Criterion 2: Contract-related payments are authorized in accordance with delegated authorities and the FAA.</b>		
<b>FINDINGS</b>	Sub-criterion 3	<b>Payment procedures comply with the FAA.</b>
	Condition	Other than the observations cited under sub-criterion 2, the payment procedures comply with the requirements of the FAA and, in all cases, employees carrying out certification activities in accordance with section 33 of the FAA were authorized delegates.
	Cause	N/A
	Effect	N/A
<b>RECOMMENDATION</b>	N/A	
<b>RESPONSIBILITY IDENTIFIED</b>	Organization	N/A
	Function	N/A
<b>MANAGEMENT RESPONSE</b>	N/A	
<b>MANAGEMENT ACTION PLAN</b>	Details of the action plan	Timetable
	N/A	