Veterans Affairs
Canada

Anciens Combattants
Canada

December
2020

AUDIT OF PROCUREMENT

Audit and Evaluation Division

Canada

Acknowledgements

TABLE OF CONTENTS

1.0   BACKGROUND

The objective of government 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 or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people[1].

Veterans Affairs Canada (VAC) spent over $80 million on procurement activities in the 2018 calendar year. The department is trending upwards in procurement spending with over $57 million in activities in 2017 and over $51 million in 2016. Contracting and procurement is subject to extensive policy and reporting requirements. The Treasury Board (TB) Contracting Policy (2019) is the principle authoritative reference for government contracting activities. It outlines general policy and procedural requirements, rules for bidding and selection, contract award requirements, reporting requirements, legislative references and definitions.

Contracting is continually modernizing with several important change initiatives including a focus on social procurement, Open Data Canada reporting requirements, changes in departmental spending authorities, and electronic modernization of tools and practices.

VAC employs a variety of contracting and procurement mechanisms, including, but not limited to, competitive contracts, call ups against standing offers, non-competitive contracts, professional and temporary help service contracts, and purchase orders for goods. Contract requirements that are outside of VAC's authority are sent to Public Services and Procurement Canada (PSPC) or Shared Services Canada (SSC) for processing.

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[1] TBS Contracting Policy, Policy objective, Nov 1, 2006 (being updated Oct 11, 2019)

2.0   ABOUT THE AUDIT

Audit Scope and Objectives:

The objective of the audit was to assess whether the VAC contracting unit had effective systems and adopted good management practices to ensure that goods and services were managed and coordinated efficiently to meet the department's needs.

The scope of the audit included a review of performance data, initiatives, and best practices related to the contracting function at VAC. The audit covered performance data and initiatives from April 1 2016, to December 31, 2019.

The following areas are excluded from the audit:

- Compliance with internal and external policies and procedures.

- Fraud examination.

Scope Limitation:

Due to limitations in obtaining data from other departments as a result of the COVID-19 pandemic, the audit team was unable to do a workload and resource utilization analysis as a benchmarking exercise.

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence. This audit was conducted in conformance with 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.

Additional information including the audit criteria and methodology are provided in Appendix A.

3.0 AUDIT RESULTS

3.1 – Guidance & Training

The Treasury Board (TB) Contracting Policy (2019) is the principle authoritative reference for government contracting activities. It outlines general policy and procedural requirements, rules for bidding and selection, contract award requirements, reporting requirements, legislative references, and definitions.

VAC's contracting team is provided guidance from their counterparts at Public Service and Procurement Canada[2] (PSPC). PSPC offers procurement services to nearly 140 departments and agencies to supply goods and services to Canadians. The contracting specialists are there to assist VAC's contracting staff as subject matter experts.

In performance of their duties, the contracting team also utilizes guidance from the contracting manager. The team is small and able to work closely to address issues and challenges as they arise in real time. Open communication between management and staff allows this collaboration to work effectively.

The delivery of contracting activities across VAC is supported by established roles and responsibilities for all staff. Reporting lines are clearly defined, communicated, and supported by an organizational chart which outlines the reporting structure within the department. Interviews and the 2019 Public Service Employee Survey[3] indicated that roles and responsibilities for VAC's contracting activities are clear, documented, and staff are aware of their respective duties.

Contracting Staff Training

In order to deliver on organizational needs and activities as well as to perform related responsibilities properly, training is important in a complex and heavily regulated workload. Contracting specialists require base mandatory training along with ongoing training due to increasing complexity of contracts, newly developed procurement vehicles such as mandatory supply arrangements, and any new initiatives such as accessible procurement. Sufficient training for contracting specialists contributes to VAC's ability to provide services, ensure compliance, and deliver a well-designed

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[2] PSPC: https://www.tpsgc-pwgsc.gc.ca/comm/index-eng.html
[3] Public Service Employee Surveys allow the federal public service to identify what it is doing well and what it could be doing better to ensure the continuous improvement of people management practices in government. Note: the audit team examined the responses from contracting specialists.

program. Mandatory courses for employees working in the contracting function are outlined and determined by the Treasury Board Directive on Mandatory Training.

The audit team conducted an analysis of mandatory training below:

Table 1: Analysis of Mandatory Training for Contracting Specialists

Training	Completed*	Registered
M500 (formerly M718) - Introduction to Procurement	6	0
M501 (formerly M718) - Introduction to Procurement	5	1
C218 Orientation to Public Service	6	0
C233 Overview of Material Management	4	2
C234 Overview of Real Property Management	3	2
M714 Legal and Policy Environment for Procurement, Material Management and Real Property	5	0
Analysis of Finance Divisions IBP (Integrated Business Plan) provided additional evidence of this finding. ** This analysis was conducted for the 6 Purchasing and Supply Group (PG) contracting specialists employed in VAC HO*		

The audit team observed hands-on training provided by PSPC staff on Accessible Procurement. This training was delivered in-person to all contracting specialists at VAC's Head Office which allowed for more interaction and collaboration with PSPC subject matter experts.

Cost Centre Management Training:

The contracting unit works closely with VAC managers who request contracts. It is important for managers with these responsibilities to a have clear understanding of the contracting process and related requirements. The Canada School of Public Service (CSPS) offers several online courses to VAC managers on contracting in the Federal Government of Canada.

In addition to CSPS online training, VAC's contracting function provides training and information sessions on an ad-hoc basis to VAC managers and administrative staff. Overall, in 2019, four sessions were held for executive and administrative assistants, two sessions for project authorities/project managers, and one session for staff in Kirkland Lake. 113 people had attended these seven training sessions (76 Executive and Administrative Assistants, 37 Project Managers/ Authorities). Interviews and auditor's observations at procurement information sessions revealed VAC staff were supported in their interactions with contracting specialists.

VAC managers and other contracting clients emphasized the importance of maintaining contacts with the contracting unit. VAC staff also raised concerns about how contracting specialists turnover can lead to disruption which will affect their ability to efficiently obtain contracting advice and services.

3.2 - Workload Levels

The audit team defined the workload of the contracting unit as the amount of new contracts processed between April 1, 2016 and March 31, 2019. The unit consists of 6 contracting specialists and engages in various activities including providing ongoing advice and guidance, contract amendments and quality assurance, which originate from the processing of new contracts for a variety of commodities.

According to Chart 1, the overall number of contracts processed has remained consistent, which suggests the workload of the contracting unit is generally stable. Comparing the 2016-17 and 2018-19 fiscal years, it was determined total number of new contracts were similar in volume. Subsequent analysis revealed that new contracts over $25,000 more than doubled in the 2018-19 fiscal year compared to the two previous fiscal years (2016-17 and 2017-18) which points to an increase in workload for contracting specialists during this period.

Generally, contracts over $25,000 require a greater level of effort to process than lower value contracts as they are more complex in nature. According to interviews with subject matter experts (SME's), higher dollar value contracts necessitate more innovative approaches, ongoing development and in-depth evaluation in addition to solicitation methods that require tailoring to meet TB policies and guidelines. These contracts also pose a higher risk which require additional monitoring to mitigate.

Chart 1: Number of New Contracts by Fiscal Year
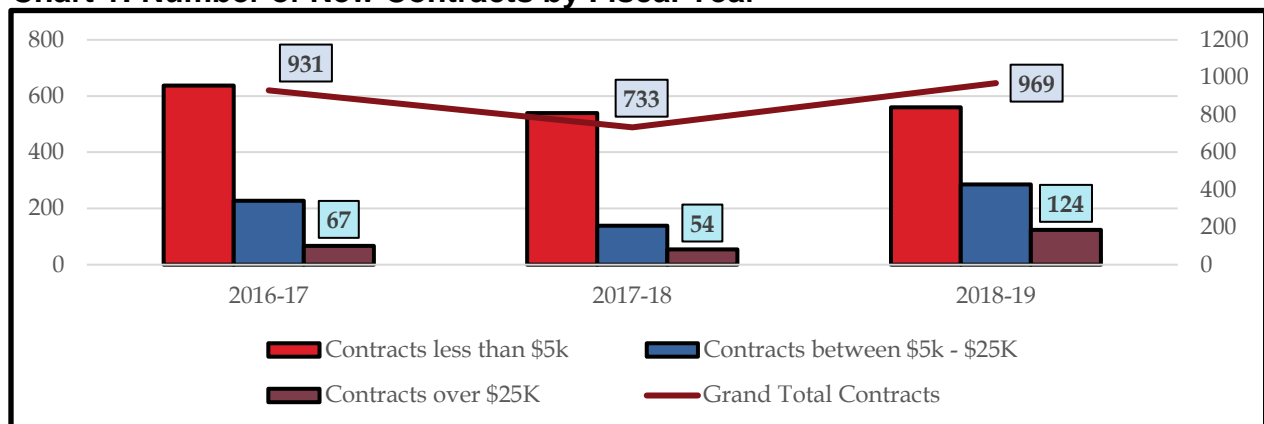
Note: Contract classification occurs to the original contract amount in this table.

SME's indicated that technology makes contracting more efficient through automation, decreasing the administrative burden for contracting specialists. This allows contracting specialists to focus their time and efforts on processing and awarding contracts.

3.3 - Best Practices and Benchmarking VAC's Performance

The audit team explored best practices in Federal Government contracting through discussions with PSPC senior managers, a regional manager, and others with contracting expertise. VAC's contracting unit has a good reputation and working relationship with PSPC. These SME's suggested to the audit team that measures of efficiency for a departmental contracting function include increasing use of standing offers/supply arrangements and working to the full extent of their authority. The audit team examined VAC's performance in these two specific areas with the results described in the sections below.

Standing Offers / Supply Arrangements (SOSA)

Standing offers and supply arrangements are two methods frequently used by government departments and agencies to buy goods or services. A standing offer (SO) is an offer from a potential supplier to provide goods and/or services at pre-arranged prices, under set terms and conditions, when and if required. Supply arrangements (SA) include a set of predetermined conditions that will apply to bid solicitations and resulting contracts. It is important that VAC leverage SOSAs because a significant level of time, effort, and cost has been invested by the Crown and the prequalified suppliers in the development and implementation of these procurement vehicles.

Analysis of the use of SOSAs determined that VAC is trending with other departments and has substantially increased the rate at which they are using this contracting method. From 2016-17 to 2017-18, VAC increased its utilization of SOSAs by 48%, which points to increased contracting efficiency. The audit team's benchmarking exercise suggests positive performance for VAC against these measures.

Table 2: Percentage of New Contracts with Supply Arrangements/ Standing Offer number(s).

Fiscal Year	2016-17 [4]	2017-18	2018-19	2019-20*	All years**
VAC	14%	62%	53%	47%	44%
All Gov't Depart	33%	46%	51%	49%	45%

Limitation: Includes contracts valued at $10,000 or more only. Due to summarization on Open Data Canada, standing offer/supply
(*) – YTD is to December 31, 2019
**Average of all contracts from 2016-17 to 2019-20 valued at $10,000 or more.

Maximizing Departmental Authority

Departmental authority is the responsibility of a department to process its own contracts. Contracts that fall within a certain threshold are processed internally and the threshold for soliciting bids is different for goods and services. PSPC has delegated $25,000 in goods purchasing authority to VAC for both competitive and non-competitive contracts. Effective June 10, 2019, departmental authority for non-competitive service contracts was increased from $25,000 to $40,000, and competitive service contracts from $2,000,000 to $3,750,000 encouraging departments to process more contracts within their Departmental Contracting Authority.

The audit team would expect to see an increase in the percentage of new service contracts managed by VAC during the 2019-20 fiscal year as a consequence. The audit determined that VAC maximized its delegated contracting authority in all cases for new service contracts.

3.4 – Quality Assurance

Quality assurance (QA) is a set of activities for ensuring accuracy and consistency in each stage of the contracting process. The goal is to improve development and test processes, so that errors and discrepancies do not arise when the contract is being awarded. Due to the highly regulated landscape of contracting, the audit team expected to see a robust QA process to mitigate the risk of contracting errors.

VAC's contracting function undergoes a formal 4 stage quality assurance process when awarding contracts. Requisitions and supporting documentation are carefully reviewed to ensure all necessary documentation and approvals are provided by procurement assistant(s), prior to the contracting specialist(s) reviewing the file and recommending the appropriate contracting strategy. The contracting specialist prepares this in

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[4] The policy was introduced regarding Supply Offers and Supply Arrangements in 2016-17.

consultation with a senior procurement advisor, as well as with Privacy and Information Management. In addition to these processes, contracting specialists and senior procurement advisors will often peer review contracting files to ensure that it is processed appropriately. For service contracts in excess of $10,000 a summary is submitted to the Contract Review Board (CRB) for their review and approval. The CRB is chaired by multiple senior managers at VAC, who have the collective goal of acting as an objective body in order to maintain a strong challenge function on contractual proposals processed through the contracting unit.

VAC's QA process relies on the manager of the contracting unit to review files in order to ensure that the proposed contracting strategy is appropriate and in accordance with Government Contracting Regulations, Treasury Board's Contracting Policy, all applicable Trade Agreements and best contracting practices as defined by PSPC. The audit team noted that VAC's QA process is manual in nature and has the potential for human error. During fieldwork the audit team observed some minor administrative errors in some of VAC's contracts.

Recommendation 1 (Essential):
It is recommended that the Director of Financial Operations enhances the existing quality assurance process by leveraging technology to mitigate the risk of anomalies, inconsistencies and errors in VAC contracts.

Management Response:

Finance Division agrees with the recommendation. The Department is onboarding to a new Enterprise Resource Planning (ERP) system, SAP, on April 1, 2021, which will have additional functionality available that the Finance Division will leverage to improve the quality assurance and control processes for contracting.

Target Date: December 31, 2021.

3.5 - Tools

Tools provide consistency, ease of training, increase productivity, and can assist staff in their day-to-day responsibilities. The audit team assessed VAC's contracting units tools which they use to manage their workload. These include:

- **Microsoft Excel** used to group, track, and assign contracts to contracting specialists;

- **FreeBalance (FB)[5] financial reporting software** used to track aspects of contracts such as commitment of funds;
- **Electronic mailbox** monitored daily and used by all VAC staff for questions or requests relating to contracting;
- **Standardized tools and templates from PSPC and Treasury Board** (TB)[6] used whenever possible to help facilitate work and ensure consistency across VAC; and
- **The Manager's Reference Guide to Procurement and Contracting** used by VAC managers is available electronically through the departmental intranet. The guide is dated 2012 and requires updating.

Recommendation 2: (Essential)

The Director of Financial Operations should update *The Manager's Reference Guide to Procurement and Contracting* to provide VAC contracting specialists and staff with the most current information to perform their contracting duties.

Management Response:

Finance Division agrees with the recommendation. The Manager's Reference Guide will be updated with information sessions offered to keep staff informed of the latest updates.

Target Date: April 30, 2021

Workload Management Tools

Workload management is the process of efficiently distributing and managing work. Specialized tools provide the opportunity to continuously improve, digitize, automate, integrate and re-engineer existing contracting processes. These tools enable senior management to make informed decisions regarding future staffing and budget requirements, leverage performance measurement data collected, and expand reporting activities to include strategic analysis of this information. Interviews and walkthroughs with SME's indicated that workload management software packages are being used in many government departments (Federal, Provincial, Municipal).

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[5] FreeBalance is VAC's core financial system which provides the department's financial budget, procurement, expenditure and reporting capabilities including departmental and/or central agency requirements.
[6] TB: https://www.canada.ca/en/treasury-board-secretariat.html

VAC's contracting unit employs an Excel spreadsheet as their primary workload management tool to track and assign contracts to contracting specialists. Performance measures and indicators should be established and used for decision making. The development of performance standards would provide the contracting unit's clients with key milestones and dates.

The unit holds regular meetings with staff in order to address issues and challenges, and utilizes FreeBalance financial reports relating to contracts; in addition, they use the departmental look ahead report to monitor the receipt of requisitions and award of contracts. The current suite of tools does not allow the manager of the contracting unit to assess the function's workload in real time. This leads to limitations in reporting which has prevented VAC from developing performance standards and restricts the unit's ability to innovate and optimize their processes.

Recommendation 3 (Essential):
It is recommended that the Director of Financial Operations implements electronic tool(s) to augment the existing workload management capabilities of the contracting unit, including the expansion of performance monitoring and reporting and the development of performance standards.

Management Response

Finance Division agrees with the recommendation. Finance is leveraging the available SAP functionality to improve workload management capabilities but will also identify the overall requirements and the viable options for a comprehensive workload management process and system in order to identify a solution(s) and integrate this into planning and priorities moving forward. Finance will also leverage SAP functionality to expand performance monitoring and reporting capability and will develop appropriate performance standards.

Target Date: April 30, 2022.

3.6 - Audit Opinion

Based on the findings above, the audit team found that systems were generally established and operating as intended with areas of improvement noted with respect to guidance, tools and quality assurance. Overall, the audit team determined the results to be "Generally Acceptable".

Appendix A - Audit Criteria

The Audit of Procurement was identified in the 2019-2021 annual Risk Based Audit Plan (RBAP).

Objective	Criteria	Sub Criteria
1. To assess whether the VAC contracting unit has effective systems and adopted good management practices to ensure that goods and services were managed and coordinated efficiently to meet the department's needs.	A. Systems and procedures are in place to deliver efficient and timely services;	1. A Employees are provided with the necessary training, guidance and tools to execute their procurement responsibilities.
	B. Management have identified good practices and successfully implemented initiatives to improve service delivery efficiency.	1.B. Determine whether VAC's Procurement Function's operational efficiency performance meets benchmarks, standards, or key performance targets.

* The audit team confirmed that all of the above criteria were met unless otherwise stated in this audit report.

Appendix B - Methodology

Methodology	Purpose
Interviews	• Interviews were conducted with various stakeholders (VAC staff, senior management, PSPC contracting specialists, and contracting specialists from other government departments) to discuss challenges, tools, skills, best practices and innovative approaches related to procurement practices in the Government of Canada.
Document Review	• Documents were reviewed to determine the framework for the procurement function in the Government of Canada. • Previous audits of procurement from other organizations were reviewed to look for innovative approaches or other comparators in terms of timeframes and processes. • Documents related to procurement training, tools, and best practices were reviewed and analysed for potential adaptation to VAC's procurement function.
Direct Observation	• Direct observation was conducted of VAC's procurement processes and procedures to observe the steps, systems, tools and approaches in the procurement function.
Benchmarking (assess relative efficiency and identify areas for improvement).	• Interviews were conducted with subject matter experts to identify benchmarking organizations and to review procurement practices and process, including innovation and effective procurement strategies.
Data Analysis	• Contracting data was reviewed for trend analysis and indicators of efficiency.