



Public Works and  
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Canada

Travaux publics et  
Services gouvernementaux  
Canada

Audit and Evaluation  
Branch

Direction générale de la  
vérification et de l'évaluation

Canada

**2004-727**

**Follow-up to HC Management Letter on FCH Service Contract  
Final Report**

2006-09-08

## **Authority for the Project**

This audit was approved by the departmental Audit, Assurance and Ethics Committee (AAEC) as part of the 2005-06 Audit Plan. The Terms of Reference were approved by AAEC on May 25, 2005.

## **Objectives**

The objectives of this follow-up audit were to:

- validate the preliminary findings documented in the management letter from Health Canada's Audit Operations (HC) to PWGSC's Internal Audit Services Directorate (IASD) on the First Canadian Health (FCH) service contract; and,
- undertake a supplemental report and revised management action plan, if required.

This type of follow-up audit is important to ensure an accurate and integrated Government of Canada perspective, and to demonstrate PWGSC's due diligence in reviewing any opinions raised by other government departments, and documenting the conclusions and any actions taken, as required.

## **Background**

In October 2003, the Deputy Minister, PWGSC, directed that an Audit of Contract Administration be undertaken to examine the FCH contract that had exceeded its award value. The audit was completed by January 2004, in order to assist HC and PWGSC in meeting a Treasury Board Secretariat's requirement.

On July 08, 2004, Audit and Evaluation Branch (AEB), PWGSC presented the report on the Directed Audit of First Canadian Health's service contract (2003-731) to AAEC. Draft copies of the report had been validated with PWGSC's Acquisitions Branch in January 2004. As well, in March 2004 the report was shared with Health Canada's Program Management with comments requested by June 2004.

In August 2004, PWGSC's Acquisitions Branch (AB) prepared an action plan responding to the audit's recommendations. In accordance with the departmental Management of Action Plan process, the Acquisitions Branch prepares a quarterly update of the status of the implementation of its actions. AEB reviews the information and presents it to AAEC. As of May 26, 2006, AB Management asserted that the actions to the audit's eight recommendations were as follows: five are fully implemented, two are substantially implemented, and one is initiated and ongoing given that the contract is in force until 2007.

In February 2004, HC initiated a project using Consulting and Audit Canada (CAC) resources to review all aspects related to the administration of the contract. The objectives of the project were to: assess and report on major difficulties and contract administration issues involving FCH, HC, and PWGSC during the course of the contract; and, identify lessons learned and recommend corrective measures to better manage the current contract and its renewal.

On November 25, 2004, HC provided a copy of its draft report to AEB. PWGSC had concerns with the report because of the accuracy of the information and of the mandate of HC to direct the operations of another department. At a December 20, 2004 meeting, there was an agreement to separate the findings of the draft final report into two time periods – pre-contract award and post-contract award. HC and PWGSC also agreed that validation of the observations related to pre-contract award would be the responsibility of PWGSC and those observations on post-contract would be validated by Health

Canada's Program Managers. The parties also agreed that HC would communicate the applicable observations and working papers to IASD through a Management Letter.

On January 21, 2005, IASD received the HC Management Letter dated January 12, 2005, which contained twelve (12) preliminary findings.

## Scope

The follow-up audit focused on procurement and management practices from the time the previous audit (2003-731) ended to the spring of 2005. The follow-up included discussions with the Procurement Manager and Officer and a review of procurement and contract administration documents from PWGSC's records.

## Work Performed

The Internal Audit Services Directorate Auditor (IA) approached the validation of the information contained in the HC Management Letter with the premise that while an auditor's opinion is a matter of judgment it must be supported by evidence. IA assumed that if an auditor or expert has been unable or precluded from obtaining and evaluating sufficient, reliable evidence then he/she would be faced with the situation of formally communicating a denial of opinion and/or the possibility of issuing a qualified opinion on those matters for which insufficient evidence existed.

In preparation for the validation of the preliminary findings, and as agreed at the December 20, 2004 meeting, IA requested the relevant CAC working papers that supported the opinions stated in the HC Management letter. The CAC Principal Consultant advised IA that all relevant documents could be found in the FCH contract files.

This engagement was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors' Professional Practices Framework that require internal auditors to have sufficient and appropriate evidence and analysis to support their conclusions and engagement results.

To validate the twelve preliminary findings, IA examined the contract documents that were included in the working papers of the previous audit (2003-731). These documents included, but were not limited to the: Request for Proposal; Statement of Work; Contract; independent review of the contract by a consultant hired by IASD; copies of documents from 1995 to 2005; interviews with Procurement officers; and departmental comments to earlier CAC draft reports on FCH. IA then prepared its own observations based on this work and consulted with the applicable PWGSC Acquisitions Branch Procurement Manager and Director General to ensure that the observations were accurate. Additional information regarding the evaluation process was sought from a PWGSC Cost Analyst. In validating its own observations, IA also considered whether further departmental actions were required.

On June 6, 2005, IA provided CAC a May 31, 2005 draft follow-up report. The follow-up report summarized IA's own observations, which were not consistent with CAC's preliminary findings. In its July 04, 2005 response, CAC stated that the: "examination of the FCH contract by CAC was not done through a formal audit, but took the form of a general review as per HC assigned mandate". Their position was that the preliminary findings and opinions, as stated in the HC Management letter, remained valid.

[\*]

## Observations

Of the twelve (12) preliminary findings, contained in the HC Management Letter, four dealt with observations already resolved by Acquisitions Branch; three dealt with information found in PWGSC files; and five dealt with escalation provisions.

The four (4) preliminary findings that had already been resolved by Acquisitions Branch in response to the earlier audit report (2003-731) were:

- Priority of document clause in contract.
- Statement of Requirement variance with contract.
- Compliance with contract conditions for security.
- Compliance with contract condition for Set-aside provision.

The three (3) preliminary findings that reported a lack of information in Health Canada Operation's contract files were resolved, given that IA had already obtained the information as part of its working papers for the previous audit (2003-731). These were:

- Clarification of information from bidder's conference.
- Legal name change.
- Consent to subcontract.

The remaining five (5) preliminary findings supported an opinion that bids with escalation provisions in discretionary project pricing, which was not part of the bid evaluation, should render the bids non compliant with the Request for Proposal's requirements. [\*]

## Conclusion

The twelve preliminary findings contained in the HC Management Letter have been addressed by PWGSC, either through actions already implemented, documentation identified, or through [\*]. Therefore no supplemental report to the previous audit report (2003-731) or revised management action plan is required.

## Recommendation

Audit and Evaluation Branch recommends no further action for Acquisitions Branch.

### Audit Team Member :

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