



## **SIX-POINT DEPARTMENTAL ACTION PLAN**

An internal audit of the A.T. Kearney service contract that PWGSC undertook identified areas in the Department's procurement and project-management activities that require improvement. PWGSC has taken careful note of the audit observations and agrees with the recommendations.

Management is also aware of a number of related areas not covered by the scope of the audit that need to be strengthened. Consequently, the Department has prepared a comprehensive action plan to not only address the audit recommendations but also to deal with the related areas that need to be strengthened. Specifically, departmental initiatives in quality assurance and new procurement strategies and tools are intended to complement the specific actions being taken in response to the internal audit findings.

### **1. Creation of an Oversight Committee to Review PWGSC Requirements**

PWGSC is establishing a Procurement Oversight Committee to review large or sensitive procurements where PWGSC is both the client and the contracting authority. The Committee will be chaired by the Associate Deputy Minister and membership will include the Chief Financial Officer, the Senior General Counsel, and the Chief Risk Officer, in addition to those Assistant Deputy Ministers whose operations regularly involve large or sensitive procurements. Its mandate will be to provide guidance on procurement strategies, address risks and other issues at an early stage, track progress and results, and make recommendations to the Departmental Policy Committee, chaired by the Deputy Minister. The committee will constitute an important aspect of the Department's exercise of due diligence to ensure that internal procurements are subject to the same compliance frameworks and scrutiny applied to procurements done on behalf of external clients. All decisions and recommendations will be documented and the Minister will be briefed regularly on these. The scope of items for the Committee's review is currently being reviewed and will be finalized by June 30.

### **2. Post-Payment Verification (Finance)**

The internal audit report states that, although PWGSC's current post-payment verification process does identify non-critical errors, such as early payments made before the 30-day standard payment term, it does not flag them for immediate correction. To rectify this oversight, the Chief Financial Officer will ensure that, when non-critical errors are found during the post-payment verification of invoices, PWGSC will inform line management staff about these errors when it would help to prevent them from recurring.



### **3. Review of *Supply Manual* and *Standard Acquisition Clauses and Conditions Manual* (Procurement)**

The audit noted the need to provide clear instructions to procurement officers regarding the selection of appropriate audit clauses to be included in the contract. PWGSC is reviewing both the *Supply Manual* and the *Standard Acquisition Clauses and Conditions (SACC) Manual* in consultation with key groups, including Legal Services, Cost Accounting, Contractual Risk, and Quality Control, to make sure they contain clear instructions to procurement officers and clear and consistently worded clauses. The Department notifies its contracting staff of any changes to the manuals on a quarterly basis. The Contract Quality Control group will monitor proper application of SACC clauses as part of its regular reviews.

### **4. Human Resource Management Plan and Other Initiatives**

As a result of the audit and other reviews undertaken by management, the Department has recognized the need to strengthen the human resource capacity for procurement activities. In an effort to improve its overall effectiveness, Acquisitions Branch is finalizing a robust human resource management plan that will contribute to the improvement of the overall quality of the services provided by the Branch.

In addition, Acquisitions Branch is further developing strategies dealing with Commodity Management, Client and Supplier Engagement, Business Process Re-engineering, Green Procurement, and Legislative and Policy changes and Military Procurement (streamlining).

### **5. Strengthening of the Acquisitions Branch Quality Assurance System**

Acquisitions Branch has embarked on an ambitious plan to strengthen its Quality Assurance System.

The Branch has initiated a number of projects to strengthen Contract Quality Assurance with the assistance of various stakeholders. For example, the Branch has created standard Request for Proposal (RFP) and Request for Standing Offer (RFSO) templates. The mandatory use of templates for low-dollar value and medium complexity requirements came into effect in June 2005; the template for RFSOs came into effect in August 2006; and the template for high complexity requirements came into effect on May 25, 2007. Departmental standard procurement templates to meet sector-specific situations will be developed in the second quarter of this fiscal year (2007–2008).

### **6. Ongoing Communication with Contracting Staff (Procurement)**

The Department will enhance efforts to ensure ongoing communication with staff to make them aware of their roles and responsibilities in managing contracts.

In January 2007, PWGSC sent an e-mail to its contracting staff reminding them that:

- they must use appropriate contracting clauses and, since specific clauses only apply under certain circumstances, they must consult with their managers or Legal Services to determine whether they should include any questionable clauses in procurement documents;
- when using PWGSC standard procurement templates, they must validate whether a clause applies and, if a clause does not apply to a specific procurement situation, they must delete the clause; and
- when contracts require the contractor to provide documents such as reports and invoices, they must review the documents as part of their contract-management responsibilities and must ensure that appropriate action is taken, in the event of non-compliance.

In April 2007, PWGSC also reminded its Directors General and Regional Directors General about the bid solicitation review process and the use of a checklist. In addition, in April 2007, PWGSC developed a detailed action plan to address quality-assurance issues for solicitation (bidding) documents and procedures, which was shared with senior management, Directors General, and Regional Directors General.

## **Background**

In September–October 2006, at the request of the Deputy Minister, PWGSC’s Internal Audit group carried out an audit of the contract related to Business Transformation Initiative for which A.T. Kearney was the Contractor.

At the same time, the Cost Audit group of Audit Canada undertook an examination of A.T. Kearney’s records using specified audit procedures.

The internal audit examined the records of PWGSC, while the cost audit focused on the records of the Contractor.

Both of these examinations are now complete. The internal audit report was approved by the Audit Committee on May 18, 2007; the cost audit report was delivered to Acquisitions Branch on June 22, 2007. The results of the cost audit report are being communicated to management via a management letter and a formal report.

In keeping with PWGSC’s internal guidelines, the internal audit report will be posted on the Web site by June 27, 2007. Because of *Access to Information Act* requirements, the contents of the cost audit report are not posted on our Web site.

## ***Internal audit report***

The internal audit examined the overall planning and management of the contract awarded to A.T. Kearney. In particular, it looked at compliance with government authorities, financial controls, and the reporting of results. The audit also examined the contract for examples of results achieved to date and requirements under the contract such as knowledge exchange. The period under review of the audit was from contract award in November of 2005 until October of 2006.

## ***What was found***

The audit report noted the following:

- The Department received benefits and made important progress on Procurement Transformation, and obtained government-wide savings during the period under review.
- Contracting and financial authorities were generally observed. PWGSC did not over-expend its financial authority under the contract.
- The initial contract period was for four years, with three option-year extensions. For operational reasons, the contract was reprofiled and the total funding was expended in one year.
- The advice of oversight groups such as Legal, Finance, or Risk was not sought, proper risk identification was not carried out, and the required risk mitigation strategies were not employed.
- Due diligence in the exercise of effective project management and controls was not demonstrated. Some project responsibilities, such as planning, monitoring, and reporting, were assumed by the Contractor.
- Task authorizations were approved as a shared level of effort between PWGSC and the Contractor. Therefore, A.T. Kearney's contribution could not be separately identified.
- Reporting of decisions on oral interactions and documentation supporting decision points were too limited to provide assurance that senior management had accurate and complete reporting and were therefore fully aware of issues to mitigate risks or alter courses of action.
- Lack of arm's-length relationship between the Contracting Authority and the Project Authority weakened some of the normal checks and balances that ensure integrity in the procurement process.
- 30% of the contracted 90 full-time or part-time individuals who worked on this contract never received the required contract security clearances, nor were their CVs appropriately reviewed to ensure their billing rates were correct.

## ***Cost audit***

The cost auditors were unable to rely solely on the control systems employed by the Contractor to accumulate time charges related to billings to PWGSC and to this contract. The Contractor, however, was able to provide a significant number of additional documents in support of its billings to PWGSC. In addition, the Chief Financial Officer of A.T. Kearney and the V.P. North American Unit Leader have provided satisfactory certification with respect to the fairness of the billings and the integrity of the information provided to PWGSC. The additional information provided was also reviewed by KPMG on behalf of A.T. Kearney.

As a result of reviewing additional documentation and applying specified audit procedures, the auditors concluded that:

- the amounts invoiced in connection with the contract are reasonable and there is no evidence of over-billing;
- no evidence of fraud or malfeasance was uncovered;
- on a number of tasks completed under the contract, the Contractor had reported a significant level of effort in excess of the financial limitation, which serves to significantly reduce the risk of over-billing; and
- no financial adjustments are required.

The auditors noted weaknesses in PWGSC's internal systems, similar to weakness noted in the internal audit. The weaknesses are also addressed in the management action plan.