Report on Procurement and Contract Management Practices

Ministry of Health Services

Internal Audit & Advisory Services
Ministry of Finance

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Abbreviations

3CMB	Corporate Compliance and Controls Monitoring Branch
ADM	Assistant Deputy Minister
ARCS	Administrative Records Classification System
EA	Expense Authority
GCIO	Government Chief Information Officer
IAAS	Internal Audit & Advisory Services
IM	Information management
IRMP	Information Resource Management Plan
IT	Information technology
KMT	The former Knowledge Management and Technology Division
QR	Qualified Receiver
RFP	Request for Proposals
RFQ	Request for Qualifications
the ministry	Ministry of Health Services
WTS	Workplace Technology Solutions

Executive Summary

We have completed our assignment to assess the Ministry of Health Services' (the ministry) procurement and contract management practices. The assignment involved interviewing ministry staff and examining the ministry's procurement, contract management and contract payment documents and processes for compliance with government policy and use of good practices. We reviewed those documents and processes for a total of 85 contracts, 63 that were selected from all contracts over $5,000 on which payments were made in 2007/08, and a follow up sample of 22 that were initiated in 2008/09.

The review indicated that while some good practices are consistently applied by the many staff in the ministry who are involved in procurement and contract management, improvement is needed for a number of other practices. There were indications that the former Knowledge Management and Technology Division's practices were particularly in need of improvement. The review results provide executive management an opportunity to recognize staff successes and provide guidance and assistance where needed.

It is important that the ministry act to increase compliance with policy and use of good contracting practices. Some practices we observed could have serious consequences for the ministry. Use of good business practices can help ensure the ministry receives what it pays for and can help prevent disputes that use time and money unproductively. It can also help prevent damage to the ministry's reputation with the contracting community and the public in general.

Throughout the report, we provide suggestions for ministry consideration regarding opportunities for improvement of particular practices. We also make three broader recommendations of actions we believe would result in general improvement of practices by addressing underlying issues. First, we recommend four approaches be used to encourage staff to use better practices and be more compliant with policy. Our second recommendation addresses the need for staff to maintain a complete record, for each contract, of their procurement and contract management decisions and activities. Third, we recommend the existing function for review and control of procurement and contract documents be strengthened to further encourage compliance with policy and use of preferred practices and to detect serious non-compliance.

We would like to thank the participating ministry staff, management and executive for their assistance and co-operation during this assignment.

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Introduction

The Ministry of Health Services (the ministry) is responsible for British Columbia's health system, with a mandate to guide and enhance the province's health services to ensure British Columbians are supported in their efforts to maintain and improve their health.

In meeting its responsibilities, the ministry makes use of contractors. In the 2007/08 fiscal year, the ministry had approximately 1,400 active contracts for which the total maximum values exceeded $800 million.

In September 2007, Internal Audit & Advisory Services (IAAS) completed an IT Contract and Billings Review of one contract which resulted in a recommendation that the ministry commission a review of the procurement and contract management practices in the ministry's former Knowledge Management and Technology (KMT) Division. The ministry responded by requesting that IAAS conduct this review of procurement and contract management practices throughout the ministry.

Purpose

The purpose of this engagement was to determine whether the ministry's procurement and contract management practices were in compliance with government policy requirements.

Scope

The scope of this review was the ministry's contracts on which payments were made in the 2007/08 fiscal year, including all ministry divisions.

Objective

The objective was to assess the ministry's procurement and contract management practices for compliance with the BC government's Core Policy and Procedures Manual in the areas of procurement planning, solicitation, awarding and entering into contracts (with attention to policy specific to contracts for information technology), contract administration and monitoring, post-contract evaluation, contractor relationship management, and contract billings and payments.

Approach

Our approach involved interviews with ministry staff and examination of the ministry's procurement, contract management and contract payment documents and processes for compliance with government policy and use of good practices.

The Corporate Compliance and Controls Monitoring Branch (3CMB) conducted a review of each of the sampled contracts using their standard review routines, prior to IAAS reviewing the contracts. 3CMB provided IAAS with their results. Those results are integrated into this report for those procedures that were within the scope of this review.

Sampling of Contracts

We selected two sample groups of contracts from the population of approximately 1,400 ministry contracts on which payments were made in 2007/08:

1. We selected 46 contracts, using a statistically valid selection method, excluding any contracts with maximum values under $5,000. The results from that sample can be taken with considerable confidence to be representative of the entire population of contracts with maximum values of $5,000 or more. We were able to review only 45 of the 46 contracts because very little documentation was available on one contract.

2. We judgementally selected a second sample of 19 contracts that we considered high risk based on the information in the ministry's contract database.

The sampled contracts were from the following divisions.

Ministry Division	Number of Contracts in the Samples		
	Statistical Sample	Judgemental Sample	Total
Knowledge Management & Technology (now the IM/IT Division)	11	18	28*
The Emergency Health Services Commission	15	1	16
Population Health & Wellness	6		6
Finance & Corporate Services	3		3
Medical Services	3		3
Health Authorities	3		3
Human Resources	2		2
Pharmaceutical Services	1		1
Conversation on Health	1		1
Total counts	**45**	**19**	**63***

* By chance, one contract was selected in both samples. That contract is included in the counts of both samples from the Knowledge Management & Technology Division.

Although our contract samples were selected from 2007/08 contract payments, many of the contracts had been solicited and signed in earlier years and then extended into 2007/08. After we verbally reported on our review of those 63 contracts, ministry management noted that the results may not reflect current practices as some improvements had been implemented since those contracts were signed. Ministry management requested that we review a sample of more recent contracts. We agreed and judgementally selected and reviewed a sample of 22 of the ministry's 2008/09 contracts. Those 22 included more than half the total dollar value of all the 2008/09 contracts. Eleven of the twenty-two were from Health Sector IM/IT (formerly the Knowledge Management and Technology (KMT) Division).

Comments and Recommendations

1.0   Overview

Objective

The objective was to assess the ministry's procurement and contract management practices for compliance with the BC government's Core Policy and Procedures Manual in the areas of procurement planning, solicitation, awarding and entering into contracts (with attention to policy specific to contracts for information technology), contract administration and monitoring, post-contract evaluation, contractor relationship management, and contract billings and payments.

Conclusion

We reviewed a statistically valid sample of 45 of the contracts on which payments were made in 2007/08. The results are explained in sections 2 through 6. One can conclude with considerable confidence that the results reported in those sections are reasonably reflective of all contracts active in 2007/08. In summary, a number of good practices were commonly used in the ministry for each phase of procurement and contracting. However, some important policies and practices were often not applied.

We reviewed an additional sample of nineteen 2007/08 contracts that we considered to be at high risk of non-compliance. The results are presented in section 7. As might be expected given the selection criterion, there were more non-compliance issues in this sample than in the statistical sample. Eighteen of the nineteen contracts were from the former KMT Division, which suggests that division's practices were particularly in need of improvement. Supporting that is the fact that all seven contracts found to have the most significant multiple exceptions to policy and good practice, as related in section 8, were from that division.

We also reviewed a judgementally selected sample of 22 more recent 2008/09 contracts. We found similar results to those found in the 2007/08 samples, with some exceptions, as explained in section 9.

It is important that the ministry act to increase compliance with policy and use of good contracting practices. Some practices we observed could have serious consequences for the ministry.

Use of good business practices can help ensure the ministry receives what it pays for and can help prevent disputes that use time and money unproductively. It can also help prevent damage to the ministry's reputation with the contracting community and the public in general. In the closing section 10 we present our recommendations for actions we believe would significantly improve the ministry's overall procurement and contract management practices.

2.0 Procurement Planning

In this document, procurement planning is considered to begin at the time a decision is made to meet a need for goods, services or construction externally and proceeds through to a decision of which type of solicitation to use. Section 2 relates to the statistically valid sample of 45 contracts.

2.1 Good Practices

The following good procurement practices were applied:

- The purposes of all sampled procurements were consistent with the ministry's 2007/08 service plan.

- The deliverables of the IM/IT contracts supported the business requirements laid out in the ministry's service plan and its Information Resource Management Plan (IRMP).

- Our samples included no IM/IT contracts which were unsolicited. Ministry staff informed us that the ministry does not enter into unsolicited IM/IT contracts.

2.2 Areas for Improvement

Documenting Planning Decisions

Policy requires planning and review of alternatives and retention of records of that work. To show that the ministry properly manages its funds, records should be available to demonstrate that due consideration was given to clarifying the need, exploring alternatives and deciding what to solicit and what solicitation method to use. However, such documentation was seldom available. In some cases, 'New Contract Information Slip' forms included brief notes about such planning considerations. Those forms could, if well completed, be sufficient record of planning decisions for smaller and less complex contracts. The forms explicitly ask the important questions "Why is this contract necessary?" and "Why can't services be obtained in-house?" But responses to both those questions were seldom provided.

We suggest that Accounting Operations Branch staff, as part of their review and approval of draft contracts, review New Contract Information Slips and ensure they are completed appropriately before they approve the contracts.

Late in fiscal 2008/09 the IM/IT group began requiring the use of a 'Request for Supply Arrangement Services Checklist' form whenever a need is identified for contracted services for strategic advisory, change management, or performance management services. The eight-page form requires brief documentation of needs assessment, cost/benefit justification and risk assessment, along with other information. In our opinion, use of such a form should help ensure proper planning is done and documented for the applicable types of IM/IT services.

Comparing Costs and Benefits

Policy requires cost/benefit justification for service contracts over $100,000. When contracts are parts of larger projects, the projects' cost/benefit analyses are often sufficient. However, for a few other contracts for which cost/benefit analyses should have been on file, they were not. Examples included contracted services for project management and for acting as a Director. After discussing this with us, the Accounting Operations Branch has agreed to consider adding cost/benefit analysis to a checklist used to help ensure contract quality. They also suggested some ministry staff involved in procurement may need more guidance regarding how and why cost/benefit analyses should be done. More recently, they said they are planning in-house training that will include that. They also noted that templates and completed samples are available to staff on the ministry's intranet and those will be included in the training.

IM/IT Resourcing Strategy

Our samples indicated that the IM/IT Division has had a number of contractors working nearly full-time, paid hourly, for three years or more. Management has informed us that government IM/IT salaries do not compete well with the going rates for contracted IM/IT services, and that despite that the ministry has managed to recruit some IM/IT staff. We acknowledge the tension between the advantages contracting can have over employing, such as greater freedom to terminate the services, and the advantages of employing: it is often less costly and more likely to retain corporate and systems knowledge. We suggest that management of the IM/IT Division ensure those factors have been duly considered in setting the division's resourcing strategy.

3.0   Solicitation

The solicitation phase includes all of the steps involved in conducting the selected type of solicitation through to identification of the desired contractor. Section 3 relates to the statistically valid sample of 45 contracts.

3.1   Good Practices

We found the following good solicitation practices were commonly applied.

- For the 19 competitions that involved use of score sheets, the score sheets were properly used.

- Notices of Intent to make a direct award were posted for reasonable periods in the two cases for which those were required by policy.

- We found no obvious conflicts of interest through our comparison of the names of planning, solicitation, and award committee members to the name(s) of the successful contractor(s), based on the documentation provided to us.

- In all cases, the contracts satisfactorily avoided establishment of an employee-employer relationship. (We remind the ministry, however, to take care that relationships with contractors are clearly distinguishable from employee-employer relationships).

- For those contracts for which it was required and for which we were provided documentation, selection criteria was established before solicitation and without prejudicing the vendor selection process and submissions were scored against the established selection criteria.

- In those cases for which lists of pre-qualified bidders had been developed, the pre-qualification process had been advertised on BC Bid.

- When pre-qualified bidders' lists were used to select a contractor, the lists were less than a year old. Also, the processes used to make the selections were as specified in the Requests for Qualifications (RFQs), with one exception. The selection criteria specified in an RFQ were not applied in selecting one contractor, and it appeared that the selection criteria that were applied may not have been applied consistently.

- Appropriate solicitation methods were used for contracts for which there were competitions. In one minor exception, a solicitation that was effectively an RFQ was posted as an Invitation to Quote.

3.2 Areas for Improvement

Direct Awards

Policy permits that contracts over $25,000 be directly awarded only if one of five specified conditions applies, and documentation justifying the awards must be put on file. Five directly awarded contracts with values of $25,000 or more did not have satisfactory justification. In our view, those contracts should have been competed.

Competitions

Records of the date and time of receipt of bidders' documents were seldom available. A ministry employee said that in some cases the date-time stamp was applied to envelopes which were not kept on file. Without such evidence, there is no proof that winning bids were received on time. That exposes the ministry to risk that unsuccessful bidders might successfully challenge the selection of another bidder, at significant expense to the ministry.

Extending Contract Terms and Values

In many cases contracts' maximum values were increased substantially and the contracts were extended much longer than the initial contract terms. For the 45 contracts, the ultimate maximum contracted values were 90% more than the originally contracted maximum values, on average. Ministry staff informed us that often when contract administrators expect to need a contractor for three years, they will solicit for a period of a year or less and include an option to extend for two or more years, fully expecting to extend. A better practice would be to solicit for the full period needed. The Accounting Operations Branch agreed and informed us they would encourage use of the better practice.

In a few cases, it appeared that those arranging a solicitation or contract may have initiated for an amount somewhat below a policy threshold to avoid a policy requirement. Policies with such thresholds include requirements to:

- conduct a cost-benefit analysis for service contracts over $100,000;

- post competitions on BC Bid for goods over $10,000 and services over $75,000; and

- post on BC Bid a Notice of Intent to make a direct award for services over $50,000.

For example, it appeared that two contracts may have been initiated at under $50,000 to avoid the policy requirement to post Notices of Intent on BC Bid. One contract was initiated with a maximum value of $49,000; over time, it was increased to $113,000. Another 2007/08 contract began as $25,000 and was increased to $95,000.

4.0   Award

The award phase is comprehensive of all contracting procedures from the time the desired contractor is identified through to the completion of a contract document. Section 4 relates to the statistically valid sample of 45 contracts.

4.1   Good Practices

Ministry staff demonstrated use of the following good practices in the award phase.

- The ministry has controls to help ensure appropriate wording is used in its contracts. Contract administrators are to sign off that their draft contracts meet the requirements of government's contracting policy. Also, one of the roles of the ministry's Accounting Operations Branch is to review draft contracts to ensure they are consistent with the government standard contract templates, that any changes are pre-approved by the Legal Services Branch, and that Risk Management Branch approves the indemnity clause in any alternative contract form where the province indemnifies the contractor.

- For each contract for which there were solicitation documents, the deliverables in the contracts were consistent with the deliverables according to the solicitation documents.

- All of the contracts included a clause giving the Province the right to audit contractor performance except a few for which the right to audit was not necessary.

- The two contracts that involved development, sharing or acquisition of assets both specified the amount of funding provided and the assets to be acquired, specified ownership at close of contract, and specified who was responsible for maintenance of the assets.

- The ministry had agreed to provide advance payments in none of the contracts.

- In the three cases for which we saw documentation authorizing departures from policy, there was satisfactory explanation, appropriate authorization, and adequate segregation of duties.

- For those contracts for which the ministry had concurrent contracts with a contractor, we identified no subdivisions that would have resulted in avoidance of policy or trade agreements.

4.2   Areas for Improvement

Timely Signing of Contracts

Policy requires that contracts be signed prior to commencement of work. Further, we were told, the ministry asks its contract administrators to sign off that contract work will not begin until contracts are signed and Finance Decision and Support has provided approval. However, approximately two-thirds of the contracts were signed after the contracts' terms had commenced as is shown in this table:

Dates signed as compared to contract commencement dates	Number of contracts
– by the date the contract term commenced	15
– from 1 to 10 days after term began	14
– from 11 to 30 days after term began	7
– over 30 and up to 100 days after term began	6
– not signed by the vendor (a standing offer)	1
– undeterminable – signatures not dated	2

Staff from Accounting Operations explained that when contract negotiations continue beyond the intended start date that had been written into a draft contract, the start date is sometimes not updated at the conclusion of negotiations. They note that in such cases the contract commencement date should be updated, and we agree with that.

It is likely that in some cases of late signing, contract work did not commence until after signing. However, as an example of the size of the risk exposure involved, in one case $145,000 was billed on one contract by the time it was signed 96 days after the contract term commenced. When contract work begins without a contract in place the ministry is exposed to significant financial and legal risk.

We saw instances of executive appropriately taking action against late signing. The Senior Financial Officer had noticed late signing and sent out letters reminding staff that contracts should be signed on time. We were informed that more recently the Senior Financial Officer's office responds to late signing by also issuing warnings that staff may lose their status as an expense authority (EA).

Contract Deliverables

Policy states that contracts must specify the required outputs and outcomes along with their quality and quantity. We consider it good business practice to ensure deliverables are specific, measurable and time-bound. The contract deliverables were adequately defined in all but two contracts, and the descriptions of the deliverables were reasonably specific, measurable and time-bound for most contracts. However, we found the deliverables in seven contracts lacked those three qualities and five others lacked one or two of those qualities. We noted that the Accounting Operations Branch has been successfully promoting the use of better deliverables through the inclusion of outputs and outcomes as per policy. We suggest that the branch also encourage use of specific, measurable and time-bound deliverables, where appropriate. Including measurability and target dates provides a basis for holding contractors accountable through periodic monitoring of progress and performance. It also helps both the contract manager and the contractor better understand what is required and it can reduce the risk of misdirection of contractors' efforts.

There were 29 contracts for which we would have expected the ministry to include some reporting as a deliverable and specify the content, format and frequency of reporting required. For 14 of those, though, no reporting requirement was stated. Being clear with a contractor about the reporting a contract manager needs can greatly enhance the ability to monitor the contractor's progress.

Useful reports can signal a need to re-focus a contractor's efforts or provide early warning that target dates may not be met.

Contract Maximum Values

Seven contracts did not specify maximum contract value as is required by policy. Five of those were contracts for paramedic examiners for which the Contract Information Slips showed the planned maximums were $25,000.

5.0   Administration and Monitoring

The administration and monitoring phase begins after a contract is signed and runs through to the end of the contract and the preparation, if applicable, of a post-contract evaluation. Section 5 relates to the statistically valid sample of 45 contracts.

5.1   Areas for Improvement

Monitoring Contractors' Performance

Ministries are required to ensure timely and consistent monitoring of the contractor's performance and progress towards the contract deliverables. For 28 of the 45 contracts, the contract files included no indications that the contractors' performance and progress was monitored. We were unable to determine whether this meant monitoring was not done or was just not documented. Performance monitoring should be performed and documented periodically during a contract's term to ensure that adequate progress is being made on each deliverable, that an acceptable level of quality is present, and that unnecessary work is not being done. Monitoring should involve comparison of contractors' progress, work quality and reports to the contracted deliverables, and feedback should be provided to the contractors. In addition, the qualified receiver's (QR) approval of the contractor's invoices would normally involve some limited monitoring to ensure that the goods or services billed for the month were received, such as that the hours billed by a business analyst were actually worked. Monitoring records serve as an aid to the contract manager's post-contract evaluation, provide history if the contract is transferred to another individual, and can be important evidence in case of a dispute with a contractor about unsatisfactory performance.

Records Retention

Core Policy requires that ministries maintain adequate documentation for all phases of procurement and contracting. In addition, Administrative Records Classification System (ARCS) policy states that ministries should accurately track all contract documentation throughout the lifecycle of each contract.

Documents we expected to find regarding what was done during each contracting phase were often not available. Records of alternatives considered and decisions made during the procurement planning phase were rarely provided, and important documents regarding the solicitation and award of some contracts were not available. In some cases even invoices were not available to support payments to the contractors, as noted in subsections 6.0 and 8.0 below.

Seldom was a complete record of the life cycle of a contract available from one person. Often, a number of staff had been involved as a solicitation and contract developed and it appeared that each retained their own records. We generally found no one person was responsible for each contract and all the records pertaining thereto. Accounting Office Branch staff agreed with our suggestion that it would be good business practice, and compliant with ARCS policy, for all key documents regarding each contract to be maintained in one place under one position's responsibility.

In the case of one sample, almost no information was available. A payment of $100,000 to a registered society for printing 10,000 copies of a book was supported by only an invoice and two emails. There was no record of how the solicitation was planned and executed. Apparently no contract was written. Further, given the nature of the work, it seems likely that policy would have required that the Queen's Printer do the work.

Insurance

For 31 of the 64 contracts in the two samples the certificates of insurance coverage that were required according to the contracts were not available. One contract that should have required provision of an insurance certificate did not do so.

Post-contract Evaluations

For the 12 contracts over $50,000 for which policy required post-contract evaluations, only 3 were available. This 25% compliance rate compares unfavourably to the rate of just over 50% we found in a 2006 cross-government review. The evaluation process is important because it produces a record for others in the ministry of all aspects of a contractor's performance including quality and timeliness of outputs and outcomes, their billings, reports, problem resolution, and relations with ministry staff. Ideally, evaluation also engages ministry staff in identifying lessons learned about their own solicitation and contracting processes.

The value of the ministry's post-contract evaluation process could be enhanced by improving the evaluation form that is provided to staff. The current form asks only three questions about the contractor's performance and provides space for brief comments.

With a few additional questions about performance, better information would be gathered for use by those considering contracting with the same contractors. The form could also be made a more effective aid to continuous improvement of the ministry's procurement and contracting by adding questions that guide staff in learning from their solicitation and contracting experiences. In some cases, too, lessons learned by staff could be shared among the contracting community within the ministry.

6.0   Contract Billings

For each contract, we sought to examine the contractor's billings for May 2007 and January 2008. For the contracts in the judgemental sample, we sought to examine those plus the April and June 2007 billings. For 12 of the 45 contracts we were not provided invoices for the months we requested. In those cases we examined invoices from at least one other month for each contract. Section 6 relates to the statistically valid sample of 45 contracts.

6.1   Good Practices

The following good practices were in evidence.

- For each sampled contract, the total of the contractor's billings was less than the contracted maximum fees and expenses.

- The rates paid on the invoices for which there was sufficient billing detail were consistent with the contracted rates, with one exception. Billings of a contractor with other concurrent contracts with the ministry appear to have billed individual resources to the wrong contract and the rates billed for some resources differed from the contracted rates.

- Where the contractors held more than one concurrent contract with the ministry, we found no instances of excessive hours for each of the contractors' individual employees.

- For all invoices we examined, the EA was not a payee.

- On invoices billed by the hour, the billed hours were reasonable.

- According to ministry staff who acted as QR, at least one division uses a contractor timesheet system they consider to be a very good control.

6.2   Areas for Improvement

Billing Detail

In our opinion, the invoices of 13 contractors (29%) did not include sufficient billing detail to justify approval of payment. The standard government contract specifies only that contractors are to provide their calculation of all fees claimed for the month including a declaration of all hours worked during the month if billing hourly, or all hours worked on each day if billing by daily rate. We consider more than that necessary for proper approval of an invoice for services billed by the hour, as most of the sampled contracts were. A QR would normally need to see the hours charged for each day and at least a minimal explanation of the work done daily, and verify the hours as much as possible. For a good number of the contracts, the QRs would be in good position to verify that because the contractors worked primarily on the ministry premises. In fact, the ministry has software that some use to track contractors' work hours. Wider use of that software could be beneficial.

During the term of one contract for over $300,000, the standard contract wording that specifies the required billing detail was removed from the contract by a modification agreement. We questioned why such an irregular deletion was made but no explanation was available. The content of subsequent invoices from the contractor was confusing and was, in our view, insufficient to justify payments.

A few of the contractors had other, concurrent contracts, with similar purposes, with the ministry. In some cases, we were able to verify that the total hours billed under all of the contracts for each contractor employee were reasonable and billed in sufficient detail. However, in two cases, invoices we requested were not available so we were unable to assess that.

Expense Authorities

We interviewed three ministry staff who were the EAs of record on some of the contracts. Their understanding of their accountability for expenditure approvals was consistent with Core Policy.

EAs are not required to review or sign invoices billed under contracts for which they are the EA, and the EAs we interviewed said they did not. One EA saw the invoices billed against some contracts for which the EA was also Administrator. Otherwise, they all relied fully on QRs and others to conduct the various necessary checks of invoices.

The three EAs all had acted as both EA and QR on one or more invoices from contractors. This contravenes policy which states that the EA and QR must be separate individuals. They all said they were aware that should not be done because it circumvents segregation of duties, and each of them said they did so rarely and only in unusual circumstances. When one individual can act as both EA and QR, the ministry is exposed to very significant risk. For example, an EA could commit large amounts under a contract and later, acting as QR, authorize payments for which the ministry did not receive value. We encourage the ministry to remind all authorized EAs it is important they not serve as both EA and QR for any contract.

Qualified Receivers

Given that EAs are not required to review or approve invoices billed under their contracts, the ministry relies heavily on QRs and accounts staff to ensure that contractors' billings should be paid as billed. However, no authorization is required to act as a QR and no training is provided to explain the responsibilities to the many staff that do so.

Before invoices are paid, to ensure payment should be made QRs or others should ensure such things as:

- the goods or services were actually received and were consistent with the contracts;

- for service contracts billed hourly, the number of hours billed is supported by the contractors' timesheet system and a supervisor's confirmation;

- appropriate value was received for the amount billed;

- the rates billed are as specified in the contracts;

- the account coding is correct;

- the billings are arithmetically correct;

- the invoices have not been paid already; and

- the payments will not cause the maximum contract amount to be exceeded.

We interviewed four ministry staff who acted as QR about their QR responsibilities and processes. One person had signed as QR only because the signature space was blank and they knew a signature was required; the person did nothing to ensure the invoices should be paid. That person has since learned not to do that. The other three said they check some of the criteria listed above, but none check them all and they are not consistent with each other in what they check. They said they rely on administrative support staff for some of those checks.

Two of the QRs said they believe the administrative support clerks likely duplicate some of the checks they do. One of them noted that some checks could be missed if both parties are relying on the other to do them. We suggest that management periodically provide all QRs and relevant accounts staff with clear descriptions of their specific responsibilities in processing invoices, ensuring that all of the above-listed checks are covered.

7.0   The Judgemental Sample

The second sample of contracts we reviewed was 19 contracts that were selected as being at high risk of improper procedures. For the following criteria, there were significantly more exceptions to policy and good business practice than in the statistical sample as described above. For the other criteria reviewed, the results were similar to those for the statistical sample. This sample included 18 contracts from the former KMT Division and one from the Emergency Health Services Commission.

Areas for improvement

- We saw no evidence for 13 of the 14 IM/IT contracts over $25,000 that the ministry:

  ➢ discussed the proposed IT requirements with Workplace Technology Solutions (WTS) and the IM requirements with the Government Chief Information Officer (GCIO) and agreed to depart from a corporate solution for the requirement; and

  ➢ considered the GCIO policies, strategies, standards and legislative requirements in the procurement process.

  Ministry management states that those steps are generally taken so the issue here appears to be failure to document what was done.

- Over time, the contracts' maximum values were increased substantially. When they were initiated, their maximum values totalled approximately $6.8 million. Modification agreements more than doubled that to approximately $14.3 million. The values of 16 of the 19 were increased more than 50% and, on average, their ultimate values were 244% of their original values.

- The lengths of the contracts' terms were in many cases also increased repeatedly by modifications. Seven were extended beyond the extension periods mentioned in the related Requests for Proposals (RFP) and Requests for Qualifications (RFQs).

- 74% of the contracts were signed after the dates the contracts were to commence. 42% were signed more than 10 days late. One was signed more than 8 months after commencement, by which time over $175,000 had been paid.

- The deliverables on a contract for a person to act as a Director were expanded to include four resources nearly full-time, even though ministry staff raised concerns about that in writing. That was contrary to policy which states that modification agreements are not to be used to substantially change the original nature and intent of a contract. The contract's maximum value increased from $266,000 to nearly $1.5 million.

- The payment terms were not clearly established in one contract. The rate was set to be $175 per hour for 90 days after which the rate was to be renegotiated. After the 90 days, the rate was increased to $275 per hour. In our view, the rates to apply during a contract's term should be specified in the contract.

8.0 Contracts with Multiple Issues

On some contracts we examined there were several exceptions to policy which, considered together, indicate serious deviation from good procurement and contract management practice. The seven most serious of those are described here. All of these were from the former KMT Division. The foregoing discussion included many of the problematic practices noted here.

1. A contract was initiated for the services of an individual to act in the role of Director of eHealth Strategies/Deployment. Over time and with 8 modifications, the deliverables were greatly expanded to include the services of 4 resources at rates between $160 and $220 per hour. Policy states that modification agreements are not to substantially change the nature and intent of a contract. The ministry contract specialist had sent written notice that the other resources were not to be added to the contract. The changes increased the maximum contract value from $266,000 to $1,491,000. In addition:

    - the contract required no reporting from the contractor; and

    - the contractor's invoices did not provide sufficient detail of the work done by each resource each day.

2. A contract for two senior financial analysts had the following issues.

    - A Manager of Contract Policy and Oversight emailed the responsible Assistant Deputy Minister (ADM) before the contract was signed expressing concerns that there was no cost-benefit analysis and the deliverables were unclear and asking why the ministry was contracting for financial analysts at all. The ADM did not respond to those concerns, citing urgency to get the work done.

    - The deliverables did not change, though the term more than quadrupled from the original 7 months. Justifications for the extensions said only that more time was needed. Policy requires that modification agreements must be justified in writing.

    - One modification agreement was signed 46 days after the contract had expired. No contract was in place during that time. Policy states that an expired contract must not be retroactively extended.

    - Another modification agreement was signed extending the term for a year at a time when four months remained in the contract.

- One person acted in the multiple roles of EA, QR and contract administrator for this contract. Policy states that the EA and QR must be separate individuals.

3. A contract was extended from the original 5 month term for maximum $60,000 to 32 months and maximum $325,000. Then, immediately after this contract ended, the contractor was awarded a contract that ultimately had a maximum value of $243,000. Also:

   - In the first modification agreement, the clause specifying the required billing detail was deleted. No explanation for the deletion was documented. The one invoice we were provided had virtually no billing detail and its content did not make sense.

   - The EA acted as QR on the one invoice we were provided.

4. A contract showed signs of possible preferential treatment of the contractor. A pre-qualification list from an RFQ was filtered to identify those with the required qualifications. The filtering produced a list of ten resources. Five were noted as being already under contract to the ministry, and one was noted as not available. All four others were employed by the selected contractor organization and their services were contracted for. In addition:

   - Though the original contract specified completion dates within 6 months for most of the deliverables, the contract term and maximum value were more than quadrupled over time from 5.5 months with a maximum of $400,000 to 26.5 months and maximum $1,674,000. Justification for the six modifications was limited.

   - Though we asked, we were not provided invoices billed under three other concurrent contracts with this contractor so we were unable to check for possible billing duplications or other irregularities.

   - The contract's EA signed as QR on at least one invoice.

5. Another contract had indicators of possible preferential treatment. The records stated that five proponents for a contract for IM/IT consulting services were filtered from a pre-qualification list and asked to submit proposals. However, the records also said IBM declined on behalf of two proponents, both IBM employees, due to concerns with the insurance terms. Those terms had been stated in the original RFQ.

   We requested evidence that IBM declined but it was not provided. Another two proponents were recorded as already having ministry contracts. The contract was awarded to the one remaining proponent.

   Unlike some other IM/IT contracts, we did not find quarterly Statements of Work or other documentation showing the expected and actual work being done. Also, the person listed as EA for this contract did not have EA authority for the responsibility centre to which the billings were charged. The EA signed invoices as QR, as well.

6. A contract for 9 resources, some full time and some part time, was signed 96 days after the term began. By then, $145,000 had been billed. Policy requires that contracts be signed before work commences. In addition, the billings we examined were unsatisfactory in the following respects:

   - One resource's travel expenses for three days were billed to this contract though that resource's hourly fees for the same days were billed under another ministry contract with the same contractor.

   - The contracted maximum monthly billing amount was exceeded one month.

   - Insufficient detail of work done hourly/daily was provided.

   - The hourly rates per resource, the nature of the work billed for each resource, and the names of resources applied were not fully consistent with the contract.

7. A contract for project management and advisory services was inconsistent with policy and good practices in these ways:

   - It was directly awarded with only limited justification.

- It was modified with limited justification to double its maximum value to $300,000 and extend its term. Policy requires that modifications be justified.

- The hourly rate was first set for only 90 days after which the rate was to be renegotiated. The rate then increased from $175 per hour to $275.

- The contractor billed and paid expenses of a nature not allowed under the contract. Administrative expenses of $730 were paid over 4 months with no support or explanation provided.

9.0   Review of 22 Additional Contracts

After we informally presented the foregoing results to representatives of ministry executive, they requested that we sample some more recent contracts, noting that many of the sampled contracts that were active in 2007/08 had been initiated as long ago as 2004. They explained they expected contracts initiated in 2008/09 would reflect three procurement and contract management practice improvements that had been introduced.

We judgementally selected a sample of 22 contracts initiated in 2008/09 and applied the same review procedures we had applied to the contracts reviewed earlier, excluding the procedures that had identified consistently good practices.

The three practice changes that the ministry told us had been made and the related results for those contracts were:

1.   Staff of the Accounting Operations Branch more strongly encouraged that contracted deliverables be written with clear expectations of outputs, outcomes, quantities and quality so that contractors could be held accountable for their performance. We found examples of such encouragement on some of the files we reviewed, and the contracted deliverables did provide for more accountability, on the whole, than the 2007/08 contracts.

2.   Draft RFPs were subjected to greater scrutiny before being posted on BC Bid. Approvals were required from the relevant ADM, the Executive Financial Officer, the Deputy Minister and, in some cases, also the Public Affairs Bureau. This increased review of the RFPs may have contributed to the substantially better results regarding use of BC Bid to communicate opportunities for suppliers to compete for government contracts. BC Bid postings were done for all 14 2008/09 sampled contracts for which there should have been postings. This change may also have been a factor contributing to the contracted deliverables providing for more accountability.

3.   Permission to use Notices of Intent became more difficult to get; in some circumstances, RFPs were to be required instead. The only change we noticed that may have been attributable to this was that the one 2008/09 contract for which a Notice of Intent should have been posted on BC Bid was posted there.

We applied 33 other review procedures to the 2008/09 contracts and found, in summary, that the results were similar to those for the statistically valid sample of 2007/08 contracts for 15 procedures, better for 7 procedures, and worse for 11 procedures.

Examples of procedures for which the 2008/09 sample group's results were significantly better:

- Satisfactory justification of direct awards being documented on the files. For all five contracts that were awarded directly, satisfactory justifications were on file.

- How much the originally contracted maximum values were increased by modification agreements. The former sample group's final maximum values were 190% of their original maximum values, on average. Modifications of the recent batch of 22 contracts had increased their total maximum value by an average of only 8%.

On the other hand, the results for the 2008/09 sample group were not as good as for the 2007/08 sample group in terms of:

- The contract work being mentioned in the ministry's 2008/09 IRMP. In the more recent sample group, we found two large IM/IT contracts ($12 million and $670K) for which the work was not mentioned in the IRMP.

- Having evidence on file of discussion of the proposed IM/IT procurement with WTS and the GCIO. Only 2 of the 15 IM/IT contracts' files held evidence of discussion with WTS, and none indicated discussion with the GCIO.

- Avoiding having contract work done until after the contracts were signed. For at least 4 of the 22 contracts, work was billed for dates prior to signing. The amounts ranged from approximately $1,300 to over $300,000.

10.0 Recommendations

The review indicated that while some good practices are consistently applied by the many staff in the ministry who are involved in procurement and contract management, improvement is needed for a number of other practices. This provides executive management an opportunity to recognize staff successes and provide guidance and assistance where needed.

Recommendations

Encourage use of better practices

(1) We recommend that the ministry encourage better practices and policy compliance in procurement and contract management by:

- **informing relevant staff about the more frequent and serious exceptions to policy identified by this review;**

- **explaining to relevant staff the specific preferred practices they are expected to use;**

- **providing targeted job-specific training on policy and preferred practices where needed; and**

- **considering strengthening the sanctions for serious and repeated exceptions to policy.**

Relevant training is available and more is coming soon. Corporate Accounting Services offers classroom iProcurement system training and an on-line 11-minute EA demonstration. The Public Service Agency periodically offers training for the financial administration support function. The Office of the Comptroller General will soon be offering government staff a set of on-line financial management training modules that are expected to address many of the training needs identified in this report.

In addition, staff in the Accounting Operations Branch has informed us they are developing in-house training for the ministry on financial management, procurement and contract management as a result of this review.

Recommendations

Record Retention

(2) **We recommend that the ministry:**

- **communicate to relevant staff the importance of their documenting and maintaining a complete set of records of the entire lifecycle of each contract; and**

- **ensure that one individual is assigned responsibility for such records for each contract.**

Quality Control

The ministry currently has a valuable control over some aspects of compliance and quality assurance in the form of a required review by the Accounting Operations Branch of draft solicitation documents and draft contracts. We were informed that over a number of years the scope and extent of that oversight function has gradually expanded. That control function could be further strengthened to help ensure policy and good practices are followed and to detect serious exceptions in at least the following two ways.

- The function could conduct reviews of selected contract files to assess such things as the justification of direct awards, the timeliness of contract signing, and the completeness of contract documentation. When exceptions to good practice are found, use of better practices could be promoted.

- The control function could be provided stronger mechanisms to enforce the use of good practices. This could be achieved in a number of ways. For example, the function could be provided protocols for resolving disputes and for escalating to senior management any significant failures to comply.

Recommendations

(3) **We recommend that the ministry consider strengthening the ministry's procurement and contracting review function to further encourage compliance with policy and use of preferred practices and to detect serious non-compliance.**

Appendix A – Detailed Action Plan

Rec. #	Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Status
1.	We recommend that the ministry encourage better practices and policy compliance in procurement and contract management by: • informing relevant staff about the more frequent and serious exceptions to policy identified by this review; • explaining to relevant staff the specific preferred practices they are expected to use; • providing targeted job-specific training on policy and preferred practices where needed; and • considering strengthening the sanctions for serious and repeated exceptions to policy.	The results of the review have been summarized in a presentation that has been presented to Ministry Executive and Ministry of Health Services Financial Directors and will be presented to Ministry of Healthy Living and Sport Executive and Emergency Health Services. In-house contract and procurement training is being developed to target three different levels of staff: Clerical/Administrative, Contract Manager/Administrator and Executive. The training will emphasize preferred practices and provide templates and instruction on use. Strong sanctions have been developed, and approved, for non compliance to policy. The sanctions have been included in the presentation and will also be reinforced in the training.	Complete. Complete. Three levels of training have been developed and are being provided on an ongoing basis. Complete. New requirements include mandatory Expense Authority (EA) training. In addition, tracking of EA infractions is underway, and EA is removed after the 2nd infraction.

Rec. #	Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Status
2.	We recommend that the ministry: • communicate to relevant staff the importance of their documenting and maintaining a complete set of records of the entire lifecycle of each contract; and • ensure that one individual is assigned responsibility for such records for each contract.	The program area responsible for the contract will be confirmed as the OPR for the full contract file. Records Management Branch has been consulted and they will communicate this in their in-house records management training. The training being developed will emphasize the importance of records management and documentation. A checklist of required documentation will be provided to all contract managers to maintain in their contract file. This list will be included in any training provided.	Complete. Training began in January 2010. Complete. A new detailed checklist has been developed and implemented for all contracts.
3.	We recommend that the ministry consider strengthening the ministry's procurement and contracting review function to further encourage compliance with policy and use of preferred practices and to detect serious non-compliance.	In addition to the regular review of contracts and procurement, Contract Management will conduct spot audits to review for non-compliance with policy, to ensure a complete set of records is maintained and to encourage compliance with policy.	Spot audits have begun. Training has emphasized that all contract files should be complete and the checklist has been provided for discussion. A ministry directive has been issued regarding procurement of services. New processes have been put into place regarding direct awards.