



NRC-CMRC

Audit of Procurement and Contracting

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EXECUTIVE SUMMARY AND CONCLUSION

Background

The objective of government procurement and contracting is to acquire goods and services as well as 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.

- Procurement involves the process of establishing terms and conditions for the acquisition of goods, services, and construction work, as well as screening and selecting vendors.
- Contracting involves negotiating and issuing the actual contracts for the purchase of goods, services, and construction work that are needed by an organization.

In 2017¹, the National Research Council of Canada (NRC) awarded approximately 16,000 contracts totalling almost \$220 million. Approximately 2,900 of these contracts were paid directly with acquisition cards (government issued credit cards).

The objective of this audit was to provide NRC Senior Management with independent assurance that the key business controls for procurement and contracting, consistent with Government of Canada policies and legislation, have been implemented as designed and are working as intended. Based on a targeted sampling approach using data analytics, we identified and examined high-risk contracts that were active between January and December 2017. We also examined the related invoices and payments, to determine compliance related policies, as well as the effectiveness of processes in place to support procurement and contracting at the NRC. It should be noted that due to the use of a targeted sampling approach, the results from this audit should not be extrapolated to the entire population of NRC contracts.

Audit Opinion and Conclusion

In my opinion as Chief Audit Executive, the NRC has established policies and procedures, and has implemented business controls for procurement and contracting that are consistent and in compliance with federal policies and legislation, and support the application of required financial controls. While NRC's business controls for procurement and contracting are in compliance, recommended improvements will strengthen procurement and contract management and oversight at the NRC.

Key Takeaways

We found that procurement and contracting processes and controls are in place to ensure proper separation of duties between individuals who create purchase orders and individuals who record the receipt of goods and services within NRC's financial system. In addition, we found that the controls and processes surrounding the certification that the receipt of goods and services were received as specified (*Financial Administration Act*, Section 34) are working as intended.

¹ Unless specified otherwise, this report refers to calendar years (January to December).

However, we observed that individuals were able to initiate expenditures above their authorized limits (*Financial Administration Act*, Section 32), approve amendments beyond Treasury Board of Canada's *Contracting Policy*'s prescribed limits, using incorrect procurement methods, and without appropriate justification or documentation supporting their procurement decisions. The NRC does not have effective processes and controls in place to prevent or detect inefficient procurement activities and transactions, such as contract splitting that are not be in accordance with applicable contracting legislations and policies. Strengthening the challenge function exercised by NRC procurement officers and the quality assessments exercised by NRC's Contract Review Committee will help reinforce oversight and business controls of NRC procurement and contract management. We also found that transparency can be improved by disclosing contracts signed with universities, schools and hospitals.

Recommendations

1. The Vice-President Corporate Services and Chief Finance Officer (CFO) should strengthen the challenge function exercised by NRC procurement group to prevent individuals from approving initiation of expenditures above their delegated financial authorities and from approving amendments above prescribed Policy limits. [Priority: **Moderate**]
2. The CFO should ensure that the quality of documentation and justification supporting procurement and contracting decisions is improved. [Priority: **Moderate**]
3. The CFO should strengthen monitoring of contracting patterns that indicate less than optimal, and possible non-compliant procurement activities. [Priority: **Moderate**]
4. The CFO should ensure the disclosure of contracts and amendments valued at \$10,000 or above with universities, schools and hospitals. [Priority: **Low**]
5. The CFO should streamline the use of the Finance and Procurement Services Branch acquisition cards by revisiting the use of acquisition cards managed within the research centres, branches, and the Industrial Research Assistance Program. [Priority: **Moderate**]

Statement of Conformance

This audit engagement was conducted in conformance with the Institute on Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, as supported by the results of the NRC Quality Assurance and Improvement Program.

Alexandra Dagger, CIA, Chief Audit Executive

Acknowledgements

The audit team would like to thank those who collaborated in this effort to highlight NRC's strengths and opportunities for improvement as they relate to this audit project.

1.0 INTRODUCTION

Within the context of the Government of Canada, procurement and contracting processes are designed to ensure that goods and services are acquired in a manner that enhances access, competition, and fairness, resulting in best value or an optimal balance of overall benefits to the Crown and the Canadian people. Procurement and contracting activities are essential to support the organization in achieving its objectives. The Government of Canada's federal public service procurement and contracting policies, directives, and guidance have been established to ensure that goods and services are acquired in ways that promote transparency, competition, and fairness for an optimal balance of overall benefits to all.

Procurement involves the process of establishing terms and conditions for the acquisition of goods, services, and construction work, screening and selecting vendors. Contracting involves negotiating and issuing the actual contracts for the purchase of goods, services, and construction works that are needed by an organization. In 2017, the NRC awarded approximately 16,000 contracts totalling almost \$220 million. Approximately 2,900 of these contracts were paid for directly with acquisition cards (government issued credit cards).

Roles and Responsibilities

The client/budget holder's role in the procurement process is to define the contract requirements and send an online purchase requisition via NRC's procurement system. NRC Procurement Officers provide guidance and assistance to clients/budget holders on procurement specifications and standards to ensure economical and practical method of contracting is used, in accordance with the Treasury Board of Canada's *Contracting Policy*. It is important to note that only the Procurement Services team has authority to create purchase orders for goods and services. NRC Procurement Officers are also responsible for the creation and maintenance of procurement files.

Quality assurance over procurement and contracting is exercised by NRC's Contract Review Committee (CRC), in alignment with the Treasury Board of Canada's *Contracting Policy*. This Policy encourages the establishment and maintenance of a formal challenge mechanism for all contractual proposal.² As per the committee's Terms of Reference, the CRC is responsible for the review and/or challenge of proposed contracts; to ensure that policies are followed; that prudence and probity are being exercised; and that the contracting process is open, fair and competitive. The CRC has the delegated authority to halt the awarding of a contract if it identifies contracting concerns or issues. CRC membership includes:

- Director of Administrative Services
- Head, Procurement and Contracting Services
- Policy, System and Monitoring Officer
- Manager, Material Management
- a regional Procurement Officer (on a two-year rotational basis).

For each contract reviewed, the CRC must demonstrate its quality assurance review by completing a checklist which is kept on the relevant procurement file. The CRC is also

² Treasury Board of Canada's *Contracting Policy*, Section 11.1 – Review mechanism

required to record meeting minutes, including decisions. The NRC CRC has not met since 2014. Instead, contracts requiring CRC review are being directed to the Director, Procurement Services, after internal consultations with procurement staff take place as appropriate. The Director, Procurement Services, completes and signs a quality assurance checklist documenting that a review and approval have taken place.

The Treasury Board of Canada's *Contracting Policy* sets out specific requirements regarding the maintenance of procurement files. Specifically, contracting authorities are required to ensure that contract files are properly documented³ and structured in a way that facilitate management oversight. They must contain a complete audit trail detailing relevant communications and justification of decisions, including the identification of involved officials and contracting approval authorities.⁴

2.0 ABOUT THE AUDIT

The purpose of NRC's internal audit function is to help the NRC ensure that the proper controls, governance and risk management processes are in place. By nature, it is an independent activity by a team that can present objective findings and make recommendations for corrective measures.

NRC's internal audit function uses data analytics in planning and conducting its audits when relevant. This encompasses the use of software to identify significant trends and exceptions in large amounts of data. It involves the process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information and informing conclusions. To focus our audit work on the highest risk areas and to provide the most value to senior management, we used data analytics to inspect 100% of procurement and contracting data for calendar year 2017 with a goal of finding patterns, trends, and transactions indicating potential inefficiencies and/or a lack of effectiveness in business controls.

Objective

The objective of this audit was to provide NRC Senior Management with independent assurance that the key business controls for procurement and contracting, consistent with Government of Canada policies and legislation, have been implemented as designed and are working as intended.

Scope

The scope of this audit included targeted samples of contracts and related invoices and payments between January 1, 2017 and December 31, 2017.

Approach and Methodology

Based on a targeted sampling approach using data analytics to identify high-risk transactions, we examined contracts that were active for the period under review. We also examined the related invoices and payments, in order to determine compliance related

³ Treasury Board of Canada's *Contracting Policy*, Section 5.2 – Audit and evaluation

⁴ Treasury Board of Canada's *Contracting Policy*, Section 12.3 – Contract documentation

policies, as well as the effectiveness of processes in place to support procurement and contracting at the NRC.

Unlike the traditional audit approach to sampling, where a random sample of a population of transactions is examined to measure control effectiveness or operational performance, data analytics were used in this audit to examine 100% NRC's procurement and contract data, as noted above. Data analytics⁵ were used in this audit to identify and target areas of potential highest risk, and considered the following factors:

- number of contracts and purchase orders
- value of each contract
- type and duration of contract
- type of solicitation procedure
- number and value of amendments
- recurrence of suppliers
- potential contract splitting.

It should be noted that due to the use of a targeted sampling approach, the results from this audit should not be extrapolated to the entire population of NRC contracts.

The audit approach also included documentation review and interviews. The audit was conducted in accordance with the *Institute of Internal Auditors (IIA) Standards* and the Treasury Board of Canada's *Policy on Internal Audit* and related instruments. The audit criteria (Appendix A) were derived from relevant Government of Canada and NRC policies, directives and guidelines.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

Each section below provides a summary of findings supported by detailed observations, a description of the risk and impact, and recommendations to address areas for improvement.

3.1 DELEGATION OF AUTHORITY AND SEGREGATION OF DUTIES

Summary Finding

Procurement and contracting processes and controls exist to ensure proper separation of duties between individuals who create purchase orders and individuals who record the receipt of goods and services within NRC's financial system. The controls and processes surrounding the certification of proper receipt of goods and services are strong.

Controls around expenditure initiations (*Financial Administration Act*, Section 32) require improvement. Strengthening the challenge function exercised by NRC procurement officers and the quality assessments exercised by NRC's Contract Review Committee will ensure that individuals do not approve expenditures above their delegated financial authorities.

⁵ This includes developing and programming automated tasks that form reusable data analytics scripts that are used against predefined criteria.

Key controls for procuring and verifying purchases are set out within the Government of Canada's *Financial Administration Act* (FAA). Specifically, sections 32 and 34 of the act require that:

- funds committed for a planned expenditure are available and authorized by the proper delegated authority (FAA section 32)
- a verification that goods and services have been supplied or rendered as stated in the contract has taken place and has been confirmed by the proper delegated authority (FAA section 34).

We expected to find that these controls are in place and working as intended. In addition, we expected to find that controls are in place to ensure a segregation of duties exist between individuals who create purchase orders and individuals who record the receipt of goods and services within NRC's financial system (SAP). Separating these tasks between different individuals reduces the likelihood of error and fraud.

Observations

3.1.1 Expenditure Initiation (FAA section 32)

At NRC, approval of contract expenditure initiation is either done physically by signing on a hard copy purchase requisition or by using the electronic signing functionality contained within NRC's financial system. It should be noted that the use of this electronic signing functionality cannot be used for an expenditure initiation in the following circumstances:

- for financial coding using Plant Maintenance Orders
- for IT purchases.

Based on a targeted sample of high risk transactions, we examined 85 expenditure initiation approvals to determine whether those who approved these transactions held the proper delegated authority. Forty-six of these transactions involved expenditure initiation for purchase requisitions, and 39 involved expenditure initiation for contract amendments. Table 1 below shows the results of our test on expenditure initiations (FAA section 32).

Table 1: FAA Section 32 Results

Transaction Type	Number of Transactions Tested	Approved by the Proper Delegated Authority	Not Approved by the Proper Delegated Authority
Purchase order initiation	46	42	4
Amendment initiation	39	31	8
Total	85	73	12

As highlighted in the table above, four contracts did not have the proper approval of expenditure initiation (FAA section 32) for purchase orders. Specifically, three of these four files had been reviewed and incorrectly approved by NRC's CRC.

With regards to the eight expenditure initiations for contract amendments that were not approved by the proper delegated authority, these stemmed from a failure to account for

sales tax or the cumulative value of the contracts involved, or both. The cumulative value of the contract, including the sales taxes must be within the authorization limits of the individual approving the expenditure initiation. If an individual is not paying attention, they can approve expenditures beyond their authority. This typically occurs for two reasons. First, the electronic signing functionality contained within NRC's financial system does not alert an individual who is authorizing an expenditure initiation for an amendment that the amendment in question would put them over their authorization limits. It is up to the individual to be aware of his or her authorization limits and to ensure that the total value being approved is taken into account. However, we found that the required steps in the approval process offer no visibility on the approver's side. Second, there is a lack of a challenge function being exercised by the procurement officers to alert the individual that the value of the contract would exceed the individual's authorization limits.

3.1.2 Performance Certification (FAA Section 34)

Fifty-one transactions were examined to determine whether a verification that goods and services have been supplied or rendered, as stated in the contract, had taken place, and was confirmed by the proper delegated authority (performance certification). We found strong practices in place as 50 of these were approved by the proper authority. Only one involved an individual who had not been granted the authority to perform a certification on a manual transaction examined.

3.1.3 Segregation of Duties

We examined a targeted sample of 78 purchase orders to determine whether there was a proper segregation of duties between individuals who create purchases orders and the individuals who recorded the receipt of goods and services within NRC's financial system. We found strong practices in place. Specifically, we found 71 of the 78 transactions examined had been processed using proper segregation of duties. We found seven unique transactions, where individuals who processed these transactions were authorized to perform both functions due to the limited number of personnel at their locations. As a compensating control, NRC's Finance Branch monitors transactions processed by these individuals on a regular basis.

3.2 CONTRACT AMENDMENTS

Summary Finding

The Treasury Board of Canada's *Contracting Policy* generally limits the amount for which a goods and services contract can be amended to a maximum of 50 percent of its original value. We found there is a need to improve the business controls and processes to ensure that the cumulative value of amendments stay within this prescribed limit and to ensure that the documentation and justifications supporting decisions to amend contracts are appropriate.

The Treasury Board of Canada's *Contracting Policy* states that every effort should be made to avoid inadequate initial funding, and that pre-planning and work definitions should be carefully developed. Contracts should be administered in such a way as to avoid

unanticipated amendments.⁶ Amending a contract due to unforeseen circumstances is permitted, however, sufficient and appropriate justification must be documented and retained on file. Issuing a contract for an amount within a delegated level of authority and then subsequently amending the contract to avoid bids or to circumvent a required approval is a form of contract splitting. Contract splitting is discussed later in this report. In addition, the Treasury Board of Canada's *Contracting Policy* generally limits⁷ the amount for which a contract can be amended to 50 percent of its original value.

We expected to find that the amendments that we examined would be within Treasury Board of Canada's *Contracting Policy* prescribed limits, and that the associated procurement files would contain sufficient and appropriate documentation which would explain and support the justification for amendments.

Observations

3.2.1 Amendment Limits

It should be noted that the limits we are discussing in this section differ from those discussed in section 3.1.1 of this report. The limits discussed in this section relate to the prescribed dollar value limits for various procurement approaches (such a sole source contracting) as set out in the Treasury Board of Canada's *Contracting Policy*. They do not relate to the dollar value approval limits tied to an individual's delegated authority under FAA section 32. The Policy generally limits, as a best practice, the amount for which a contract can be amended to 50 percent of its original value. If a proposed amendment were to bring the overall value above this threshold, a new contract should be considered. We examined the same targeted sample of 30 contracts noted above, to ensure that amendments related to these files were within the limits prescribed. Table 2 below presents a summary of the results.

Table 2: Contracts Amendment Limits

Number of Contract Amendments Tested	Number of Contracts Amended	
	Within Prescribed Limits	Above Prescribed Limits
30	13	17

We found that two of the 17 contracts amended above prescribed limits stemmed from a failure to use a standing offer that was in place.⁸ We noted that these two contracts and the related amendments, reflected almost the same terms and conditions, and were used with the same service provider as set out under the standing offer in place. Therefore, the nature of these transactions would have been within prescribed limits, if made under the standing

⁶ Treasury Board of Canada's *Contracting Policy*, Section 12.9 – Contract amendments

⁷ Competitive construction contracts with values above \$2M can only be amended to a maximum of 10% of the original value.

⁸ A standing offer 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. It is not a contract until NRC issues a "call-up" against the standing offer.

offer in place, using call-ups. With regards to the remaining 15 contracts, we found that if an individual is not paying attention, they can approve amendments beyond prescribed Policy limits (e.g., 50% of original contract value). This typically occurs for the same two reasons noted above in Section 3.1.1 of this report. Specifically, there is a lack of challenge function being exercised by procurement officers and NRC's electronic signing functionality does not alert the individual that the amendment they are approving would put them over Policy limits.

3.2.2 Documentation Supporting Amendment Decisions

We examined 33 individual amendments pertaining to 30 distinct contracts. We reviewed documentation supporting the decisions for these amendments to determine whether it was sufficient and appropriate. We found 27 of the 33 amendment decisions were sufficiently and appropriately supported. With regards to the remaining six amendments, one did not have any documentation supporting the amendment decision and five did not have compelling rationales to support the decisions. In these cases, new contracts should have been considered.

Recommendations

1. The Vice-President Corporate Services and Chief Finance Officer (CFO) should strengthen the challenge function exercised by NRC procurement group to prevent individuals from approving initiation of expenditures above their delegated financial authorities and from approving amendments above prescribed Policy limits. [Priority: **Moderate**]
2. The CFO should ensure that the quality of documentation and justification supporting procurement and contracting decisions is improved. [Priority: **Moderate**]

3.3 SOLE SOURCE PROCUREMENT DECISIONS

Summary Finding

There is a need to improve oversight and the quality of documentation supporting sole source procurement strategies.

One of the central principles of federal contracting is openness and the practice of providing potential suppliers with opportunities to submit bids for government contracts. For this reason, when departments choose a non-competitive procurement strategy (also known as sole sourcing) it must be fully justified and recorded with appropriate documentation placed on the procurement file.⁹

The reasons for sole sourcing a federal contract are anchored in the approved exceptions to bid solicitations as per the Treasury Board of Canada's *Contracting Policy*, which contains the *Government Contracts Regulations*. Unlike the Treasury Board of Canada's *Contracting Policy*, the *Government Contracts Regulations* have the force of law. As per the *Government Contracts Regulations*, contracts may be entered into without soliciting bids when:

⁹ Treasury Board of Canada's *Contracting Policy Notice 2007-04*

1. the need is one of pressing emergency
2. the estimated expenditure does not exceed set limits
3. the nature of the work is such that it would not be in the public interest to solicit bids
4. only one person is capable of performing the contract.

We expected to find that when a non-competitive approach was chosen the procurement files examined would contain sufficient and appropriate documentation supporting non-competitive contract awards.

Observations

We examined a targeted sample of 13 physical procurement files that contained sole source procurement decisions, to ensure that one or more of the conditions noted above have been met, and that the files contained sufficient and appropriate documentation supporting the non-competitive approach. Table 3 below presents a summary of the results.

Table 3: Sole source procurement decisions

Number of Files Tested	Number of Files with Sufficient and Appropriate Documentation	Files not in Compliance	
		Number of Files that should have used Available Standing Offers	Number of Files Lacking Sufficient and Appropriate Documentation
13	7	2	4

Six of 13 physical procurement files examined did not have sufficient and appropriate documentation supporting the sole source procurement decisions. We observed that three of these cases had been reviewed and incorrectly approved by the CRC. We also found two instances where sole source procurement strategies were used, when the appropriate procurement strategy would have been to use an existing standing offer. As result the rationale provided was not valid. These two case were discussed above, and as noted resulted in contract amendments that exceeded prescribed limits. Overall, we observed a lack of a challenge function being exercised by either the procurement officer or NRC's CRC to ensure that the sole source procurement strategies used were appropriately and sufficiently justified. It is the responsibility of the contracting officers to ensure that the rationale can be adequately supported.¹⁰

The Treasury Board of Canada's *Contracting Policy* states that even if a proposed sole source contract qualifies under one on the four exceptions presented above, the contracting authority is encouraged, whenever possible, to use the electronic bidding methodology to advertise the proposed award through an Advance Contract Award Notice (ACAN). An ACAN is a public notice, posted for 15 calendar days, indicating to the supplier community that a department or agency intends to award a good, service or construction contract to a pre-identified supplier, believed to be the only one capable of performing the work, thereby allowing other suppliers to signal their interest in bidding by submitting a statement of

¹⁰ PSPC's *Supply Manual*, Section 3.15.5

capabilities. If no other supplier submits a statement of capabilities that meets the requirements set out in the ACAN, the contracting officer may then proceed with awarding the contract to the pre-identified supplier. The proposed contract is then deemed to be competitive and may be awarded using the electronic bidding contracting authority.¹¹

Recommendations

See Recommendations 1 and 2.

3.4 CONTRACT SPLITTING AND REPETITIVE CONTRACTING WITH SAME VENDORS

Summary Finding

The NRC does not have effective processes and controls in place to prevent or detect less than optimal, and possible non-compliant procurement activities and transactions, such as contract splitting.

The Treasury Board of Canada's *Contracting Policy* defines contract splitting as the practice of unnecessarily dividing a procurement requirement into a number of smaller contracts, thereby avoiding controls on the duration of assignments or contract approval authorities. We expected to find effective processes and controls in place to prevent or detect contract splitting practices and repetitive purchases with same vendors.

Observations

3.4.1 Contract Splitting

From the total population of 16,000 contracts in 2017, we identified a population of approximately 200 potential cases (involving approximately 1,600 individual contracts), of contract splitting using data analytics. Specifically, we were looking for purchases just below the dollar limit allowed for sole source procurement strategies (i.e. \$25,000 including taxes) with the same vendor within a short period of time. From these 200 potential cases, we selected a judgemental sample of 9 cases involving a total of 25 contracts. We analysed these nine cases and found five cases of contract splitting. The first case involved two purchases of the same chemical by the same research centre, and in the same amount (i.e. \$24,878), from the same vendor, just below the prescribed limit, within a two week period. We further examined transactions involving this type of chemical for this particular research centre and found five additional purchase orders for the same chemical during the period under review for a total of \$106,000. These five purchases orders were also just under the \$25,000 limit. We were advised that in 2014, NRC attempted to implement a standing offer for this type of chemical with support from Public Services and Procurement Canada. The attempt was unsuccessful due to lack of interest from potential suppliers at the time. We do note that a standing offer servicing Alberta, Manitoba, the Northwest Territories and Saskatchewan was later put in place by Public Services and Procurement Canada in June 2017 for the same chemical.

¹¹ Treasury Board of Canada's *Contracting Policy*, Section 10.2.6

The remaining cases of contract splitting involved purchases of goods or services executed on the same day, by the same branch or research centre, with the same vendor for amounts that were either just below the prescribed limit of \$25,000, or when added together, the value of the purchases were above the prescribed limit of \$25,000. In each of these five cases, we observed that procurement officers treated each contract as an individual order and lacked a mechanism to enable them to identify cases of potential contract splitting over short periods of time.

3.4.2 Repetitive Contracting with the Same Vendor

While conducting data analytics for the audit, certain trends were identified with regards to the procurement of specific goods. For example, we found that the same cost centre had made 73 purchase orders with the same vendor during calendar year 2017. All of these employed a sole source contracting approach and were for purchases of various chemicals that when totaled amounted to \$147,685. Each transaction's average value was approximately \$2,000. Although these transactions did not have the appearance of contracting splitting, these purchases should have been procured through more efficient methods. For example, using acquisition cards for the smaller transactions or, having a standing offer put in place, assuming that the majority of the purchases were foreseeable, would be more efficient and cost effective methods of procurement in these cases.

Recommendation

3. The CFO should strengthen monitoring of contracting patterns that indicate less than optimal, and possible non-compliant procurement activities. [Priority: **Moderate**]

3.5 PROACTIVE DISCLOSURE

Summary Finding

Almost all of the contracts and amendments valued at \$10,000 and over examined were disclosed in accordance with the Treasury Board of Canada's requirements. However, there are opportunities to increase transparency, by publishing information related to contracts signed with universities, schools and hospitals.

The Treasury Board of Canada's *Contracting Policy* and guidelines require that contracts or amendments valued at over \$10,000 be publicly disclosed within one month after the close of each business quarter.¹² Specifically, the Treasury Board of Canada's *Guidelines on the Proactive Disclosure of Contracts* states that a department may withhold information regarding the following:

- a) memoranda of understanding with other levels of government and foreign governments
- b) service level agreements between federal departments or with Crown corporations
- c) information about contracts whose proactive disclosure would compromise criminal investigations, litigation, national security or public safety

¹² Treasury Board of Canada's *Contracting Policy*, Section 5.1.6

- d) information described in paragraphs 20 (1) (a) to (d) of the *Access to Information Act*, (for example, a contractor's confidential pricing information).

We expected to find that contracts or amendments valued at over \$10,000 be publicly disclosed within one month of the close of each business quarter.

Observations

A targeted sample of 56 contracts was examined to determine whether these were publically disclosed in accordance with the Treasury Board of Canada's *Contracting Policy* and guidelines. Fifty of fifty-six contracts were disclosed in accordance with the Treasury Board of Canada's requirements. The six remaining contracts were either only partially disclosed or not disclosed at all and were contracts signed with educational institutions. The NRC's Procurement Services has taken the position to treat publicly funded entities such as universities, schools and hospitals as other level of government, and therefore not subject to the Treasury Board of Canada's disclosure requirements. Because educational institutions and hospitals are not recognized as another level of government, and are not specified as one of the four exceptions listed above, we found that there is an opportunity to increase transparency when it comes to contracting with these types of entities.

Recommendation

4. The CFO should ensure the disclosure of contracts and amendments valued at \$10,000 or above with universities, schools and hospitals be disclosed. [Priority: **Low**]

3.6 PURCHASE ORDER PAID WITH ACQUISITION CARDS

Summary Finding

The NRC's use of acquisition cards could be more efficient. We noted an exceptionally high usage of Finance and Procurement Services Branch acquisition cards versus CBI acquisition cards. Opportunities exist to streamline processes and reduce administrative burden.

At the NRC, the research centres, branches, and the Industrial Research Assistance Program (CBIs) can use two types of acquisition cards:

1. Acquisition cards used and managed within the CBIs, where no purchase order is generated within NRC financial system
2. Acquisition cards used by Procurement Officers within the Finance and Procurement Services Branch (FPS buyer)

The first type of acquisition card, used and managed within the CBIs, were not examined as part of this audit but rather in a separate audit of Acquisition Card Management, which was completed fiscal year 2018-2019.

We expected to find that the use of cards by Procurement Officers within the Finance and Procurement Services Branch (FPS Buyers) was creating efficiencies for the procurement of goods and service above \$10,000 at NRC.

Observations

There were approximately 20 FPS buyer acquisition cards in use in 2017. These cards have a monthly credit limit of above \$25,000, with individual transaction limits of \$25,000. When using this type of acquisition card as opposed to acquisition cards used by CBIs, there are more administrative tasks required to be completed, such as the creation of purchase requisition, followed by the creation of a purchase order, and then the recording of a goods receipt in NRC's financial system. Table 4 below presents a summary of our findings.

Table 4: Distribution of Transactions Executed using FPS Buyers' Acquisition Card for 2017

Dollar Range Transactions	Number of Transactions	Percentage of Transactions	Value of Transactions (\$ 000)	Percentage of Value
Up to \$10,000	2,844	99%	2,276	86%
Greater than \$10,000	26	1%	380	14%
Total	2,870	100%	2,656	100%

There were 2,870 FPS buyer acquisition card transactions processed in 2017. From these 2,870 transactions, only 26 were for purchases above \$10,000 for which the CBI cards cannot be used. As result, we found that 2,844 transactions could have been completed using the acquisition cards managed within the CBIs for a more efficient and streamlined approach.

We examined a sample of 17 transactions paid using FPS buyer acquisition cards under \$10,000 pertaining to 12 distinct purchase orders. The number of purchase transactions per purchase order varied from 1 to 164. Having multiple transactions related to the same purchase order creates more manual work in performing monthly reconciliations with the acquisition card statements when trying to identify which transaction belongs to which purchase order. And, because each subsequent transaction made against a purchase order is considered an amendment, as discussed earlier in this report, this can leading to amendments that exceed the prescribed limits set out in policy. We found, however, effective October 2018, FPS buyers located in Ottawa have taken the approach to streamline the use of their FPS buyer acquisition cards by limiting their transactions to one per purchase order to ease the reconciliation process. At the time of finalizing this report we noted that this practice had been implemented across the NRC.

Recommendation

5. The CFO should streamline the use of the FPS Branch acquisition cards by revisiting the use of acquisition cards managed within the CBIs. [Priority: **Moderate**]

APPENDIX A: AUDIT CRITERIA

Criteria	
1	Transactions are pre-approved by budget holders as per their delegated financial signing authority in accordance with Section 32 of the FAA
2	Sufficient and appropriate documentation supporting amendments is in file
3	There is no evidence of contract splitting
4	Sufficient and appropriate documentation supporting non-competitive contract awards (sole source) is in file
5	FAA Section 34 certification is made by the manager with budget responsibilities and in accordance with NRC's Financial Signing Authorities for Performance Certification and proper segregation of duties is maintained between purchasing and entering goods receipt
6	Contracts entered into and subsequent amendments valued at over \$10,000 are publically disclosed
7	Procurements are carried out using the most appropriate procurement mechanism
8	Evidence is kept for Contract Review Committee for the review and or challenge of proposed Sole source contracts above \$25K + Service contracts over \$89.64K + Construction contracts over \$100K and other high risk contracts

APPENDIX B: MANAGEMENT ACTION PLAN

Definition of Priority of Recommendations		
High	Implementation is recommended within six months to reduce the risk of potential high likelihood and/or high impact events that may adversely affect the integrity of NRC's governance, risk management and control processes.	
Moderate	Implementation is recommended within one year to reduce the risk of potential events that may adversely affect the integrity of NRC's governance, risk management and control processes.	
Low	Implementation is recommended within one year to adopt best practices and/or strengthen the integrity of NRC's governance, risk management and control processes.	
Recommendation	Corrective Management Action Plan	Expected Implementation Date and Responsible NRC Contact
1. The Vice-President Corporate Services and Chief Finance Officer (CFO) should strengthen the challenge function exercised by NRC procurement group to prevent individuals from approving initiation of expenditures above their delegated financial authorities and from approving amendments above prescribed Policy limits. [Priority: Moderate]	a. A reminder will be sent to all Procurement Officers to: <ul style="list-style-type: none"> i. ensure the documentation and justification supporting procurement and contracting decisions is complete and available ii. validate the expenditure initiation authority for hard copy purchase requisitions, and 	a. May 31, 2019 b. September 30, 2019 c. June 30, 2020 <ul style="list-style-type: none"> i. July 31, 2019 ii. April 30, 2020 iii. June 30, 2020 Director, Procurement Services
2. The CFO should ensure that the quality of documentation and justification supporting procurement and contracting decisions is improved. [Priority: Moderate]	iii. validate the expenditure initiation authority for amendments in comparison to the total value of the contract when the electronic signature functionality is used.	

Recommendation	Corrective Management Action Plan	Expected Implementation Date and Responsible NRC Contact
<p>3. The CFO should strengthen monitoring of contracting patterns that indicate less than optimal, and possible non-compliant procurement activities [Priority: Moderate]</p>	<p>b. Data analytics scripts will be implemented in ongoing procurement operations.</p> <p>c. The challenge, monitoring and training function will be strengthened through the expansion of the Policy, Monitoring and Training team.</p> <p>(Action item from the LEAN Procurement implementation plan)</p> <ul style="list-style-type: none"> i. New Procurement Services organizational structure designed. ii. Capacity within Procurement Services team created by shifting volume of low-dollar value and low-complexity transactions from Procurement Officers to Research Centres, Branches and IRAP. iii. Expanded Policy, Monitoring and Training team staffed and in place. 	
<p>4. The CFO should ensure the disclosure of contracts and amendments valued at \$10,000 or above with universities, schools and hospitals. [Priority: Low]</p>	<p>The disclosure of contracts and amendments valued at \$10,000 or above will include contracts with universities, schools and hospitals.</p>	<p>July 31, 2019</p> <p>For contracts issued for the period of April 1st to June 30, 2019</p> <p>Director, Procurement Services</p>

Recommendation	Corrective Management Action Plan	Expected Implementation Date and Responsible NRC Contact
5. The CFO should streamline the use of the FPS Branch acquisition cards by revisiting the use of acquisition cards managed within the CBIs. [Priority: Moderate]	The use of FPS branch and CBI acquisition cards will be reviewed with the objective to streamline and increase the efficiency and effectiveness of the use and the processing of the low-dollar value and low-complexity transactions. (activity aligned with c) ii) above via the implementation of the LEAN Procurement Implementation Plan)	April 30, 2020 DG, Finance and Procurement Services