

Executive Council—Contracting Processes Follow-up

SUMMARY

In October 2014¹ we reported the results of our audit of the Department of Executive Council's systems to manage contracts. We recommended that the Department of Executive Council:

- document the rationale for contracting and vendor selection
- follow proper contract administration and evaluation processes
- update its contracting policy to deal with situations where one department arranges a contractor for another department

The department has updated its policy and strengthened its contract administration and evaluation processes but needs to make further improvements to support its contracting decisions and assessment of contract rates.

After we completed our field work, management implemented a new contract form that requires staff to provide more thorough documentation to support sole-sourced contract decisions and contract rates.

What we examined

The objective of our audit was to determine whether the department had adequate processes in place to ensure sole-sourced contracting activities complied with its contracting policy. We examined the department's systems and processes for sole-sourced contracts.

Between April and December 2015, the department entered into six sole-sourced contracts, each with a contract value greater than \$10,000. We examined these six sole-sourced contracts. Our examination included testing contract files and conducting interviews with management.

Overall conclusion

The department has updated its contracting policy and strengthened some of its contracting processes, but further work is needed.

What we found

We found that the department:

- has updated its contracting policy, including clarifying situations where one department arranges a contract for another department
- has strengthened its contract administration and evaluation procedures
- needs to improve its documentation to support the assessment of the contract rate and to support contracting decisions, including the need to contract and selection of vendors

¹ *Report of the Auditor General of Alberta—October 2014*, no. 10, page 62. This recommendation was made jointly to the Department of Executive Council and the Department of Municipal Affairs. We report on the Department of Municipal Affairs' implementation of this recommendation on page 137 of this report.

What needs to be done

The department must continue to strengthen its processes and comply with its contracting policy. Specifically, the department must ensure that support for contracting decisions and the reasonability of contract rates is documented and on file and that contracts are authorized before services are received.

Why this is important to Albertans

Strong contracting policy and processes help ensure Albertans receive the services they need and value for the money spent on contracted services.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine whether the department had implemented our contracting recommendation from October 2014.

To perform the audit we interviewed management, reviewed department policies and tested six sole-sourced contracts the department entered into between April and December 2015.

We conducted our field work from March to May 2016. We substantially completed our audit work on July 21, 2016. We completed our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS AND RECOMMENDATION

Improve contracting processes—repeated

BACKGROUND

In October 2014² we recommended that the Department of Executive Council:

- document the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- follow proper contract administration and evaluation processes
- update its contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

In November 2014 the Department of Treasury Board and Finance issued the Procurement and Sole-sourcing Directive.³ The directive provides guidance to all departments in the Government of Alberta on requirements for contracting and provides specific guidance on and limitations for using sole-sourced contracts.

Sole-sourced contracting refers to a situation where a department issues a contract to a vendor without holding an open, public competition. There are several reasons why a department may need to use sole-sourced contracts—for example, if only one qualified vendor exists or if there is an emergency.

² *Report of the Auditor General of Alberta—October 2014*, no. 10, page 62.

³ Treasury Board Directive 2014/7—Procurement and Sole-sourcing Directive.

RECOMMENDATION 8: IMPROVE CONTRACTING PROCESSES—REPEATED

We again recommend that the Department of Executive Council improve its contracting processes by documenting:

- the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- its assessment of whether proposed contract rates are reasonable, and ensuring contracts are authorized and in place before contracted services are received

CRITERIA: THE STANDARDS FOR OUR AUDIT

The Department of Executive Council should have adequate and relevant policies in place to guide and direct sole-sourcing activities, and it should comply with these contracting policies.

OUR AUDIT FINDINGS**KEY FINDINGS**

- The department has updated its contracting policy to align with government-wide directives and practices. The department has also improved its contract evaluation processes.
- We continue to find insufficient documentation to support contracting decisions and to support the department's assessment of whether its contract rates are reasonable.

Contract policy

In June 2015 the department implemented a new contracting policy to align with Treasury Board's directive on sole-sourced contracts and procurement. The department also clarified responsibilities for compliance with its policy in situations where one department arranges for a contractor to perform services for another department.

Contract deliverables and evaluations

For all sole-sourced contracts we tested, we found that:

- deliverables were provided as outlined in the contract
- evaluations had been finished and documented for contract files that were complete at the time of our follow-up audit

Contract decisions and administration

The department uses a contract information form to document and support its contracting decisions. The form includes criteria that staff select to support decisions on contracting and sole sourcing. However, the criteria are too general. For example, one of the criteria for sole sourcing is that the department can demonstrate that only one supplier is able to meet the requirements. The department does not require staff to document the requirements or what they have done to demonstrate that only one supplier exists.

For some of the sole-sourced contract files we tested, we found insufficient documentation to support decisions on contracting and sole sourcing. Specifically, there was not enough documentation to support:

- the need to contract for the service
- the rationale for the department's choice of vendor

For several sole-sourced contract files we examined, the department had not documented its assessment of the reasonability of the proposed contract rate.

We also identified one instance where the department did not sign the contract until nearly one month after the contractor began providing services.

Since the completion of our field work, the department has implemented a new contract information sheet and clarified documentation requirements for sole-sourced contracts to deal with the documentation deficiencies we identified in our follow-up audit.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without strong processes in place to manage contracting, the department is at risk of not receiving the best value for money.