



CONTRACT PRACTICES AUDIT
PRINCE GEORGE BUSINESS AREA

FINAL REPORT

July 2006

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Executive Summary

This report sets out the results of the contract practices audit undertaken by BCTS in the Prince George Business Area (PGBA) in June 2006. The audit assessed PGBA contracting practices for compliance with ministry policy and prudent risk management.

Overall, the PGBA has established a comprehensive contracting program resulting in a high level of compliance with ministry contracting policy and sound principles of risk management underscoring contract decisions. Many sound contracting practices by PGBA management and staff were observed. Of particular note is the Operations Manager's hands-on involvement with the contracting function, newly introduced management reporting procedures and staff diligence in complying with ministry contracting policies across all phases of contracting.

The audit identified some opportunities for the PGBA to further strengthen its contracting practices and continue to prudently manage contracting risks as goals and workloads increase. These opportunities mainly relate to increasing support for Contract Coordinators, utilizing the Business Officer as intended by the BCTS business model and continuing to find ways to reduce the workload (and cost) of administering contracts.

Under the BCTS business model, Contract Coordinators are responsible for overseeing contractors' activities, including verifying and attesting to the satisfactory receipt of services and that contractor invoices reflect works completed and contract terms. The role of the Contract Coordinator is a major part of managing contracting risks under the BCTS business model. The audit identified a number of opportunities for the PGBA to increase support for its Contract Coordinators, including increased training and oversight.

The PGBA Business Officer is not yet used for all functions intended by the BCTS business model. The Business Officer should assume a greater role in providing leadership in contracting within the business area and assurance to the Business Area Leadership Team and the Timber Sales Manager that contracting practices are effective and in compliance with ministry contracting policies.

To reduce contract administration workload (and cost), the PGBA should expand its use of contractor pre-qualified eligibility lists and increase its use of invitation to quote as a means to procure services.

Lastly, BCTS operational goals are increasing significantly and as a result, contracts are getting larger. Contracts in excess of \$100,000 are commonplace with some \$750,000 contracts. These large contracts can increase the risk of creating an oligopoly/monopoly in the contractor community, as well as the risk that contracts are not prudently managed. The BCTS should consider developing policy to promote contracting practices that appropriately balances the need for BCTS to:

- achieve its operational goals;
- ensure effective contract management; and,
- promote a stable and continuing contractor community.

Introduction

BC Timber Sales is undertaking a review of its contracting practices to assess compliance with government and ministry contracting policies, and to identify opportunities to promote effective operations through strengthening contracting policies and practices. The Prince George Business Area (PGBA) volunteered for this audit and is the fifth business area reviewed to date.

The specific objectives of the audit are to:

- assess contracting practices to determine whether contracts are planned, solicited, awarded, amended, monitored, paid and reported in accordance with applicable policy and prudent risk management;
- identify areas where contract practices and policies could be strengthened; and,
- where required, make recommendations to strengthen contracting practices and policies.

The audit work undertaken included:

- reviewing 28 contract files (13 of which included multi-year contracting practices) in the areas of engineering, multi-phased planning, forest health and silviculture; and,
- interviewing 11 staff with contracting responsibilities within the PGBA.

The contract files reviewed were selected from contracts initiated or paid during the period from April 1, 2005 to March 31, 2006. The majority of the contracts reviewed related to works completed during the 2005 forestry season.

Findings and Recommendations

The audit identified many sound contracting practices and apparent diligence by PGBA staff in complying with applicable contracting policies, resulting in contract awards that are defensible and contracting risks being appropriately addressed.

The audit also identified some opportunities to increase the effectiveness of contracting practices and reduce contracting risks further. Detailed audit findings and recommendations are set out in this section.

1.0 Sound Practices

The audit identified a number of sound contracting practices that should be continued by the PGBA.

- A high level of involvement in contract planning and award by the Operations Manager.
- Regular Timber Sales Office Management Team and Leadership Team meetings.
- Formal management reporting procedures linking contract deliverables to goal achievement.
- Limited use of direct award and equipment hire contracts.
- Ensuring reasonable unit-cost increases upon renewal of contracts.
- Requiring bid securities for invitations to tender with public openings.
- Thorough contract administration, such as obtaining applicable Worksafe and insurance documentation.
- Consistent use of security deposits and holdbacks.
- PGBA-wide contractor pre-qualification lists (i.e. single agency model).
- Full implementation of the Contract Summary System.
- Administering the \$25/tender package charge.

Of particular note is the cohesiveness of contracting practices by the various areas and persons with contracting responsibilities resulting in an overall comprehensive contracting program in the PGBA.

Recommendations

The PGBA should share its new management reporting procedures, including electronic templates, with the Contract Efficiencies Working Group for other business areas to adopt as a best practice.

2.0 Supporting Contract Coordinators

Under the BCTS business model, Contract Coordinators are responsible for overseeing contractors' activities, including verifying and attesting to the satisfactory receipt of services and that contractor invoices reflect works completed and contract terms. The role of the Contract Coordinator is a major part of managing contracting risks under the BCTS business model.

Based on the files reviewed and the interviews conducted, it is evident that Coordinators are working diligently to fulfill their contracting responsibilities. The following observations support the importance of the Contract Coordinator role and help illustrate opportunities for the PGBA to support this role.

Documentation

- Too frequently the contract files reviewed did not contain sufficient documentation to support the assertion of goods and services received. Unit-based invoices, such as daily or hourly charges, are sometimes being lumped on invoices such that the meaningful application of goods and services could be questioned.

As an example, under contract MP2006 TPGMA-001 the year-end invoice totaling \$215,000 did not include a breakdown of days and persons working, rather only the total number of recce days, 248, broken down by heli, truck and snowmobile access. Other similar examples were observed and generally related to large multi-phase development contracts.

By far, the best method to manage the goods and services function is direct knowledge of contractors' daily activities by Coordinators. This knowledge is commonly gained through Coordinators' contract monitoring activities, including regular field visits. However, Coordinators indicated that, on average, they are in the field only one day per week. This increases the risk that Coordinators do not have sufficient direct knowledge of contractor activities when asserting that services invoiced have been received.

It is important that Contract Coordinators understand that when applying goods and services on unit-based contracts, they are asserting that the services invoiced have been satisfactorily received (in this case that the number of recce days were incurred and are reasonable in relation to the deliverables). Based on interviews conducted, there is a risk that coordinators perceive that the receipt of deliverables fulfills this requirement (in this example, recce maps). It would be beneficial to require appropriate detailed documentation on contractor invoices to support billed amounts and an assessment of the reasonableness of the hours in relation to the deliverables (in this case, a detailed breakdown of days and persons conducting reccees). There is an opportunity for the PGBA to expand its Resource Clerks' responsibilities to assist in ensuring such documentation is received.

Communications

- The recent corporate implementation of I-procurement increases Contract Coordinators' contracting responsibilities and reduces some oversight of the Contract Officer (Expense Authority) function. Prior to I-procurement, spending (expense) authorities applied spending authority on each contractor invoice, which facilitated some level of oversight of Contract Coordinators' activities. Under the I-procurement model, spending authority is applied only at the time of contract initiation and spending authorities no longer see contractor invoices. This increases the risk of Coordinator errors or deficient work going undetected until it is too late – for example, the audit identified a few, generally isolated, instances where the rates invoiced were not consistent with contract terms. This model increases the importance of regular communication and progress reporting between Contract Coordinators and Contract Officers.

Contract Size

- The number and size of contracts has increased significantly under the BCTS business model. Contracts greater than \$100,000 are commonplace with some contracts greater than \$500,000 and up to \$750,000. Very large contracts increase the workload and complexity of their management. Some staff interviewed expressed concern that workloads have reached the point where there is a risk that some contracts are only administered, rather than prudently managed. Exacerbating this risk, the current BCTS

business climate is heavily focused on the achievement of goals and monitoring plans are not prepared for large contracts.

Large contracts also increase the risk of creating an oligopoly/monopoly in the contractor community, which can lead to higher costs and supply shortages for services required by the BCTS. The TSM indicated that the Association of B.C. Forestry Professionals has expressed concern about large multi-phase contracts eliminating the primary contractors.

Training

- Review of Coordinators' training records suggests that Coordinators have generally undertaken some fundamental (novice level) contract management training. But it appears training is primarily hands-on through on-the-job experiences and Coordinators' may benefit from some more advanced (working knowledge level) contract management training.

Recommendations

To help support and strengthen the role of Contract Coordinators, the PGBA should:

- **require Contract Coordinators to prepare contract-specific monitoring plans for large complex contracts;**
- **ensure appropriate detailed information is provided in support of invoices associated with unit-based contracts, and encourage Resource Clerks to provide oversight that such information is received along with invoices;**
- **ensure Contract Coordinators document and retain on file the basis of their assertion that services have been satisfactorily received;**
- **ensure Contract Coordinators regularly review contract status, contractor performance and any potential contract issues with Contract Officers, including the satisfactory performance of goods and services received in accordance with contract monitoring plans (where applicable); and,**
- **ensure that Contract Coordinators' contract training requirements (competencies) include contract management training to the "working knowledge level" and are incorporated into their Employee Performance & Development Plans.**

To ensure contracts do not become so large that they are not able to be prudently managed with resources available, BCTS should consider developing policy to promote contracting practices that appropriately balances the risks and benefits such as the need for BCTS to:

- **achieve its operational goals;**
- **ensure effective contract management; and,**
- **promote a stable and continuing contractor community.**

3.0 Strengthening the Role of the Business Officer

In 2000, an audit of ministry contract practices by the Office of the Comptroller General found that there was a higher level of contract policy compliance in offices where senior management regularly reviewed contracting activities (in BCTS this would mean the TSM and Business Area Leadership Team (BALT)). Hands-on involvement by the Operations Manager and meaningful management reporting protocols were observed as strengths in the PGBA's contracting practices.

Contract practices will be further strengthened by expanding the role the Business Officer to include some oversight responsibilities.

In their role as the comptroller for the TSO the Business Officer provides leadership in the business area's corporate operations – including contracts. The Business Officer's job description anticipates that their duties include the following.

- Overseeing the efficient and effective administration of a large volume of diverse contracts including reviewing and ensuring the most cost effective alternatives are utilized.
- Developing, adapting and implementing innovative business practices/methods...such as introducing multi-year contracting.
- Makes recommendations to improve efficiencies and to develop practical strategies, solutions, systems and procedures to continually enhance TSO financial capacity as it evolves into a larger more complex organization.

Based on the interviews conducted, the PGBA's contracting practices will be strengthened by fully implementing intended roles and responsibilities of the Business Officer to include providing leadership in contracting within the business area and assurance to BALT and the TSM that contracting practices are effective and in compliance with ministry contracting policies.

As a starting point, the Business Officer's duties should be expanded to include overseeing and/or implementing a quality assurance framework for PGBA contracting activities. Such a framework should include periodic reviews of contracts. The Business Officer should also have a role in:

- evaluating PGBA contracting practices, identifying areas for improvement and making recommendations to the BALT; and
- overseeing the PGBA pre-qualified contractor eligibility list(s), to ensure effective contract award practices.

Recommendations

The Business Officer should assume a greater leadership role with respect to contracting and ensure that the business area has in place an effective contracting accountability and performance management framework.

4.0 Miscellaneous Opportunities

Expanded eligibility lists

The PGBA may be able to reduce contract administration by developing a single comprehensive PGBA eligibility list for all activities. This has the potential to reduce overall administration costs associated with administering disparate lists and will further reduce the frequency of situations where direct award and equipment hire contracts are necessary. For certain activities, such as silviculture, developing an eligibility list jointly with neighboring business areas that utilize many of the same contractors may further reduce administration costs.

One Business Area (Kamloops) has successfully managed to reduce the staff resources required to establish and administer such large eligibility lists by contracting out the activity.

Use of invitation to quote

Other than in direct award situations, it does not appear that invitations to quote (ITQ) are used by the PGBA. Increased use of ITQs has the potential to further reduce the use of direct awards, ITTs, and overall contract administration costs. An ITQ saves the effort associated with tender package preparation and certain ITT-related formalities can be waived, such as advertising, strict conditions of tender, bidder conferences, public tender openings and fax/email restrictions. An ITQ is a less formal process than the invitation to tender and, by inviting several contractors to quote for services, fulfills the intent of the ministry policy requirement to competitively award contracts. ITQs can also be utilized to assist in building contractor capacity where required.

Although ITQ has generally been restricted to low dollar value works or services (<\$25,000), ministry contract policy allows its use for larger contracts when approved by the responsibility centre manager. As a result the PGBA could approve the use of Invitations to Quote for works/services:

- up to \$25,000, where three or more quotes are procured from qualified contractors (a pre-qualified list is not required);
- up to \$50,000, where three or more quotes are procured from contractors on the PGBA pre-qualified contractor eligibility list and approved by the TSM; and
- up to \$100,000, where quotes are obtained from all qualified contractors on the pre-qualified contractor eligibility list and approved by the TSM.

Holdbacks and performance securities

With one exception (described below), the PGBA is administering contractual third party claims holdbacks and performance security deposits in accordance with ministry policy. Those persons interviewed understand the different risk-management objectives associated with the two forms of security/holdbacks, but expressed discontent about the associated administrative workload. It appears that contract administration costs would likely be reduced if one form of security/holdback were able to fulfill the risk-management objectives of ministry contract policies.

For multi-phased development services, the PGBA is utilizing consulting services contracts to circumvent policy requirements for contractual third party claims holdbacks. This is not consistent with ministry contract policy and does not achieve the ministry's risk-management objectives.

Verifying contractors' past performance

In the files reviewed, only a few contractor performance evaluations had been adequately completed in accordance with ministry policy. Contract practices will be strengthened by ensuring contractors' performance is evaluated, and is confirmed as part of the contract pre-award process. Electronically filing contractor evaluations on the PGBA local area network would enable such verifications to be readily performed with minimal increased administration costs. Where eligibility lists and select invitations to tender/quote are utilized, past performance should be verified prior to invitation.

Recommendations

To reduce contract administration costs, the PGBA should consider:

- a.) developing a single comprehensive pre-qualified contractor eligibility list for all work areas;**

- b.) jointly developing its pre-qualified contractor eligibility list with neighboring business areas, for some work areas; and**
- c.) using contracted resources to establish and maintain lists.**

The PGBA should increase its use of Invitations to Quote, where appropriate, for works/services up to \$100,000.

The Contract Efficiencies Working Group should investigate whether a single form of security/holdback can be utilized to achieve the ministry's risk-management objectives associated with contractual third party holdbacks and performance security deposits. Administration would be least if performance security deposits were applied to fulfill contractual third party holdback requirements (if viable).

The PGBA should utilize operational services contracts for multi-phased development services, in accordance with ministry policy.

Contractor performance evaluations should be completed for all contracts exceeding \$50,000 in accordance with ministry contracting policy.

The PGBA should consider electronically filing contractor performance evaluations on the PGBA local area network, and ensure that verification of satisfactory past performance is required standard practice in contract pre-award processes.