

May 2014

RECEIVING VALUE FOR MONEY FROM PROCURED PROFESSIONAL AND ADVISORY SERVICES

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The Honourable Linda Reid
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Madame Speaker:

I am pleased to transmit to the Legislative Assembly of British Columbia my report, *Receiving Value for Money from Procured Professional and Advisory Services*.

We conducted the audit in accordance with Section 11(8) of the *Auditor General Act* and the standards for assurance engagements set out in the *CPA Canada Handbook - Assurance*.

The Government of British Columbia buys more than \$560 million worth of professional and advisory services annually, mostly through contracts with private sector businesses. These services, such as technical studies, strategic advice, and project supervision, are critical to helping government achieve its objectives for public programs. Government's approach to buying services is designed to provide the best value for money while following a fair, transparent process for the ministries and vendors.

In our audit of government procurement, we found that services were procured in a manner that was mostly competitive, fair and cost-effective. In the majority of contracts we examined, ministries received the services on time and at the negotiated price. The ministries in our sample, however, did put themselves at risk of not receiving value for money. For this reason, our report contains six recommendations to support government with receiving the best possible value for taxpayer money and for achieving the intended results.

Fair, competitive procurement that achieves intended outcomes is in the best interests of government, the vendor community and taxpayers. It is important for government to ensure that its procurement practices and policies consistently achieve the right services at the right price and time.

I wish to thank the Ministry of Advanced Education; Ministry of Energy and Mines; Ministry of Technology, Innovation and Citizens' Services; and Ministry of Transportation and Infrastructure for their cooperation throughout this audit. I also extend my thanks to the Ministry of Finance for its work in support of the audit. I look forward to following up on our recommendations in 2015.

Russ Jones, MBA, CA
Auditor General
Victoria, British Columbia
May 2014

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THE GOVERNMENT OF BRITISH COLUMBIA buys more than \$560 million worth of professional and advisory services annually, mostly through contracts with private sector businesses. These services, such as technical studies, strategic advice, and project supervision, are critical to helping government achieve its objectives for public programs. Fair and competitive procurement that achieves value for money is in the best interests of government, the vendor community and taxpayers.

In our audit of government procurement, we found that services were procured in a manner that was mostly competitive, fair and cost-effective. In the majority of the contracts that we examined, the sampled ministries received the services on time and at the negotiated price. The ministries, however, did put themselves at risk of not receiving value for money. For this reason, our report contains six recommendations to support government with receiving the best possible value for taxpayer money and for achieving the intended outcomes.

I wish to thank the Ministry of Advanced Education; Ministry of Energy and Mines; Ministry of Technology, Innovation and Citizens' Services; and Ministry of Transportation and Infrastructure for their cooperation throughout this audit. I also extend my thanks to the Ministry of Finance for its work in support of the audit. I look forward to following up on our recommendations in spring 2015.



Russ Jones, MBA, CA
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THE BRITISH COLUMBIA government buys more than \$560 million worth of professional and advisory services each year. These services, such as technical studies, strategic advice, engineering design, IT and legal support, and project supervision, are crucial for helping government achieve its objectives for public programs. Government relies on these services because it does not always have enough employees with the necessary skills, particularly where the need for those skills is short term.

Such services are obtained through a process known as procurement, which typically results in contractual arrangements with private-sector vendors. Procurement involves planning, competing, awarding and evaluating contracts. Procuring skills and services makes sense when the anticipated benefits of the needed services exceed the cost of buying them.

Ensuring that contracted services are procured fairly and effectively is in everyone's best interest: the public expects government to get value for the tax dollars spent, vendors expect fair access to contract opportunities, and ministries expect to get the services on time and for the contracted price.

We carried out this audit to determine whether government is receiving value for money from the professional and advisory services it procures. We did this by examining a sample of contract files to see whether the procurement of services was:

- ◆ competitive, fair and cost-effective; and
- ◆ resulted in the right services delivered at the right price and at the right time.

Our sample included 40 contract files; 10 from each of four ministries: Advanced Education; Energy and Mines; Transportation and Infrastructure; and Technology, Innovation and Citizens' Services. Our findings and conclusions are specific to those contract files, but provide information that could enhance the procurement process across all ministries.

Overall, we found that the contracts for services we reviewed were procured in a manner that was mostly competitive, fair and cost-effective, and that in the majority of contracts the services were delivered in keeping with the contractual terms. However, we did find examples where the ministries we audited put themselves at risk of not receiving value for money from procured services.

Based on our audit, we concluded that the four ministries should pay more attention to:

- ◆ assessing whether procurement is necessary;
- ◆ providing assurance that procurement opportunities are competitive to the extent required for the value of the contract;
- ◆ ensuring contracts are directly awarded only when specific conditions apply;
- ◆ defining the outcomes sought and evaluating whether those outcomes were achieved;
- ◆ conducting vendor evaluations after contracts are complete; and
- ◆ considering vendor past performance when making procurement decisions.

WE RECOMMEND THAT:

THE MINISTRY OF ADVANCED EDUCATION, MINISTRY OF ENERGY AND MINES, AND MINISTRY OF TECHNOLOGY, INNOVATION AND CITIZENS' SERVICES ENSURE THAT THEIR APPROACH TO PROCUREMENT IS DESIGNED TO:

- 1** assess whether procuring services is necessary by: clearly comparing the cost of procurement with the cost of other options; and, where required, completing a business case analysis.

ALL FOUR OF THE MINISTRIES WE AUDITED ENSURE THAT THEIR APPROACH TO PROCUREMENT IS DESIGNED TO:

- 2** compete every opportunity to the extent appropriate by: matching the solicitation strategy to the value of the opportunity; avoiding preferential treatment; and providing adequate time for interested parties to respond to solicitations.
- 3** assess vendor performance against all contract requirements as the work progresses.
- 4** achieve the intended purpose for each contract, by identifying outcomes sought and evaluating whether those outcomes were realized.
- 5** complete and document evaluations of vendor performance to assist in future procurement decisions.

THE OFFICE OF THE COMPTROLLER GENERAL WORK WITH THE MINISTRIES TO:

- 6** develop and implement a fair and transparent process for considering past vendor performance when making new procurement decisions.

OVERALL MANAGEMENT COMMENTS

Government would like to thank the Office of the Auditor General (the Auditor General) for undertaking this performance audit. Government remains committed to upholding the principles of fair, open and transparent procurement processes and to ensuring taxpayers and government receive the best value for their money. Government also recognizes the importance and need to review and continually improve its procurement processes as integral to this commitment.

We are pleased to note that the Auditor General found that, overall, services were delivered in a manner that was competitive, fair and cost-effective. Government also appreciates the Auditor General's conclusion that services were, overall, delivered in accordance with the contract terms, on time and at the negotiated price. With respect to the specific recommendations contained in the report, the ministries subject to this audit offer the following comments:

MINISTRY OF ENERGY AND MINES

The Ministry of Energy and Mines is committed to competitive and fair procurement delivered in a cost effective manner to achieve the results intended. We will move forward on the Auditor General's recommendations including:

- ♦ efficient documentation;
- ♦ continuous improvement to our processes; and
- ♦ adherence to best practices and the requirements of the Core Policies and Procedures of the Province.

In addition, the Ministry is looking forward to participating in a corporate solution for a fair and transparent process to consider past vendor performance when making new procurement decisions.

Following are specific comments to individual recommendations:

RECOMMENDATION 1: *Assessing Whether to Proceed with Procurement*

The Ministry agrees with the need for cost/benefit documentation balanced with efficient and effective process for contracting services.

RECOMMENDATION 2: *Making Procurement Opportunities Appropriately Competitive*

The Ministry agrees with the need for continuous improvement in processes including following best practices for Notices of Intent postings.

RECOMMENDATION 3: *Complete and document evaluations of vendor performance*

The Ministry acknowledges the benefits of post-contract evaluations and will continue to educate staff. The Ministry is looking forward to participating in a corporate solution for a fair and transparent process to consider past vendor performance.

RECOMMENDATION 5: *Defining Service Needs and Monitoring Deliverable Received*

The Ministry acknowledges the benefits of vendor performance documentation against contract requirements and will continue to educate staff on this item.

RECOMMENDATION 6: *Achieving Desired Outcomes*

The Ministry acknowledges the benefits of evaluating completed contracts against the desired outcomes and will continue to educate staff on this item.

MINISTRY OF TECHNOLOGY, INNOVATION AND CITIZENS' SERVICES

RECOMMENDATION 1: *Assessing Whether to Proceed With Procurement*

The Ministry of Technology, Innovation and Citizens' Services agrees that appropriate planning for procurement is critical to achieving the best value. The Ministry always considers the alternatives to procurement and will take steps to ensure those considerations are better documented.

RECOMMENDATION 2: *Making Procurement Opportunities Appropriately Competitive*

The Ministry competes procurement opportunities as required by core policy, legislation and trade agreements. In exception cases, we will ensure that a clear rationale and appropriate documentation is included in the contract file. Additionally, on our contract checklist we will ensure that the issue of potential conflicts of interests is considered and documented.

Introduction of the SRFP and smart form technology specifically, will streamline the RFP development process for opportunities below \$250,000.

RECOMMENDATIONS 3: *Completing Evaluations of Vendor Performance*

The Ministry is following core policy with regards to completing past-vendor performance evaluations. In January 2014 a targeted communication was sent out regarding evaluations and we continue to remind staff of the policy and discuss with our internal financial community of practice as required.

RECOMMENDATION 5: *Defining Service Needs and Monitoring Deliverables Received*

The Ministry has a formal post-contract evaluation process (developed in February 2013). We are developing clear guidelines and procedures that align with core policy, and will ensure that staff have access to this documentation through our website. Our intention is that this will enhance the current post-contract evaluation form to include specific and clear monitoring and reporting requirements.

RECOMMENDATION 6: *Achieving Desired Outcomes*

The Ministry agrees with this recommendation. We will ensure that our guidelines/ procedures assist contract managers in defining clear outputs, outcomes, monitoring and reporting requirements.

MINISTRY OF TRANSPORTATION AND INFRASTRUCTURE

RECOMMENDATION 2: *Making Procurement Opportunities*

Appropriately Competitive

The Ministry agrees with the importance of ensuring that our approach to procurement is designed to provide adequate time for interested vendors to respond to solicitation and to ensure that our approach to procurement is designed to compete every opportunity to the extent appropriate. The ministry has detailed directions in the Ministry's Contract Admin manual. We will use this opportunity to provide focused and targeted training to ministry contract management staff as well as ensure training is provided on an ongoing basis for those that are new to the ministry.

RECOMMENDATIONS 3: *Completing Evaluations of Vendor*

Performance

The Ministry of Transportation and Infrastructure's Contract Administration Manual has detailed direction and templates for completion of post contract evaluations. The ministry will address and re-enforce this recommendation with specific targeted training to ensure staff are reminded of this requirement and to ensure that this step is taken for all contracts in the future.

RECOMMENDATION 5: *Defining Service Needs and Monitoring*

Deliverables Received

The Ministry agrees that evaluating vendor performance against contract requirements is an important step. The ministry has detailed directions in the Ministry's Contract Admin manual that provides guidance to assess vendor performance against contract requirements. The ministry typically meets with the contractor as the contract progresses to deal with vendor performance issues. A training program is being delivered that will highlight that vendor performance must be documented and appropriately assessed against contract requirements.

RECOMMENDATION 6: *Achieving Desired Outcomes*

The Ministry agrees that it is important that procurement is designed to achieve the intended purpose of the contract by identifying the outcomes to the contract requirements. The ministry has detailed directions in the Ministry's Contract Admin manual that provides direction to ensure that the procurement is designed to achieve the intended purpose of the contract. The ministry will address and re-enforce this recommendation with specific targeted training to ensure staff are reminded of this requirement and to ensure that this step is taken for all contracts in the future.

MINISTRY OF ADVANCED EDUCATION

In general, the Ministry of Advanced Education agrees with the recommendations made by the Auditor General, and will work to implement the specific recommendations. Most of the recommendations relate to issues that can be addressed through adjustments to staff training processes related to procurement. Internal procurement training for staff was updated in 2013/14 and will continue to be modified to address the recommendations presented in this report.

RECOMMENDATION 1: *Assessing Whether to Proceed With Procurement*

The Ministry agrees with recommendation #1 and through internal procurement training sessions, will highlight the requirement for clear documentation of cost comparison analysis when planning for and competing contract services

RECOMMENDATION 2: *Making Procurement Opportunities Appropriately Competitive*

The Ministry has implemented a more competitive process for contracts <\$25,000 (getting quotes from 3 qualified vendors) and will continue to follow procurement policy to ensure the best value for money is received. Training materials will be updated to ensure staff that procure contracted services follow a competitive process for all contracts, regardless of value, wherever feasible.

RECOMMENDATION 3: *Completing Evaluations of Vendor Performance*

The Ministry will ensure formal contract evaluations are completed and filed appropriately. For most contracts, evaluation of the services provided were completed, but not always included in the contract files. Training with staff will be adapted to ensure this step is taken for future contracts.

RECOMMENDATION 5: *Defining Service Needs and Monitoring Deliverables Received*

The Ministry of Advanced Education currently ensures that the services required are clearly demonstrated and translates that into clear contract deliverables. All contracts currently reviewed and approved by the EFO.

The Ministry's contract approval form and approval process works to ensure the purpose and need for contracted services are demonstrated. Moving forward, the Ministry will ensure that training of contract managers emphasizes the need for strong documentation in this area.

RECOMMENDATION 6: *Achieving Desired Outcomes*

Contract managers in the Ministry have ensured that contract outcomes are being achieved, with services clearly defined in the contract. Documenting the outcomes achieved has not always been consistent, and will work to improve the formal evaluation of contracts through ongoing staff education and by ensuring appropriate evaluation templates are available.

MINISTRY OF FINANCE (OFFICE OF THE COMPTROLLER GENERAL)

The Office of the Comptroller General, Ministry of Finance (the Office) appreciates the Auditor General's comments that the government policy framework provides ministries with adequate flexibility to pursue a cost-effective approach for each business opportunity. The Office will communicate the recommendations the Auditor General has made in this report to the government procurement community, including those ministries that were not part of the audit.

RECOMMENDATION 4: *Using Evaluations of Vendor Performance*

The Office also appreciates the Auditor General's recognition of the challenges to effective and widespread use of post contract vendor evaluations in future procurement decisions. The Office will continue to work with the procurement community to build on the existing Vendor Reference Check Review Policy and associated guidelines, by examining suitable opportunities to develop and implement a fair and transparent process for considering past vendor performance.

BACKGROUND

The importance of procuring professional and advisory services

The provincial government buys more than \$6 billion worth of goods and services each year, according to an estimate provided by Shared Services BC. Of this amount, we estimated that nearly 10% – over \$560 million – is for professional and advisory services.¹

Professional and advisory services are purchased mostly through contractual arrangements with individual contractors and businesses, referred to as vendors. The process for obtaining these services is known as procurement. It involves planning, competing, awarding and evaluating contracts.

Included in government's broad definition of professional and advisory services are technical studies, IT and legal support, engineering design, project supervision, strategic advice and many other services.²

Government relies on these services to achieve its program objectives because it does not always have enough employees with the necessary skills, particularly where the need for those skills is short term. Procuring skills and services makes sense when the anticipated benefits of the needed services exceed the cost of buying them.

Effective, efficient and economic procurement of professional and advisory services is in everyone's best interest. Vendors offering such services expect fair access to contract opportunities. Ministries expect to get the services at the specified time and price. Citizens expect value for money from their tax dollars. For all these reasons, it is important for government to ensure that its procurement practices and policies are fair, and achieve the right services at the right price and time.

Government's procurement process includes six phases, from planning to post-contract evaluation and corporate reporting (see Exhibit 1).

1 Professional and advisory services purchased by government in BC: 2013 – \$563 million; 2012 – \$509 million; 2011 – \$608 million; 2010 – \$665 million. Source: Corporate Accounting System

2 Professional and Advisory services include: *STOB 60, Professional Services - Operational and regulatory for services that are provided and billed directly to government and STOB 61, Professional Services - Advisory, for discretionary contracts that will assist in the development of policy and/or programs, or improve or change the delivery of existing programs (such as management consulting)*

Exhibit 1: Phases of the procurement process



Source: Adapted from the Purchasing Handbook: A Guide to Acquiring Goods and Services in the Government of British Columbia, Shared Services BC

Designing procurement to receive best value for money

Ensuring that procurement provides the right services at the right price and time requires government to manage both the cost and quality of services purchased, as well as to assess whether intended program outcomes are achieved.

The procurement of professional and advisory services is designed for government to receive the best value for money while following a process that is fair and transparent for both ministries and vendors.

Provincial legislation and policy, together with trade agreements, set out the framework for procurement practices in British Columbia (see Appendix A). Ministries work within these standards to find the best approach for each contract opportunity. Key aspects of the framework aimed at achieving value include:

Deciding whether to proceed with procurement

Achieving value for money begins with deciding whether services should be procured. This involves a ministry:

- gaining a clear understanding of its service needs and the desired outcomes;
- assessing the value of anticipated benefits relative to the cost of buying services; and
- reviewing the availability of alternatives to procuring new services, such as using in-house resources to provide the services or seconding resources from other ministries.

Ensuring procurement strategies are competitive, fair and cost-effective

Value for money principles require procurement processes to be competitive, fair and cost-effective. Policy requires a ministry to select from a range of solicitation strategies, which vary in rigour and thoroughness, to match the complexity and value of the business opportunity (see Exhibit 2). A procurement opportunity that is open to all vendors can encourage them to propose high-quality services at a low price, but could drive them away if the cost of preparing the proposal is too high relative to the value of the contract.

Consequently, the open competitive process of issuing a Request for Proposals may be appropriate for a high-value, complex contract, whereas obtaining three quotes may be a better approach for a lower value opportunity.

Providing the right services at the right price and time

Confirming that the right services are delivered at the right price and time means ensuring that deliverables were received as specified in the contract, and that the intended outcomes were achieved. To do this, ministries must: translate their needs into clear contract deliverables, monitoring requirements and intended outcomes; monitor all milestones and other requirements specified in the contract; and assess the services relative to the desired results.

Exhibit 2: Solicitation strategies used by the provincial government

Corporate Supply Arrangement (CSA):

Established centrally through competitive processes for use by all ministries, a CSA is an existing arrangement through which vendors may offer services routinely required by government. A ministry must not use another solicitation process when services are available through a CSA.

Direct Award:

A direct award can be used only if one of the specific conditions for direct awarding apply, or in limited circumstances for service contracts below \$25,000, where a competitive process is not reasonable or cost-effective.

Invitation to Quote (ITQ):

The ITQ approach is used to solicit bids or quotes from vendors when the only evaluation criterion is price. The award must go to the lowest-priced qualified bidder.

Notice of Intent (NOI):

An NOI is a public posting stating that a specific contractor is receiving a direct award. This allows other vendors to express their relevant qualifications and potential interest. NOIs must be publicly posted when a service contract is valued at \$50,000 or greater.

Request for Expression of Interest (RFEI):

Used to pre-qualify potential vendors, an RFEI is often used when a ministry knows that a service is available, but is not sure whether the vendor community is interested in competing on a planned service delivery opportunity.

Request for Proposals (RFP):

An RFP solicits proposals from potential vendors, whose submissions are then evaluated on price, qualifications and the proposed solution.

Request for Qualifications (RFQ):

An RFQ is used to pre-qualify vendors who are interested in a current opportunity, or to pre-qualify potential vendors who are interested in supplying services in the future on an as-and-if requested basis. For example, the Ministry of Transportation and Infrastructure pre-qualifies vendors of engineering, technical and environmental consulting services for projects valued at less than \$1 million through its online Registration, Identification, Selection and Performance evaluation system (RISP).

Source: Adapted from the Purchasing Handbook: A Guide to Acquiring Goods and Services in the Government of British Columbia, Shared Services BC

AUDIT OBJECTIVES AND SCOPE

We carried out this audit to determine whether ministries are receiving value for money from their procurement of professional and advisory services. We did this by assessing a sample of contract files to see whether the procurement of these services:

- ◆ was competitive, fair and cost-effective; and
- ◆ resulted in the right services delivered at the right price and at the right time.

These audit objectives were developed from government's own policy requirements, applicable legislation and trade agreements, as well as input from procurement specialists and the Ministry of Finance.

We carried out our audit work between September and December 2013. We examined procurement practices for a cross-section of four ministries with distinct businesses and varying degrees of reliance on procured professional as well as advisory services. These were the ministries of:

- ◆ Advanced Education;
- ◆ Energy and Mines;
- ◆ Technology, Innovation and Citizens' Services; and
- ◆ Transportation and Infrastructure.

We focused on the actions of ministry staff responsible for identifying the need for, entering into and managing professional and advisory service contracts. We selected a sample of 40 individual contracts – 10 from each of the four ministries audited and all initiated in the 2012/13 fiscal year (see Appendix B). We reviewed contract files; interviewed contract managers, procurement specialists and senior procurement staff; and surveyed vendors about their experiences with those procurement opportunities. Of the 40 contracts, 32 were completed and 8 were still in progress when our audit ended.

Although our audit findings are specific to the sample, we believe they provide information that can inform and enhance procurement practices in other ministries.

We conducted the audit in accordance with section 11 (8) of the *Auditor General Act* and the standards for assurance engagements set out in the *CPA Canada Handbook - Assurance*.

AUDIT CONCLUSION

Overall, procurement of professional and advisory services in the sample we assessed was mostly competitive, fair and cost-effective. In addition, the ministries mostly received the services as defined in the contracts, on time and at the negotiated price. However, we did find examples where the ministries are putting themselves at risk of not receiving value for money from awarded contracts.

Specifically, we found situations where:

- ◆ the need for procurement was not clear;
- ◆ procurement opportunities were not competed to the extent required for the contract value; and
- ◆ contracts were directly awarded without an adequate rationale.

We also found a lack of consistency in how the ministries:

- ◆ identified the outcomes desired from the procurement of services, and evaluated whether these outcomes were achieved;
- ◆ evaluated vendor performance after contract completion; and
- ◆ considered past vendor performance when making procurement decisions.

Our specific findings and recommendations are detailed in the following section.

KEY FINDINGS AND RECOMMENDATIONS

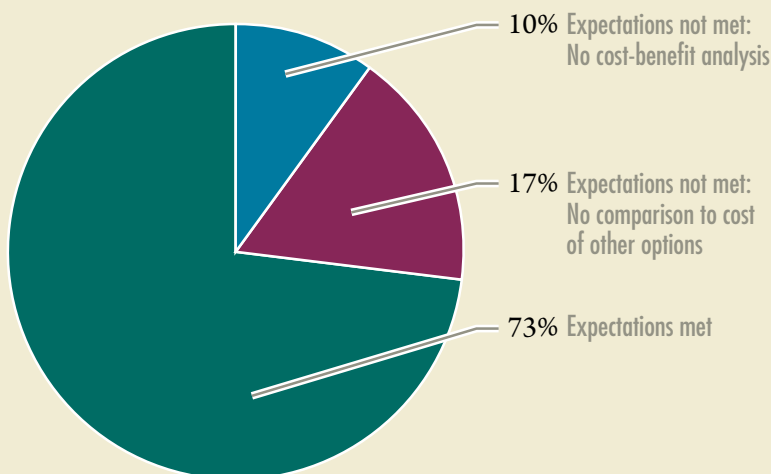
Ensuring competitive, fair and cost-effective procurement

Assessing whether to proceed with procurement

Policy requires ministries to first consider the alternatives to procurement and, for opportunities valued at more than \$100,000, to provide a cost-benefit justification. We therefore expected to find that contract managers had based their decisions to procure services on a comparison to the cost of other options (such as using in-house resources) and for high-value opportunities, on a business case analysis (see Exhibit 3).

We found that the Ministry of Transportation and Infrastructure consistently considered and documented its analyses of comparable costs of available options, whereas the other three ministries did not. We also found in two of these ministries, cost-benefit analyses were not consistently completed for contracts where the value of the procured opportunity was over \$100,000.

Exhibit 3: Assessing whether or not to procure services



Source: Office of the Auditor General of British Columbia

The inconsistent consideration of alternatives to procurement, combined with the lack of analyses supporting the business case for high-value contracts, increases the risk of the ministries procuring services when it is not necessary. When ministries contract for services without a clear case for doing so, they increase the risk of not achieving value from their procurement decisions.

RECOMMENDATION 1: *We recommend that the Ministry of Advanced Education, Ministry of Energy and Mines, and Ministry of Technology, Innovation and Citizens' Services ensure that their approach to procurement is designed to assess whether procuring services is necessary by: clearly comparing the cost of procurement with the cost of other options; and, where required, completing a business case analysis.*

Making procurement opportunities appropriately competitive

Opening procurement opportunities to an appropriate level of competition can encourage vendors to submit better proposals at lower prices. We therefore expected to find that:

- ◆ procurement opportunities were competed as per requirements for the contract value, unless one of the exceptional conditions for directly awarding applied (see Exhibit 4);
- ◆ documented rationales demonstrate that contracts valued at less than \$25,000 were competed to the extent reasonable and cost-effective;
- ◆ the ministries did not treat vendors preferentially; and
- ◆ vendors had a reasonable amount of time in which to respond to solicitations that were procured through a public posting.

Exhibit 4: Government’s policy requirements for procurement values

Procurement value	Competition requirements
Less than \$25,000	Use a competitive process to the extent reasonable and cost effective.
\$25,000–\$75,000	Use a competitive process appropriate to the value and complexity of the opportunity. Post opportunity publicly on BC Bid or obtain quotes from at least three vendors.
\$75,000 or greater	Post opportunity publicly on BC Bid.

Source: Core Policy and Procedures Manual, [Section 6.3.2c](#)

Conditions under which government policy allows the direct-award of contracts

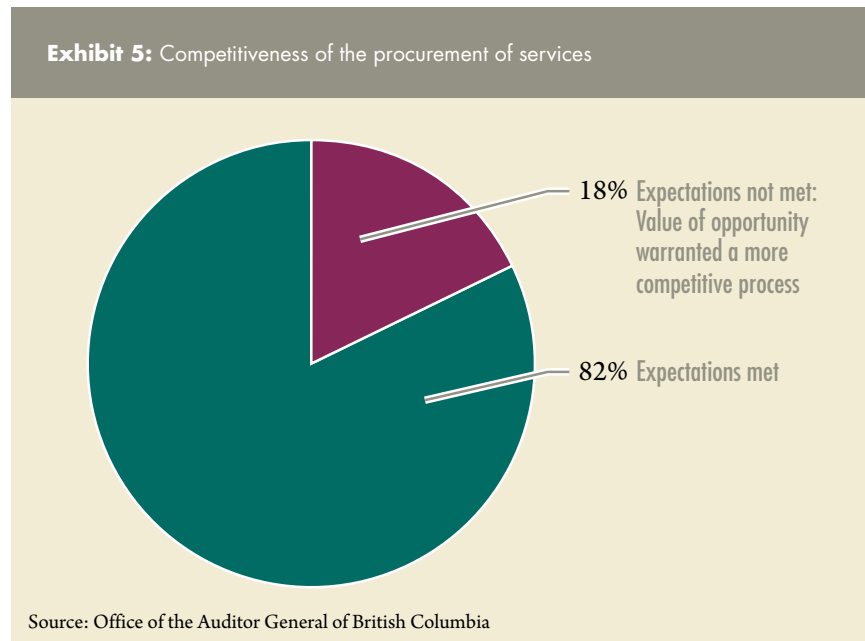
Ministries can directly award a contract to a vendor if:

1. The contract is with another government organization;
2. The ministry can strictly prove that only one contractor is qualified, or available, to provide the services;
3. An unforeseeable emergency exists, and the services could not be obtained in time using an open, competitive process;
4. An open, competitive process would interfere with a ministry’s ability to maintain security or to protect human, animal, or plant life or health; or
5. The procurement of services is of a confidential or privileged nature and disclosure through a competitive process could reasonably be expected to compromise government confidentiality, cause economic disruption or be contrary to the public interest.

Contract managers are responsible for providing supporting documentation for exceptions.

Source: Core Policy and Procedures Manual, [Section 6.3.3a](#)

We found that in the majority of the files we reviewed, procurement opportunities were competed to the extent necessary or required by policy for the value of the contract. However, we did also find several exceptions where the value of the opportunity warranted a more competitive approach, such as obtaining at least three quotes or posting the opportunity publicly (see Exhibit 5).



The exceptions included the following:

- ◆ Several contracts valued at less than \$25,000, where we found that documentation was insufficient to demonstrate that the conditions for direct awarding applied or that the opportunities were competed to the extent reasonable and cost-effective.
- ◆ Two contracts, originally valued at less than \$25,000 and directly awarded, that were later amended – one to \$50,000 and the other to \$123,000. In both cases, we found that the ministries could have anticipated an amendment to increase the value of the contract when selecting a procurement process. In one of these cases, the documentation was inadequate to support the ministry’s decision that a direct award was necessary for the reason of confidentiality.
- ◆ One case, where contrary to policy, the ministry did not award the contract for an Invitation to Quote to the lowest qualified bidder.

We also found examples where the ministries, although they may have selected procurement approaches appropriate to the value of the opportunity, also indicated a preference for selecting a specific vendor. In several of these cases, ministries repeatedly contracted with the same vendors for services.

Furthermore, when we examined the time in which vendors were given the opportunity to respond to solicitations that were competed through a public posting, we found three cases where the short time provided was contrary to policy and good practice.

Contract managers told us that business requirements, operational or internal deadlines, and budget constraints often limited their ability to follow a more

competitive process or allow vendors more time to respond. Those constraints led them to select methods for efficiency, such as awarding contracts without a public solicitation, or using known or preferred vendors.

While we recognize that ministries may prefer to use vendors known to them for reasons of consistency or efficiency, repeated contracting with favoured vendors can be unfair to other qualified vendors. It can also lead to a dependency that reduces the overall cost-effectiveness and competitiveness of procurement. Demonstrating that alternative vendors have been considered – for example, by obtaining three quotes, selecting from a list of pre-qualified list of vendors, or pursuing a more competitive procurement process – helps ensure competitive and fair procurement.

Not treating vendors equally or allowing adequate time and resources to follow competitive procurement processes appropriate to the value of the opportunities can affect the quality and price of proposals. It can also unfairly exclude some vendors from procurement opportunities.

RECOMMENDATION 2: *We recommend that all four of the ministries we audited ensure that their approach to procurement is designed to compete every opportunity to the extent appropriate by: matching the solicitation strategy to the value of the opportunity; avoiding preferential treatment; and providing adequate time for interested vendors to respond to solicitations.*

Managing the cost of the procurement process

Receiving value from procurement includes managing the costs of the process to vendors as well as government. We asked both ministry staff and vendors if they felt that the costs of the procurement process were appropriate for the business opportunity.

The majority of ministry staff we spoke with agreed that the costs associated with the procurement processes we reviewed were reasonable in relation to the value of the business opportunities. We took this to mean that the policy framework gave the ministries adequate flexibility to pursue a cost-effective approach when procuring professional services in these files. In some cases, staff did tell us that managing documentation related to procurement was burdensome. They stated that open competitive processes such as requests for proposals required significant ministry resources to ensure that the procurement opportunity was sufficiently competitive.

In our survey of all vendors who bid on the procurement opportunities in our sample, almost two-thirds of 44 respondents agreed or strongly agreed that the cost of preparing and responding to the procurement solicitation was reasonable given the value of the business opportunity (see [Exhibit 6](#)).

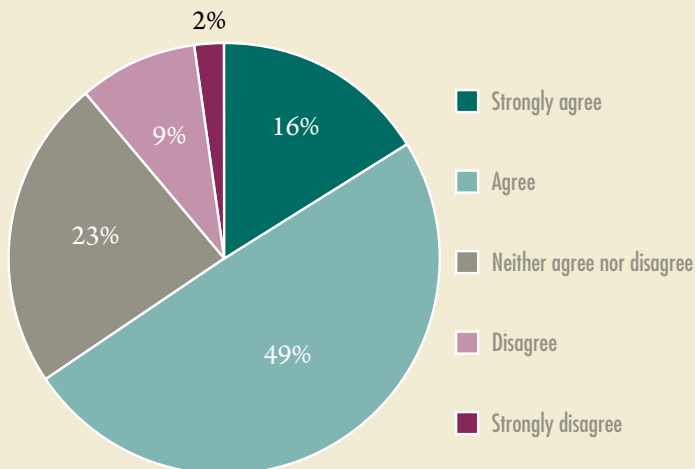
The total cost of procurement

The total cost of procurement is the sum of:

- ◆ the ministry’s cost of planning and preparing the solicitation;
- ◆ the vendor’s cost of responding to the opportunity;
- ◆ the vendor bid price and negotiated contract price;
- ◆ the cost of monitoring and following up on the contract;
- ◆ any subsequent liability borne by the ministry; and
- ◆ any opportunity cost associated with poor practice.

Exhibit 6: Keeping the cost of procurement reasonable for vendors

"The cost of preparing and responding to the procurement solicitation was reasonable given the value of the business opportunity"



Source: Office of the Auditor General of British Columbia

Given this ministry and vendor feedback, we concluded that the cost of the procurement process to both vendors and the ministries was reasonable in most cases.

Providing access to information and evaluating vendors

Basic to providing fair and competitive procurement is:

- ◆ giving all proponents equal access to information on all aspects of available contract opportunities;
- ◆ consistently applying the evaluation criteria for selecting vendors;
- ◆ giving unsuccessful vendors the chance to be debriefed; and
- ◆ establishing a complaints process that is consistent, impartial and timely to allow proponents to raise any concerns about the fairness of the process.

We found that each of the four ministries had an established complaints process, and that no complaints were made about any of the sampled contracts. In all cases, we also found that the ministries gave vendors fair access to information and applied evaluation criteria consistently.

Addressing potential conflicts of interest

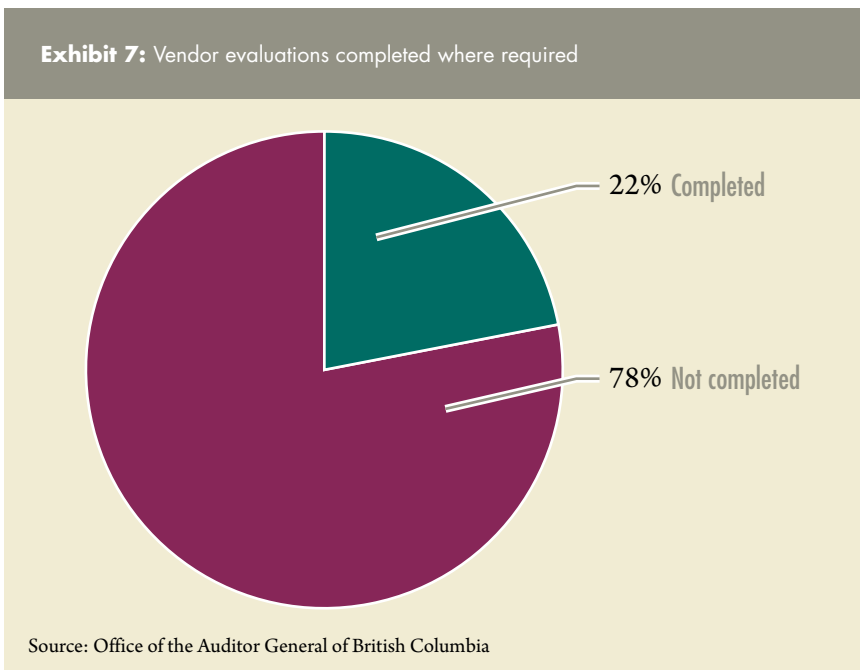
For procurement to be competitive and fair, staff involved in the process must be free of both real and perceived conflicts of interest to prevent undue or perceived influence on procurement. We expected to find that ministry staff had clearly considered and managed the potential for conflict of interest in the procurement files examined.

Based on our interviews with ministry staff and our review of procurement and contract files, we found no evidence of conflicts of interest in any of the files examined.

Completing and using evaluations of vendor performance

A vendor's past performance can provide an indication of potential future performance. We therefore expected to find that the ministries had carried out evaluations of vendor performance following the completion of the contract, as required by policy for contracts valued at over \$50,000, and that the ministries had used these vendor evaluations of past performance to inform future procurement decisions.

For the 18 sampled contracts valued at more than \$50,000, we found that the ministries did not consistently complete a vendor evaluation following contract completion (see Exhibit 7). We also found that, in most contracts, the ministries did not use these vendor evaluations or any other formal assessments of vendor past performance to inform their procurement decisions.



The ministries do not have consistent processes or controls for ensuring vendor evaluations are completed as required. For procurement of contracts with a value of \$10 million or greater, ministries are required to complete an internal performance reference check. This involves the ministry reviewing a vendor's performance on all contracts with government within the past three years that have a value of \$1 million or greater. Apart from this requirement for high-value contracts, government does not have any other system or process for using vendor evaluations or other formal assessment of past performance when making new procurement decisions.

The ministries we assessed and the Office of the Comptroller General told us that potential legal action by vendors who may disagree with the results of evaluations inhibited the completion and use of performance information to inform procurement decisions. However, the Office of the Comptroller General also told us that contracting with vendors who have previously failed to perform to government's expectations introduces liability risk and is a concern. Furthermore, we found examples where other Canadian jurisdictions are using vendor performance evaluations to inform procurement decisions and mitigate risk.

We concluded that not completing vendor evaluations and not using those or any other formal assessments of past vendor performance to inform procurement decisions increases the risk of the ministries and government contracting with vendors who have previously failed to deliver quality service.

RECOMMENDATION 3: *We recommend that all four of the ministries we audited ensure that their approach to procurement is designed to complete and document evaluations of vendor performance to assist in future procurement decisions.*

RECOMMENDATION 4: *We recommend that the Office of the Comptroller General work with ministries to develop and implement a fair and transparent process for considering past vendor performance when making new procurement decisions.*

Ensuring the right services are received at the right price and time

British Columbians and government want to know that for the tax dollars spent on professional and advisory services, the contracted deliverables were received on time and at the defined price, and that the intended outcomes were achieved.

Defining service needs and monitoring deliverables received

To ensure the right services are purchased, ministry needs must be clearly identified first and then translated into specific, measurable and time-bound contract deliverables or outputs (see sidebar). Monitoring during the implementation of the contract can identify potential issues. Evaluation at the end of the contract can help ensure that the conditions of the contract were met.

In the files we audited, we therefore expected to find that:

- ◆ contracts defined the services required, the price and the timeframe for delivery;
- ◆ timely and consistent monitoring of vendor performance occurred in accordance with the terms and conditions of the contracts; and
- ◆ ministries evaluated whether the contracted services were delivered at the negotiated price and on time.

We found that all 40 contracts we examined defined the services, price and timeframe required. For contracts that were completed and closed at the time of the audit, we found that the defined services had been delivered at the negotiated price and on time in the majority of the files (see Exhibit 8). However, we found four cases where the ministries could not demonstrate that this had happened:

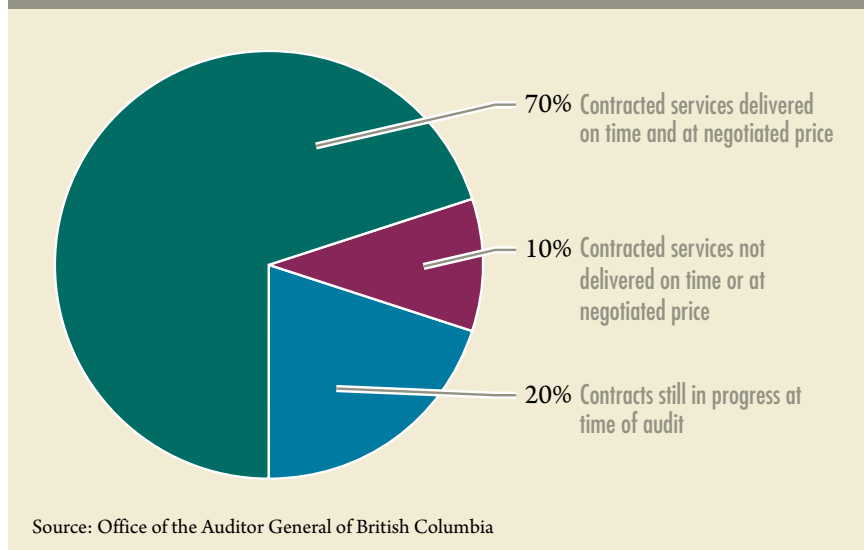
- ◆ In one case, a final report for a \$26,000 contract was not delivered when due, which meant that the solicited advice was not received in time to be fully considered as part of a decision process – which had been the intent of the contract.
- ◆ In two cases, the contract files did not provide sufficient information to corroborate ministry statements that the deliverables were received on time and in accordance with the negotiated contract terms.
- ◆ In another case, a contracted vendor renegotiated its rates for services halfway through the contract term without an appropriate or adequate rationale.

Outputs vs. Outcomes

An *output* is a tangible contract deliverable. An *outcome* is an intended result.

For example, in a contract with a vendor to review a government program, the output is strategic advice. The outcome of the advice is improved program effectiveness. The output of the procurement – the advice – supports the desired outcome of improved program effectiveness.

Exhibit 8: Contracted services delivered



We also found that in most contract files, the ministries consistently monitored the vendor’s performance as the assignment progressed. However, in several files, the ministries either did not include clear requirements in the contract for the vendor to periodically report on progress, or the ministries could not demonstrate that they monitored the vendor’s ongoing performance in accordance with the contract terms. In all of the cases of inconsistent monitoring and reporting, we noted that the ministries did receive the deliverables defined in the contracts.

Nevertheless, the failure to properly document how contracts were monitored and managed increases the risk of ministries not receiving contracted deliverables. Including reporting requirements in contracts helps to ensure that ministries will monitor vendor performance against contract requirements and intended outcomes.

RECOMMENDATION 5: *That all four of the ministries we audited ensure that their approach to procurement is designed to assess vendor performance against all contract requirements as the work progresses.*

Achieving desired outcomes

To determine the value received from procurement decisions, ministries must not only obtain the defined deliverables but also assess whether they achieved the desired outcomes. Policy requires managers to clearly define outcomes of a procurement opportunity and include these in the contract. We therefore expected to see that the ministries had specified desired outcomes in the contracts we examined, and had evaluated to the extent possible whether those outcomes were achieved.

Instead, we found that the ministries lack consistent processes for defining desired outcomes and evaluating their achievement. In the contract files we audited, the ministries did not consistently identify how the services were needed to support program delivery nor did they express the services in terms of clear contract outcomes. In some cases, outcomes were defined during the creation of a Request for Proposals or other procurement documents, but were not subsequently defined in the contract.

We also found that, even where outcomes were defined, the ministries did not evaluate whether the intended outcomes were achieved.

Ministry staff told us that in some cases the purpose for a contract was intuitive or obvious, so it was unnecessary to specify the desired outcome in the contract. They also told us that the receipt of defined deliverables was sometimes equated with the achievement of outcomes. Furthermore, staff said that they do not view formal evaluation of the achievement of outcomes as always necessary.

In our view, outputs and outcomes are separate and distinct elements of a contract engagement, and receiving outputs is not necessarily the same thing as achieving outcomes. Without consistently defining and evaluating the achievement of intended outcomes, ministries cannot adequately assess or demonstrate whether the procurement of professional services is achieving value for money. Understanding whether the investment in professional and advisory services has resulted in the intended outcomes is critical to government receiving value for money.

RECOMMENDATION 6: *That all four of the ministries we audited ensure that their approach to procurement is designed to achieve the intended purpose for each contract, by identifying outcomes sought and evaluating whether those outcomes were realized.*

WE WILL REPORT on the status of the implementation of these recommendations in late 2015.

LEGISLATION

The *Financial Administration Act* establishes the organization, authority and responsibility for ministries and central agencies to carry out government operations and financial function activities. *The Financial Administration Act* establishes the requirement to follow government’s procurement policies.

The *Procurement Services Act* provides the legal authority for the Minister of Technology, Innovation and Citizens’ Services to enter into contracts for goods and services on behalf of ministries. The Act authorizes the Minister to recommend policy and practices that promote the following procurement principles:

Competition. Procurement opportunities for goods and services are competed, wherever practical, and ministries engage in a competitive process only with the full intent to award a contract at the end of that process.

Demand Aggregation. Government buying power is leveraged through ministry participation in corporate supply arrangements and demand aggregation, wherever possible.

Value for Money. Government receives the best value for the money spent on contracts. Also, the cost of the procurement process—to both vendors and ministries—is appropriate to the value and complexity of the contract for goods or services.

Transparency. Vendors have fair access to information on procurement opportunities, processes, and results.

Accountability. Ministries are accountable for the results of their procurement decisions and the appropriateness of the processes followed.¹

¹ The *Procurement Services Act* lists the principles; the *Purchasing Handbook* defines them (p. 1-2). The definitions provided are from the *Purchasing Handbook*.

POLICY

The *Core Policies and Procedures Manual* outlines specific ministry responsibilities for managing procurement and contracts, including:

- ♦ planning, managing and fully documenting the process to procure goods, services and construction;
- ♦ managing solicitation and contract award processes in a prudent and unbiased manner that fairly treats all potential vendors and bidders;
- ♦ ensuring that contracts for goods, services and construction are designed to provide the best value to government;
- ♦ ensuring that all ministry procurements and disposals are consistent with policy, applicable legislation and trade agreements; and
- ♦ drawing on existing CSAs for goods and services, wherever possible, to meet program requirements.

The *Purchasing Handbook* is intended to promote efficiency, as well as consistency with common law. It is designed to guide ministry employees in the use of government's procurement processes and tools such that:

- ♦ the right goods and services are procured with the best value for money;
- ♦ the risks to the Province from inappropriate procurement practices and decisions are minimized; and
- ♦ the expectations of government procurement policy and trade agreements are met as efficiently as possible

The *Purchasing Handbook* is available on the Ministry of Finance website as a reference for ministries. It was last updated in 2010 and is not entirely reflective of current policy.

TRADE AGREEMENTS

British Columbia promotes vendor access and competition by participating in two key trade agreements: the Government of Canada's Agreement on Internal Trade (AIT) and the New West Partnership Trade Agreement (NWPTA).²

The AIT specifies thresholds for contracting of goods, services and construction in Canada. Contracts with values over the threshold must be advertised on BC Bid to ensure equal access to procurement opportunities for all Canadian suppliers.³ The NWPTA, an agreement between Alberta, British Columbia and Saskatchewan, sets out additional, lower thresholds for the advertising of government contracts to ensure the exposure of all potential contracts to all available bidders.⁴ Both agreements have financial penalties for failure to comply with the requirement to publicly advertise for bids.

2 Canada is also a party to the Canada–U.S. Agreement of Government Procurement, which stems from the World Trade Organization.

3 The AIT provides the potential for accommodation for complainants, retaliatory action by other provinces, and federal-imposed penalties for non-compliance with the AIT.

4 NWPTA supersedes the previous Trade, Investment and Labour Mobility Agreement (TILMA).

APPENDIX B: PROCUREMENT OPPORTUNITIES EXAMINED IN THE AUDIT

Ministry of Advanced Education		
Type of services	Solicitation strategy	Contract value
Administrative services	Direct award	\$2,000
Strategic planning	Direct award – Selected through a pre-qualification list	\$13,976
Consultation and communications	Three quotes obtained from vendors	\$19,485
Policy development	Direct award	\$22,400
Business support	Direct award	\$24,500
Stakeholder consultation and program support	Direct award – Only one contractor qualified or available	\$24,850
Business planning	Request for Proposals – BC Bid	\$40,234
Program efficiency planning advice	Request for Proposals – BC Bid	\$59,892
Executive coaching	Corporate Supply Arrangement – Selected through a pre-qualification list	\$70,000
Program efficiency advice and planning	Request for Proposals – BC Bid	\$419,796

Ministry of Energy and Mines		
Type of services	Solicitation strategy	Contract value
Community consultation and reporting	Direct award	\$19,910
Audit program design and implementation	Direct award	\$21,760
Environmental emergency management response	Direct award – Emergency	\$24,900
Technical study and report – mining	Three quotes obtained from vendors	\$26,478
Technical laboratory services	Invitation to Quote	\$30,000
Resource production modeling, forecasting and analysis	Direct award – Notice of Intent	\$35,000
Regulatory compliance monitoring	Invitation to Quote and Direct award – Notice of Intent	\$48,079
Business support – engineering and environmental review	Request for Qualifications – BC Bid	\$69,706
Business support – database backlog clearance	Request for Proposals – BC Bid	\$190,000
Legal advisory services	Direct award – Notice of Intent	\$200,000

APPENDIX B: PROCUREMENT OPPORTUNITIES EXAMINED IN THE AUDIT

Ministry of Technology, Innovation and Citizens' Services		
Type of services	Solicitation strategy	Contract value
Property value assessment	Invitation to Quote	\$9,000
Business training	Direct award	\$16,700
IT systems support	Three quotes obtained from vendors	\$22,800
Communications and writing services	Direct award	\$30,702
Business planning	Request for Qualifications	\$100,000
Communications	Direct award – Confidentiality	\$123,000
Business negotiation training	Direct award – Only one contractor qualified or available	\$200,000
Strategic program management	Request for Qualifications	\$411,286
Business planning	Request for Proposals – BC Bid	\$808,553
Concept development planning and advice	Request for Proposals – BC Bid	\$1,497,980

Ministry of Transportation and Infrastructure		
Type of services	Solicitation strategy	Contract value
Highway right-of-way surveying	Selected through a pre-qualification list	\$24,884
IT systems upgrade	Direct award – Notice of Intent	\$25,000
IT systems upgrade	Direct award	\$50,000
Policy development and planning	Direct award – Notice of Intent	\$51,800
Highway right-of-way surveying	Invitation to Quote	\$88,830
Business planning	Request for Proposals – BC Bid	\$95,000
Program support	Direct award – Confidentiality	\$120,000
As and when planning and design engineering services	Request for Qualifications - Registration, Identification, Selection and Performance evaluation system	\$499,000
As and when needed general engineering services	Request for Qualifications - Registration, Identification, Selection and Performance evaluation system	\$930,000
As and when project supervision	Request for Qualifications - Registration, Identification, Selection and Performance evaluation system	\$970,000

Source: Office of the Auditor General of British Columbia



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