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Final report

Audit of six firms

June 22, 2016

Office of Audit and Evaluation



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Final report**

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Executive summary

- i. As the Government of Canada's real estate centre of expertise, Public Works and Government Services Canada (PWGSC) requires a broad range of real property services to manage and deliver operations, maintenance, repairs, tenant improvements and recapitalization projects for its buildings. PWGSC's approximately \$7 billion worth of real property holdings requires the Department to rely on a combination of internal real property expertise and contracts with private companies in order to deliver its real property services. Through these partnerships, PWGSC benefits from specialized real property expertise on a temporary basis, thereby achieving the best possible value for Canadian taxpayers.
- ii. In 2013, as a result of a management decision to exercise additional due diligence for select private sector firms, the Office of Audit and Evaluation (OAE) was requested by the Deputy Minister, PWGSC, to conduct an examination of a selection of contracting files. The contracting files were directly related to work performed by the Departmental Oversight Branch on selected private sector firms. Specifically, the request was for the Chief Audit and Evaluation Executive (CAEE) to conduct cost audit type procedures on select billings received from six private sector real property services contractors during the period April 1, 2008 to April 1, 2011. The audit engagement was carried out under the supervision of the CAEE by PWGSC's Office of Audit and Evaluation, and was directed at assessing the accuracy and supportability of these billings.
- iii. To assess the accuracy and supportability of billings made to PWGSC, the OAE developed audit procedures which called for a sample of expenditures to be selected and examined for each of the six companies. However, the OAE encountered significant challenges and delays in conducting the audit. For example, the OAE experienced difficulties obtaining timely financial reports containing accurate and complete information necessary to trace a payment to all relevant contractual information. Further, the audit team noted multiple examples in which contract audit clauses had been modified or removed from a contract, thereby limiting the OAE's ability to conduct the audit. The OAE also found that a significant number of procurement records that should have been in the possession of PWGSC could not be located within the Department. In these instances, these challenges limited the ability of the OAE to provide reasonable assurance on the selected expenditures examined.
- iv. For two of the six companies, the OAE assessed the majority of billings issued to PWGSC. We did not find any inherent concerns with the examined billings, and Section 34 of the Financial Administration Act (FAA) had been appropriately authorized. As such, the Real Property Branch concluded that no reasonable grounds exist to secure payment after the fact.
- v. For one of the six companies, the OAE terminated its examination as the audit clauses in the contracts with this firm did not support the Department's right to audit. As a

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result, the OAE had no authority to examine the billings which PWGSC had received from that company.

- vi. As a result of billing irregularities identified by the audit team, examination work on Firms 4, 5, and 6 was suspended, and at the request of the Real Property Branch, the related files were transferred to the Departmental Oversight Branch for additional work that is beyond the mandate of the OAE.
- vii. Overall, the audit identified opportunities for improvement in the Department's procurement processes. This has been communicated with senior management in the Finance and Administration Branch, as well as the Real Property Branch.

Management response

Real Property Branch and Finance Branch have had an opportunity to review the report, and agreed with the observations and conclusions made at the time of the audit. However, the financial audit trail limitations (control weaknesses) have been addressed by the implementation of corrective measures subsequent to the period under audit.

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Introduction

1. This engagement was included in the Public Works and Government Services Canada 2014 to 2018 Risk-Based Audit and Evaluation Plan.
2. As the Government of Canada's real estate centre of expertise, PWGSC requires a broad range of real property services to manage and deliver operations, maintenance, repairs, tenant improvements and recapitalization projects for its buildings. PWGSC's approximately \$7 billion worth of real property holdings requires the Department to rely on a combination of internal real property expertise and contracts with private companies in order to deliver its real property services. Through these partnerships, PWGSC benefits from specialized real property expertise on a temporary basis, thereby achieving the best possible value for Canadian taxpayers.
3. In 2013, as a result of a management decision to exercise additional due diligence for select private sector firms, the Office of Audit and Evaluation (OAE) was tasked with providing assurance work related to the billings received from five companies. Prior to initiating the audit, the firms were notified that the OAE would be exercising the Department's right to audit, as per the contracts, with the purpose of determining the supportability of amounts paid by the Department to the firm in accordance with contract terms and conditions; as well as matching labour classifications to billing rates; and to assess the reasonableness of time recorded. The audit would include contract billings from these companies to PWGSC made during the period April 1, 2008 to April 1, 2011. The audit was included on the PWGSC 2014 to 2018 Risk-Based Audit and Evaluation Plan.
4. In the spring of 2014, a sixth company was added. For privacy reasons, the companies will be referred to numerically, from one to six, in this report.
5. The purpose of this report is to summarize the results of the OAE's audit on the accuracy and supportability of billings received from the six companies in the specified time period.

Focus of the audit

6. To support management in exercising additional due diligence, the OAE conducted an independent, multi-phase audit of goods and services billed to PWGSC by six companies through various contracts and call-ups against standing offers for the period of April 1, 2008 to April 1, 2011. The objective was to determine whether goods and services billed to PWGSC by the six companies were accurate and supported.
7. More information on the audit objective, scope, approach and criteria can be found in the section "About the audit" at the end of the Report.

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Statement of conformance

8. The audit conforms with the Internal Auditing Standards for the Government of Canada, as supported by the results of the Quality Assurance and Improvement Program.
9. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on the results of specified procedures conducted by the audit team. The findings and conclusion are only applicable to the entity examined and for the scope and time period covered by the audit.

Scope limitations

10. While conducting the Audit of six firms, the OAE encountered several obstacles which limited the ability to provide assurance on the accuracy and supportability of all expenditures selected for testing as follows:

Financial audit trail limitations

11. To assess billings to PWGSC, the OAE required a listing of all payments made to the six firms for the period under audit. SIGMA is PWGSC's financial reporting system, and it contains information related to all payments made by the Department. For a contractor to be paid, they must have a vendor identification number in the system. When an invoice is to be paid, the user is required to input relevant information such as the departmental cost center, payment type, vendor identification number, and any relevant invoice and contractual data to support the payment. This information serves as an audit trail to allow the tracing of a payment back to the procurement to which it is related.
12. We found that multiple vendor identification numbers ("vendor codes") existed for three of the six companies. As a result, the OAE did not initially have a complete listing of all payments made to the vendors. The lack of completeness of payments came to our attention when two vendors, who were cooperative, provided us with invoices for which we had no record of payment. This was eventually resolved with the identification of the multiple vendor codes, and revised payment listings for these multiple codes were prepared.
13. We also found a variety of user input errors in the SIGMA generated financial reports. For example, in some cases, the contract number and contract type were inaccurate. In other cases, the contract / payment amount differed in the financial system from what

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was indicated on the original contract document. Due to these input errors, not all payments could be linked back to the originating procurement documents to which they related, and this therefore limited the OAE's ability to assess accuracy and supportability of all payments.

14. Although the OAE encountered challenges related to the audit trail for the procure-to-pay process, an assessment of controls was not within the scope of the audit. In addition, the audit timeframe (2008 to 2011) may not represent the current state of the control environment. We encourage the Real Property Branch and Finance and Administration Branch to assess whether the current control environment would mitigate these issues.

Contract audit clauses missing or inconsistent

15. To ensure that the best value is received by the Crown, PWGSC contracts include a right to audit clause which provides the Department with the means to verify that payments are made in accordance with the terms and conditions of the contract. The authority for these audits was derived from these clauses.
16. PWGSC's Standard Acquisitions Clauses and Conditions Manual contains a standard audit clause for all contracts. This clause states that amounts claimed under the contracts are subject to government audit both before and after payments are made. In addition, the contractor must keep proper accounts and records of the cost of performing the work and keep all documents relating to such costs for six years after it receives final payment under the contract. This gives PWGSC the ability to initiate an audit, within the stated timeframe, to assess whether payments made under the contract were supported.
17. We found that in some cases the audit clause had been removed from contracts. In others, the length of time for which the clause was valid had been reduced to less than six years. For example, in some cases we found this clause had been modified to limit the timeframe to two years after the last payment under the contract. This issue was most prevalent with Firm 1 and resulted in the OAE being unable to provide any level of assurance on the accuracy and supportability of this company's billings as we were unable to exercise our right to audit.
18. This issue was brought to the attention of the Assistant Deputy Minister, Acquisitions Branch, in May of 2014 and a notification was sent to all Acquisitions Branch staff reminding them of the importance of audit clauses. The notification also informed staff that removal of the clauses must be approved by the Assistant Deputy Minister, Acquisitions Branch. However, some of these contracts were issued under the delegated authority of officials in the Real Property Branch. Although the period under audit was 2008 to 2011, we encourage the Assistant Deputy Minister, Real Property Branch to consider whether preventative actions should be taken to prevent this issue in future in the Real Property Branch.

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Missing or incomplete contract files

19. To ensure that amounts billed to PWGSC were accurate and supportable, the OAE carried out procedures to trace a sample of payments made by the Department to the related invoices and contractual documentation. This documentation included the contract, the company proposal, any amendments to contract and proposal, timesheets, receipts for disbursements, and deliverables.
20. We found a significant number of procurement records that should have been in the possession of PWGSC could not be located within the Department. In some instances, only one or two items were missing, which did not affect the OAE's ability to conclude. In other cases, the OAE was unable to conclude based on the limited documents in the possession of PWGSC. In an attempt to address this gap, the OAE contacted each company and requested that it provide supporting documentation related to the selected invoices it had sent to PWGSC. Firms 2 and 3 were very cooperative and provided the OAE with significant documentation. Firm 4 did not cooperate with the OAE. Sufficient documentation was available for Firms 5 and 6.
21. Due to missing or incomplete procurement files, the OAE was limited in concluding on whether all selected amounts billed were supported for all firms.

Audit of Firm 1

22. Firm 1 is a small Canadian engineering consulting company. During the specified audit timeframe, 14 payments were made to the company totaling approximately \$165,000.
23. When the OAE initiated its audit, it identified that the audit clauses in the contracts related to payments made to Firm 1 had been reduced to two years or removed completely. As the OAE's audit was only initiated in 2013, the Department's right to audit Firm 1 had expired. The OAE pursued voluntary cooperation from Firm 1, however, it was unwilling to cooperate.
24. Due to the modified or removed audit clause for all contracts associated with Firm 1, the OAE was unable to conduct audit procedures and was therefore unable to conclude on the accuracy or supportability of the billings.

Audit of Firm 2

25. Firm 2 is a large Canadian engineering consulting company. Using a risk-based sampling approach, the OAE selected a judgemental sample of 176 out of 883 total payments made by the Department to the firm. This sample totaled approximately \$2,400,000 in payments from the audit scope period of April 1, 2008 to April 1, 2011.
26. We found \$280,610 of billings related to individual hourly billings that could not be traced to supporting documents. Of this amount, \$248,285 resulted from invoices that

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lacked the detail necessary to identify a specific individual. For example, a position such as project manager was provided instead of the specific individual's name, or no detail was provided and the invoice only contained a total billable amount. The remaining \$32,325 related to individuals where supporting timesheets for those billings could not be found in the procurement file. Due to challenges in locating documentation within the Department, we were unable to determine if the timesheets had been initially received by PWGSC and later misplaced, or if they were unsupported.

27. We found \$24,340 of expenses that could not be traced to supporting documents. This included disbursements claimed by the companies that required supporting receipts, as well as expenses that were determined to be ineligible based on the contract terms and conditions. Similar to the above, we were unable to determine if the supporting receipts or approval for expenses not specified in the contract had been initially received by PWGSC and later misplaced, or if they were unsupported.
28. From the tested sample, we found \$1,221 in mathematical errors. These were primarily the result of incorrectly applying GST and provincial sales taxes on invoiced amounts.
29. Although we identified calculation errors and unsupported amounts claimed, we did not find any evidence of inherent concerns and in many cases, the billing irregularities noted were the result of incomplete supporting documentation. In addition, Section 34 of the FAA had been appropriately authorized for most of the payments made to Firm 2, indicating acceptance by the Department that the billings were appropriate. As such, the Real Property Branch concluded that no reasonable grounds exist to secure payment after the fact.

Audit of Firm 3

30. Firm 3 is a large Canadian environmental engineering company. Using a risk-based sampling approach, the OAE selected a judgemental sample of 325 out of 795 total payments to the firm. This sampling totaled approximately \$3,200,000 in payments from the audit scope period of April 1, 2008 to April 1, 2011.
31. We found \$347,968 of billings related to individual hourly billings that could not be traced to supporting documents. Of this amount, \$226,681 resulted from invoices that lacked the detail necessary to identify a specific individual by name. As was the case with Firm 2, a position such as project manager was indicated on the invoice instead of the specific individual, or no detail was provided and the invoice only contained a total billable amount. The remaining \$121,287 related to individuals where supporting timesheets for those billings could not be found in the procurement file. Due to challenges in locating documentation within the Department, we were unable to determine if the timesheets had been initially received by PWGSC and later misplaced, or if they were unsupported.

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32. We found \$112,958 of expenses that could not be traced to supporting documents. This included disbursements that were not appropriately supported by receipts, as well as expenses that were determined to be ineligible based on the contract terms. Similar to above, we were unable to determine if the supporting receipts or approval for expenses not specified in the contract had been initially received by PWGSC and later misplaced, or if they were unsupported.
33. From the tested sample, we found \$552 in mathematical errors. These were primarily the result of incorrectly applying GST and provincial sales taxes on invoiced amounts.
34. Although in some cases we found mathematical errors and unsupported amounts claimed, we did not find any evidence of inherent concerns, and in many cases, the billing irregularities noted were the result of incomplete supporting documentation. In addition, Section 34 of the FAA had been appropriately authorized for most of the payments made to Firm 3, indicating acceptance by the Department that the billings were appropriate. As such, the Real Property Branch concluded that no reasonable grounds exist to secure payment after the fact.

Audit of Firms 4, 5, and 6

35. Testing related to the last three companies; Firm 4, Firm 5 and Firm 6 was suspended as a result of systemic billing irregularities noted during the examination phase. At the request of the Real Property Branch, the results of the audit work completed to date and the related files were transferred to the Departmental Oversight Branch for additional work that is outside the mandate of the engagement as communicated to the firms at the launch of the audit.

Conclusions

36. The OAE was able to assess two of the six companies, Firms 2 and 3. Although supporting documentation could not be found for all expenditures tested, the OAE was unable to determine if the unsupported amounts and missing documentation were initially received by the Department and later misplaced or if they were truly unsupported. For those expenditures tested, there was no evidence of inherent concerns with the examined billings and Section 34 of the FAA had been appropriately authorized for most of the transactions in the sampled procurement files. For these reasons, the OAE has concluded that the expenditures examined for Firm 2 and Firm 3 were generally accurate and supportable. As such, the Real Property Branch concluded that no reasonable grounds exist to secure payment after the fact.
37. The OAE was unable to conclude on the remaining four of the six companies. The OAE was unable to conclude on Firm 1 as the modified and missing audit clauses limited the Department's ability to audit relevant timesheets and cost records that support the company billings to PWGSC. Testing related to the last three companies, Firms 4, 5, and 6, was suspended as a result of systemic billing irregularities noted during the

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examination phase. At the request of the Real Property Branch, the results of the audit work completed to date and related files were transferred to the Departmental Oversight Branch for additional work that is outside the mandate of the engagement as communicated to the firms at the launch of the audit.

38. Overall, the OAE encountered a number of scope limitations that presented significant challenges and delays in conducting the audit. The primary issues were audit trail limitations, missing or modified audit clauses in the contracts, and missing documentation. In some instances, these challenges limited the ability of the OAE to provide reasonable assurance on the selected expenditures to be examined. An assessment of controls was not within the scope of the audit, and the timeframe (2008 to 2011) may not accurately represent the current state of the Department's control environment.

Management response

Real Property Branch and Finance Branch have had an opportunity to review the report, and agreed with the observations and conclusions made at the time of the audit. However, the financial audit trail limitations (control weaknesses) have been addressed by the implementation of corrective measures subsequent to the period under audit.

About the audit

Authority

The authority for the conduct of this engagement comes from the 2014 to 2018 Risk-Based Audit and Evaluation Plan, which was approved by the Deputy Minister of PWGSC.

Objective

The objective of the OAE's engagement was to conduct an independent, multi-phase audit of services billed to PWGSC by six companies through various contracts and call-ups against standing offers for the period of April 1, 2008 to April 1, 2011 to assess the accuracy and supportability of the expenditures examined to assist management in exercising additional due diligence over these firms.

Scope and approach

This audit covered the period from April 1, 2008 to April 1, 2011.

A sample of payments was selected for each company related to billings made to PWGSC during the audit timeframe. Due to the limited number of payments made to Firm 1, Firm 5 and Firm 6, 100% of billings during the audit timeframe were selected.

A risk-based sampling approach was used for Firm 2, Firm 3, and Firm 4. The sampling methodology was as follows:

- to determine the sample size by company, a risk assessment was performed to determine the expected error rate
- the individual transactions selected for review were judgmentally selected based on analysis using IDEA software and the following criteria:
 - total payments by month
 - duplicate invoice numbers and amounts
 - Benford analysis¹

The resulting sample plan incorporated the following:

- Firm 1, 14 out of 14 invoiced amounts
- Firm 2, 176 out of 883 invoiced amounts
- Firm 3, 325 out of 795 invoiced amount
- Firm 4, 554 out of 1,910 invoiced amounts
- Firm 5, 20 out of 20 invoiced amounts
- Firm 6, 2 out of 2 invoiced amounts

¹ Benford analysis identifies the leading digit (or digits) in a population of numbers and compares the frequency distribution of the leading digit (ex. the number 1) in the population with what would naturally occur. This allows for unusual trends and digits to be identified, such as when a number (ex. 25) shows up many more times than the Benford analysis predicts would occur naturally.

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After the sample was identified, the audit team requested procurement files from within the Department. Key required documents included:

- invoices, including Section 34 signature and all required supporting evidence for the payment amount
- contracts, the majority of which were stand-alone contracts or call-ups against standing offers
- proposals from the companies
- any relevant amendments to the contracts and proposals
- deliverables or other evidence of completion of the contract by the companies

To assess the accuracy and supportability of selected billings, the audit team conducted the following specified procedures:

- 1) Initially, the OAE assessed the reasonableness of the rates, labour classifications, and individuals named in the contract, and:
 - compared individuals billed to those specified in the contract or proposal
 - matched labour classifications to the billing rates
 - assessed résumés (CV) to validate that the skills and experience supported the billing rates
- 2) The next step involved an analysis of the amounts billed on the invoices:
 - Recalculated all amounts charged
 - Matched the timeframe of the work billed to that specified in the contract
 - Validated the rates billed against the allowable rates from the standing offer or contract
 - Assessed the overall reasonability of amounts billed based on the contract terms and conditions
 - Verified the supporting documentation for all disbursements charged, where support was required based on the contract terms and conditions
 - Traced a representative sample of hourly billed individuals to the supporting company timesheets
- 3) Lastly, to provide further assurance that the contract was completed in accordance to the terms and conditions, we performed the following tests:
 - validated deliverables against stated contract requirements, where applicable
 - validated that all payments sampled were supported by an invoice with a valid Section 34 signature

This audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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Criteria

This audit conducted specified procedures, as outlined in the “Scope and approach” section, to assess the accuracy and supportability of the selected billings to PWGSC. As such specific criteria were not identified in addition to these procedures.

Audit work completed

The audit fieldwork was substantially completed on August 20, 2015.

Audit team

The audit was conducted by members of the Office of Audit and Evaluation and an audit consultant, overseen by the Director, Procurement Audit, and under the overall direction of the Chief Audit and Evaluation Executive.

The audit was reviewed by the quality assessment function of the Office of Audit and Evaluation.