



# **16<sup>th</sup> Legislative Assembly of the Northwest Territories**

## **Standing Committee on Government Operations**

Report on the Review of the Report  
of the Auditor General on Contracting  
for Goods and Services in the  
Northwest Territories

Chair: Mr. Kevin Menicoche

## **MEMBERS OF THE STANDING COMMITTEE ON GOVERNMENT OPERATIONS**

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Doris McCann  
Committee Researcher

October 22, 2009

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Government Operations is pleased to provide its Report on the Review of the Report of the Auditor General on Contracting for Goods and Services in the Northwest Territories and commends it to the House.

A handwritten signature in cursive script, appearing to read "K Menicoche".

Kevin Menicoche, MLA  
Chairperson

**STANDING COMMITTEE ON  
GOVERNMENT OPERATIONS**

**REPORT ON THE REVIEW OF THE  
REPORT OF THE AUDITOR GENERAL  
ON CONTRACTING FOR GOODS AND SERVICES  
IN THE NORTHWEST TERRITORIES**

**TABLE OF CONTENTS**

General Comments..... 1  
Contracting Policy Framework ..... 2  
    Recommendation 1 ..... 2  
    Recommendation 2 ..... 3  
Performance and Quality Assurance ..... 4  
    Recommendation 3 ..... 5  
Conclusion ..... 5  
    Recommendation 4 ..... 5

**STANDING COMMITTEE ON  
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**REPORT ON THE REVIEW OF THE  
REPORT OF THE AUDITOR GENERAL  
ON CONTRACTING FOR GOODS AND SERVICES  
IN THE NORTHWEST TERRITORIES**

The Standing Committee on Government Operations held its public review of the Report of the Auditor General on Contracting for Goods and Services on August 17, 18, and 19, 2009. The Committee would like to thank the Auditor General, Ms. Sheila Fraser, and her staff for their work in preparing the report and in assisting the Committee with its review. The Committee would also like to thank the Deputy Ministers and staff from the Departments of Finance, Health and Social Services, and Public Works and Services; and the Assistant Deputy Minister of Transportation and staff for their presentations.

**GENERAL COMMENTS**

The Committee's mandate includes the examination of the annual financial statements and Public Accounts of the Government of the Northwest Territories (GNWT) and the reports of the Auditor General. The Committee wants to ensure that the GNWT demonstrates its accountability to the public. With regard to procurement and contract administration, the Committee is pleased to report that the Auditor General's review is favourable. Nonetheless, the Auditor General identified some errors and omissions and provided departmental management with very useful information to inform future actions related to procurement and contract administration. This is an opportune time to improve systems given the implementation of a new System for Accountability and Management (SAM).

The 'Auditor General's Report on Contracting for Goods and Services' is based on a review of the fiscal year 2007-2008. It was tabled on June 2, 2009, during the Third Session of the 16<sup>th</sup> Legislative Assembly.

The Office of the Auditor General reviewed the GNWT's process of awarding and administering contracts. The Auditor General assessed a sample of 120 contracts for goods and services, 40 from each of three departments – Public Works and Services, Health and Social Services, and Transportation. These departments account for 77% of the total dollar value and 45% of the total number of all contracts the GNWT issued that are over \$5000.

The Auditor General found some shortcomings in the administration of contracts and made five recommendations addressing contracting policy and the legislative framework; and performance and quality assurance. The Government agreed to all of the audit recommendations and prepared an action plan to address the recommendations.

The Committee was pleased with the Government's action plan but found that some of the management responses were vague. The Committee anticipates more details in future action plans provided to the Committee. The Committee wants to ensure that the intent of the recommendations in the report are addressed.

## **CONTRACTING POLICY FRAMEWORK**

The Auditor General found that the contracting policy and legislative framework provides appropriate direction and guidance with one exception.

The GNWT has not established an independent contract dispute resolution mechanism as required by the Agreement on Internal Trade (AIT). This mechanism would provide all vendors of goods and services, including construction contractors, a means to address complaints not resolved through existing departmental processes. The Government has responded that it will modify procurement documents to include a contact point for filing disputes related to the application of the AIT. The Committee believes a clearly delineated review mechanism that includes a qualified, independent adjudicator will build more confidence in the GNWT procurement system within the private sector.

### **Recommendation 1**

**The Standing Committee on Government Operations recommends that the Department of Finance:**

- **establish an independent dispute resolution mechanism to be integrated with the existing in-house process; and further**
- **ensure that an explanation of this process be provided to potential suppliers and contractors not only in procurement documents but also in promotional materials such as press releases.**

The Auditor General also expressed concern about the cumbersome nature of the GNWT policy framework. Directions for procurement and contracting officers are dispersed throughout six or more legislative and policy documents which can lead to confusion.

The Auditor General recommended:

“...that the Government update and improve the accessibility and availability of its policy and guidance on contracting to make it easier for GNWT staff to use.”

In its response to the Auditor General, the Government reported that revision of the Financial Administration Manual section on procurement is in its final stages and a procedural guideline will be developed and issued as an appendix. All departments audited indicated that their staff were provided training. In addition, the Department of Public Works and Services leads a Procurement Council with representatives from GNWT departments that focuses on sharing procurement ideas and best practices, building capacity, clarifying training needs and establishing procurement standards.

The Committee supports these measures and encourages the GNWT to develop a single-source operational manual that includes all information necessary to award and administer contracts including incentive and preference agreements.

## **Recommendation 2**

**The Standing Committee on Government Operations recommends that the Government of the Northwest Territories:**

- a) consolidate its policy and guidance on contracting into one easily accessible document that links all information necessary to award and administer contracts including incentive and preference agreements;**
- b) foster the activities of the Procurement Council; and**
- c) provide procurement and contract administration-specific training.**

## **PERFORMANCE AND QUALITY ASSURANCE**

In the Auditor General's review of the Government's application of procurement and contracting policies, regulations, and legislation, the majority of the operational issues identified were in contract administration rather than in the awarding of contracts.

The Auditor General applied at least eight compliance tests, and if one or more elements were not documented, the administration of the contract was deemed improper. The review of contract administration revealed that the required segregation of procurement and contract duties was followed. However, 57% of the sampling failed to meet one or more compliance tests. A variety of errors occurred, including: goods and services that were received before a contract had been issued; contract changes that were not issued in accordance with government policy; payments that were made before they were approved; and payments that were made in excess of spending authority limits. The Auditor General recommended that Departments should strengthen their processes and practices.

The authority to initiate, confirm performance, or approve payment is a delegated authority. The Auditor General observed that in the Departments that were reviewed, various elements of this delegation were not undertaken and/or not documented properly. Departments reported that this situation has been remedied.

In order to reduce the number of errors, the Auditor General recommended that the Comptroller General and the Departments of Public Works and Services, Health and Social Services, and Transportation should strengthen their monitoring and quality assurance processes. The GNWT agreed and intends to review authorities and responsibilities and assess the resource requirements necessary. The capacity to audit and monitor contracts is an issue. The Deputy Minister of Finance noted that this and other issues may be addressed in concert with the proposed restructuring of how Government provides and manages procurement activities. This restructuring is being proposed as part of the upcoming Business Planning process, with planning scheduled in 2010-2011.

The recommendations also included the establishment of risk tolerances against which actual performance could be measured. The Committee supports an objective of 100% compliance to rules but recognizes that acceptable standards might vary based on the type of contract.

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**Recommendation 3**

**The Standing Committee on Government Operations recommends that the Department of Finance improve quality assurance processes by:**

- a) developing innovative, cost-effective means to review procurement and contract administration practices against established risk tolerances;**
- b) considering including tolerance standards and performance in the Business Plan; and**
- c) persisting in recruitment to fully staff the audit division.**

**CONCLUSION**

The Committee recognizes the good work that has been done in contracting for goods and services. Having completed their review of the Report of the Auditor General on Contracting for Goods and Services, Committee members are confident that the matters of concern identified by the Auditor General will be rectified.

**Recommendation 4**

**The Standing Committee on Government Operations recommends the Government provide a comprehensive response to this report within 120 days.**