



Contract Management Module – Oracle Financials

Pre-Implementation Risk and Controls Review

Project #112093

Corporate Accounting Services

Ministry of Labour and Citizens' Services

Final Report

Internal Audit and Advisory Services

Ministry of Finance

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Executive Summary

Introduction:

In 2006, the Office of the Comptroller General (OCG) along with the Assistant Deputy Ministers of Corporate Services Secretariat (ADM CSS), the Senior Financial Officers' Council (SFOC), Procurement Council and the Corporate Accounting Services (CAS) Executive Steering Committee, endorsed the implementation of a corporate contract management solution.

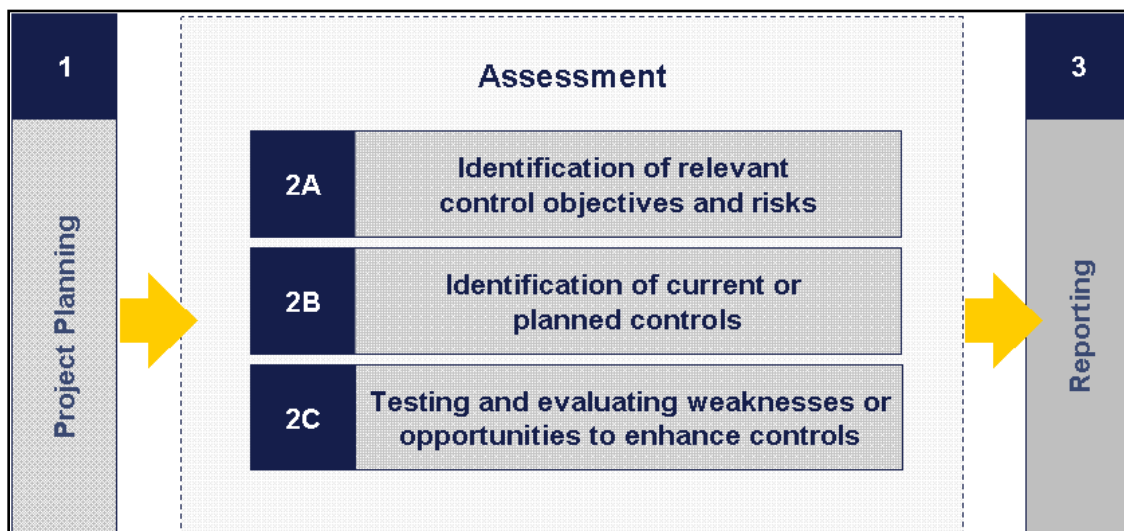
The Contract Management Module – Oracle Financials (CMM) was selected as the system that would provide the ministries with a cost effective approach to better manage the annual multi-billion dollar expenditures in service contracts. The first phase of implementation for the early adopters went live in June 2007.

Internal Audit and Advisory Services Branch, Office of the Comptroller General, Ministry of Finance, engaged PricewaterhouseCoopers to conduct a pre-implementation risk and controls review of the new CMM solution. The purpose of the review was to determine the adequacy of the design of the CMM controls (including related financial processes/controls) to mitigate business risks.

The review scope/objectives included an assessment of the following:

- Control Environment (application specific – limited review)
- CMM Business/Financial Processes and Application Controls (including interface controls).

PricewaterhouseCoopers and IAAS conducted the review in May and June 2007. The following three phased approach was adopted to perform this review:

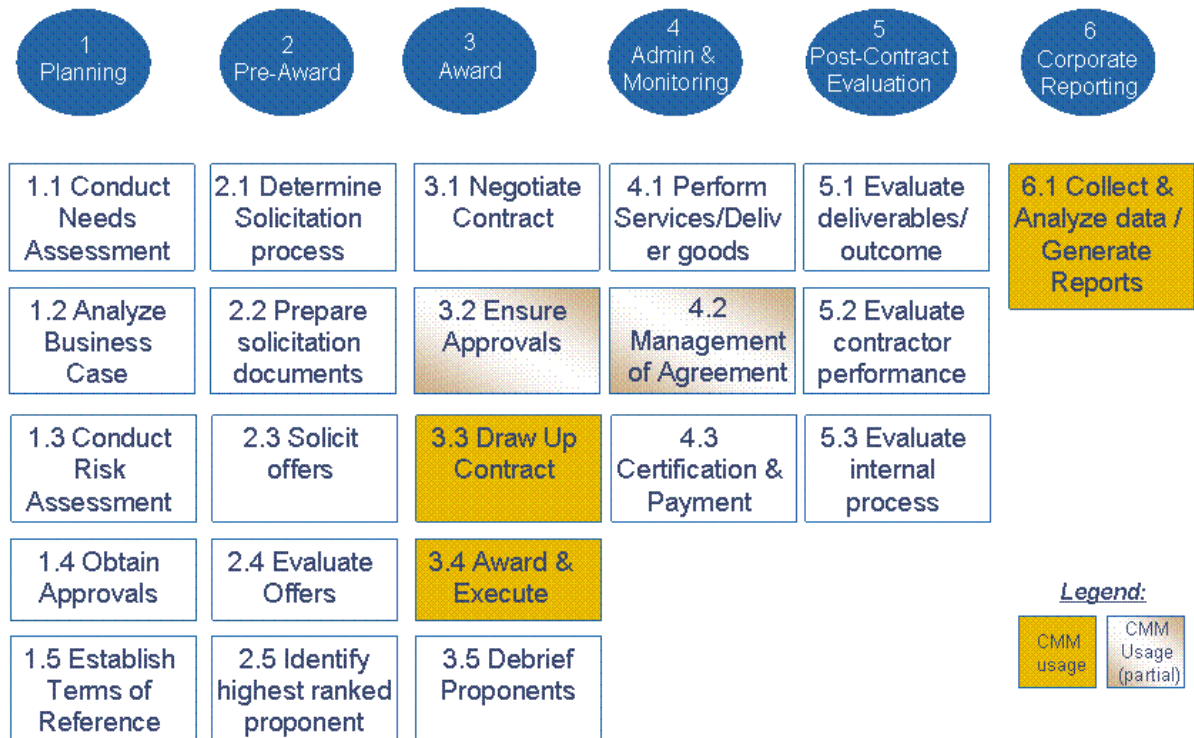


The results of the review are captured in the risk and controls matrices which identify the relevant control objectives, the current/planned controls and an assessment of the weaknesses/opportunities to enhance controls. Management responses to the observations and findings were discussed and captured in the matrices.

Scope of the CMM Implementation:

Currently, the scope of the CMM implementation is to facilitate contract authoring and interface to the financial applications (i.e., the purchase order (PO) module).

The functionality of the CMM was mapped to the BC Government’s Procurement Competency Framework to determine the extent of support that the new system will provide in the overall procurement/contracting cycle. The result of the mapping is summarized below, where the shaded boxes represent the usage of the CMM system:



As indicated above, the usage of the new CMM solution is limited to the following areas:

- 3.3 Drawing Up Contracts
- 3.4 Award & Execute
- 6.1 Collect & Analyze Data.

In addition, the CMM solution also offers some partial support towards:

- 3.2 Ensure Approvals
- 4.2 Management of Agreements.

Overall Conclusion:

Our review identified weaknesses in the design of controls that have an impact on the contract transactions within the CMM.

The weaknesses around contract transactions in the CMM system arise from the following observations: *

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Further, these weaknesses have an impact provided by the CMM.

As a result, we have concluded that there is a *‘High Residual Risk’* in the current design of controls for the CMM.

While CMM is intended to assist ministries with compliance to core policy and providing reliable management information, the review found that the controls require improvement to achieve this requirement. Specifically, the key improvements recommended are as follows:

- From an overall business process perspective:
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 - minimizing the efforts of ministry manual/monitoring procedures to review captured contract transactions as over time, these procedures may be difficult to sustain.
- From a systems controls perspective:
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Our overall conclusion is supported by the following summary of findings and recommendations.

Summary of Findings & Recommendations

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CMM – Pre-Implementation Risk and Controls Review – Detailed Report

Background information

In 2006, the Office of the Comptroller General (OCG) along with the Assistant Deputy Ministers of Corporate Services Secretariat (ADM CSS), the Senior Financial Officers' Council (SFOC), Procurement Council and the Corporate Accounting Services (CAS) Executive Steering Committee, endorsed the implementation of a corporate contract management solution.

CAS, in partnership with a number of ministries, assessed and agreed to proceed with an Oracle-based solution. The selected solution, Contract Management Module (CMM) – Oracle Financials, integrates with the government's financial and procurement system and aligns with government's vision for eProcurement.

The corporate contract management solution will provide ministries with a cost effective solution to better manage the annual multi-billion expenditures in service contracts. Further, the corporate solution will provide central repository of contract data and improved procurement and financial governance information for ministries and central agencies.

Under the endorsement provided, CAS initiated a project to implement the corporate contract management solution with two early adopter ministries: the Ministry of Forests and Range (FOR) and the Settlement and Multiculturalism (SAM) Division, Ministry of Attorney General (AG). In addition to the two Early Adopters Project Working Groups, Working Groups with representation from all ministries and central agencies were formed to ensure the solution design takes into consideration the business needs of all stakeholders.

The project objectives are to:

- Implement a core corporate contract management solution.
- Provide a common government wide repository of contract information.
- Create streamlined business processes and demonstrate value for the Early Adopter ministries.
- Engage all ministries and central agencies to ensure the solution meets cross-government requirements.

CMM is being implemented in phases with the Early Adopters Project as the first phase. The second phase will include supplier functionality and additional reporting functionality.

The contract management solution is scheduled for implementation at the pilot locations within the Ministry of Forests in June 2007 and within the Settlement and Multiculturalism Branch of the Ministry of Attorney General in July 2007. The implementation schedule for other ministries will be determined on a project-by-project basis. For those ministries that have significant investments in solutions that provide functionality in addition to the core contract management functionality, options will be provided to integrate these program solutions with Oracle Financials.

In May 2007, Internal Audit and Advisory Services Branch, Office of the Comptroller General, Ministry of Finance, engaged PricewaterhouseCoopers to conduct a pre-implementation risk and controls review of the new CMM solution. The review team was comprised of PWC and IAAS resources.

Purpose

The purpose of the pre-implementation risk and controls review was to determine the adequacy of the design of the CMM controls (including related financial processes/controls) to mitigate business risks.

Scope

The specific scope areas for the CMM risk and controls review includes the following functionality:

- Contract authoring with standardized templates and terms;
- Contract approval, generation and financials integration. (The financial integration is with Oracle Financials – Purchase Order and Accounts Payable);
- Contract administration, monitoring and management; and
- Core corporate information in a common repository.

The review scope and objectives include the following:

- Control environment (application specific – limited review)
- CMM business/financial processes and application controls (including interface controls).

The CMM solution was mapped to the BC Government's Procurement Competency Framework to determine the scope of usage that the new system will have in the overall procurement/contracting cycle. The result of the mapping is summarized in the table below:

SCOPE OF CMM USAGE WITHIN PROCUREMENT COMPETENCY FRAMEWORK			
Phase	Step	CMM Usage	Comments
1. Planning	<ul style="list-style-type: none"> • Conduct needs assessment • Analyze business case • Conduct risk assessment • Obtain approvals • Establish terms of reference 	No	All the steps in the planning phase will be managed by the ministries outside of the CMM.
2. Pre-Award	<ul style="list-style-type: none"> • Determine appropriate solicitation process, strategies and contract type • Prepare solicitation documentation • Solicit offers • Evaluate offers • Identify highest ranked proponent. 	No	<p>All the steps in the pre-award phase will be managed outside of the CMM (in BC Bid, manually or using a combination of procedures).</p> <p>The CMM can provide standard templates and historical contract information (if available) to support a user in the pre-award process. (The Ministry of Forests will be using the CMM for creating the solicitation package).</p>
3. Award	Negotiate contract with highest ranking proponent.	No	The outcome of the negotiation process and the latest versions of relevant documents can be stored in CMM.
	Ensure approvals	Partial	<p>Legal and/or other reviews of contracts conducted prior to EA approval occur outside of the CMM system.</p> <p>EA approval of the PO & contract occur and are recorded in the PO module of the Oracle Financials system.</p>
	Draw up contract	Yes	The CMM provides contract authoring features supported by standardized

SCOPE OF CMM USAGE WITHIN PROCUREMENT COMPETENCY FRAMEWORK			
Phase	Step	CMM Usage	Comments
			templates. Ministries have the ability to attach supporting documentation within the CMM
	Award & execute contract	Yes	The CMM can aid in finalizing the contract documentation and award.
	Debrief proponents	No	The debriefing sessions with the successful proponents will be handled outside of the CMM
4. Administration & Monitoring	Perform services / Deliver goods	No	The performance of services and the delivery of goods are performed by the contractor. The 'Collection Plan' feature within the CMM may be used at the option of the user for recording service plan targets. This information, such as reports from a supplier, can support decision-making about actual receipts against milestones.
	Management of agreement	Partial support	The CMM can support the management of contracts because CMM records and provides information about changes/ amendments to contracts, contract terminations, etc. Other aspects of this step, (e.g. conflict resolution, progress reports for payments, issues management, contractor performance) will be managed by the ministries outside of the CMM.
	Certification and payment	No	All activities within this step (e.g. receipt of goods/services, inspections, progress reports, holdbacks, payments, resolving payment issues) will be managed by the ministries outside of the CMM.
5. Post Contract Evaluation	Evaluate deliverables/outcome	No	All aspects of post contract evaluation (e.g. gathering contractor performance data, analysis of contractor

SCOPE OF CMM USAGE WITHIN PROCUREMENT COMPETENCY FRAMEWORK			
Phase	Step	CMM Usage	Comments
	Evaluate contractor performance Evaluate internal process and team		performance) will be managed by the Ministries outside of the CMM. The CMM incorporates the use of the Oracle Quality module (which is linked to Oracle Procurement) to manage some aspects of services performance and goods delivery. However, the use of the Quality module is optional and involves only the use of a collection plan. The Quality plan will provide information to contract managers to aid in decision making.
6. Corporate Reporting	Collect and analyze data and generate reports	Yes	The CMM will provide on-line queries on contract files. It also has reporting capabilities to support the management of contracts.

Approach

PricewaterhouseCoopers and IAAS conducted the review in May and June 2007. A three phased approach (Planning, Assessment and Reporting) was adopted to perform this review. The assessment process consisted of meetings with the CMM project team and a detailed review of the project design and configuration documents. The results of the review were captured in a risk and controls matrix which identified the:

- Relevant control objectives;
- Current/planned controls; and
- Key weaknesses and opportunities to enhance controls.

Management responses to the observations and findings were discussed and captured in the risk and controls matrix in Appendix B.

Weekly project status meetings were conducted during the course of the review and were used as a platform to ensure timely communication of key findings to CMM project stakeholders.

Key findings and recommendations

The review resulted in several findings, some of which carry a high residual risk rating (based on the standard risk rating prescribed by the Risk Management Branch - see Appendix A).

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While the matrices in Appendix B provides the assessment details in relation to the Procurement Competency framework (which describes the contract management lifecycle), we have outlined the following findings, conclusions and recommendations consistent with the review scope and objectives.

Policies and Procedures

Objective

To ensure senior management has established the policy framework for the CMM and related financial processes.

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Roles and responsibilities/ Security application design and administration / Segregation of duties

Objectives

- To ensure roles and responsibilities over business processes and CMM functions are clearly defined and communicated.
- To ensure controls are established granting only authorized users access to CMM and to ensure there is an adequate segregation of duties regarding the user roles in CMM.

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Table and Data Maintenance / Client Support Management

Objectives

- To ensure controls are in place over the access and maintenance of contract management module templates, tables and data.
- To ensure an adequate CMM client application support model is in place.

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Compliance to Core Policy (in relation to contract management and financial requirements)

Subject to the overall comments in relation to the CMM control framework, there were no additional policy level non-compliance issues that came to our attention during the review.

Integrity

Objective

To ensure that all contract related transactions entered into CMM are valid, complete and accurate and processed on a timely basis.

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Authorization

Objective

To ensure that all contract related transactions are authorized in accordance with policies and procedures.

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Reliability and Availability

Objective

To ensure the information reported from the Corporate Data Warehouse – CMM subject area meets the business requirements and is complete, accurate and timely.

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Integrity of Interfaces

Objective

To ensure the completeness and accuracy of the information flowing within and between the Oracle CMM and the financial modules.

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Appendix A: Risk Ranking Tables

LIKELIHOOD (L) = Probability of the risk event actually occurring.

Level	Descriptor	Approximate probabilities:
A	Certain	90 – 100%
B	Likely	55 – 89%
C	Possible	25 – 54%
D	Unlikely	5 – 24%
E	Improbable; Rare	0 – 4%

CONSEQUENCE (C) = Degree of severity of the consequence.

Score	Descriptor	
1	Insignificant	Negligible effects.
2	Minor	Normal administrative difficulties.
3	Significant	Delay in accomplishing program or project objectives.
4	Major	Program or project re-design, re-approval and re-do required: fundamental rework before objective can be met.
5	Catastrophic	Project or program irrevocably finished; objective will not be met.

LEVEL OF RISK (L x C)

	Consequence				
	1	2	3	4	5
A	LOW	MEDIUM	HIGH	EXTREME	EXTREME
B	LOW	MEDIUM	HIGH	HIGH	EXTREME
C	LOW	MEDIUM	MEDIUM	HIGH	HIGH
D	LOW	LOW	MEDIUM	MEDIUM	MEDIUM
E	LOW	LOW	LOW	LOW	LOW

Appendix B- CMM – Risk and Controls Matrix

(Shaded rows indicate the phases/activities not supported / partially supported by the CMM system)

	Control Objective Description	Completeness	Accuracy	Validity	Restricted Access	Inherent Risk (per RMB Matrix)			CMM – Planned/Proposed Controls	Automatic / Manual	Preventive / Detective	Residual Risk			Observation/ Recommendations
						L	C	LxC				L	C	LxC	
1	Procurement Competency : <u>Planning Phase</u>														
									*						
2	Procurement Competency : <u>Pre-Award Phase</u>														
									*					*	
									*						

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3 Procurement Competency : Award Phase															
3a	Negotiate Contacts								*						*
3b	Ensure Approvals								*						*
3c	Draw Up Contract														
3c.1	Contracts are recorded completely and accurately in CMM.	x	x			*	*	*	*		*	*	*	*	*
3c.2	Only authorized personnel are granted access to CMM.					*	*	*	*		*	*	*	*	*
3c.3	Adequate segregation of duties exists in the design of user access to CMM.			x	x	*	*	*	*		*	*	*	*	*
3c.4	There are adequate access controls to the contract templates stored in CMM.				x	*	*	*	*		*	*	*	*	*
3c.5	Only authorized personnel are allowed to make changes to contracts and templates in CMM.		x	x	x	*	*	*	*		*	*	*	*	*
3c.6	All contracts are sequentially numbered and the sequence number is automatically generated by CMM.	x		x		*	*	*	*		*	*	*	*	*

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3c.7	New versions of contracts are created when any changes are made to them.		x	x	x	*	*	*	*		*	*	*	*	*	*
3c.8	All the mandatory terms are included in the contract document			x		*	*	*	*		*	*	*	*	*	*
3c.9	Only contracts that are complete (with all mandatory terms and information) are interfaced to the PO module.	x	x	x		*	*	*	*		*	*	*	*	*	*
3c.10	All relevant contract documentation (RFP, responses to RFP, drawings, maps, specifications, etc) are attached to the contract in the CMM.	x	x	x		*	*	*	*		*	*	*	*	*	*
3d	Award and Execute Contract															
3d.1	The latest version of the contract in CMM is used for signing the contract document.	x	x	x		*	*	*	*		*	*	*	*	*	*
3d.2	The signed contract is attached to the contract in CMM.		x	x		*	*	*	*		*	*	*	*	*	*
3e	Debrief Proponents								*							*

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4	Procurement Competency : Administration & Monitoring Phase														
4a	Perform Services / Deliver Goods								*						*
4b	Management of Agreement														
4b.1	Access to contract templates stored in CMM is restricted.			x	*	*	*	*		*	*	*	*	*	*
4b.2	Only authorized personnel are allowed to make changes to contracts/ templates in the CMM.	x	x	x	*	*	*	*		*	*	*	*	*	*
4b.3	New versions of contracts are created when any changes are made to them.	x	x	x	*	*	*	*		*	*	*	*	*	*
4b.4	Adequate on-line querying and reports are in place to regularly monitor contracts in CMM.	X	X					*		*	*	*	*	*	*
		x	x												
4c	Certification and Payment							*		*	*	*	*	*	*

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5	Procurement Competency : <u>Post Contract Evaluation Phase</u>															
5a	Evaluate Deliverables / Outcome									*	*	*	*	*	*	
5b	Evaluate Contractor Performance									*	*	*	*	*	*	
5c	Evaluate Internal Process & Team									*	*	*	*	*	*	
6	Procurement Competency : <u>Corporate Reporting Phase</u>															
6a	Collect and Analyze Data and Generate Reports															
6a.1	Adequate on-line querying and reports are in place to regularly monitor contracts in CMM		x	x			*	*	*	*	*	*	*	*	*	*
			x	x												

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