

Administrative Response to Office of the City Auditor Consulting Services Review Report

Recommendation:

That the January 29, 2010, Office of the City Manager report 2010CMO002 be received for information.

Report Summary

This report provides additional information to clarify issues and support implementation of the Auditor's recommendations. In Administration's response and action plan to Recommendation 2, outlined in Attachment 1 of the February 5, 2010, Office of the City Auditor's report 2010OCA003, (Consulting Services Review) the City Manager has provided Audit Committee with further analysis of the contracts in the audit sample and financial information listed in the tables of the City Auditor's Consulting Review report.

Report

Administration supports the Auditor's recommendations and is in the process of implementing them.

A review of the audit sample shows that in the majority of cases, purchasing procedures were correctly followed and projects were delivered. The recommendations will help Administration strengthen processes and manage contracts further, and

reduce the occurrence of exceptions like those cited in the Auditor's report.

Audit sample

The Auditor's report estimates that in 2008, the City spent approximately \$92 million on consulting services. A random sample was selected from this total for further review. This sample represented 81 contracts, with a total 2008 spend of \$40.1 million.

A review of the 81 contracts in the audited sample show that 12 were incorrectly coded as consulting work. Removing these contracts changes the sample size to 69 contracts that total \$35.8 million.

Of this sample, \$32.4 million (90%) was directly related to and charged to capital projects. The remaining \$3.4 million in contracts went to other services.

Department-managed tenders and full tender processes in the sample, accounted for \$16.5 million (46%).

A single contract in the sample represented \$16 million. This was an agreement for project management and design coordination services related to preliminary engineering and detailed design for the South LRT (South Campus to Heritage). This contract was entered into as a sole source agreement due to the consultant's experience and expertise on earlier City of Edmonton LRT projects, and was approved by City Council, May 31, 2005.

Under this contract, design packages were broken down and sub-contracted out to other consulting firms in order to fairly distribute the design work to local

and non-local firms based upon need and expertise.

2008 context

Building on several years of accelerated growth, 2008 represented the peak of the economic boom in Alberta and Edmonton.

As the Auditor's report noted, the City's Capital Budget grew by over 90% between 2006 and 2008, driven in large part by provincial and federal government infrastructure funding. In 2008, the majority of these grant programs included criteria requiring, that the work be substantially delivered by the private sector.

As the City Manager has reported to Council, expectations to implement greater proportions of the capital program and budget in recent years have been achieved. In 2008, over 80% of the capital budget was expended, a significant increase from prior years.

The economy was operating above capacity and the City was extremely challenged to deliver its significant capital program due to rising cost pressures and supplier availability.

Capital project consulting

During this time, Administration took a proactive approach by opening up greater dialogue with industry groups in order to understand and implement changes to make City projects more attractive to firms that were already operating at or above capacity.

These included employing new project delivery methods, such as construction

management and design-build, seeking industry reviews of the City's standard tender and contract documents and adjusting terms and conditions in response to recommendations by the contracting and consultant community.

These changes enabled the City to attract competent and new bidders to compete on City capital projects.

Engineering/architecture consultant engagement process

The City Auditor's report indicates that the use of department-managed tender processes does not provide assurance the City is receiving the best price or value.

This process is an invitational call for proposals from firms that offer the required expertise. It has been the industry-accepted and standard practice for engaging engineering and architectural firms, widely used by municipalities, the Province of Alberta and many other public sector organizations.

Given the extremely competitive environment for consultants in the 2008 period of review, adding additional administrative requirements to industry through a full tender process was seen as a disincentive and would have risked the City's ability to deliver on its Capital program commitments.

Consultant hourly rates for engineers and architects are established by the respective governing institutions (e.g., Association of Professional Engineers, Geologists, Geophysicists of Alberta, and Alberta Association of Architects, and therefore proposal evaluations focus primarily on non-price factors such

as project understanding and approach and the qualifications and experience of the firms and their key personnel.

The Alberta-BC Trade, Investment and Labour Mobility Agreement (the Agreement), took effect at the municipal level on April 1, 2009. The Agreement requires full tendering processes for nearly all types of professional services for contracts greater than \$75,000.

The City has established the Alberta-BC Trade, Investment and Labour Mobility Agreement compliant processes for its consultant engagements, and today the majority of consulting contracts are established through a full competitive process due to these rules.

Other professional services

Table 2 (revised in Attachment 1) in the Auditor's report, groups consulting services into three categories.

To clarify, the "Management and Other Professional Services" category includes environmental, audit, legal, management, communication and general professional services.

This category includes such work as environmental assessments, property appraisal, information technology consulting, public opinion research and a variety of management consulting services.

Balancing use of consultants and City staff

Administration concurs with the City Auditor that the main reasons for acquiring consulting services are:

1. capacity
2. specialized skills

3. independent point of view

In 2007, the City analyzed its staffing needs compared to the external supply of labour. Targeted strategies were developed to address projected labour gaps. Senior Management Team mandated staffing for regular on-going services and the use of consultants to meet the fluctuating needs of temporary projects.

The City has made deliberate decisions to leverage the private sector's scope, scale and expertise in the design and construction areas.

Value

The Auditor's report focuses on costs as the major determinant of value in consulting agreements.

The value from consultants goes well beyond the cost of the service and includes factors such as limiting the City's liability, enabling timely delivery of projects and drawing innovation and best practice into the organization.

Working with consulting firms allows the City to access a large pool of expertise and leverages the experience and knowledge gained from their work in many municipalities and organizations throughout Alberta, Canada and around the world.

Progress on audit recommendations

Since the Auditor's report was completed, Administration has progressed on implementing its recommendations.

1. Materials Management Branch has established process checks

- to ensure that the commodity codes have been verified for accuracy before purchase orders are signed.
2. Senior Management Team is reviewing an amendment to the City's Administrative Directive on purchasing that will mandate staff to follow the procedures and requirements in the Professional Services Agreement Toolbox and ensure compliance.
 3. General Managers have confirmed their responsibility to ensure that post-project evaluations provided in the Professional Services Agreement toolbox are completed at the end of all consultant engagements.
 4. A committee has commenced with developing a formal vendor performance evaluation program for contractors and consultants to ensure that the City is protected against poor performance.
 5. Finance and Treasury Department has begun a review of coding issues, to clarify coding responsibilities and processes to ensure that clear roles are established. They are also considering periodic data integrity checks to validate the processes.

Financial information

Table 2 on page 3 of the Auditor's report shows the City's total spend on consultants in 2008 by department and category.

Administration found that some engineering and architecture services were reported as management services for Asset Management and Public Works Department and Transportation Department.

Attachment 1 provides a revised Table 2 showing these adjustments.

Although these findings provide additional clarity, they underscore that Administration must take action to improve coding accuracy.

Attachments

1. Revised Table 2 from the Office of the City Auditor's Consulting Services Review report (2010OCA003).

Others Approving this Report

- Senior Management Team

Attachment 1 – Original and Revised Table 2 from the Office of the City Auditor’s Consulting Services Review Report (2010OCA003)

Table 2 – 2008 Consulting Services Expenditures (REVISED)
(millions of dollars)

Department	Engineering & Architect Services	Staff Augmentation	Management & Other Professional Services	Total
Asset Mgmt. & Public Works*	\$18.9	\$0.2	\$5.3	\$24.4
Office of the City Manager	-	-	0.3	0.3
Community Services	0.1	-	3.6	3.7
Corporate Services	0.1	7.3	5.8	13.2
Deputy City Manager’s Office	0.1	-	1.7	1.8
Finance & Treasury	-	-	0.6	0.6
Planning & Development	-	-	3.3	3.3
Police	-	-	2.6	2.6
Transportation**	38.8	-	2.8	41.6
TOTAL	\$58.0	\$7.5	\$26.0	\$91.5

Not adjusted to reflect organizational structure changes in 2008.

Table 2 – 2008 Consulting Services Expenditures (ORIGINAL)
(millions of dollars)

Department	Engineering & Architect Services	Staff Augmentation	Management & Other Professional Services	Total
Asset Mgmt. & Public Works	\$17.7	\$0.2	\$6.5	\$24.4
Office of the City Manager	-	-	0.3	0.3
Community Services	0.1	-	3.6	3.7
Corporate Services	0.1	7.3	5.8	13.2
Deputy City Manager’s Office	0.1	-	1.7	1.8
Finance & Treasury	-	-	0.6	0.6
Planning & Development	-	-	3.3	3.3
Police	-	-	2.6	2.6
Transportation	22.2	-	19.4	41.6
TOTAL	\$40.2	\$7.5	\$43.8	\$91.5

Not adjusted to reflect organizational structure changes in 2008.

*AMPW management & other professional services totals include \$1 Million in environmental engineering/consulting and \$3 Million in consulting projects directly related and charged to capital projects.

**Transportation management & other professional services totals include \$1.5 Million in consulting projects directly related and charged to capital projects.