

Consulting Services Review

Recommendation:

That the February 5, 2010, Office of the City Auditor report 2010OCA003 be received for information.

Report Summary

This report presents the results of the Office of the City Auditor's Consulting Services Review.

Report

The Office of the City Auditor's 2009 work plan included a City-wide review on the use of consultants.

The primary objective of this review was to assess the value the City receives from using consultants and whether using external consultants is a cost-effective alternative to hiring additional permanent or temporary staff to perform the work.

Our second objective was to determine whether procurement and accounting practices effectively support monitoring and accurate and consistent reporting on consulting service expenditures.

To assess the value the City receives from the use of consultants, we developed a nine-phase framework where the value of each phase was assessed. For the City to demonstrate that consultant use is cost-effective, each phase should be documented and critically analyzed. We assessed a sample of 81 expenditures that Administration had coded in Systems Applications and Products in Data Processing as consulting services.

We have summarized the results of our analysis in five themes:

1. Professional Service Agreement Guidelines
In general, the City's Professional Service Agreement Toolbox is a high level outline of procurement requirements. In our opinion, the Professional Service Agreement Toolbox needs to include detailed guidance starting with a business case justifying the need for consulting services and be better aligned with current leading practice.
2. Procurement and Payment for Services
For the majority of the engagements we reviewed, the City cannot demonstrate that it received the benefits of competition, such as better prices and a broader range of ideas. In our opinion, departments need to reduce the frequency of contracts awarded by sole source contracting, by routinely involving Materials Management staff in the procurement process.
3. Resource Assessment
Our review of business case documentation and discussion with the stakeholders revealed that the City typically exercises minimal effort on assessing internal resource availability within the operational area. We also found that such an assessment does not take place corporately.

Our review revealed that the City does not regularly plan for or ensure skills transfer from consultants to internal staff to build internal capabilities.

4. Quality of Information

Our analysis shows that more than half of the engagements reviewed were not adequately documented, and the City's communications to the consultants fared only slightly better. In many cases the information was reported and communicated verbally between the City and consultant. In other cases, it was communicated only in general terms, rather than identifying specific requirements and outcomes.

Our analysis shows 38 percent of engagements had change orders that raised the final contract price by more than 25 percent of the original value. Supporting documentation for more than half of the changes was not sufficient to allow an independent reviewer or approver to make meaningful decisions.

5. Corporate Oversight

The current corporate oversight role is limited to defining procurement processes as set out in Administrative Directives and City Policies. The City Manager and his delegates are responsible and accountable for approving and managing the procurement of consulting services costing \$250,000 or less (as of October 1, 2009, this limit was raised to \$500,000).

The City's current procurement and contract management practices increase the risks of inefficient and ineffective use of resources and of incurring higher costs. Our analysis shows that 65 percent of the sampled engagements were entered into the City's financial system with incorrect classification codes.

We also noted that some projects are being broken into phases or separate activities, each at a relatively low value, which can result in bypassing delegated authority limits.

We believe Administration must demonstrate the effectiveness and efficiencies gained from the use of consulting services if the current level of spending is to be maintained.

Recommendations

The attached report contains three recommendations designed to strengthen the City's consultant engagement processes.

1. Recommendation 1 addresses the completeness of the City's authoritative documents relating to consultant usage (update the Professional Service Agreement Toolbox, Administrative Directive, and other procurement processes).
2. Recommendation 2 encourages the City to assess and plan for its consultant requirements, including long term resourcing and staffing plans.
3. Recommendation 3 addresses the large rate of transaction coding errors.

Administration Action Plans

We are satisfied with Administration's action plans, which are included in our report. Unique to this report, Administration has indicated that a separate report will be tabled that will include further analysis of the 81 contracts in the audit sample and the financial information listed in the tables.

Administration has used the results of our analysis as a base for their own

review of the 81 sample engagements. While our recommendations are intended to be forward-looking, Administration's assessment of these contracts will assist them in defining go-forward strategies to implement their action plans.

As indicated in the beginning of Section 2 of this report, the non-budgetary data was obtained directly from the City's financial system. As we note in multiple locations in the report, that data has very high miscoding rates (65 percent). Because of this high error rate, we have little confidence that consultant costs can be effectively tracked without reviewing every hardcopy project file.

The frequency of miscoding errors is a significant issue. Therefore, any analysis of system-generated information about consultant usage must be used with caution since the error rates are high. For example, a \$16 million contract was miscoded as management consulting rather than engineering. The risk of misinterpretation of results will continue until Administration fully addresses Recommendation 3.

Policy

Bylaw 15310, Audit Committee Bylaw, Section 10(3)(a) states that, "The Committee has the authority to review all reports issued by the City Auditor..."

Focus Area

Effective governance

Attachments

1. Consulting Services Review



OFFICE OF THE
City Auditor

Consulting Services Review

December 21, 2009



The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

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Consulting Services Review

Executive Summary

Getting value for money from the use of consultants is dependent upon defining and justifying the need for consultants, astute procurement and contract management, tight governance and accountability structures, and a thorough assessment of the benefits achieved.

The primary objective of this review was to assess the value the City receives from using consultants and whether using external consultants is a cost-effective alternative to hiring additional permanent or temporary staff to perform the work.

Council is the City's governing body and approves funding for both operating and capital budgets. The City Manager is responsible for approving consulting services contracts included in the approved budgets as specified in the City Administration Bylaw.

The purpose of this summary is to highlight areas the Administration needs to improve. A full report outlining the detailed results of our review follows this summary.

Spending on consulting services has increased significantly (averaging 30% annually) since our last review in 2000. We estimate that in 2008 the City spent approximately \$92 million on consulting services. Our review of the selected sample shows that the City's efforts to identify and assess the value received from these services are inadequate. We are also concerned about the lack of attention paid to accurately coding procurement and accounting documents. Significant effort was required to arrive at a reasonable estimate of spending on consulting services.

The City's guidelines for procuring professional services are outlined in the City's online Professional Services Agreement (PSA) Toolbox. In general, the PSA Toolbox is a high-level outline of procurement requirements. In our opinion, the PSA Toolbox needs to include detailed guidance starting with a business case justifying the need for consulting services and be better aligned with current leading practice.

Overall, the effort placed on defining the need for consultants and the outcomes expected from engagements is less than adequate. Little effort is put into assessing alternate methods of achieving desired results, specifically the capacity and capability of internal resources. As a result, consultants may be used when in-house staff have the necessary skills and capacity to undertake the work at a lower cost. In our opinion, internal staff can provide better value for money than using external suppliers, especially if the requirement is long-term or for generalist skills. Departments should always consider whether the skills are available from within the City before turning to external consultants. If consultants are the only option, then departments need to define from the outset the added value and measurable outcomes they expect to receive.

We also observed that departments do not regularly plan for, or achieve, the transfer of skills from consultants to their staff to build internal capabilities. In our opinion, departments should identify opportunities for skill transfer and ensure it occurs. Where opportunities exist, skills transfer should be a specific contract outcome requirement and in-house staff should work alongside consultants either formally in joint teams or informally as observers.

At the conclusion of a consulting engagement, departments do not undertake and share post-project performance reviews or assess the value of the work they received from consultants. This impacts the City's ability to be an intelligent customer and make more informed decisions on the future use of consultants. In our opinion, project specifications and outcomes need to be agreed to and be contractually binding. They should set out the intended benefits, which should, whenever practicable, be defined in a way that can be measured. Post project evaluations that capture the lessons learned and the performance of suppliers should be routinely conducted.

The leading practice framework detailed in Appendix 1 is based on the Consultancy Value Program implemented in the United Kingdom following an audit of consulting expenditures. In 2008, three years after implementation, the United Kingdom Government reviewed consulting expenditures again and found that overall spending had decreased by 31% over the three-year period. They attributed the reduction in spending to the new framework that supported the Consultancy Value Program.

Our report contains three recommendations to strengthen controls and ensure that value can be both demonstrated and measured in the future. We believe our recommendations are fully aligned with the Administration's project on Performance Measurement and Outcomes, which states:

Effective measurement serves many functions in an organization:

- Clarifies performance expectations;
- Enables goal-setting (goals are targets set on measurement dimensions);
- Forges increased strategic agreement and alignment;
- Increases the holistic perspective at all levels;
- Focuses attention on what is most important;
- Provides timely early-warning signals;
- Increases the frequency and accuracy of feedback;
- Motivates improvement;
- Increases objectivity and transparency, and
- Aligns budget decisions with planning decisions.

Our recommendations and the Administration's action plans are summarized in the following report.

Consulting Services Review

1. Introduction

The Office of the City Auditor's (OCA) 2009 work plan included a City-wide review on the use of consultants. This project identified major consulting services the City purchased in the recent past and assessed the impact or value those services delivered.

Value is not purely a monetary assessment; it is based on both factual data and subjective analysis of objectives and outcomes. In this report, value is a measure that takes into account a number of factors including: cost, quality, timeliness, tangible and intangible benefits, achievement of desired outcomes, and impressions on customers and observers.

There are three main reasons for acquiring consulting services¹:

1. To provide a level of service that is beyond an organization's capacity to deliver internally.
2. To provide a specific skill that an organization lacks or specific knowledge on how to approach the task.
3. To provide an independent, objective point of view on an issue.

Consulting services, when used correctly and in the appropriate circumstances, can provide significant value. On the other hand, when used incorrectly, consultants can drain budgets very quickly, with few or no productive results. To achieve the greatest value, risks such as loss of control over the quality of output, lost opportunities to develop skills and knowledge in-house, increased exposure of confidential and personal information, and increased costs must be effectively managed.

2. Background

We last reviewed the use of consultants in 2000. That review focused on roles and responsibilities, the process for hiring consultants and reporting of costs. The audit report we released in 2000 stated that the City spent approximately \$22 million annually on consulting services in 1998 and 1999.

Because of inconsistent and incorrect procurement and account codes entered into the City's financial system (SAP), it is not possible to ensure that all consulting services are identified without reviewing every payment transaction. The following table compares

¹ Source: United Kingdom National Audit Office based on Ensuring Sustainable Value from Consultants (MCA/Management Today, 2006)

consulting expenditures produced using standard SAP reports with total costs extracted by the OCA using audit analysis software.

Table 1 – Consulting Service Expenditures
(millions of dollars)

Year	Consulting Services Expenditures		Total Annual City Budget	
	SAP Report	OCA Extract	Operating	Capital
2006	\$50	\$60	\$1,310	\$604
2007	\$65	\$71	\$1,434	\$979
2008	\$85	\$92	\$1,481	\$1,151
<i>Average Annual Increase</i>	35%	27%	7%	45%
	31%		19%	

The \$7 million difference between the SAP report and OCA extract in 2008 is primarily for Information Technology consulting expenditures that were coded as contract work rather than consulting services and not captured in the SAP report.

As shown in Table 1, the City’s operational budgets increased at an average of 7 percent per year between 2006 and 2008, while the capital budget increased by an average of about 45 percent per year. The capital budget increase is largely due to additional capital infrastructure funding from other levels of government. The following charts compare the percentage increase in spending on consulting services recorded in SAP to the increase in the approved budgets from 2006 to 2008. Chart 1 presents the spending funded through the capital budget and Chart 2 presents the spending funded through the operating budget.

Chart 1 – Increase in Capital Spending

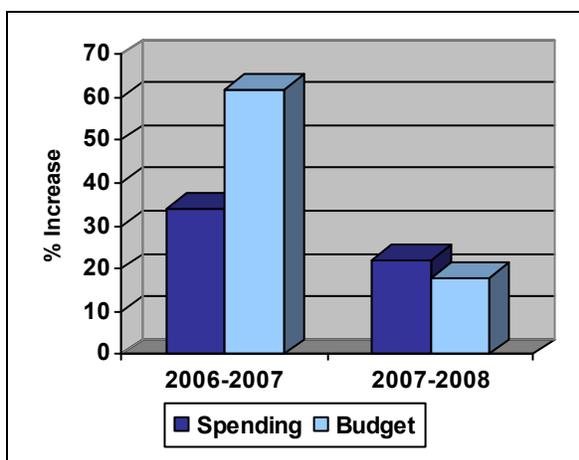
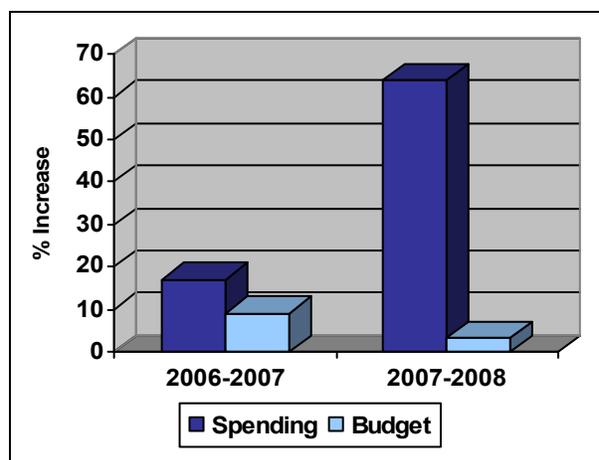


Chart 2 – Increase in Operating Spending



As shown in Chart 1, the City’s capital budget increased by 64 percent between 2006 and 2007, while the City’s spending on consultants increased by 34 percent. From 2007 to 2008, the growth rate in both the City’s capital budget (18 percent) and spending on consultants (22 percent) slowed appreciably.

Similarly, as shown in Chart 2, the City's total operating budget increased by 9 percent from 2006 to 2007, while City spending on consultants increased by 17 percent. From 2007 to 2008, the City's total operating budget only increased by 6 percent, while spending on consultants increased by 64 percent.

Based on the estimates presented in Table 1, the City's spending on consulting services has increased by approximately 31% per year compared to an average budget increase of 19% per year. Table 2 summarizes 2008 consulting services expenditures by department and by type of consulting.

Table 2 – 2008 Consulting Services Expenditures
(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.

Obtaining value from consulting services depends on a number of factors, including defining and justifying the organizational need, astute procurement practice, effective project management, and objectively assessing the benefits achieved at the conclusion of a project.

The City's governing documents for the procurement of professional services include the inter-provincial Agreement on Internal Trade (AIT),² City Administration Bylaw 12005 (CAB), the procedures outlined in the Professional Services Agreement (PSA) Toolbox, and Administrative Directive A1439A, *Purchasing of Goods, Services, and Construction*.

² As of April 1, 2009, The City is also required to comply with the Alberta-British Columbia Trade, Investment and Labour Mobility Agreement (TILMA).

3. Objectives

The primary objective of this review was to assess the value the City receives from using consultants and whether using external consultants is a cost-effective alternative to hiring additional permanent or temporary staff to perform the work.

The following specific audit objectives formed the basis for our review.

Audit Objective 1: To assess the value the City receives from the use of consultants.

We developed audit criteria to assess this objective based on the City's PSA guidelines and leading practice for assessing consultancy value. The criteria assessed all nine phases of the consultant engagement process including the:

1. Business case,
2. Description of work,
3. Consultant proposal,
4. Procurement method,
5. Definition of roles and responsibilities,
6. Changes to requirements,
7. Adherence to budget and schedule,
8. Delivered product and
9. Post closure evaluation.

Audit Objective 2: To determine whether procurement and accounting practices effectively support monitoring and accurate, consistent reporting on consulting service expenditures.

We used the following audit criteria (statements of the ideal situation) to assess this objective:

- Consulting services were accurately and consistently coded to the appropriate "commodity codes" in the procurement module of SAP.
- Expenditures on consulting services were accurately and consistently entered against the appropriate cost elements in the accounting module of SAP.
- Reports generated from the procurement and accounting modules of SAP produced comparable results.

4. Scope and Methodology

The scope of this review included all expenditures on consulting services acquired by civic operations that report to the City Manager as well as boards, authorities and commissions that utilize the City's financial system to maintain financial records.

4.1. Audit Methodology

We used the following methodology to complete our review:

- a. Expenditures on consulting services for 2008 were extracted from SAP and a random sample selected.
- b. Leading practice criteria for evaluating consulting service value was compiled from City procedures and guidelines and from reports and studies completed by other public bodies in recent years.
- c. Procurement, payment and project documentation was reviewed and assessed against established criteria.
- d. For a selected sub-sample, surveys were developed and administered to various groups of stakeholders to determine their perceptions of value received.
- e. Results of our analysis, interviews, surveys and risk assessment were compiled and opinions formed on the value the City receives from consulting services, hiring and reporting practices and oversight processes.

Risks considered in our analysis included:

- Establishing the need for a consultant (e.g., procedures, funding, timeframes, resource need and availability, and solutions)
- Tendering (e.g., specifications, terms, and premature commitment)
- Consultant selection (e.g., open and unbiased)
- Contract execution (e.g., project management and contract extension)
- Post project evaluation (e.g., identification of problems and opportunities to improve)

4.2. Value Assessment Methodology

The Administration does not have a framework to assess the value received from consulting services. Neither does it collect or maintain sufficient information to facilitate assessments of its use of consultants and the receipt of anticipated benefits.

The framework we developed in order to evaluate the value received from consulting services includes all nine phases of the consultant engagement process. Our review covered all nine phases in three categories: a) creation of value prior to engaging a consultant, b) value delivered during the execution of the agreement, and c) value received at the conclusion of an engagement. The following is a brief description of each of the nine phases; a more detailed discussion is in Appendix 1 of this report.

A) **Creation of value** prior to engaging a consultant:

1. **Business Case** – a robust business case justifying the need to hire a consultant needs to be developed and approved.
2. **Description of Work** – a detailed description of work that communicates the City's requirements to the consulting community needs to be created.

3. **Consultant Proposal** – consultant proposals that communicate their understanding of the City’s requirements and setting out their proposed methodology need to be evaluated by the City.
4. **Procurement** – approved procurement documents need to be in place prior to the start of work.

B) **Value delivered** during the execution of an agreement:

5. **Finalize Roles and Responsibilities** – roles and responsibilities need to be documented and understood early in the engagement.
6. **Changes to Requirements** – any changes to requirements need to be documented and approved.

C) **Value received** at the conclusion of an engagement:

7. **Budget and Schedule**³ - adherence to the budget and schedule need to be monitored and explanation of variances from the original estimates explained.
8. **Delivered Product** – project deliverables, both tangible and intangible, need to be of a quality acceptable to the City.
9. **Post Closure Evaluation** – a post project evaluation assessing the performance of the consultant and City staff needs to be completed.

5. Observations

5.1. Value assessment Summary

We selected a random sample of 81 purchase orders and payment transactions recorded in SAP in 2008. Documentation was obtained from departmental contacts identified on purchasing documents and assessed against the framework. Where documentation was not available, we obtained written and verbal descriptions of the process followed for the specific steps in the process. Table 3 summarizes key attributes of the selected sample.

³ Monitoring of adherence to budget and schedule is an ongoing process transcending value delivered and value received. For purpose of this review we considered the variance from budget and schedule at the conclusion of the project.

Table 3 – Sample Attributes

Overall Sample	
Number of Sample Items	81
<i>Percent of Purchase Orders</i>	<i>10%</i>
2008 Expenditures (millions)	\$40.1
<i>Percent of Total 2008 Expenditures</i>	<i>44%</i>
Total Contract Value for the sample (millions)	\$130.9
Range of Contract Values	\$2 thousand – \$58 million
General Purpose	
	Number
Engineering & Architect Services	13
Staff Augmentation	26
Management & Other Professional Services	<u>30</u>
SUB-TOTAL	69
Non-consulting Transactions*	12
TOTAL	81

* Incorrectly coded transactions include operational funding for third-party service providers, newspaper advertising, commissionaires, and construction expenditures.

Our assessment of five of the nine phases required us to provide a subjective assessment of the information available. The results take into account the nature, size and complexity of each engagement reviewed. Leading practice suggests that less rigour is required for low-value engagements. Table 4 summarizes the results of our subjective value⁴ assessments for consulting engagements in our sample.

Table 4 – Subjective Assessment Results

Value Area	Create			Deliver	Receive
	1	2	3	5	8
Engagement Phase	Business Case	Description of Work	Consultant Proposal	Roles & Responsibilities	Deliverables
Rating					
Sample Size	69	69	69	69	48*
Value Rating	Percent of Sample				
• Insufficient Information	6%	7%	22%	3%	13%
• Little or No Value	51%	36%	25%	38%	10%
• Adequate Value	26%	22%	16%	38%	29%
• Good Value	14%	28%	30%	19%	46%
• Excellent Value	3%	7%	7%	3%	2%
Overall Assessment**	Inadequate	Adequate	Adequate	Adequate	Adequate

* *Completed Engagements Only*

** *'Inadequate' indicates that we rated more than 50% of the sample as less than 'adequate value'; 'adequate' indicates that we rated more than 50% as 'adequate value' or higher.'*

⁴ Value is a measure that takes into account a number of factors including: cost, quality, timeliness, tangible and intangible benefits, achievement of desired outcomes, and impressions on customers and observers.

To ensure that our assessment results presented in Table 4 fairly reflect the value received from consulting service engagements, we facilitated eight stakeholder assessment sessions to obtain the Administration’s input. The 56 stakeholders who attended these sessions rated engagements in which they were either directly or indirectly involved.

- 43% of stakeholders considered themselves as either project managers or as having influence on the project outcomes,
- 43% either participated on the project directly or were impacted by the outcomes, and
- 14% provided a support service.

Table 5 compares our assessments with those of the 56 stakeholders.

Table 5 – Comparative Assessment Results

Value Area Engagement Phase Rating	Create			Deliver	Receive
	1 Business Case	2 Description of Work	3 Consultant Proposal	5 Roles & Responsibilities	8 Deliverables
OCA Assessment	Inadequate	Adequate	Adequate	Adequate	Adequate
Administration Assessment *	Adequate	Adequate	Good	Good	Good

* Administration assessments are the median of all stakeholder assessments made at the stakeholder assessment sessions.

Our assessment of the remaining four phases was based on objective information. Table 6 summarizes the results for these phases.

Table 6 – OCA Objective Assessment Results

Engagement Phase	Number of Engagements	Percent of Sample
4 - Procurement Method*		
• Sole Source	47	68%
• Department Managed Tender	14	20%
• Open Tender	8	12%
Number of Engagements	69	
6 - Change to Requirements		
• No Documented Change	43	62%
• Adequately Supported	11	16%
• Poorly Supported	15	22%
Number of Engagements	69	

Engagement Phase	Number of Engagements	Percent of Sample
7 - Budget/Schedule (completed projects)		
• On time and budget or minor variance	22	46%
• Significant variance (<i>greater than 25%</i>)	26	54%
Number of Completed Engagements	48	
9 - Post Closure Evaluation (completed projects)		
• Evaluation completed	2	4%
• Evaluation not completed	46	96%
Number of Completed Engagements	48	

* *Procurement Methods are defined in Section 5.3.*

The majority of the consultant engagements used either sole source or department managed tender procurement methods. Those procurement methods challenge the principle of transparency in public procurement and provide limited or no assurance the City is receiving best price or value.

More than half of the engagements that had changes to the original agreements (15 of 26) did not have adequate documentation explaining the reason for the change.

Just over half of the completed engagements had variances in cost and/or schedule greater than 25% of the originally approved values.

Post closure evaluations were only completed for 2 of the 48 engagements.

Based on these results, we believe that insufficient effort is being expended on the categories of creating, delivering and receiving value for consultant engagements. Observations contributing to the results presented in Tables 4 and 6 are summarized in Section 5.2 through 5.6 of this report.

5.2. Professional Service Agreement Guidelines

The City's guidelines for obtaining professional services are outlined in its online Professional Services Agreement (PSA) Toolbox. In general, the PSA Toolbox consists of a high-level outline of procurement requirements. Our research shows that leading practice provides more detailed guidance for the entire consultancy process and includes strong oversight roles.

The City operates with a decentralized procurement model for obtaining professional services. General Managers and their delegates are responsible and accountable for using the PSA Toolbox appropriately and completing the PSA checklist, choosing the procurement method they use for professional services, and selecting consultants. Our analysis of data collected on the use of the PSA Toolbox shows that only 55% of the consultant engagements we reviewed followed the steps set out in the City's guidelines.

Our research into leading practice on receiving value from consultant services revealed few organizations with well-defined frameworks for acquiring and assessing the value received from consultants. The most comprehensive framework was published by the United Kingdom in 2006. In 2009, the United Kingdom government published information stating that over a three-year (2006-2008) period, spending on consultancy services decreased by 31%, which they attribute to the implementation of their consultancy value framework. Based on our research, we consider the United Kingdom framework to be leading practice.

Our analysis of leading practice suggests that the degree of guidance provided by the City needs to be enhanced. The most significant differences are in the areas of developing a robust business case, defining roles and responsibilities, requiring post closure evaluations, and providing a gateway process that ensures a reasonable measure of corporate oversight prior to hiring. A full comparison of the guidance provided in the PSA Toolbox against leading practice is provided in Appendix 1 of this report.

The absence of strong guidance for developing comprehensive business cases combined with the absence of a strong corporate oversight role has resulted in inconsistent practices between departments. It has also resulted in the inability to justify the current level of spending on consulting services. This is reflected in our assessment of 'inadequate' value received from the business case phase of the process (Section 5.1, Table 4).

Our sample included the following projects that illustrate the impact of a decentralized model in which good practices are not mandatory. In the first example, we found that the department changed the City's standard general contract terms and executed the agreement without having the Law Branch review and approve the change. In addition to being against corporate guidelines, this practice also increases risk exposures such as higher cost, legal liability, unenforceable contracts, etc. In this case, the consultant provided the City with periodic progress reports; however, a final report was not produced.

In a second example, we reviewed two management consulting engagements that had similar objectives, approaches and outcomes. One engagement cost approximately \$16,000 while the second cost \$94,000. The following are key similarities and differences in the engagements:

- Formal business cases were not prepared in either case.
- In both cases, the consultants were hired using the sole source approach.
- Both consultants' approach to their project included meeting with senior department management both individually and in groups. The lower cost engagement was for an organization approximately twice the size of the other organization.
- In both cases, the outcome evolved through an iterative process.

- The lower cost engagement included the transfer of knowledge to City staff so that similar projects could be completed utilizing in-house resources in the future. The higher cost engagement did not include knowledge transfer.
- The lower cost project came in under budget because a City staff member was able to assume the facilitator role and complete the project. The higher cost project came in on budget.

These examples illustrate that the current decentralized procurement model and absence of an effective corporate oversight role has resulted in inconsistent practices, increased risk exposures, and higher than necessary expenditures. The corporate oversight role is discussed in Section 5.6 of this report.

5.3. Procurement and Payment

The City employs three methods of approaching the marketplace to acquire consultant resources.

- **Open Tender:** The process of publicly advertising the opportunity to bid on a project. This approach provides the greatest assurance that the City is in compliance with internal and external regulations and is receiving the best value for money.
- **Sole Source:** The process of entering into an agreement with a selected vendor. Appropriate uses of this method include:
 - when requirements are for a unique product or no alternative exists,
 - to ensure compatibility with existing products,
 - recognizing exclusive rights and specialized products, and
 - for unforeseeable urgent matters.

When sole source procurement is used for inappropriate reasons, there is no assurance that best value for money is being received.

- **Department Managed Tender:** The process of soliciting bids from a few select vendors. This approach limits the pool of vendors and the ability to demonstrate receipt of the best value for money.

Procurement Approach

Our analysis shows that only 12% of consulting engagements in our sample were acquired through open tender, 68% were awarded through the sole source process, and 20% through department managed tenders. This means the City cannot demonstrate that it received the benefits of competition, such as better prices and a broader range of ideas, for the majority of the engagements we reviewed.

In our opinion, departments need to reduce the frequency of contracts awarded by sole source contracting by routinely involving Materials Management staff in the procurement process.

Inter-Provincial Trade Agreements

We surveyed individuals responsible for each engagement in our sample to determine the level of compliance with the inter-provincial Agreement on Internal Trade (AIT). The purpose of the agreement is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investment within Canada and to establish an open, efficient, and stable domestic market. The agreement provides a \$100,000 threshold for the procurement of services by Municipalities. It also lists several exemptions from the normal requirement for open and transparent tendering.

Responses to our survey show that:

- 46% of engagements complied with AIT requirements,
- 6% of engagements were not in compliance, and
- 48% of respondents did not clearly understand the regulations and exemption clauses. In some cases respondents indicated:
 - Compliance using inappropriate reasons for exemption
 - Non-compliance when they were in compliance because the contracts were under the threshold.

In April 2009, the Alberta and British Columbia Trade, Investment and Labour Mobility Agreement (TILMA) came into effect. This agreement reduces the maximum contract value for non-tendered services to \$75,000 and has fewer exemptions than were allowed under AIT. This will impact the City's ability to continue its use of sole source and department managed tender practices.

In our opinion, the City needs to ensure that all staff making purchasing decisions are aware of both the delegation of authority limits under the *City Administration Bylaw* and the lower limits specified in external trade agreements. The City must ensure that all requests for consulting services are in compliance before agreements and purchase orders are executed.

Alternate Procurement/Payment Methods

Normally consulting engagements are supported by signed professional service agreements and purchase orders executed by Materials Management. These documents, when fully executed, protect the City's interest in the event of poor performance by the consultant and facilitate monitoring of consultant performance and the ability to monitor and report on consulting service expenditures.

Our sample included a number of payments for consultant engagements acquired without Materials Management involvement.

- Current procurement procedures allow low value engagements, less than \$10,000, to be made using low value purchase orders. Six engagements were procured on low value purchase orders with values ranging from \$2,000 to \$3,000. In one case, Materials Management should have been involved when a low value order led to a larger contract being awarded to the consultant.

- Eight engagements ranging in value from \$1,000 to \$220,000 were paid without purchasing documents or professional service agreements being prepared or referenced. Payment for consulting services is not listed in Administrative Directive A1439 as being exempt from the use of purchase orders.
- In one case, the payment in our sample was for \$35,000 and was approved by a manager with the appropriate delegated authority. However, when combined with other payments for the same engagement, the total value exceeded \$110,000 and the delegated authority limit.

These payment methods expose the City to unnecessary risk and limit the City's ability to effectively monitor consulting expenditures and demonstrate value for money.

In our opinion, a purchase order and/or a fully executed professional service agreement needs to be in place to ensure the City's interests are protected and that consulting service expenditures can be monitored and accurately tracked.

5.4. Resource Assessment

In-house Capacity and Capability

One of the key activities that needs to take place prior to engaging a consultant is the review of internal resource capacity and capability. Our review of business case documentation and discussion with the stakeholders revealed that the City typically exercises minimal effort on assessing internal resource availability within the operational area. We also found that such an assessment does not take place corporately.

A review of consultant value completed in the United Kingdom in 2006 concluded that public bodies need to be much better at identifying where core skill gaps exist in relation to medium and long term requirements. The report notes that recruitment of full-time personnel and training existing personnel can provide better value for money than continued use of consultants. Public bodies need to better define and measure the transfer of skills from consultants to internal staff and reduce future reliance on consultants by increasing internal core capabilities for ongoing needs.

We asked the stakeholders participating in the facilitated sessions several general questions related to the City's use of consultants:

- 66% of stakeholders indicated that their skills, knowledge and abilities were being fully utilized. This response is consistent with the 2008 Employee Census, which indicated 64% of employees "feel their skills and education are utilized."
- 29% of stakeholders believe the City often hires consultants when internal resources are available and 69% believe that the City occasionally hires consultants when internal resources are available.
- 88% of stakeholders believe the City should increase resource levels and staff competencies rather than hiring consultants for repetitive or ongoing work.

We reviewed business plans and professional services agreements to determine where the City identified the opportunities for skills transfer. Our review revealed that the City does not regularly plan for or ensure skills transfer from consultants to internal staff to build internal capabilities.

Our sample included open purchase orders for ongoing or repetitive services such as land/cadastral surveys, geotechnical/environmental investigations, and communications/writing services. Two of the open purchase orders were part of larger service requirements. In one case 12 organizations are providing the same service to the City and in the other work is split among 16 organizations. These agreements have been in place for a number of years, have a total value in excess of \$4.0 million, and contain renewal clauses. This indicates that the services are for ongoing requirements. During discussions with City staff, we were advised that similar services are also provided in-house. This suggests that the Administration may not be staffing for basic ongoing requirements. This is an example where the Administration needs to monitor long-term requirements and complete an internal/external supply evaluation to justify the continued use of consulting services.

Over the past few years, additional sources of sustainable funding have emerged (e.g., the City's two-percent neighbourhood infrastructure program and the province's Municipal Sustainability Initiative funding). In some cases, cost-sharing agreements with other levels of governments place some restrictions on using City employees to do the work. In at least some instances, the funding agreements do not exclude compensation for City employees. These changes in the environment provide opportunity to reassess the City's practice of using consultants rather than hiring additional staff for ongoing projects.

Cost Comparison

In 2008, we estimate that \$47.7 million was spent on consulting services to supplement in-house resources (Table 2, page 3).

- \$40.2 million of this total was incurred for Engineering and Architectural services. Most of the costs were incurred for major capital projects, which are subject to cost-sharing agreements that may limit the City's ability to use internal resources.

The Roads Design & Construction Branch recently completed a preliminary analysis of engineering service costs. In its analysis, the Branch indicated that capital project expenditures have increased significantly in the past few years. The primary factor is that the provincial and federal governments have directed significant funding toward municipal infrastructure projects. The Branch's results show that the percentage of design services completed in-house dropped from 55% in 2001 to 5% in 2008. Over the same period, the expenditures on in-house resources dropped from \$1.4 million to \$0.9 million, while expenditures on consulting resources increased from \$1.0 million to \$16 million. They calculated the fully loaded hourly rate for internal resources is \$93 per hour compared to consultant rates of between \$125 and \$155 per hour.

To illustrate the cost impact of increasing in-house capacity, if the administration increased its in-house capacity to provide 20% of engineering services instead of the 5% estimated for 2008, the City would need to increase its personnel budget by approximately \$3.0 million. At the same time, spending on consulting resources could be decreased by approximately \$4.5 million, resulting in a net saving of \$1.5 million. This saving is based on the following assumptions:

- The City could recruit staff with the required qualifications and skill sets at currently established pay rates.
- There are approved projects that are not restricted by a cost sharing agreement that states the cost of in-house resources is not eligible for cost sharing.
- The majority of the remaining \$7.5 million was for consultants to supplement the City's Information Technology (IT) staff in 2008.

Our June 2009 Information Technology Corporate Audit indicated that consultant rates for IT services ranged from \$57 to \$102 per hour, while comparable City rates range from \$41 to \$60 per hour. That report also noted that the rate for consultants designated as SAP specialists range from \$130 to \$445 per hour. The Chief Information Officer is reviewing resource requirements with the objective of replacing contract workers with City staff where it is cost advantageous.

In 2008, we estimate that the City spent \$43.8 million on management consulting, specialized consulting (e.g., communications), and other professional services. Our research and review of purchasing documents shows that hourly rates for senior/experienced management consultants are from \$300 to \$400 per hour. The City's senior professional staff have hourly rates, including benefits and corporate overhead, in the range of \$95 to \$130 per hour.

Historically, the City had a group of employees who served as management consultants. That group consisted of individuals who were skilled management consulting generalists. They served as a corporate resource for smaller projects that didn't require large teams of specialists. We believe that the City has an opportunity to rebuild such a group and avoid at least a portion of the \$43.8 million spent on management consultants in 2008.

In our opinion, using consultants for ongoing operational needs exposes the City to higher costs than necessary. We believe that there is potential to reduce the overall cost of delivering City services by enhancing resource planning practices and developing a long-range resource plan to more effectively balance the use of in-house and consulting resources where there are ongoing requirements.

5.5. Quality of Information

Table 4 in Section 5.1 shows that 57% of the business cases we reviewed provided less than adequate value. The description of work used to communicate City needs to consultants and consultant proposals rated only slightly better with 43% and 47%

respectively. In many cases the information was reportedly communicated verbally between the City and Consultant. In other cases, it was communicated in general terms rather than identifying specific requirements and outcomes. This not only prevents the City from effectively measuring value received, it also increases the risk of not achieving the desired outcomes. In addition, it increases the probability that changes in project requirements and budget will be required.

Table 6 on page 8 shows that 38% of the engagements we reviewed had changes to the contract agreements. Supporting documentation for 11 of the 26 changes was sufficient to allow an independent reviewer/approver to make meaningful decisions. Supporting documentation for the remaining 15 changes was inadequate, which can lead to incorrect decisions, misinterpreted requirements, and limited value from expenditures.

Our analysis of the 26 completed contracts with cost or schedule variances greater than 25% (identified in Table 6 on page 9) are summarized in Table 7. Significant cost variances for major contracts that are still in progress are also included in the table.

Table 7 – Summary of Major Variances

Ending Engagement Value	Number	Variance from Originally Approved Cost Estimate
Variance from Schedule only	12	Not applicable
Up to \$100,000	4	38% to 50%
\$100,001 to \$500,000	8	36% to 404%
Greater than \$500,000	<u>2</u>	32% to 100%
Completed Contracts	26	
Still In Progress	<u>4</u>	43% to 198%
Total Contracts Reviewed	30	

Unforeseen and changing conditions and/or planned changes in scope may have influenced these results. However, we believe the poor quality of information in business cases and ineffective communications to and from consultants contributed to the need for scope changes and increase in costs.

The level of effort placed on the early phases of the consulting engagement process has also resulted in inconsistent procurement practices. Through our file reviews, discussion with stakeholders, and analysis of purchase orders issued to consultants, we found instances where:

- New purchase orders were issued for continuing engagements rather than amending existing agreements.
- Splitting engagements into phases and obtaining approval for individual pieces of work rather than the entire project at one time.

These practices limit the City's ability to make effective decisions and can result in the inability to monitor and enforce compliance with delegated authority limits.

In one of the samples we reviewed, a management consultant was hired on a \$20,000 contract to define the requirements and write the terms of reference for a program. This resulted in five projects being defined and five separate sole source contracts being awarded to the same consultant. Individually, the value for each project was within the authority delegated to the City Manager. However, the total value of the consulting service contracts for the program was just under \$1.0 million, which would have required approval by a Council Committee. In our opinion, the process followed was not open and transparent and the decision to hire the same consultant for all phases of the program was not adequately justified.

There were three instances in our sample where consultants either did not complete the engagement or provide a deliverable that fully met the City's needs. There is no documentation of any penalties for not fulfilling the agreements. Post closure evaluations were not completed documenting consultant performance. Without this information the City is at risk of hiring under-performing consultants for future work.

- In one instance, the consultant was paid \$30,000 of a \$40,000 contract but spent less than half of the expected time providing the agreed-upon service.
- In the second instance, the consultant left near the end of the project and did not provide a final report. The consultant was paid \$34,000 of a \$35,000 contract.
- In the third instance, a consultant was hired under a contract for \$175,000. The engagement included reviewing and changing plans drawn up by another consultant.

A study entitled “Ensuring Sustainable Value From Consultants”⁵ contains the following statement:

It's critical at the outset that the client and consultant have reached absolutely clear understanding of what success looks like and the challenges to overcome. There are always potential issues to take into account, be they political, human, economic, social or technical; these should be explored thoroughly up-front. As a client that means focusing on what you want to achieve for your business, not just short-term deliverables.

In our opinion, given the current lack of attention placed on defining and communicating requirements, many of the consulting engagements we reviewed were not justified. Until a process is put in place that provides strong oversight on consulting engagements, independent approval of each engagement should take place. We believe this role should reside in a corporate office at least until sound procedures are in place and are fully functional.

⁵ *Ensuring Sustainable Value from Consultants* is the result of a study undertaken by PriceWaterhouseCoopers for the Management Consultancies Association in the United Kingdom. The study included a survey of around 180 managers from a wide range of sectors who had dealt with a broad range of different consulting projects, from small-scale strategic advice to large-scale IT and outsourcing implementations.

5.6. Corporate Oversight

Leading practice suggests that a number of independent reviews and approval should take place, starting with the business case. Some of the reviews should take place prior to approaching the marketplace to ensure the need is justifiable and that other alternatives, such as use of existing resources within the organization, have been evaluated.

The City's Shared Services model is predicated on corporate bodies providing service and support to operational areas. The current corporate oversight role is limited to providing procurement requirements as set out in Administrative Directives and City Policies. General Managers and their delegates are responsible and accountable for approving and managing the procurement of consulting services.

The guidance for the oversight role included in the PSA Toolbox focuses on the development of the Professional Services Agreement. It does not require that the expressed need for consulting service be appropriately justified or that alternatives are considered. Information on accounting and reporting requirements is limited to a list of cost elements that can be used to record consulting services expenditures. No direction or examples are provided to assist operational areas with selecting the appropriate cost element to use.

We found that stakeholders are generally satisfied with the level of service provided by Materials Management in their role as service provider. However, a few stakeholders believed Materials Management should have a stronger oversight role to ensure compliance with corporate requirements.

Stakeholder's comments relative to the services they received from the Finance and Treasury Department indicated they believe services are not fully aligned with operational requirements. They identified the following specific areas:

- Consistent advice on the proper use of cost element codes is required.
- A stronger oversight role to ensure compliance with corporate requirements needs to be established.
- Reporting requirements specifying the required level of detail need to be defined.
- Finance and Treasury staff members need to participate in training programs related to the Professional Service Agreement requirements.

We observed the following conditions that we believe are a result of limited corporate oversight:

- Consultants starting work prior to agreements being signed. We were advised that one consultant had to stop work due to delays in finalizing agreement documents. In another case, we were advised that the agreement was signed after the engagement was completed. These practices leave the City unable to effectively manage consultant performance, project specifications, and progress towards desired outcomes.

- Specialized consulting services (e.g., communications consultants) being acquired by operational areas without involving: 1) corporate offices responsible for the service, or 2) other departments that provide similar services in the decision-making process. This increases the risks of inefficient and ineffective use of City resources and of incurring higher cost.
- Contracts are being coded to improper cost elements, making it impossible to fully track costs and monitor spending on consulting services. Our assessment of the description of work and vendor information indicated that 65% of the sampled engagements were coded incorrectly.
 - Four engagements were charged to cost elements outside the consulting cost structure (e.g., IT staff augmentation charged to general contracting).
 - Twelve non-consulting expenditures were charged to consulting cost elements (e.g., newspaper advertising charged to management consulting).
 - Thirty-seven engagements were coded to incorrect cost elements within the consulting cost structure (e.g., engineering consultants charged to management consulting).
- Some project requirements are being defined in phases or as separate activities, each at a relatively low value, which can result in bypassing delegated authority limits.

Our review of one engagement revealed documentation showing Council Committee approval of funding for consulting services prior to the scope of work being defined. Subsequent to the approval, the department negotiated with a single vendor to bring the agreement in at the pre-approved level rather than seeking the additional funding required to complete the project. The agreement was subsequently amended to reflect the total scope of the project, with costs increasing beyond the originally approved amount and having to return to the Council Committee for approval of additional funding. This is an example of decision-makers being asked to approve funding based on incomplete information.

We selected a number of consultants identified as key contacts on purchase orders to determine whether there was regular use of specific consultants. In most cases, we found specific consultant names appearing repeatedly. In some cases, the consultants provided a highly specialized service; in other cases, services were of a more general nature. Regular analysis of spending and payment patterns would assist the City in balancing in-house and consulting resources to ensure the best value for money.

In our opinion, Departments and decision makers need to have comprehensive, reliable data on consultancy expenditures, including the types of service provided and the suppliers used. This data is required to effectively measure the benefits obtained from consulting engagements, manage contracts, provide early-warning signs of unacceptable performance, and assess future resource requirements.

6. Conclusion and Recommendations

Spending on consulting services has increased significantly (averaging 30% annually) since our last review. The City's level of effort to identify and assess the value received from consulting services is inadequate. We are also concerned about the lack of attention paid to accurately coding procurement and accounting documents, which resulted in requiring significant effort to arrive at a reasonable estimate of spending on consulting services.

Overall the effort placed on creating value prior to engaging consultants is less than adequate. With the exception of major capital projects, such as the 23rd Avenue/Gateway Boulevard Interchange and the South West Recreation Facility, we found little documented rationale for hiring consultants. In many cases, the use of existing City employees was only informally considered at best. In most cases, contracts were awarded using the sole source method. Further, in many cases, communication between the City and the consultant was verbal or documented only in general terms, leaving interpretation up to the reader and performance impossible to assess.

We rated the City's ability to monitor value received during a project as adequate, with the City's role normally being defined only in general terms and changes to agreements being supported in an ambiguous manner.

Our analysis also showed that many engagements are closed with significant variances from the original cost and schedule estimates and that post closure evaluations are rarely completed. This indicates that the City cannot demonstrate value at the conclusion of an engagement.

In our opinion, inadequate and adequate ratings are not acceptable for City operations. We believe the Administration must be able to demonstrate the effectiveness and efficiencies gained from the use of consulting services if the current level of spending is to be maintained. The following three recommendations are designed to strengthen the City's consultant engagement and oversight processes to ensure that:

- Value is created prior to engaging consultants (i.e. comprehensive business cases and detailed enforceable description of work),
- Value is delivered during the execution of each engagement (i.e. clearly defined roles and responsibilities and sound contract management practices), and
- Value is received at the conclusion of each engagement (i.e. compulsory post project evaluations that includes variance analyses and performance evaluations).

Recommendation 1

The OCA recommends that the Materials Management Branch:

- a. Update the Professional Services Agreement (PSA) Toolbox incorporating leading practice to address the nine phases of the consultant engagement process and the City's financial reporting requirements.
- b. Incorporate the PSA Toolbox into Administrative Directive A1439A, *Purchasing of Goods, Services and Construction*.
- c. Review procurement processes to ensure the City is protected against poor performance by consultants.

Management Response and Action Plan

- a. Update the Professional Services Agreement (PSA) Toolbox incorporating leading practice to address the nine phases of the consultant engagement process and the City's financial reporting requirements.

Accepted With Modification:

The Materials Management Branch, in consultation with City Departments, will review each of the nine steps of the professional services agreement process as identified in this report and implement changes that will ensure improved documentation and a clearer demonstration of value before, during and after the consulting engagement.

Implementation Date: June 30, 2010

Materials Management Branch will establish controls within its purchasing division to ensure that all purchase orders created to facilitate payments for professional services agreements include accurate commodity codes to improve the accuracy of reporting on consulting services within the organization.

Implementation Date: Immediately**Responsible Party: Materials Management Branch**

- b. Incorporate the PSA Toolbox into Administrative Directive A1439A, *Purchasing of Goods, Services and Construction*.

Accepted

Materials Management Branch will prepare and submit to Senior Management Team for approval an amendment to Administrative Directive A1439A – *Purchasing of Goods, Services and Construction* to incorporate a clear reference within this Directive that all requirements of the PSA Process as outlined in the City's PSA Toolbox located on the eCity intranet site must be adhered to.

Implementation Date: March 1, 2010**Responsible Party: Materials Management Branch**

- c. Review procurement processes to ensure the City is protected against poor performance by consultants.

Accepted

On April 1, 2009, the Alberta-B.C. Trade, Investment and Labour Mobility Agreement (TILMA) took effect at the municipal level. Under TILMA, professional services agreements greater than \$75,000 (with very limited exceptions) must be acquired through an open procurement process. Since April 1st, TILMA has driven a considerable increase in the open tendering of professional services for the City. As outlined by the OCA in this report, the use of open procurement processes minimizes the risk of poor performance by consultants

Other steps will be taken to enhance the City's protection against poor performance by consultants. These include immediate and longer term actions:

- Ensure that contract completion forms provided in the PSA toolbox are completed for all professional services agreements

Implementation Date: Immediately

Responsible Party: General Managers

- through the completion of recommendation 1a. above, specifically through the establishment of requirements for clearer project definitions, descriptions of work and deliverables.

Implementation Date: June 30, 2010

Responsible Party: Materials Management Branch

In addition, Materials Management Branch and the Capital Construction Department will be working together in 2010 to implement a formalized vendor performance evaluation program for contractors and consultants. This will include the evaluation, documentation and communication of vendor performance on City projects. The evaluation results will be used by the City when considering these vendors for future projects through consideration of past performance as part of the tender evaluation process.

Implementation Date: June 30, 2010 (Capital Construction Department)

December 31, 2010 (Corporate wide)

Responsible Party: Materials Management Branch

Recommendation 2

The OCA recommends that the City Manager review consultant spending and identify specific opportunities in future business plans and budgets to increase utilization of in-house resources instead of high cost consulting services. The review should include developing long-term resourcing analyses and staffing plans.

Management Response and Action Plan**Accepted With Modification**

The administration will be tabling a report to City Council for Audit Committee which will shape the direction of recommendation 2. In particular, there will be further analysis of:

- the 81 contracts included in the audit sample; and
- financial information listed in the Tables.

The administration takes exception to the term “high cost consulting services” as consultants tend to charge a rate that the market place will pay based on geographic region (economic environment), industry, type of service, education and certification. Further analyzing the 81 contracts will assist us in understanding the degree consultants provided good value for their work.

Concerning future use of consultants, the administration will project consultant requirements through the development of the 2011-2013 Capital Budget and the 2011 Operating Budgets. This will ensure that should future additional expertise be required, or additional services that are beyond a department’s current capacity to provide, resources can then be re-directed by lowering levels of some existing services or by requesting additional FTEs in the 2011 Operating Budget.

However, up to this point, the Administration’s strategy has been to use staff for base work and use consultants to meet the needs of the work fluctuations and specific expertise. Hiring staff requires a long-term commitment which may outweigh the short-term benefits of lower costs. It also reduces the flexibility to bring on extra resources when needed, and shed them when they are not needed. The Administration will also need to complete long-term projections of increasing staff versus using consultants.

Implementation Date: February 2010

Responsible Party: City Manager

Recommendation 3

The OCA recommends that the Finance & Treasury and Corporate Services Departments ensure that consultant transaction coding:

- Satisfies corporate reporting requirements,
- Is consistently applied by all applicable staff, and
- Facilitates monitoring and reporting on the City's use of consultants.

Management Response and Action Plan**Accepted with modification**

The Finance & Treasury Department, in consultation with City Departments and Materials Management Branch, will review the process of consultant transaction coding to improve consistency and reporting. Finance & Treasury Department will review the existing cost elements and recommend changes and/or additional elements to develop more meaningful categories of information.

The Finance & Treasury Department will work with City Departments to determine the types and frequency of reporting on consulting expenditures to enable analysis and oversight of these expenses. Training will be facilitated in the appropriate coding and reporting of transactions to ensure consistency and availability of information.

Implementation Date: June 30, 2010

Responsible Party: Finance & Treasury Department

The OCA thanks City management and staff for their cooperation and support.

Consultant Engagement Phases

The following description sets out the purpose and requirements for each phase of the consultant engagement process used in assessing the value received by the City from its use of consultants. The leading practice described in this appendix is based on frameworks established by other government organizations and has been modified to reflect the City of Edmonton’s environment.

The following table compares the PSA process – From Start to Finish set out in the City’s PSA Toolbox against Leading Practice.

Creation of value prior to engaging a consultant:

Business Case → There are two stages in this phase. The first concerns the strategic analysis and planning required prior to commencing a new procurement for consultancy support. The second stage confirms the need for expenditure on consulting services, a range of options for the solution to be identified and considered, value for money to be assured, and the preferred procurement route identified and appropriate recommendations made.

PSA Toolbox	Leading Practice
<p>Step 1 - Define your project</p> <p>Step 2 - Determine if you need a consultant This step includes an internal/external supply evaluation that considers internal resource availability and expertise requirements. Potential labour issues (e.g., collective agreements) are to be considered.</p>	<p>Strategic Case A robust case supporting the need for change or a project. This includes a cost/benefit analysis or value assessment</p> <p>Economic Case Optimizes the value for money and includes assessment of in-house capacity and capability and justification for hiring a consultant.</p> <p>Commercial Case Confirms the consulting community’s ability to meet the need. This includes assessing risks and determining how they will be allocated.</p> <p>Financial Case Ensures the financial affordability of the project and engagement. This includes consideration of cost share agreements.</p> <p>Management Case Verifies the project be delivered successfully. This includes clear communications with stakeholders, defining skill transfer requirements and an exit strategy.</p>

Leading practice recognizes that the level of detail in a business case must be proportionate to complexity and value of the requirement.

Description of Work → The primary function of this phase is to clearly communicate to the consulting community the outputs or outcomes that are required so that potential suppliers can understand the requirements, and the skills and capabilities needed to deliver.

PSA Toolbox	Leading Practice
<p>Step 3 - Define your scope of work This step identifies tools that can be used to assist in developing a business case (e.g., Request for Information, Expression of Interest).</p> <p>Step 4 - Confirm Procurement Approach and AIT/TILMA Compliance This step identifies the need to confirm compliance with trade agreements and alternate procurement strategies such as formal and informal Request for Proposals.</p> <p>Step 5 - Complete a Sole Source business Case Justification If there is a unique set of circumstances and a specific consultant has been identified, a sole source business case justifying the procurement strategy must be completed.</p>	<p>The description of work should set out the project objectives, detailed work requirements and specifications (preferably outcome based), resources, deliverables, general roles and responsibilities, timelines, knowledge transfer requirements and the need for post-closure evaluation.</p> <p>The outputs from this phase include a draft professional service agreement, tender documents and estimated costs.</p> <p>The appropriate procurement strategy will be selected after considering the nature of the project, cost, and urgency. The procurement strategy includes both the market approach (e.g., open tender, department managed tender, sole source) and purchase method (e.g., outline agreement, multi-phased project, strategic sourcing).</p>

Consultant Proposal → In this phase the consultants communicate back to the City their understanding of the requirements set out in the description of work, set out their proposed methodology and costs. Prior to procurement, the City needs to evaluate the proposals and select the one that provides the best value for money.

PSA Toolbox	Leading Practice
<p>Step 6 - Select your Consultant Evaluation of proposals should consider availability, qualifications related experience, past performance on City projects, understanding of scope, methodology and service fees.</p>	<p>Consultant submissions need to clearly demonstrate that they understand the scope of work, set out the proposed approach to address the requirements, identify their availability, expertise, qualifications and related experience, and past performance as well as their fees in sufficient detail to facilitate evaluation.</p> <p>The final selection must be made based on the most economically advantageous tender by applying the published evaluation criteria.</p>

Procurement → Prior to commencement of work, the selected consultant needs to provide the necessary legal documentation to the City, and the City needs to fully execute a signed professional service agreement and complete purchasing documentation.

PSA Toolbox	Leading Practice
<p>Step 7 - Start to Complete the PSA Checklist Do a corporate search to verify the legal status and name of the Consultant.</p>	<p>Ensure the professional service agreement is updated to clarify ambiguous requirements and reflect any changes in specifications, schedule, roles, etc. that have been approved. Have the PSA signed by both the consultant and City.</p>
<p>Step 8 - Create your purchase requisition in SAP Create a purchase requisition including the appropriate cost element.</p>	<p>Obtain spending approval from the necessary entity based on delegated authority thresholds.</p>
<p>Step 9 - Prepare a Professional Services Agreement</p>	<p>Complete the necessary purchasing documentation to ensure costs are recorded accurately and payments made in a timely manner.</p>
<p>Step 10 - Obtain approvals Follow the appropriate routings and approvals, depending on the scope of the project.</p>	
<p>Step 11 - The following are to be sent to Materials Management Forward the purchase requisition, and the fully executed PSA to Materials Management. Consultant may begin work once the PSA has been fully executed (signed and sealed).</p>	

Value delivered during the execution of an agreement:

Finalize Roles and Responsibilities → Clearly defined roles and responsibilities minimize the risk of inefficient and ineffective project execution. Poorly defined roles and responsibilities for both project participation and project management can undermine the value of a project as it progresses.

PSA Toolbox	Leading Practice
<p>Not referenced in the PSA Toolbox.</p>	<p>Roles and responsibilities for both City staff and the consultant should be documented in sufficient detail to ensure clarity and understanding by all stakeholders.</p> <p>Roles and responsibilities need to cover both project execution and project management.</p>

Changes to Requirements → Changes to the project scope or work specifications need to be documented, assessed and approved by the appropriate body.

PSA Toolbox	Leading Practice
<p>Step 12 - Make changes to the Professional Services Agreement</p> <p>A change to the payment, services or schedule after the PSA has been executed needs to be documented. An amending agreement or a change purchase order needs to be issued.</p>	<p>Changes in costs, schedule, risk, scope, and opportunities to increase value should be documented, assessed and agreed to by decision makers. Documentation needs to be prepared in a manner that provides decision makers adequate information on which to base approvals.</p>

Value received at the conclusion of an engagement:

Budget and Schedule → At the conclusion of the project, variances from the original approved budget and schedule should be examined and explanations provided. This includes not only the consultant costs but also internal resources assigned or seconded to the project.

PSA Toolbox	Leading Practice
<p>Step 13 - Complete the Professional Service Evaluation</p> <p>Within two weeks of the completion of the project, a post project evaluation should be completed. One copy of the evaluation should be forwarded to Materials Management.</p>	<p>Budget performance and schedule tracking should take place throughout the project. At the conclusion of the project variances from the original approvals should be documented and reported. Reports should identify both consultant agreement costs and the cost of internal resources.</p> <p>If the project schedule is for an extended duration, reports should be prepared at the completion of key milestones.</p>

Delivered Product → The products/services delivered by the consultant should be of a quality that fully addresses the needs set out in the PSA.

PSA Toolbox	Leading Practice
<p>Step 13 - Complete the Professional Service Evaluation</p>	<p>Products delivered throughout the project should meet the needs and standards of the City. Products include reports, skill and knowledge transfer, reputation, relationships, etc. All recommendations made by a consultant need to be actionable or implementable.</p>

Post Closure Evaluation → The purpose of this phase is to identify and capture the value delivered by a consultancy assignment, and understand why value was or was not delivered so that improvements can be made, to ensure future success (identify, create & deliver value).

PSA Toolbox	Leading Practice
<p>Step 13 - Complete the Professional Service Evaluation</p>	<p>The success of a project is impacted by both the consultant and City staff performance. A standard set of measurable performance criteria should be in place to establish a dialogue between the City and consultant to assess the success of the consultancy assignment.</p> <p>Evaluations should be completed by both parties. The City evaluating the consultant performance and the consultant evaluating the City staff performance.</p>

Process Oversight

Review and approval at key points in the process are required to ensure compliance with guidelines and regulations, quality and completeness of information, external factors such as the political environment have been considered and value has been identified and received.

PSA Toolbox	Leading Practice
<p>Two checklists are to be completed.</p> <p>The project manager confirms the price, procurement method and status of the consultant being hired and compliance with procurement requirements.</p> <p>The approving manager completes a checklist confirming compliance with procurement requirements and understanding of the proposed engagement.</p>	<p>Reviews carried out at key decision points by a team of experienced people, independent of the team proposing/managing the engagement.</p> <p>The process helps ensure:</p> <ul style="list-style-type: none"> • the best available skills and experience are deployed • all the stakeholders fully understand the current status and the issues involved • the engagement/project can progress more confidently to the next stage of development, implementation or realization • achievement of more realistic time and cost targets for the engagement/project <p>Reviews begin with strategic planning and conclude with the post closure evaluation.</p>