CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF MAY 27, 2020

Item 1, Report No. 20, of the Committee of the Whole, which was adopted without amendment by the Council of the City of Vaughan on May 27, 2020.

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1. **INTERNAL AUDIT REPORT – CONSULTING SERVICES AUDIT**

   The Committee of the Whole recommends approval of the recommendation contained in the following report of the Director, Internal Audit, dated, May 20, 2020:

   Recommendation

   1.   That the Internal Audit Report on the audit of Consulting Services be received.

Committee of the Whole (2) Report

DATE: Wednesday, May 20, 2020   **WARD(S):** ALL

TITLE: INTERNAL AUDIT REPORT – CONSULTING SERVICES AUDIT

FROM:
Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose
To communicate the findings from the Audit of Consulting Services.

Report Highlights
- From time to time, the City may require consulting services for a defined service or project.
- Consulting services are to be engaged in accordance with the City's Corporate Procurement Policy.
- In general, the audit did not find any evidence of non-compliance to corporate policies.   However, improvements are recommended to ensure that risks related to the procurement and use of consultants are effectively and efficiently mitigated.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.

Recommendations
1. That the Internal Audit Report on the audit of Consulting Services be received.

Background

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with the procurement and use of consultants.

The audit approach included a review of seven operating and seven capital consulting engagements, covering eleven different vendors. For these fourteen projects, we reviewed the procurement process, project management, and contract administration. We also conducted interviews with staff, reviewed invoices and analyzed general ledger coding of consulting costs.

Although some projects originated in 2016, the scope of this audit covered capital and operating consulting engagements for the period of January 2017 to December 2018.

As a result of recent audits, Legal Services and Environmental Services were not included in the scope of this audit.

Previous Reports/Authority
Not applicable.

Analysis and Options
External consulting services support many of the City's capital projects and operating needs. They provide expertise, equipment and infrastructure that that are not available internally. Consultants may also satisfy legislative requirements for independent assessments.

Consulting services may be procured using a number of methods, including a Request for Proposal (RFP) process, single and sole sourcing, and emergency procurement. The Corporate Procurement Policy outlines the appropriate procurement method based on the project requirements and scope.

Financial Impact
There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations
Not applicable.

Conclusion
From time to time, the City may require consulting services for a defined service or project. Consulting services are to be engaged in accordance with the City's Corporate Procurement Policy. It is expected that the City receive the best value for money while demonstrating the public procurement principles of fairness, openness, transparency and accountability. Competitive procurement processes should be used wherever possible

while ensuring that non-competitive procurement is used only in narrowly defined circumstances.

In general, the audit did not find any evidence of non-compliance to corporate policies. However, improvements are recommended to ensure that risks related to the procurement and use of consultants are effectively and efficiently mitigated. The following opportunities were identified:

- Improving the administration and oversight over the purchase order system.

- Developing a city-wide business case framework.

- Establishing a city-wide contract management and administration framework.

- Ensuring vendor performance evaluations are performed.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

1. Internal Audit Report – Consulting Services Audit

Prepared by

Kevin Shapiro, Director of Internal Audit, extension 8293
Rebecca Burchert, Audit Project Manager, extension 8124

INTERNAL AUDIT REPORT

Consulting Services Audit

April 2020

INTERNAL AUDIT REPORT

CONSULTING SERVICES AUDIT

CONCLUSION AND SUMMARY

From time to time, the City may require consulting services for a defined service or project. Consulting services are to be engaged in accordance with the City's Corporate Procurement Policy. It is expected that the City receive the best value for money while demonstrating the public procurement principles of fairness, openness, transparency and accountability. Competitive procurement processes should be used wherever possible while ensuring that non-competitive procurement is used only in narrowly defined circumstances.

In general, the audit did not find any evidence of non-compliance to corporate policies. However, improvements are recommended to ensure that risks related to the procurement and use of consultants are effectively and efficiently mitigated. The following opportunities were identified:

- Improving the administration and oversight over the purchase order system.

- Developing a city-wide business case framework.

- Establishing a city-wide contract management and administration framework.

- Ensuring vendor performance evaluations are performed.

A purchase order (PO) is a legally binding agreement between the City and a vendor. It details the goods/services the City agrees to purchase at a certain price point, the delivery date and terms of payment. The City's JDE purchase order system facilitates the creation and execution of PO's from requisition through payment. Although JDE allows a user to enter the PO expiry date under the "Promised Delivery Date" field in the system, this date is not being entered. The audit identified over 3,000 open POs, dating back to 1999, for a variety of different goods and services, totaling approximately $105 million. After discussions with management, it was confirmed that there is no process in place to ensure POs are closed in the JDE system at the conclusion of a project and no management oversight to analyze and monitor the status of open PO's. Ensuring the timely closure of PO's at the conclusion of the contract will mitigate the risk of these funds being used for different projects/activities.

A business case provides justification for undertaking a project. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution. The audit identified that a variety of methods were used to justify hiring a consultant. While the Corporate Procurement Policy states that it is the responsibility of management to prepare specifications for procurement, there is no formal business case framework at the City to help develop those specifications and requirements. Assessing the capacity and capability of internal resources and identifying potential opportunities to transfer skill sets to staff, either through the use of consultants or through training, learning and development opportunities, are not always evaluated. The development of a formal business case framework will help inform decision making by helping to better define project scope, alternatives and costs, while outlining project delivery in the most efficient and effective manner.

Contract management and administration involves the planning, development, execution and oversight over contracts. It also includes ensuring that vendors have the necessary equipment,

personnel and expertise to deliver the expected results. There is currently no framework in place to ensure consistency in the management and administration of contracts. The need for improved project management and contract administration has been a common theme in many of our recent audit reports. Developing a contract management and administration framework will help ensure consistency in the development and execution of contracts while helping to ensure that project objectives are met on time and within the intended budget.

The purpose of a Vendor Performance Evaluation framework is to determine if vendors are meeting the City's expectations. Although the City's Vendor Performance Evaluation procedure began as a pilot in 2018, with a full rollout in 2019, none of the project leads that we interviewed as part of this audit were aware of the requirement. Further, Procurement Services has not developed a mechanism to ensure the evaluations are performed. Completing the vendor evaluations can help demonstrate value for money, identify high performers in future competitive processes, and ensure continuous improvement in the procurement and contract administration functions.

Internal Audit will follow up on the status of outstanding management action plans related to this audit and will report the status to the appropriate Committee.

CONSULTING SERVICES AUDIT

BACKGROUND

External consulting services support many of the City's capital projects and operating needs. They provide expertise, equipment and infrastructure that that are not available internally. Consultants may also satisfy legislative requirements for independent assessments.

Consulting services may be procured using a number of methods, including a Request for Proposal (RFP) process, single and sole sourcing, and emergency procurement. The Corporate Procurement Policy outlines the appropriate procurement method based on the project requirements and scope.

OBJECTIVES AND SCOPE

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with the procurement and use of consultants.

The audit approach included a review of seven operating and seven capital consulting engagements, covering eleven different vendors. For these fourteen projects, we reviewed the procurement process, project management, and contract administration. We also conducted interviews with staff, reviewed invoices and analyzed general ledger coding of consulting costs.

Although some projects originated in 2016, the scope of this audit covered capital and operating consulting engagements for the period of January 2017 to December 2018.

As a result of recent audits, Legal Services and Environmental Services were <u>not</u> included in the scope of this audit.

<u>Auditor and Author</u>: Rebecca Burchert, CFE

<u>Director</u>: Kevin Shapiro CIA, CFE, CRMA

DETAILED REPORT

1. *Improve Administration and Oversight Over the Purchase Order System*

   A purchase order (PO) is a legally binding agreement between the City and a vendor. It details the goods/services the City agrees to purchase at a certain price point, the delivery date and terms of payment.

   A purchase order is initially requested by the client department by receiving proper approval and requisitioning it through the JDE system. Procurement Services will review, create and distribute the purchase order. The client department is responsible for administering the purchase order, which includes receiving the consultant's invoice, verifying the delivery of goods/services and tracking the diminishing balance of the purchase order. A majority of the consulting engagements we reviewed as part of this audit had a PO set up for the agreement in the JDE system.

   Although JDE allows a user to enter the PO expiry date under the "Promised Delivery Date" field in the system, this date is not being entered. Internal Audit reviewed all open purchase orders in the JDE system and found that there were over 3,000 open POs totaling approximately $105 million, dating back to 1999. 1,264 (42%) of the 3,000 had been opened prior to 2016, accounting for approximately $25 million of the $100 million. Approximately $760,000, had never been drawn upon.

   In June 2018, Procurement Services issued a procedure indicating that a Purchase Order/Blanket Purchase Order will be closed at the end of the contract term. But the procedure did not assign responsibility as to who is responsible for closing the PO. A 2019 revision to the Purchase Order Procedure (PP25) indicated client departments shall be responsible to close the purchase order, but there are no instructions available to provide guidance as to how the PO is to be closed.

   After discussions with management, it was confirmed that there is no process in place to ensure POs are closed in the JDE system at the conclusion of the project and no management oversight to analyze and monitor the status of open POs.

   The lack of oversight and control over the closing of PO's increases the risk that open purchase orders with balances may be used to fund different projects/activities.

   Recommendations

   We recommend that management:

   - Ensures that entering a PO expiry date becomes a mandatory requirement when a purchase order is opened.

   - Develop a program to monitor and ensure the timely closure of purchase orders.

Management Action Plan

Management agrees with these recommendations.

Procurement Services has had success reducing the number of open POs in the JDE system. As of March 2020, Procurement Services closed 89% of the POs that Internal Audit identified as open for the period of 1999-2010. Progress has also been made through collaboration with clients, and addressing POs opened between 2011 and 2015.

Procurement Services will communicate to the client departments that they must provide a PO expiry date in the JDE system. Procurement Services will ensure the client department populates the PO expiry date in the PO requisition and closes the PO at the end of the contract term.

As part of Procurement Services role as second line of defense, reports indicating POs past their expiry dates will be run on a quarterly basis. Procurement Services will issue a memo to all impacted department heads detailing their open POs which are past their expiry dates. Procurement Services will require a decision from the client department to extend the PO expiry date or have the PO closed and have a new PO created.

The implementation of the program with PO expiry dates and the development of exception reporting will start in Q2, 2020.

2. *Develop a City-wide Business Case Framework*

A business case provides justification for undertaking a project. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution. Typically, a business case includes background information, the expected benefits and outcomes, considered methods to achieve these benefits, timelines, potential risks and estimated costs.

For projects that require consulting services, business cases should include a cost/benefit analysis to support that internal resources were considered. If consultants are the only option, the business case should define the added value and measurable outcomes.

It should also define whether there are opportunities to transfer skills from the consultants to City staff to build internal capabilities, potentially reducing the need to bring in consultants for similar work in the future.

While the Corporate Procurement Policy states that it is the responsibility of management to prepare specifications for procurement, there is no formal business case framework at the City to help develop those specifications and requirements. Assessing the capacity and capability of internal resources and identifying potential opportunities to transfer skill sets to staff, either through the use of consultants or through training, learning and development opportunities, are not always evaluated.

Three of the ten projects we reviewed had a formal business case for the project. These were capital projects that required specific skills and expertise or access to equipment and infrastructure not available internally. There was documentation to support that an analysis was performed, and it was concluded that hiring a consultant was more cost effective than hiring the additional staff or purchasing special equipment.

Where there wasn't a formal business case, there was a variety of methods used to justify hiring a consultant. Project leads often indicated the reasons for hiring externally are captured in a memorandum sent to Procurement Services or addressed by answering the questions on the procurement document for Sole and Single Sourcing.

Without a proper needs-analysis that a business case can provide, it may become difficult to assess value for money. In addition, projects may also be at risk of incurring additional or unexpected costs, unanticipated change orders and not being executed in the most efficient and effective manner.

Recommendations

We recommend that management develop a formal City-wide business case framework, including the criteria that needs to be met to justify the hiring of a consultant. At minimum, this particular section of the business case framework should include tools to:
- Assess in-house capacity and capability to deliver the business case objectives.
- Assess whether the work or skill set is required long term and/or on a repetitive basis.
- Identify potential development opportunities to build capacity and capability to perform similar work in house in the future.

Management Action Plan

Management agrees with the recommendation.

The Office of Transformation and Strategy developed a new Business Case approach in conjunction with the business planning process, project prioritization and decision-making processes for key initiatives.

The Business Case process was introduced in January 2020 for the 2021 Business Planning and Budget processes. Through the assessment of the Business Cases, where a project is approved to proceed to the budget process, departments will be required to identify whether procurement requirements include consulting services.

Where consulting services are required, the business case process will be used to identify and assess in-house capabilities and capacity to deliver business case objectives; assess whether the work or skill set is required on a long term and/or repetitive basis; and identify potential development opportunities to build capacity and capability to perform similar work in-house in the future. Full implementation is expected by Q1, 2021.

3. ***Establish a City-wide Contract Management and Administration Framework***

Contract management and administration involves the planning, development, execution and oversight over contracts. This includes the development of all the specifications of the contract including deliverables, key dates and payment terms.

Project managers need to ensure that vendors are meeting their obligations as quickly and effectively as possible. This includes ensuring that vendors have the necessary equipment, personnel and expertise to deliver the expected results. Project managers also work out any required modifications in the event that the scope of the project needs to be modified during the course of a project through a change order process.

Internal Audit found that most project leads were proficient in verifying that deliverables were received, invoices were paid in a timely manner, and costs were coded to the correct account. These steps were accomplished intuitively and not by following any established procedure. There is currently no framework in place to ensure consistency in the management and administration of contracts.

The audit also identified several examples where purchase orders and change orders were authorized after invoices from the consultant had already been received. There was an example of a consultant double charging administrative costs. There was another instance where the City had received the agreed upon services, but the project lead used a purchase order, two low dollar purchase orders and several cheque requisitions to pay the consultant.

Procurement Services has contract management, purchase orders and contingency procedures on their website to support the Corporate Procurement Policy, but project managers still tend to administer their contracts according to their unique project needs. The need for improved project management and contract administration has been a common theme in many of our recent audit reports. Developing a contract management and administration framework will help ensure consistency in the development and execution of contracts while helping to ensure that project objectives are met on time and within budget.

Recommendations

We recommend management develop a formal City-wide contract management and administration framework for the planning, development, execution and oversight over contracts.

Management Action Plan

Management agrees with the recommendation.

Transformation and Strategy, in collaboration with the Senior Leadership Team, will see that a City-wide contract management and administration framework is developed by ensuring policies and procedures are established; communication plans are in place; training is conducted; monitoring/oversight function is properly assigned and; a repository for major contracts is appropriately in place. Full implementation is expected by Q2, 2021.

In the meantime, the Enterprise Project and Change Management Office's (EPCMO) has developed new project management tools, templates and procedures. In addition, the EPCMO has worked with Procurement Services to include contract management checklists during the planning, execution, monitoring and closeout stages of projects. Full implementation is expected by Q2, 2020.

4. *Ensure Vendor Performance Evaluations are Performed*

A vendor evaluation framework can help the City assesses vendor performance against key performance indicators, service level agreements and other important relevant metrics. The goals of a vendor performance review can include:

- Monitoring compliance of contractually agreed upon terms
- Identifying areas where the vendor is not performing to expectations
- Partnering with the vendor to resolve performance issues
- Benchmarking vendor performance against similar vendors

In 2018, as part of the Procurement Modernization project, a pilot program required City departments and staff to conduct vendor performance evaluations for the following projects:

- Services, including consultant contracts, greater than $25,000
- Construction contracts greater than $25,000
- Contracts of any value for which the client department and procurement services consider necessary e.g. to address vendor performance concerns, highly complex or high-profile projects

The program has since become a procedure used in conjunction with the Corporate Procurement Policy. Discussions with project leads indicate they are not aware of the vendor performance evaluation requirement. Further, Procurement Services has not developed a mechanism to ensure that the evaluations are being completed. In addition, project managers do not always assess the value of the work they received from consultants or conduct a lesson's learned debriefing with the appropriate internal stakeholders. When undertaken at the end of a project, these tools can provide valuable lessons for project teams, fosters continuous improvement and help management make more informed decisions on the future use of consultants.

Recommendations

We recommend that management:

- Enhance communications to internal stakeholders promoting the vendor performance evaluation requirements.

- Develop an oversight program to ensure stakeholders comply with the requirements of the Vendor Performance Evaluations procedure.

- Develop a framework to assess the value of the work staff receive from consultants to foster continuous improvement and inform future decision making.

Management Action Plan

Management agrees with these recommendations.

In 2018, Procurement Services initiated its plan to enhance communication to stakeholders by hosting focus group discussions about vendor performance. This resulted in finalizing the Vendor Performance and Contract Management procedures. Further progress was made with the addition of contract management and vendor performance modules in the BidsandTender on-line program.   This improved the vendor performance evaluation significantly by transitioning from merely populating documents into a more robust on-line evaluation tool, providing complete and timely performance assessments. Plans to have Procurement staff train their respective client departments on the use of electronic vendor performance will begin in Q2-2020.

The Vendor Performance and Contract modules in BidsandTenders provides the ability to generate reports. The e-Procurement Coordinators will be able to use these reports to provide continued guidance and support to the client departments and ensure they are completing the vendor performance evaluation properly and in a timely manner. After client departments are properly trained on the new module, Procurement can start monitoring the program in Q3, 2020.

Procurement Services is developing procedures on how the information gathered from the vendor evaluations will effectively be used for procurement activities. For example, the development of procedures will consider how the information will be gathered and indexed for referencing; determine what vendor engagement decisions will be made based upon the evaluations, and; how a vendor with a poor evaluation can again be considered for an engagement. Full implementation is expected by Q3-2020.

5. *Ensure an Open, Fair and Transparent Procurement Process for Sourcing Consultants*

Consulting services are to be engaged in accordance with the City's Corporate Procurement Policy. It is expected that the City receive the best value for money while demonstrating the public procurement principles of fairness, openness, transparency and accountability. Competitive procurement processes should be used wherever possible while ensuring that non-competitive procurement is used only in narrowly defined circumstances.

The Corporate Procurement Policy includes a section on the establishment of Vendors of Record (VOR), whereby a select group of vendors are prequalified to provide services to the City. The purpose of prequalification is to ensure that the proponents invited to bid can deliver the project specific requirements. The City, through pre-determined criteria, eliminates vendors who do not demonstrate the necessary financial capacity, technical expertise, managerial ability and relevant experience for the project. Only those respondents who have been pre-qualified will be invited to submit a bid in response to a subsequent tender process related to the project.

Most of the departments examined for this audit had repeatedly used the same consultants for similar engagements. Only one department hired their consultant from an established list of qualified vendors.

Further, there was one instance where a vendor was hired for a specific project despite not qualifying as a vendor, even though there were other qualified vendors who could perform the engagement.

The justification for repeatedly hiring the same vendor was generally based on having established a long-term relationship with the vendor. But single sourcing a vendor instead of hiring the services either through a competitive procurement process or from the qualified vendor of record list could pose a reputational risk for the City, as well as having the risk of not receiving the best value for the City's money.

Recommendation

We recommend that management, in consultation with Procurement Services:

- Ensure an open, fair and transparent process is implemented for sourcing consultants, whenever possible.

- Analyze and identify further opportunities where VOR's may be established for consulting services.

Management Action Plan

Management agrees with these recommendations.

Most consulting engagements are procured using an RFP process. Other consultants may be procured using the single-source specifications of the Corporate Procurement Policy, while

some client departments pay for consulting services using an LDM. As a strategic advisor, Procurement Services will monitor how consultants are procured by running quarterly reports from BidsandTender system. Procurement Services will perform analysis to determine if the most appropriate method was used and with that information, provide direction to the client departments. Full implementation is expected by Q3, 2020.

Procurement Services will also use these quarterly reports to identify the repeated hiring of the same consultants. Procurement Services will be able to counsel client departments to consider Vendor of Record opportunities. Using the reports and VOR list, Procurement will be able to provide assurance that consultants that did not qualify for the VOR are not hired in place of those who did qualify. Full implementation is expected by Q3, 2020.

6. *Standardize Procurement Templates*

Upon review of sampled RFP templates, Internal Audit found that these templates can be easily modified and reused in their altered state. The audit found examples were the templates had been modified, including sections being added, omitted and rearranged.

Further, there is no standards in place to determine when Legal Services should be consulted to review an agreement prior to management approval.

The practice of adding, amending, omitting and rearranging sections of the RFP agreement to suit the unique needs of a project may put the City at financial, legal and reputational risks.

Recommendations

We recommend that management ensure that:

- Agreements have standard 'read only' templates that are not vulnerable to modification.

- Standards are developed to determine what type of agreements are considered mandatory for legal review prior to management approval.

Management Action Plan

Management agrees with these recommendations.

Legal Services will:

- Review existing processes and documentation used to support consulting services engagements to determine end user requirements. Q3, 2020

- Identify the various categories of consulting services engagements to determine the appropriate level of contractual and legal support required for each category. Q3, 2020

- Draft the various template agreements to support the needs of the business. Q1, 2021

- Draft a legal engagement protocol to ensure that appropriate measures are in place to identify and mitigate the risks associated with consulting services engagements. Q2, 2021

- Ensure sufficient change management practices (education and training) to ensure adoption of templates and protocol. Q2, 2021