



CITY CLERK

Clause embodied in Report No. 11 of the Administration Committee, which was before the Council of the City of Toronto at its meeting held on July 24, 25 and 26, 2001.

1

Policy for the Selection and Hiring of Professional and Consulting Services; Use of Consultants and Expenditure Reduction Strategies; and Hiring of Professional and Consulting Services Review

(City Council on July 24, 25 and 26, 2001, struck out and referred this Clause, together with the communication dated July 20, 2001, from the President, Canadian Union of Public Employees, Local 79, and the report dated July 24, 2001, from the Acting Chief Administrative Officer, back to the Administration Committee for further consideration at a Special meeting to be held in October 2001, at the Call of the Chair.

Council also took the following action:

(1) *adopted the report dated July 21, 2001, from the Acting Chief Administrative Officer and Acting Chief Financial Officer, embodying the following recommendation:*

“It is recommended that contracted services for Synerware EDP Services Incorporated, Remarkable Software Incorporated and Beacon Software Revenue Systems LLC be extended to December 31, 2001, in the amounts of \$100,000.00, \$220,000.00 and \$60,000.00, respectively, on the provision that these services are to be terminated following the finalization of a new contract or the transfer of responsibility to internal staff. Any new contract(s) will be the result of a Request for Proposal.”; and

(2) *referred the following motion to the Administration Committee for further consideration at its Special meeting:*

Moved by Councillor Nunziata:

“It is recommended that, for all consulting contracts in excess of \$50 million, the Acting Chief Financial Officer be requested to submit a report to the appropriate Standing Committee on the total funds expended in relation to such contracts, such report to include a comparison of the funds specifically budgeted for each contract and the final cost of each to the City of Toronto.”)

The Administration Committee recommends:

(I) the adoption, in principle, of the joint report (March 16, 2001) from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, entitled “Policy for the Selection and Hiring of Professional and Consulting Services” wherein it is recommended that:

- “(1) the Purchasing Policy for the Selection and Hiring of Professional and Consulting Services, outlined in Appendix “A” of this report be adopted; and**
- (2) the appropriate City officials be authorized and directed to take the necessary actions to give effect thereto;”;**

pending a further report from the City Auditor in October, 2001, respecting this matter;

(II) that the Policy for the Selection and Hiring of Professional and Consulting Services be amended to require the quarterly reporting by each Agency, Board and Commission or Department of sole-sourced contracts by project category within the jurisdiction of each; and that the preparation of these reports be supervised by staff in the Purchasing Division;

(III) the adoption of the report (March 15, 2001) from the Chief Administrative Officer, entitled “Use of Consultants and Expenditure Reduction Strategies”, subject to amending Recommendation No. (3) embodied therein by deleting the following “5 percent” and inserting in lieu thereof the following “10 percent”, and deleting the word “goal”, so that the Recommendations embodied in the aforementioned report now reads as follows:

“It is recommended that:

- (1) the recommendations of the separate report, Policy on the Selection and Hiring of Professional and Consulting Services, be considered with this report;**
- (2) effective 2001, annual consulting expenditures reported by departments and major City agencies, boards and commissions exclude activities that are alternative service delivery methods, and include only those activities that meet the definition and project categories of consulting as defined in this report, Reduction Strategies, part (a), and in the Policy for the Selection and Hiring of Professional and Consulting Services;**
- (3) departments and the major Agencies, Boards and Commissions of the City be directed to aim for a 10 percent reduction in their 2001 consulting expenditures against expenditures in 2000, inclusive of any consulting cuts already identified for the 2001 annual budget cycle underway, in order to contribute to a total corporate-wide reduction of 10 percent in consulting expenditures;**

- (4) effective 2002, line items for “consulting” in capital or operating budgets not include contracted-out/out-sourced activities, or fees and other similar payments as presented in this report, Reduction Strategies, part (b), and in the Policy on the Selection and Hiring of Professional and Consulting Services;
- (5) in-year reporting on consulting expenditures in all six project categories be submitted by departments and the major City agencies, boards and commissions on a semi-annual basis to the Audit Division to merge the information for a corporate-wide overview of expenditures against the reduction goal, report the results to the Policy and Finance Committee, and forward the detailed information to the Purchasing and Materials Management Division for analysis; and
- (6) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto;”;

(IV) the adoption of the report (June 19, 2001) from the Chief Administrative Officer, entitled “Summary of Year 2000 Actual Expenditures on Consultants vis-a-vis the Impacts of a 20 Percent Reduction and Policies and Standards for the use of Consultants”, wherein it is recommended that:

- “(1) City-wide consulting expenditure for the year 2001 be established five percent below the 2000 gross level, resulting in a 28 percent reduction from 1999;
- (2) the Finance Department report to the Administration Committee on 2001 consulting costs in the Operating Budgets of departments and major Agencies, Boards and Commissions, upon completion of the transfer of recorded costs to new cost element categories recommended by the Chief Administrative Officer;
- (3) the report from the Chief Administrative Officer, The Use of Consultants and Expenditure Reduction Strategies, deferred at the March 27, 2001 meeting of Administration Committee, be adopted to achieve expenditure reductions, and to improve budgetary identification, monitoring and reporting of consulting expenditure across the City;
- (4) the report from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, Policy for the Selection and Hiring of Professional and Consulting Services, deferred at the March 27, 2001 meeting of Administration Committee, be adopted to improve evaluation processes and procedures to hire consultants, and to document all consultant use including sole-source procurement;

- (5) the Chief Financial Officer and Treasurer and the City Auditor, in consultation with the CAO, develop an appropriate review and approval process to justify the use of consultants, as well as to document consulting project results including matters respecting value for money; and
- (6) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto;”;

(V) the adoption of the report (June 28, 2001) from the City Auditor, entitled “Selection and Hiring of Professional and Consulting Services Review”, subject to:

- (a) amending Recommendation No. (9) by deleting the word “should” and inserting in lieu thereof the word “will”;
- (b) amending Recommendation No. (10) by:
 - (i) adding after the word “department” the words “and give consideration to including an internal audit function;” and
 - (ii) deleting the words “In regard to reimbursable out of pocket expenses, consideration be given to including all such expenditures as part of the original contract price”; and inserting in lieu thereof the words “Council revise its contracted services agreements to clearly state that all incidental expenditures i.e., out of pocket are included in the total contract award price;” and
- (c) amending Recommendation No. (12) by adding thereto the following:
 - “(d) all contracts of Critical Management Information System where a single individual consultant is the only supplier of services necessary, be reported to Standing Committees outlining the risk to the City for approval of any such award;”;
- (d) adding thereto the following new Recommendations Nos. (18), (19) and (20):
 - “(18) that each Commissioner be requested to report to the appropriate Standing Committee for review, a detailed report of all existing consultant contracts within their departments; these reports to provide details on budgeted funds, expended funds, expected completion date and performance to date;
 - (19) (a) the Acting Chief Administrative Officer be requested to report to Council every six months on the use of consultants by the City and its ABCs; and

(b) all Commissioners be requested to report to their appropriate Standing Committee on re-hiring of employees severed with a separation package and providing details on the authorization and approval process followed;

(20) the City Auditor, in consultation with the City Solicitor, be requested to submit a report to the Audit Committee on any possibility of recovering funds paid to consultants where payments were made without invoices or proper receipts or contractual agreement;”;

so that the Recommendations embodied in the aforementioned report now read as follows:

“It is recommended that:

(1) all future reporting of consulting expenditures be based on actual expenditures incurred and not on the value of contracts awarded unless specifically requested by Council. In order to ensure that such reporting is accurate, all consulting costs reported to Council be reconciled to the City’s financial information system by each Department. The Chief Administrative Officer be required to communicate to senior staff the recommended reporting requirement;

(2) the Chief Financial Officer and Treasurer advise all departmental staff of the specific reporting requirements for consulting expenditures. In addition, the Chief Financial Officer and Treasurer emphasize the importance of the need to accurately analyze all consulting related invoices in order to ensure that such expenditures are recorded accurately in the financial information system. Departmental staff be required to review such accounts on a regular basis and make appropriate and timely accounting adjustments, where necessary;

(3) the Chief Administrative Officer be required to add to the “Policy for the Selection and Hiring of Professional and Consulting Services” the following, “A justification analysis is required prior to the engagement of a consultant which outlines in general terms the costs and benefits of using a consultant, including reasons why the consulting study can not be conducted by internal staff, either in whole or in part.”;

(4) the Chief Administrative Officer to report back on the dollar threshold above which departments are required to prepare detailed business cases prior to the hiring of consulting resources. Consideration be given to the development of a formalized template and/or checklist in order to assist staff in the development of a standard business case. The business case should be approved by each Commissioner and should be filed in the department for future management review and subsequent audit;

- (5) the Chief Administrative Officer take immediate steps to ensure that the engagement of all consulting services is made in accordance with the City's purchasing policies. Consultants not be engaged until the appropriate approvals have been obtained and a duly authorized purchase order is processed and recorded on the financial management information system;
- (6) the Chief Administrative Officer require the Commissioners to provide the appropriate information on existing consulting contracts so that purchase orders can be processed by the Purchasing Agent. The Purchasing Agent take the necessary steps to record such purchase orders on the financial information system. Any payments processed in excess of original contract amounts be identified and explanations obtained for such occurrences. The need to process such purchase orders in the future will not be required if proper procedures are followed;
- (7) the Chief Administrative Officer advise all Commissioners that in making sole source procurement decisions, clear justification, target completion date of the project, duration of the consulting engagement, and estimated contract value be documented, properly authorized, and, as required by City policy, be submitted to the Chief Administrative Officer, and to the Purchasing Agent for issuance of a purchase order or contract. Where the justification does not meet the City criteria for sole sourcing such contracts be subject to a competitive tender process in accordance with the City's purchasing policies;
- (8) the Commissioners take the necessary action to ensure that staff assigned to project management duties, especially where consultants are hired, have an appropriate combination of training and experience in project management and knowledge in the subject of the assignment, especially in the areas of developing clear and measurable deliverables, milestones, and performance evaluation criteria;
- (9) the Chief Financial Officer and Treasurer advice staff that request for proposal documents will not contain information relating to the actual project budget;
- (10) the Commissioners be required to re-evaluate the administrative internal controls in their departments and give consideration to including an internal audit function in order to ensure that invoices submitted by consultants are reviewed for reasonableness, proper supporting documentation and verified to the terms of the contract prior to authorization for payment. The review should also ensure that individuals approving invoices are in a position to assess whether the service has been rendered. Council revise its contracted services agreements to clearly state that all incidental expenditures i.e., out of pocket are included in the total contract award price;

(11) the Commissioners take the necessary steps to ensure that:

- (a) measurable standards and acceptance criteria are included in contracts executed with consultants;
- (b) regular, properly documented, meetings are held with consultants to ensure that the consultant is meeting contractual obligations and performing as required; and
- (c) upon completion of a project, the consultant's performance is documented and made available for review to relevant City staff, including the Purchasing Agent, when considering consultants for new projects;

(12) the Chief Administrative Officer, in consultation with the City's Commissioners, identify areas where departments have skill shortages or insufficient staff resulting in the consistent and extensive long-term use of consultants and:

- (a) present the appropriate business cases justifying meeting long-term operational demands by increasing staffing levels, such increases to be financed by the transfer of funds from consulting budgets to salaries and wages budgets;
- (b) where possible, ensure sufficient City staff are trained in skills required frequently and on a long-term basis, thus reducing the City's reliance on consultants to perform such duties; and
- (c) ensure that the continuous operation of critical management information systems is not dependent upon a single individual consultant;
- (d) all contracts of Critical Management Information System where a single individual consultant is the only supplier of services necessary, be reported to Standing Committees outlining the risk to the City for approval of any such award;

(13) the Chief Administrative Officer communicate to and remind each Commissioner of the policy relating to the hiring of former employees, either directly or indirectly, as consultants for a specified period of time after they participated in the employee separation program of the City;

(14) the Chief Administrative Officer review the practice whereby individual consultants are required to contract with consulting firms for providing their services to the City rather than being engaged directly as individuals;

- (15) in view of the fact that the recommendations contained in this report may be relevant to the City's Agencies, Boards and Commissions, the General Manager of each of these entities be required to report to their respective Boards by August 31, 2001 on such recommendations and their applicability in relation to their operations. In addition, the respective Boards be requested to forward such reports to the City Audit Committee;
- (16) the Chief Administrative Officer be required to add to the "Policy for the Selection and Hiring of Professional Consulting Services" specific details relating to the consequences of non-compliance with the policy. The amendment to the policy be reported to the Administration Committee by August 31, 2001;
- (17) the Chief Administrative Officer be required to report to the next meeting of the Administration Committee on the plans and timetable relating to the implementation of recommendations contained in this report;
- (18) that each Commissioner be requested to report to the appropriate Standing Committee for review, a detailed report of all existing consultant contracts within their departments; these reports to provide details on budgeted funds, expended funds, expected completion date and performance to date;
- (19) (a) the Acting Chief Administrative Officer be requested to report to Council every six months on the use of consultants by the City and its ABCs; and
(b) all Commissioners be requested to report to their appropriate Standing Committee on re-hiring of employees severed with a separation package and providing details on the authorization and approval process followed; and
- (20) the City Auditor, in consultation with the City Solicitor, be requested to submit a report to the Audit Committee on any possibility of recovering funds paid to consultants where payments were made without invoices or proper receipts or contractual agreement;";

(VI) that the City Auditor be directed to conduct a forensic audit of the contracts referred to in the report (June 28, 2001) from the City Auditor respecting the four instances where actual payments to the consultant had exceeded the total value of the purchase order issued by the City; and the two consultants who were engaged as project managers to develop and maintain financial information systems in the Finance Department for a number of years; and that this audit be a complete review from the original date of the contract to the current time and all details be reported to the Audit Committee in October, 2001;

- (VII) that the forthcoming report from the City Auditor respecting this matter clarify in detail those particular contracts mentioned in the aforementioned report (June 28, 2001) from the City Auditor; which identifies a number of situations where there are opportunities to reduce consulting costs;**
- (VIII) the adoption of the report (June 29, 2001) from the City Solicitor, entitled "Policy for the Selection and Hiring of Professional and Consulting Services Modifications of Policy for Retention of Outside Legal Expertise" wherein it is recommended that, for the purpose of the retention of outside legal expertise by the Legal Services Division, the procedures for the selection of consultants contained in Section 7 of the Policy appended to the report dated March 16, 2001, from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, be modified in accordance with the modifications detailed in this report;**
- (IX) that Commissioners be requested to submit a report to the Audit Committee on the non P.O. voucher process and ways and means of implementing stronger controls or discontinuing payment of these vouchers;**
- (X) that the City Auditor, in consultation with the Interim Chief Financial Officer and Treasurer, be requested to submit a report to the Administration Committee for its meeting scheduled to be held on September 6, 2001, on an appropriate variance reporting procedure which will ensure timely reporting of variances for professional and consulting services;**
- (XI) that the Commissioner of Corporate Services be requested to move rapidly to bring the intellectual knowledge as contracted into the department within City staff realm as soon as possible or before December 31, 2001, before re-issuance of the next extension or RFP on Taxation and Water Billing Systems;**
- (XII) that should the City Auditor not be able to provide information satisfactory to the Audit Committee and the Administration Committee respecting this matter, that the Province of Ontario, or any other appropriate body, be requested to conduct an enquiry on the use of consultants within the City of Toronto; and**
- (XIII) that a copy of this clause be sent to the Audit Division to be considered as part of its corporate-wide review of expenditure reductions.**

The Administration Committee reports, for the information of Council, having received the following reports:

- (i) (June 27, 2001) from the Chief Administrative Officer, entitled "Consulting Expenditures and Single/Sole Source Purchases for the Year 2000; and**
- (ii) (June 29, 2001) from the Acting Chief Administrative Officer and the Acting Chief Financial Officer and Treasurer, entitled "Summary of CAO Reports on the Selection and Hiring of Professional and Consulting Services".**

The Administration Committee submits the following joint report (March 16, 2001) from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, entitled “Policy for the Selection and Hiring of Professional and Consulting Services”:

Purpose:

The purpose of this report is to recommend a uniform Purchasing Policy for the Selection and Hiring of Professional and Consulting Services for the City of Toronto.

Financial Implications and Impact Statement:

Not Applicable.

Recommendations:

It is recommended that:

- (1) the Purchasing Policy for the Selection and Hiring of Professional and Consulting Services, outlined in Appendix “A” of this report be adopted; and
- (2) the appropriate City officials be authorized and directed to take the necessary actions to give effect hereto.

Background:

At its meeting of March 4, 5 and 6, 2000, Council adopted a report entitled Purchasing Policies and By-Law from the Chief Financial Officer and Treasurer dated February 3, 2000 (Clause No. 3 of Report No. 14 of The Administration Committee) as amended. Contained within this report was a statement that the Finance Department, Purchasing and Materials Management Division, was developing a new Policy for the Selection of Professional and Consulting Services for the City and once the new Policy was developed, it would be reported separately to Committee and Council for approval.

Comments:

Determining the need to use a consultant and then effectively managing the selection and hiring process is very important. This process commences at the procurement stage where the need for consulting services is clearly determined and justified to department heads and or Committee and specific deliverables/services to be rendered are identified in the purchasing documents (i.e., RFQ/RFP, etc.) as well as in the contract.

A Policy for the Selection and Hiring of Professional and Consulting Services was developed by staff from the CAO’s Office and the Finance Department, Purchasing and Materials Management Division (PMMD) in consultation with the Audit Services and is included as Appendix “A” of this report.

The Policy has been circulated to all Departments for their review and comments. All departmental suggestions were considered and incorporated in the proposed Policy, where possible. The Senior Management Team has also reviewed this report and concurs with the recommendations.

In preparation of this Policy, the purchasing practices for the Selection and Hiring of Professional and Consulting Services of nine (9) other municipalities, the Management Board Secretariat for the Province of Ontario, the Ministry of Transportation and the Guidelines for the Selection of Consulting Engineers from the Consulting Engineers of Ontario were reviewed.

Intent of the Policy:

The intent of the Policy is the following:

- (i) to ensure that the City awards professional and consulting contracts to qualified individuals and firms based on an open, fair and competitive process; adherence to the situations requiring the use of consultants; competence and expertise relative to the particular requirement; ability to complete the task within the proposed time frame; experience and record of past performance with similar projects; and value for the funds expended;
- (ii) to allow Departments the flexibility to engage consultants for low dollar value projects to a maximum of \$50,000; and
- (iii) to ensure that qualified individuals and firms interested in providing professional and consulting services have equal access to City consulting opportunities under normal circumstances, excepting occasional sole-source procurement in accordance with approved City policy.

Application of the Policy:

It is recommended that the Policy shall apply to the selection and hiring of all professional and consulting services by Departments, unless otherwise authorized by Council.

Highlights of the proposed Policy include the following:

- (1) there are six project categories used by the City for consulting services. These categories are included in the Policy in Appendix "A" and the definitions are also presented under separate cover in the CAO's report entitled, "Use of Consultants and Expenditure Reduction Strategies", which is also before the Committee. The six project categories are Technical and Professional Consultants; Management Consultants; System Development Consultants; Legal Consultants; Research and Development Consultants; and, Creative Communications Consultants;
- (2) as described in the Policy, a consulting assignment, or project, has a defined scope of work with specific objectives and deliverables. Consulting assignments may be obtained by a Request for Quotation (RFQ) or a Request for Proposal (RFP) using either the pre-qualification process or non pre-qualification process as follows:

- (a) The issuance of an RFQ or RFP without a pre-qualification process will be through newspaper/journal advertisements, use of the City proponent's list(s), and/or advertisement on the City's Internet Web Site.
- (b) The issuance of an RFQ or RFP with a pre-qualification process includes two different scenarios:
 - (i) The regular pre-qualification process, that is: the issuance of a Request for Expression of Interest (REOI) for the purpose of pre-qualifying proponents. The issuance of a subsequent RFQ or RFP will be only to those who have pre-qualified; or
 - (ii) The exception pre-qualification process, that is: the issuance of a Request for Expression of Interest for the purpose of pre-qualifying proponents for an extended period of time, not to exceed two years. Council approval is required for this pre-qualification process. This method would not be used often and would be based on specific requirements of complex multi-year projects.
- (c) In addition to these methods, sole-source procurement, while discouraged, is permitted under certain circumstances and within the authorization limits delegated by the Chief Administrative Officer. The circumstances can include extreme urgency and, economy or value in continuing prior work. See Table 2 in Appendix "A" for the City's delegated authorities, including sole-source.

(3) The evaluation of submissions received as a result of the issuance of RFQ's and RFP's should include an evaluation process that is applied in a consistent and fair manner to all respondents. Characteristics of a good evaluation process include:

- (i) clear specifications and evaluation criteria, terms and conditions;
- (ii) evaluation team members additional to those who developed the proposal call;
- (iii) valuation team members apprised of duties, for example: objectivity, conflict of interest declarations, no preferential treatment, confidentiality/copyrights;
- (iv) a process that is, and is perceived as being, free of interference (could include for example a Council determined prohibition on lobbying);
- (v) evaluation process is at arms-length from the political process;
- (vi) objective selection of the best value also most compatible with meeting all specifications, criteria and requirements;
- (vii) pre-prepared evaluation forms matching the mandatory criteria and other requirements in the proposed document;

- (viii) individual Evaluation Team member scoring/assessment before combining and consolidating scores to select the front-runner(s);
- (ix) a justified process of fair and consistent treatment of all respondents; and
- (x) with respect to establishing best value within an RFP, the evaluation criteria for pricing must be a minimum of 25 percent of the available points. The only exception to this requirement is when the two envelope system, that separates technical and costing information as outlined below, is utilized. A client department requiring special exemption from this requirement must obtain Council approval prior to the issuing of the RFQ/RFP.

(4) The selection and award procedure is determined according to the dollar value of a project as follows:

- (i) Category 1: Where the cost does not exceed \$50,000, inclusive of all taxes; and
- (ii) Category 2: Where the cost is in excess of \$50,000, inclusive of all taxes.
 - (a) Category 1 – Where the cost does not exceed \$50,000, inclusive of all taxes:

The client department will prepare the necessary scope of work, specific deliverables and evaluation criteria. The department will obtain competitive pricing submissions from a minimum of three (3) proponents, where possible, from the City's Proponents List or Pre-Qualified Proponents List on a rotating basis and in accordance with City Policies and applicable legislation.
 - (b) Category 2 – Where the cost is in Excess of \$50,000, inclusive of all taxes:

The client department will prepare the necessary scope of work, specific deliverables, and evaluation criteria, and forward this document and a purchase requisition to PMMD for processing in accordance with City Policies and applicable legislation.

For large and complex projects, where the cost of preparing a submission may be prohibitively high, the department, in consultation with PMMD, may choose to have PMMD further pre-qualify/short-list proponents.

In addition, for large and complex RFP projects, the client department may also choose to use a two-envelope system selection process. Under the two-envelope system, each proponent submits a technical proposal based on the RFP's specified Terms of Reference in one envelope, as well as a fee/cost proposal outlining the cost of the work assignment in a separate envelope.

Architectural and Engineering design consulting services should be considered a special category of assignments given their often complex, multi-stage, and high value characteristics. In such cases, the two-envelope RFP system of soliciting consultants as outlined above should be used.

Once the proposals have been received and evaluated, and the Evaluation Team has determined the highest scoring proponent (for RFP's) or the lowest bidder meeting the specifications (for RFQ's), the necessary approvals for the award must be received as per the Toronto Municipal Code, Chapter 195, Purchasing.

It should be noted that the splitting of assignments to avoid the necessary authorities is not allowed and that the extension of a Council approved consulting assignment will require Council approval.

- (5) Notwithstanding the above categories describing the value of consulting and professional services assignments, currently, Committee and Council approval is required for any assignment over \$500,000.00 in accordance with the Municipal Code, Chapter 71, Financial Control, enacted by Council, March 2, 2000. The Chief Administrative Officer has delegated certain authorities for the engagement of consultants to the department heads and other management staff under certain situations. Authority levels may be changed at the discretion of the CAO. The delegated authority levels are found in Table 2 of Appendix "A" to this report.
- (6) The Appendices and Tables included in the Policy, attached as Appendix "A", elaborate in greater detail on the process for the selection and hiring of professional consulting services and provides the client department with understanding and guidance on how to best select and hire professional and consulting firms as follows:
 - (i) Appendix 1 describes the process for establishing and maintaining a standard, non-prequalified proponents list;
 - (ii) Appendix 2 describes the process for establishing and maintaining a pre-qualified proponents list;
 - (iii) Appendix 3 describes how to use the pre-qualified proponents list;
 - (iv) Appendix 4 provides the client department with a sample proposal evaluation form for use when the two-envelope system is not being used;
 - (v) Appendix 5 provides the client department with a sample proposal evaluation form for use when the two-envelope system is being used;
 - (vi) Table 1 provides a summary of process to be used given the dollar thresholds of their project; and

(vii) Table 2 describes the revised delegation of authority from the CAO for the engagement of consultants.

Conclusions:

Staff of the CAO's Office, and Finance Department, Purchasing and Materials Management Division, in consultation with Audit Services, have developed a Policy for the Selection and Hiring of Professional and Consulting Services (included as Appendix "A" to this report). The primary purpose of the Policy is to provide consistency across the City for selecting, evaluating and awarding professional and consulting services in a fair, open and competitive process. The Policy provides a set of standardized procedures that complement and are part of the strategies in the CAO's report, entitled "Use of Consultants and Expenditure Reduction Strategies", which is also before the Committee, to manage the use of consultants. The Policy is in accordance with the relevant chapters of the Municipal Code (Council approved by-laws) and it is recommended that it be approved.

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List of Attachments:

Appendix "A": Policy for the Selection and Hiring of Professional and Consulting Services

Appendix 'A'
Policy for the
Selection and Hiring of
Professional and Consulting Services

1.0 General:

The City should only utilize consultants and professional services when:

- (i) City staff are fully occupied with other tasks and assignments and the project requires urgent completion;
- (ii) specific projects require certain technical capabilities, or unique and specialized advice not available in-house;

- (iii) the advice or services sought and the resulting expenditure, can be justified as being necessary to satisfy program requirements;
- (iv) independent expertise is required by legislation or regulation;
- (v) Council has directed the use of external assistance; and/or
- (vi) priority capital projects require greater City resources than are available.

As with most public agencies, the City employs a number of full-time staff possessing professional skills and expertise. These in-house engineers, health technologists, policy consultants and other professionals are responsible for activities including project planning, assessment, design, construction and provision of support for the City's operations. When professional and consulting services are utilized, the City must assign the correct and sufficient in-house personnel to conduct proper interviewing and selection and to administer the resulting contract(s). In addition, it is essential that professionally competent City staff be allocated to conduct and manage technical aspects of a program, regardless of whether that is accomplished by employees or consultants.

2.0 Intent of the Policy:

The intent of this policy is to:

- (1) Ensure that the City of Toronto awards professional and consulting contracts to qualified individuals and firms based on:
 - (i) adherence to the need/requirement to use such services, as per 1.0 above;
 - (ii) an open, fair and competitive process;
 - (iii) competence and expertise relative to the particular requirement;
 - (iv) ability to complete the task within the proposed time frame;
 - (v) experience and record of past performance with similar projects; and
 - (vi) value for the funds expended;
 - (vii) allow Departments the flexibility to engage consultants for low dollar value projects using the process described in Table 1 of this policy; and
 - (viii) ensure that qualified individuals and firms interested in providing professional and consulting services have equal access to City of Toronto consulting opportunities under normal circumstances, excepting occasional sole-source procurement of consultants and professional services in accordance with approved City policy as described in Table 2 of this policy.

3.0 Application of the Policy:

This policy shall apply to the selection and hiring of all professional and consulting services by City Departments, unless otherwise authorized by Council.

4.0 Definitions and Using the Request for Quotation or Request for Proposal Method:

4.1 Professional and Consulting Services Defined:

Professional and Consulting Services are defined as, but not limited to, those provided in the following categories:

- (i) technical and Professional Consultants, who typically undertake activities for a defined assignment to assist managers in delivering services requiring the application of mandatory or essential technical skills by accredited professional or quasi-professionals (including architectural or engineering design, project supervision services, accounting, actuarial, medical, appraisal, scientific, community planning, banking/financial, surveying or landscape/interior design in nature);
- (ii) management Consultants, who typically undertake planning, organizing and directing activities to assist managers in analyzing management problems and in recommending solutions for a defined assignment (can be operational, administrative, organizational or policy in nature);
- (iii) system Development Consultants, who typically undertake activities on a defined assignment to assist managers in developing and maintaining systems including information processing, telecommunications and office automation (can be analytical, project management, programming, testing or of an implementation nature); and
- (iv) other consulting categories used at the City of Toronto include:
- (vii) Legal Consultants, determined in consultation with City legal staff;
- (viii) research and Development Consultants, doing an investigative study to provide the City with increased knowledge or information; and
- (ix) creative Communications Consultants, inclusive of advertising, promotional, public relations and graphic design services.

“Consultant” is defined as any firm or individual providing time limited expertise, advice, or professional services that are not readily available from City staff. The skills are not present because it is not economical for the City to hire staff for that purpose, or the work is not able to be accommodated internally in a timely fashion. Consulting services result in contracts (or other forms of agreement) and some are provided on a fee-for-service basis (many in Technical/Professional Services).

Not all services used by the City constitute consulting services as defined above. Specifically, the following types of services are not considered consulting assignments/projects for the purposes of this policy. They are used by the City to actually provide services on its behalf:

- (i) service provided under what is (legally) an employee-employer relationship;
- (ii) contracted-out/outsourced services: garbage/waste collection, certain repair work, snow clearing, for example;
- (iii) purchase of service contracts: daycare, hostels, language translation, certain testing/inspections, certain computer systems development, for example;
- (iv) managed services: golf courses, concessions, certain facilities, for example;
- (v) fees: sheriffs' fees, honoraria, special examiners' fees, employment/placement fees, training course instruction, for example; and
- (vi) tendered work for direct operational responsibilities of the City (i.e., where what is to be done and how it is to be done are known, specifications are detailed, and suppliers compete only on price).

The provisions, authority levels and procedures in place for the retention of these non-consulting services and the practices on the procurement (and contracting) of goods and services may be found in the Toronto Municipal Code, Chapter 195, Purchasing. Information on delegated spending commitment authorities and other relevant information may be found in Chapter 71, Financial Control, of the Municipal Code. Please consult with the Purchasing and Materials Management Division (PMMD) for any clarification.

4.2 Consulting Assignments/Projects:

A consulting assignment, or project, has a defined scope of work with specific objectives and deliverables. Consulting assignments may be obtained by a Request for Quotation (RFQ) or a Request for Proposal (RFP) using either the pre-qualification process or non pre-qualification process, described in section 5.0 below.

4.3 Request for Quotation (RFQ):

A Request for Quotation is a solicitation from the City to external suppliers inviting them to submit an offer to the City so that it can purchase specified consulting or professional services at a fixed price as to the total amount, or on a unit cost basis, or both.

4.3.1 Using the RFQ Process:

A Request for Quotation from qualified proponents is the appropriate method to use when tasks and deliverables for a technical, professional or managerial problem are highly specific. As a result, there is a low likelihood of much variation among the approaches to be submitted. An RFQ usually specifies a fixed cost or project upset limit and the most competitive price is the major factor for evaluation. Such calls will not result in a negotiated contract, but will result in either an executed formal contract and/or a purchase order, as required.

4.4 Request for Proposal (RFP):

A Request for Proposal is a solicitation from the City to external suppliers to submit an offer to furnish goods or services, including professional or consulting services, as a basis for negotiations for entering into a contract.

4.4.1 Using the RFP Process:

A Request for Proposal from qualified proponents is the appropriate method to use when there is a complex technical, professional or managerial problem or matter to be resolved for which there is often no clear or single solution. While the goal, timing, requirements or results desired is often describable, the method or way of reaching results may be left to proponents to submit for comparative evaluation. As a result, price is not usually the primary factor for evaluation, although value and cost-effectiveness will still be evaluated and will be required of the successful proponent.

4.4.2 Sole Source Situations:

Sole Source shall mean entering into a commitment without the issuance of a Request for Quotation (RFQ) or a Request for Proposal (RFP). This is applied only in cases where normal purchasing procedures are not possible (i.e. emergencies, time constraints or where for economic reasons it is not possible to follow accepted procedures).

4.5 Proponents List:

This is a list of firms and individuals that have requested to be placed on an appropriate Proponents List for consideration for projects of all values and to be selected to provide submissions for consulting and professional services assignments. (Note: This is not the department requested “Pre-qualified” Proponents List described in section 4.7 below).

See Appendix 1 for information on how a Proponents List will be established.

4.6 Qualified Proponents:

A Proponent means any legal entity submitting a proposal in response to a Request issued by the City. Qualified Proponents shall be defined as individuals and firms demonstrating a proficiency in the application of professional and consulting services within their areas of expertise. They should possess current member status/accreditation in their appropriate governing professional body if applicable.

4.7 Pre-Qualified Proponents List(s):

This is a list of firms and individuals that, through an evaluative pre-qualification process, have met the qualification criteria, have been placed on a Pre-Qualified List, and may be selected for projects of all values to provide submissions. The need for establishing a Pre-Qualified List(s) of individuals and firms is at the discretion of the client department. The list would include individuals and firms who have demonstrated the necessary expertise to perform required assignments.

Pre-qualification for individuals and firms that have requested to be pre-qualified and placed on an appropriate pre-qualified proponent's list can be in accordance with one of the following distinct processes:

- (a) a pre-qualification process that occurs once every year by way of a public advertisement by the PMMD for the purpose of creating a pre-qualified proponents list or augmenting an existing pre-qualified proponents list. In addition, other proponents can request to be pre-qualified any time during the year; and
- (b) a pre-qualification process that applies for an extended and defined period of time, to not exceed two years. During the defined period, no new proponents will be added to the pre-qualified proponent's list. This method of pre-qualification requires approval by the City of Toronto Council.

Should the client department choose to pre-qualify proponents in either fashion, the pre-qualification process must be in accordance with the Toronto Municipal Code, Chapter 195, Purchasing, and in accordance with the policies and practices of Purchasing and Materials Management Division (PMMD). Subsequent award of contracts will be in accordance with section 7.1.

All requests to be included in a Pre-Qualified Proponents List(s) will be evaluated using various criteria to be developed for areas including, (a) experience; (b) technical ability; (c) financial capabilities; and (d) available resources.

See Appendix 2 for information on how a Pre-Qualified Proponents List will be established and maintained. Also see Appendix 3 for information on how a Pre-Qualified Proponents List will be used.

4.8 Pre-Qualification of Proponents (POP) and Request for Expressions of Interest (REOI):

Pre-qualification is an important mechanism to screen and review proponents interested in being considered for City consulting and professional service assignments. The City will use pre-weighted evaluative criteria to be developed for evaluation areas such as prior experience, financial stability, and technical information pertinent to known categories of projects that frequently arise. Pre-qualification helps the issuer define their project scope and streamlines the process of issuing an RFQ or RFP at a later time.

One common method of pre-qualification is the issuance of a Request for Expression of Interest (REOI). This is often important as a stage preceding a particular RFQ/RFP to assist the issuer in determining whether their project scope is clear and reasonable and to establish a pre-qualification process short-listing the proponents invited to respond to any subsequent RFP.

Pre-qualification of respondents will be based on pre-determined evaluation criteria to be developed for evaluation areas such as, prior relevant experiences, quality of work, financial stability and other areas of suitability for City consulting projects.

5.0 How to Retain Professional and Consulting Services:

Professional and consulting services are typically retained using either a Request for Quotation or Request for Proposal according to the following methods:

(a) Without Pre-Qualification:

The issuance of a Request for Quotation or Request for Proposal will usually be through newspaper/journal advertisements, use of the City proponents list(s), and/or advertisement on the City's Internet web site. The process to establish a Proponents List(s) is described in Appendix 1 to this report.

(b) With Pre-Qualification, the methods include:

- (i) the regular pre-qualification process, that is: the issuance of a Request for Expression of Interest (REOI) for the purpose of pre-qualifying proponents on a specific project. Issuance of a subsequent RFQ or RFP will be only to those evaluated as meeting the REOI qualifications, and Council approval is not required for this pre-qualification process; or
- (ii) the exception pre-qualification process, that is: the issuance of a Request for Expression of Interest for the purpose of pre-qualifying proponents for an extended period of time to not exceed two years. Issuance of a subsequent Request for Quotation or Request for Proposal will be only to those evaluated as meeting the REOI qualifications. Council approval is required for this pre-qualification process. See Appendix 2 for the process to establish and maintain a Council approved Pre-Qualified Proponents List(s).

(c) Sole-Source Procurement:

Sole-source procurement is discouraged, but is permitted under certain circumstances and within the authorization limits delegated by the Chief Administrative Officer. The circumstances can include extreme urgency and, economy or value in continuing prior work. See Table 2 for the CAO's delegated authorities, including sole-source.

6.0 Evaluation Team and Process:

An Evaluation Team shall be established for all projects. It shall be comprised of departmental staff member(s) with the relevant experience to evaluate proponents' submissions. The size of the Evaluation Team shall be reflective of the complexity and dollar value of the assignment. Staff representatives from Finance, Legal and CAO's shall be included on the Evaluation Team where appropriate, especially for complex or high profile projects and those having corporate-wide implications. The Purchasing and Materials Management Division (PMMD) may be involved as a facilitator in the selection team at the discretion of the Director, PMMD, or at the request of the department.

The Evaluation Team, in consultation with the PMMD, will be responsible for evaluating all submissions whether solicited from pre-qualified or non-pre-qualified methods as described in section 5.0. This includes requests from firms and individuals to be added to the consulting and professional services Pre-qualified Proponents List(s), as well as all replies to Request for Expressions of Interest documents/requests to be pre-qualified. It also includes all Requests for Quotation or Requests for Proposal submissions, and participation in making recommendations for award.

6.1 Evaluation Process:

All calls for RFQ's and RFP's should have an evaluation process that is applied in a fair manner to all respondents. Mandatory criteria and procedures in the call document are not to be deviated from in the evaluation process. A term, condition or requirement for evaluation not explicitly stated in the call document or addenda cannot later be used to evaluate submissions, nor can any method of scoring/weighting contained in the call document be changed. For these reasons, it is critical that the development of the call document and its terms and conditions, expected deliverables and process of evaluation, be carefully prepared. Characteristics of a good evaluation process include, for example:

- (i) clear specifications and evaluation criteria, terms and conditions;
- (ii) evaluation team members additional to those who developed the proposal call;
- (iii) evaluation team members apprised of duties, for example: objectivity, conflict of interest declarations, no preferential treatment, confidentiality/copyrights;
- (iv) a process that is, and is perceived as being, free of interference (could include for example a Council determined prohibition on lobbying);
- (v) evaluation processes at arms-length from the political process;
- (vi) objective selection of the best value also most compatible with meeting all specifications, criteria and requirements (more details below);
- (vii) pre-prepared evaluation forms matching the mandatory criteria and other requirements in the proposal document;
- (viii) individual Evaluation Team member scoring/assessment before combining and consolidating scores to select the front-runner(s); and
- (ix) a justifiable process of fair and consistent treatment of all respondents.

With respect to establishing best value within an RFP, the evaluation criteria for pricing must be a minimum of 25 percent of the available points. Scores for the cost criterion will be calculated as follows: (a) The lowest cost proposal will receive 25 percent of the available points; and (b) The remaining proposals are assigned points based on the following formula: (lowest priced proposal divided by the price of the next lowest proposal multiplied by 25 percent). The only

exception to this requirement is when the two-envelope system, that separates technical and costing information as outlined in section 7.1(b) is utilized. A client department requiring special exemption from this requirement must obtain prior Council approval.

The Departments must provide to PMMD a detailed summary of the evaluation results, in order to permit fulfillment of complete due diligence practices. Departments must also make available to PMMD upon request, all replies and individual evaluation sheets from Evaluation Team members. Departments are responsible for retaining the detailed individual evaluation sheets for audit and other purposes.

7.0 User Guide: Selection and Award by Project Value:

The following information is found in summary form in Table 1 to this report.

7.1 Selection and Award Procedures:

This section contains information on selecting and awarding contracts. Different steps are required according to the value category of a project, namely:

- (i) Category 1: Where the cost does not exceed \$50,000, inclusive of all taxes; and
- (ii) Category 2: Where the cost is in excess of \$50,000, inclusive of all taxes.

(a) Category 1 – Where the cost does not exceed \$50,000:

The appropriate department will prepare the necessary scope of work, specific deliverables and evaluation criteria and weighting (see Appendix 4), together with a detailed work plan for their project or task as required. The department will obtain competitive pricing submissions from a minimum of three (3) proponents, where possible from the City's Proponents List or Pre-Qualified Proponents List on a rotating basis, and in accordance with City Policies and applicable legislation.

Once the submissions have been received and evaluated, and the highest scoring proponent (for RFP's) or lowest bidder meeting the specification (for RFQ's) has been selected, the department will:

- (i) if the cost is within set limits, issue the necessary Departmental Purchase Order (DPO) to the current DPO limit and all the proponents invited to submit must be rotated to the bottom of the applicable category list for future consideration; or
- (ii) for assignments in excess of the current DPO limit, the department will forward to PMMD a summary of the bids received, including the evaluation summary, together with a purchase requisition. PMMD will review the information, ensure proper procedures have been followed, and issue the necessary Purchase Order and all the proponents invited to submit must be rotated to the bottom of the applicable category list for future consideration.

Where DPO's are used and the PMMD is not involved in the process, the department(s) are accountable for compliance with the policy and responsible for the retention of all documentation relating to each transaction. The possibility of splitting the total cost of the assignment such that two or more DPO's are issued for the same project work is strictly prohibited. The use of DPO's is delegated by the CAO and any abuse or lack of compliance by department(s) could result in this authority being rescinded.

(b) Category 2 – Where the cost is in Excess of \$50,000:

The appropriate department will prepare the necessary scope of work, specific deliverables, and evaluation criteria and weighting (see Appendix 4), together with a detailed work plan for the project or task as required, and forward this document and a purchase requisition to the PMMD for processing.

PMMD, in consultation with the client department, will select all the proponents from the City's Proponents List or Pre-Qualified Proponents List(s) and request a detailed submission from the proponents. In addition, the opportunity will be advertised, where required (i.e. no pre-qualified proponents list) in the appropriate media (City's web site, national newspaper, trade journal, etc).

Short-Listing of Pre-Qualification Proponents List:

For large and complex projects, the cost of preparing a submission may be prohibitively high. Where the Pre-Qualified Proponents list(s) has in excess of ten potential proponents, the department, in consultation with PMMD, may choose to have PMMD further pre-qualify/short-list proponents. The Expression of Interest process would be used to invite responses. All proponents scoring 75 percent or better on the REOI phase will be invited to provide submissions through an RFQ/RFP process.

Using a Two-Envelope System:

In addition, for large and complex RFP projects, the client department may also, at their sole discretion, choose to use a two-envelope system selection process. In this case a Request for Proposals document is issued by the PMMD and the individuals/firms are directed to submit detailed written proposals for the provision of the required services. Under the two-envelope system, each of the individuals/firms submit both a technical proposal based on the RFP's specified Terms of Reference, as well as a fee/cost proposal outlining the cost of the work assignment. The fee proposal or "Cost of Services" portion of the proposal must be submitted in a separate sealed envelope (i.e.,: separate from the technical information portion of the proposal).

Proposals are received by the PMMD and are evaluated by the Evaluation Team (See Appendix 5). If the selection process is a two-stage, (i.e., Request for Expressions of Interest, followed by a Request for Proposals) the Evaluation Team would normally be comprised of the same staff who participated in the evaluation of the REOI in order to ensure consistency. The technical proposals are evaluated, scored and ranked, without reference to cost, based on specific, pre-determined technical criteria for evaluation areas such as relevant firm experience, project team qualifications/experience, personnel time allocation, understanding of scope of work, methodology/thoroughness of approach, quality and completeness of proposal submission,

etc. The “cost of services” submission for a particular consulting firm is opened only if the firm scored an average mark of 75 percent or better on the technical component of the proposal. If a firm scored below the 75 percent threshold, the fee proposal envelope is returned unopened.

For the short-listed firms (i.e., scored 75 percent or better on the technical proposal), the fee proposal is then taken into account in the overall evaluation process. A “cost/point”, based on the total costs shown in the fee proposal and the points awarded in the technical evaluation, is calculated for each of the short-listed firms as ranked. The firms are then ranked with the firm having the lowest cost/point being ranked first. The assignment must be awarded to the firm with the lowest cost/point, unless otherwise approved by Council. In the event of a tie in cost/point, the contract will be awarded to the proponent with the higher technical score component.

Once the proposals have been received and evaluated, and the Evaluation Team has determined the highest scoring proponent (for RFP's) or the lowest bidder meeting the specifications (for RFQ's), the necessary approvals for the award must be received as per the Toronto Municipal Code, Chapter 195, Purchasing. Then, the PMMD will issue the Purchase Order and the department will arrange for Legal Services to prepare and execute the contract as required.

Architectural and Engineering Design Consultants:

Architectural and Engineering design consulting services should be considered a special category of assignments given their often complex, multi-stage, and high value characteristics. In such cases, the RFP method of soliciting consultants should be used, preferably the two-envelope method system described above, rather than competitive price proposals (RFQ's or tenders). In addition, the negotiation of payment for projects using the percentage of construction cost payment method shall use the Fee Schedules of the associations as a guideline only. The goal should be to use a “service and fee control” approach. This means that a combination of payment methods (hourly-rate, fixed-price and percentage of established construction costs) should be negotiated for different stages of a project as appropriate and applicable.

8.0 Delegation of Authority:

Notwithstanding the above categories describing the value of consulting and professional services assignments, the Chief Administrative Officer, as per the Toronto Municipal Code, Chapter 71, Financial Control, Enacted by Council, March 2, 2000 has delegated certain spending commitment authorities to the department heads and other management staff under certain situations. Authority levels may be changed at the discretion of the CAO. The delegated authority levels are found in Table 2 to this report.

Appendix 1

Process to Establish and Maintain a Proponents List(s)

The Purchasing and Materials Management Division (PMMD), on behalf of the client department(s), shall place advertisements in the appropriate media once every year for the purpose of:

- (i) Providing individuals and firms the opportunity to register for professional and consulting services assignments according to various project categories; and
- (ii) Establishing a list of potentially qualified proponents.

The number of separate lists required for each professional category shall be at the discretion of the client department(s), in consultation with PMMD.

In addition to this annual advertisement for interested proponents, any individual or firm expressing an interest throughout the year will be placed on the appropriate proponent's list(s).

The Purchasing and Materials Management Division (PMMD), in consultation with the client department(s) will establish and maintain the proponents list(s) of interested individuals and firms for professional and consulting services opportunities.

The intent of this process is when the City issues an RFP, or REOI, or RFQ (for projects of all values) those individuals/firms on the Proponents List in the appropriate project category, shall be contacted and invited to submit a response. Where appropriate, per section 7.1(b), additional submissions from individuals or firms not on the Proponents List can also be expected in response to City calls advertised and posted on the web site.

This process encourages full consideration, evaluation and, if required a short-listing of an unlimited number of submissions and is open to all those interested in the specific call. This is in contrast with using the Pre-Qualified Proponents List process, described in Appendix 2, where individuals or firms qualified to perform the work are invited to compete.

Appendix 2

Process to Establish and Maintain Pre-Qualified Proponents Lists:

The Purchasing and Materials Management Division (PMMD), on behalf of the client department(s), shall place advertisements in the appropriate media once every year for the purposes of:

- (i) providing individuals and firms the opportunity to pre-qualify for professional and consulting services assignments in the City;
- (ii) maintaining a list of pre-qualified proponents; and
- (iii) Augmenting an existing pre-qualified proponents list.

In addition to the annual advertisement for interested proponents, any individual or firm expressing an interest throughout the year will be evaluated and if qualified, placed on the appropriate proponent's list(s). The exception to this annual and ongoing process is the ability for departments (with Council approval) to pre-qualify proponents for a specific, defined period of time, per section 4.7(b), to not exceed two years. In this situation, no additional proponents will be qualified and added to a list of proponents.

The number of separate lists required and the assignment of proponents to the categories for the Council approved pre-qualified proponents list(s) shall be at the discretion of the client department, in consultation with the PMMD. Proponents will be pre-qualified under two broad classifications:

- (a) expertise: includes criteria such as experience and technical ability; and
- (b) financial Capability: includes criteria such as value of contracts completed to-date, financial stability of the firm, and availability of resources.

An Evaluation Team will review and pre-qualify, in accordance with pre-determined, clearly defined evaluation criteria, each individual and firm seeking to pre-qualify for professional and consulting service assignments. The criteria for pre-qualification shall be prepared by the client department, in consultation with PMMD and shall be communicated to interested firms by PMMD. In addition, proponents will be evaluated based on performance and qualifications on an on-going basis by departments. Proponents may be deleted from the pre-qualified list(s) if requested by the department, and in consultation with Legal Services and PMMD.

The intent of this process is when the City issues an RFP, or REOI, or RFQ, for projects of all values, that all those on the Pre-Qualified Proponents List in the appropriate project category, shall be contacted and invited to submit a response. The Purchasing and Materials Management Division (PMMD), in cooperation with the client department(s) will establish and maintain the list(s) of interested pre-qualified individuals and firms for professional services consulting opportunities.

Proponents will be evaluated based on performance and qualifications on an on-going basis by departments. Proponents may be deleted from the pre-qualified list(s) if requested by the department, and in consultation with legal Services and PMMD.

Appendix 3

The Use of a Pre-Qualified Proponents List

When individuals and firms are invited to submit proposals and where individuals and firms are taken from a list of Pre-Qualified Proponents List, the following process applies:

- (a) the department, in consultation with PMMD, will determine the level of expertise required for a particular assignment as per specific criteria including; experience; technical ability; financial capabilities; and available resources; and

(b) once the appropriate professional/skill category has been determined to reflect the level of expertise needed, detailed proposals will be obtained from those pre-qualified proponents. An exception to this requirement is where a project requires proponents with multiple qualifications and must be selected from multiple lists. In such cases, the pre-qualified proponents will be selected from a number of lists.

Appendix 4

Sample Proposal Evaluation Form

Areas for Evaluation *	Available Points to be Awarded	Proponent's Score
Proposal Structure, Attributes and Contents		
(1) Demonstrated understanding of the scope of the Work, and the RFP goals, objectives, and requirements.	20 for example	
(2) Relevant experience, qualifications and successes demonstrated including ability to provide dependable, reliable, timely and accurate service and deliverables.	20 for example	
(3) Degree of professionalism, skill, creativity and originality reflected in, and appropriateness of, proposed designs and production materials and method.	15 for example	
(4) Proposed schedule, methodology and approach to performing the Work.	10 for example	
(5) Ability to meet critical date.	10 for example	
(6) Total Proposal Price.	25 minimum	(lowest priced proposal divided by the price of the next proposal) X25
Totals	100	

Areas for Evaluation *	Available Points to be Awarded	Proponent's Score
Proponent Must Score Minimum of 75 Percent to Qualify for the Short List and Further Evaluation		
Proponent's Presentation of Proposal and Performance During Interview	50 for example	
Proponent's Ability to Answer Questions	50 for example	
Total Points:	100	

* This sample form does not include the detailed criteria needed for evaluation. Criteria are to be developed per area of evaluation for each Request for Proposal.

Appendix 5

Sample Proposal Evaluation Form for Two-Envelope System

Areas For Evaluation *	Available Points to be Awarded	Proponent's Score
(A): Envelope Number One: Technical Proposal Proposal Structure, Attributes and Contents		
(1) Demonstrated understanding of the scope of the Work, and the RFP goals, objectives, and requirements.	20 for example	
(2). Relevant experience, qualifications and successes demonstrated including ability to provide dependable, reliable, timely and accurate service and deliverables.	20 for example	
(3) Degree of professionalism, skill, creativity and originality reflected in, and appropriateness of, proposed designs and production materials and method.	20 for example	
(4) Proposed schedule, methodology and approach to performing the Work.	20 for example	

Areas For Evaluation*	Available Points to be Awarded	Proponent's Score
(5) Ability to meet critical date.	20 for example	
Totals	100	
Proponent Must Score Minimum of 75 Percent to Qualify for Cost of Service Envelope to Be Opened and Further Evaluation		
Proponent's Presentation of Proposal and Performance During Interview.	50 for example	
Proponent's Ability to Answer Questions.	50 for example	
Totals	100	
(B): Envelope Number Two: Cost of Services Fee Proposal for Cost of the Assignment		
A Cost/Point Based on the Fee Proposal Divided by Technical Score (B/A)	Lowest Cost Per Point	

* This sample form does not include the detailed criteria needed for evaluation. Criteria are to be developed per area of evaluation for each Request for Proposal.

Table 1: Professional and Consulting Service Selection Approach
As applicable to each of the Pre-Qualified and Non Pre-Qualified Proponents list(s)

Category 1 (Section 7.1a)	Category 2 (Section 7.1b)
Projected Fees not to exceed \$50,000 (all taxes included)	Projected Fees in excess of \$50,000 (all taxes included)
(i) Department prepares scope of work, deliverables, evaluation criteria and weighting.	Department prepares scope of work, deliverables, evaluation criteria and weighting.

<p>Department selects a minimum of three (3) proponents on a rotating basis from Proponents List or Pre-Qualified Proponents List and obtains submissions.</p>	<p>PMMD, in consultation with the Department, selects all proponents from the appropriate Proponent's List or Pre-Qualified Proponent's List, advertises where appropriate, issues document and receives submissions. Department, in consultation with PMMD, may choose to pre-qualify proponents through an Expression of Interest process.</p>
<p>Evaluation Team reviews, evaluates and scores submissions according to the evaluation criteria and recommends the award as follows:</p> <p>(a) To the Departmental Purchase Order Limit of \$7,500.00, the department may award the project, issue the Departmental Purchase Order and maintain a record of the evaluation results.</p> <p>(b) In excess of the DPO limit of \$7,500.00 and to a maximum of \$50,000.00, the department will forward to PMMD a detailed summary of the evaluation results supporting their recommendation for award and PMMD will review the information to ensure that proper procedures have been followed and issue the necessary purchase order.</p>	<p>Evaluation Team reviews, evaluates and scores submissions according to the evaluation criteria and recommends the award as follows:</p> <p>(a) To a maximum of \$500,000.00, the department will forward to PMMD the detailed summary of evaluation results supporting their recommendation for award and PMMD will review the information to ensure that proper procedures have been followed and issue the necessary purchase order and Legal Services will prepare a contract where required</p> <p>(b) In excess of \$500,000.00, and in addition to the above, the department and PMMD will jointly recommend to the appropriate award authority (i.e., Committee/Council) and once approved, PMMD will issue the necessary purchase order and Legal Services will prepare the contract where required.</p>

Table 2

Revised Delegation of Authority for the Engagement of Consultants
April 12, 2000

Authority	\$ Amount	Conditions
CAO	Up to \$500,000	
Commissioners	Up to \$250,000 Up to \$50,000	Where approved procurement procedures have been followed. Where normal purchasing procedures are not possible, i.e., sole source, emergencies, time, constraints, or where for economic reasons it is not possible to follow accepted procedures, etc.
General Managers* Executive Directors* Executive Director of HR Fire Chief City Clerk Medical Officer of Health City Solicitor City Auditor	Up to \$250,000 Up to \$25,000	Where approved procurement procedures have been followed. Where normal purchasing procedures are not possible, i.e., sole source, emergencies, time constraints, or where for economic reasons it is not possible to follow accepted procedures, etc.
Directors*	Up to \$100,000	Where approved procurement procedures have been followed

* Subject to delegation from the Commissioners

The revised delegation of authority will allow Commissioners to delegate to their General Managers/Executive Directors up to \$250,000 spending authority, where approved procurement procedures have been followed, and up to \$25,000 where normal purchasing procedures are not possible, and will allow Commissioners to delegate to their Directors up to \$100,000 spending authority for the Engagement of Consultants, where approved procurement procedures have been followed. Copies of delegated authority letters should be sent to the CAO and Director of Purchasing and Materials Management.

The Administration Committee also submits the following report (March 15, 2001) from the Chief Administrative Officer, entitled “Use of Consultants and Expenditure Reduction Strategies”:

Purpose:

This report provides an overview of the incidence and benefits of professional and consulting services, and introduces parameters on whether to use consulting assistance, as well as a policy to ensure standards and accountability when selecting and hiring consultants. This report recommends a corporate-wide reduction goal and new annual budget and in-year reporting measures to achieve meaningful results in 2001 and beyond.

Financial Implications and Impact Statement:

Adoption of the recommendations in this report is expected to achieve a five percent reduction for 2001 overall consulting expenditures, operating and/or capital, across the City over that of 2000 expenditure. The Chief Financial Officer and Treasurer has reviewed this report.

Recommendations:

It is recommended that:

- (1) the recommendations of the separate report, Policy on the Selection and Hiring of Professional and Consulting Services, be considered with this report;
- (2) effective 2001, annual consulting expenditures reported by departments and major City agencies, boards and commissions exclude activities that are alternative service delivery methods, and include only those activities that meet the definition and project categories of consulting as defined in this report, Reduction Strategies, part (a), and in the Policy for the Selection and Hiring of Professional and Consulting Services;
- (3) departments and the major agencies, boards and commissions of the City be directed to aim for a five percent reduction goal in their 2001 consulting expenditures against expenditures in 2000, inclusive of any consulting cuts already identified for the 2001 annual budget cycle underway, in order to contribute to a total corporate-wide reduction of five percent in consulting expenditures;
- (4) effective 2002, line items for “consulting” in capital or operating budgets not include contracted-out/out-sourced activities, or fees and other similar payments as presented in this report, Reduction Strategies, part (b), and in the Policy on the Selection and Hiring of Professional and Consulting Services;

- (5) in-year reporting on consulting expenditures in all six project categories be submitted by departments and the major City agencies, boards and commissions on a semi-annual basis to the Audit Division to merge the information for a corporate-wide overview of expenditures against the reduction goal, report the results to the Policy and Finance Committee, and forward the detailed information to the Purchasing and Materials Management Division for analysis; and
- (6) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

On January 13, 1999, the Budget Advisory Committee requested the Chief Administrative Officer (CAO) to report to it on the hiring of outside consultants by departments and the City's major agencies, boards and commissions (A, B, C's), in 1998. On July 6, 1999, Council adopted criteria recommended in the report on project categories and improved data gathering for future reports.

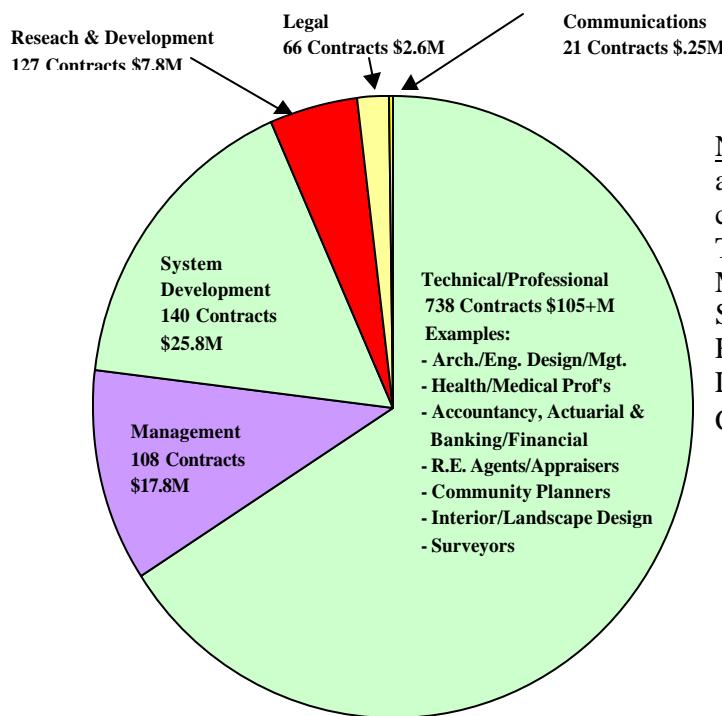
Subsequently, on September 28, 2000, Council received the report on 1999 consulting expenditures for information. Significant data analysis was contained in the report indicating consulting projects:

- (i) supporting each of capital and operating purposes;
- (ii) on both a gross and net basis;
- (iii) as a percentage of total City budget;
- (iv) dollar value for each individual departments and major City A, B, C;
- (v) by the relative value of contracts; and
- (vi) by consulting project category.

The report also noted a number of initiatives to be reflected in the 2000 consulting expenditure report (to be presented in 2001). These included ongoing rigour in purchasing and consulting practices, refined data gathering, and capturing additional consulting information.

The Mayor, in his February 15, 2001 statement "New Deal for Toronto Taxpayers", requested the CAO to report to Council on a strategy to reduce the use of consultants. On February 20, 2001, the Administration Committee requested the CAO to submit to the Budget Advisory Committee a list of fees paid to consultants by department, identifying whether cuts are recommended and where those cuts will be compensated.

City-Wide Number and Value of Consulting Contracts by Project Category, 1999 Results Inclusive of Y2K



Note: Y2K Project Expenditure as a portion of each of the above categories:

Technical/Professional	-	33%
Management	-	58%
System Development	-	75%
Research and Development	-	0%
Legal	-	11.5%
Communications	-	52%

Comments and the Context of Consulting Expenditure:

The findings of the 1999 report on consulting expenditures included the following qualifications:

“Caution should be exercised in drawing conclusions about the use of consulting services by the City. No evidence exists to conclusively attribute the use of consultants by the City to, for example, either the costs of running a (larger) amalgamated City, reduced staffing levels, new service delivery responsibilities assumed by the City, or in-Department Y2K initiatives additional to the corporate Y2K Project. While all of these are possible contributing factors, the accuracy of the data submitted both for 1998 and 1999, is likely a greater contributing factor.”

“For the 1999 report, Departments were asked to not submit data on contracts for purchased services (e.g., testing, translation, inspections and other fee-for-service activities). An examination of the data submitted, however, suggests that this has not been adhered to consistently. In addition, departmental tracking and reporting management systems are still evolving.”

To set the context for this report, the pertinent findings from 1999 are presented below:

- (i) consulting expenditures represented 2.3 percent of the \$6.8 billion 1999 budget, or, 1.3 percent of the budget excluding Y2K consulting project costs;
- (ii) extraordinary circumstances in 1999 included restructuring and amalgamation activities plus significant one-time Y2K Project activities;
- (iii) restructuring and amalgamation activities in 1999 were about \$700K, less than half of that experienced in the first year of amalgamation, and will not continue past 2000;
- (iv) consulting for approved capital projects accounted for nearly 90 percent of total departmental gross consulting expenditure (much attributable to Y2K);
- (v) the majority of consulting assignments, 78.8 percent, had a value of \$50,000 or less;
- (vi) consulting assignments valued at \$1 million or higher, represented 2.3 percent of all contracts;
- (vii) about 2/3 of all projects and consulting costs were in the Technical/Professional Services category; and
- (viii) only 40 firms, across 1200 contracts, obtained three or more consulting assignments.

The breakdown of consulting assignments reported for 1999 is shown in the following Pie Chart. The number of contracts and the total value of the contracts per project category are summarized.

Data gathering for year 2000 consulting expenditures is currently underway by the Purchasing and Materials Management Division (PMMD) of the Finance Department. Once complete, analysis of the findings will be reported to Council in a similar manner as that done for 1999, with additional improvements based on the recommendations of this report.

Benefits of Using Consultants:

Consultants bring a wide range of experience and theory to a defined management, service, physical, economic, or social problem. They provide special expertise or services and may study or advise upon a particular area of endeavour. The end products are typically a report containing a set of recommendations to solve a problem, design work, or managing an engineering project for the client.

The primary benefits to the City in using consultants are as follow:

- (i) permits the allocation of staff resources to front-line and direct service priorities;
- (ii) can be used for any type of function, service or problem;
- (iii) new skills can be acquired by staff working with experts in a field;

- (iv) addresses situations that require objectivity, impartiality and independence of opinion;
- (v) can result in cost-savings, improved service, or better procedures;
- (vi) avoids payroll costs associated with permanent, contract or student work; and
- (vii) appropriate for non-recurring or infrequently occurring tasks not warranting full-time staff.

In the first three years of amalgamation in the City of Toronto, there was a critical need to use consultants. Council directed early in its first term, that staff should obtain objective, impartial third-party advice to assist it in dealing with amalgamating program areas. Consultants provided the City with many of the benefits outlined above as Toronto faced an unprecedented volume of tasks associated with merging systems, processes, by-laws, and physical, financial and human resources. It was essential that front-line services continued to be delivered in an effective and timely manner while the corporate-wide operating context was developing.

Reduction Strategies:

The following improvements are expected to have a significant impact upon managing the use of consultants and thereby reducing associated expenditures. Several areas are recommended for immediate implementation in 2001. These include formalized and improved definitions to lead to consistent understanding across the City and stated standards and conditions for when to use consultants. In addition, a goal for expenditure reduction, annual budget information improvements, and in-year reporting mechanisms respecting consultants are being recommended.

Staff of Audit, the CAO's and Finance (PMMD) have developed a Policy for the Selection and Hiring of Professional and Consulting Services. The primary purpose of the Policy is to add procedural rigour and consistency across the City for selecting, evaluating and awarding consulting services. The Policy is compatible with relevant chapters of the Municipal Code.

While presented under separate cover, it is recommended that the Policy on the Selection and Hiring of Professional and Consulting Services be considered in conjunction with this report.

(a) Improved Definitions:

In the new Policy, “consultant” is defined as any firm or individual providing time-limited expertise, advice, or professional services not readily available from City staff. Consultants are engaged for a specified period of time for a defined purpose because the skills are not present in-house, it is not economical for the City to hire staff for that purpose, or the work cannot be accommodated internally in a timely fashion. Consulting services are agreed to by contract (or other forms of agreement), many involving a fee-for-service payment method (usually Technical/Professional Services), some involving a per diem payment method, and others involving an hourly charge to an upset limit pre-determined by staff.

There are six project categories used by the City for consulting services. The definitions of these categories have been improved for the year 2000 as follow:

- (1) technical and Professional Consultants: undertake activities for a defined assignment to assist managers in delivering services requiring the application of mandatory or essential technical skills by accredited professional or quasi-professionals (can be architectural or engineering design, accounting, actuarial, medical, appraisal, scientific, community planning, banking/financial, surveying or landscape/interior design in nature);
- (2) management Consultants: undertake planning, organizing and directing activities to assist managers in analyzing management problems and in recommending solutions for a defined assignment (can be operational, administrative, organizational or policy in nature);
- (3) system Development Consultants: undertake activities on a defined assignment to assist managers in developing and maintaining systems including information processing, telecommunications and office automation (can be analytical, project management, programming, testing or of an implementation nature);
- (4) legal Consultants: provide an area/degree of expertise not available in-house or required because of workload and timing, and City legal staff are to be consulted;
- (5) research and Development Consultants: provide the City with increased knowledge or information; and
- (6) creative Communications Consultants: advertising, promotion, public relations and graphic design services.

(b) Activities Not Constituting Consulting Activities:

Based on further analysis of 1999 data and improved City reporting methods, it has been confirmed that not all external services engaged by the City fall within the definition of consulting services presented above. Activities not constituting consulting services include:

- (i) service provided under an employee-employer relationship;
- (ii) contracted-out/outsourced services: waste collection, certain repair work, snow clearing;
- (iii) purchase of service contracts: daycare, hostels, certain computer system development, language translation, certain testing/inspections;
- (iv) managed services: golf courses, concessions, certain facilities;
- (v) certain fee payments: sheriffs' fees, honoraria, special examiners' fees, employment/placement fees, training course instruction; and

Tendered work for direct operational responsibilities of the City (i.e., where what is to be done and how it is to be done are known, the specifications are very detailed, and suppliers compete only on price).

Some departments and A, B, C's have previously reported activities that used external parties for the types of direct service delivery described above. The external services used by the City to directly meet and deliver its mandated service and regulatory responsibilities are more appropriately considered alternative service delivery methods and should not be reported as consulting assignments/projects.

It is, therefore, recommended that effective 2001, annual consulting expenditures reported by departments and major City agencies, boards and commissions exclude activities that are alternative service delivery methods, and include only those activities that meet the definition and project categories of consulting as defined in this report, Reduction Strategies, part (a), and in the Policy for the Selection and Hiring of Professional and Consulting Services.

(c) Standards and Conditions for Using Consultants:

The Policy is not intended to control departmental decisions to use consultants, but it provides the following guidelines identifying the situations in which the use of external expertise and consultants is appropriate:

- (i) city staff are fully occupied with other tasks and assignments and the project requires urgent completion;
- (ii) specific projects require certain technical capabilities, or unique and specialized advice not available in-house;
- (iii) the advice or services sought and the resulting expenditure, can be justified as being necessary to satisfy program requirements;
- (iv) independent expertise is required by legislation or regulation;
- (vi) Council has directed the use of external assistance; and/or
- (vii) priority capital projects require greater City resources than are available.

When professional and consulting services are utilized, the City must assign appropriate resources internally to conduct the interviewing and selection process and to manage the resulting contract(s). These and other standards and conditions are contained in the Policy on the Selection and Hiring of Professional and Consulting Services including:

- (i) fairness in supplier treatment;
- (ii) using the correct method of contracting (Request for Quotation, or Request for Proposal);

- (iii) developing defensible evaluation criteria; and
- (iv) approvals and delegated authorities.

(d) Recommended Reduction Target Goal:

Adoption by Council of the recommended definitions and standards for the use of consultants, as well as the conclusion of one-time Y2K and amalgamation/restructuring projects, will result in more accurate reporting of consulting expenditure levels. Additional steps are being recommended in this report, however, to direct departments and the major City agencies, boards and commissions to contribute to a City-wide reduction in consulting expenditures. In order to achieve such a reduction, it is important to recognize that some strategies are more likely to succeed than others.

The imposition of a mandatory, across-the-board percentage cut specific to consulting and applied equally to each department and major A, B, C is not being recommended. Adoption of such a strategy at the present stage of City development is likely to be counter-productive. This is because it will not adequately distinguish among consulting project categories and the relative priorities of each. Nor does it recognize that departments are already determining how to pare their budgets and consulting projects may have already been reduced. Furthermore, it is a fact that not all operations have equal flexibility in reducing their reliance on consultants.

Nonetheless, it is essential that the City reduce its expenditure on consultants. It has been shown that consulting assignments in the Technical/Professional Services category are commonly used to support mandated City responsibilities, including those large, multi-year, capital projects that have already received Council approval. Accordingly, it is this project category that will have the least room in which to absorb reductions. A similar situation may be in place for the System Development category of consultants. It is therefore not appropriate to target categories of consultants.

In order to contribute to a reduction across the City in consulting expenditures, while allowing for unanticipated in-year priorities requiring the use of external expertise, it is recommended that departments and the major A, B, C's of the City, be directed to aim for a five percent reduction goal in their total consulting expenditures against expenditures in 2000, inclusive of any consulting cuts already identified for the 2001 annual budget cycle underway.

(e) Annual Budget Approvals:

Explanations about project categories and expenditures are contained in part (d) above. It is evident that the manner in which any such information is presented to Council in the annual budget approval process must be carefully considered. It merits repeating that consulting information should not be subject to arbitrary percentage cuts that do not take into account how the consulting budget supports directly mandated responsibilities of the operation. It must also be re-stated that consulting expenditures represent less than two percent of the City's budget. With these provisos in mind, the motions made by the Administration Committee can be addressed.

At its meeting of February 20, 2001 the Administration Committee adopted two motions related to this report on consulting expenditures and reduction strategies as follow:

That the CAO submit to the Budget Advisory Committee a list of all fees paid to consultants, broken down by department, such report to identify if cuts are recommended, where those cuts will be compensated; and

That the CFO and Treasurer, as part of the 2001 budget process, be requested to report as a separate line item, amounts that are paid for professional services, technical services and contracted costs.

The Budget Division of Finance has prepared some information, as requested, on 2001 budget requests by departments for contracted work, consulting services, and fees paid. This information, however, is not currently in a form that can be matched with the definition of consultants, project categories, or non-consulting activities recommended in parts (a) and (b) of this report. While the information now available in the Budget Division is useful for showing overall trends in the areas identified by the Administration Committee, it requires information in a different form for detailed budgetary decisions. This can be achieved for 2002 budget request information.

It is, therefore, recommended that effective 2002, line items for “consulting” in capital or operating budgets not include contracted-out/out-sourced activities, or fees and other similar payments as presented in this report and in the Policy on the Selection and Hiring of Professional and Consulting Services.

(f) In-Year Reporting Mechanisms:

Additional rigour can be obtained by monitoring consulting expenditures at pre-set intervals during the year. Each year, PMMD asks departments and the major A, B, C's to report their previous year's consulting expenditures. This request often coincides with the current year budget process and adds to the workload of administration and budget staff. In-year reporting will address this exercise in a staged manner and will add to the accuracy of tracking and recording consultant expenditure.

In-year reporting will assist departments and A, B, C's to compare their consulting expenditure during 2001 against that in 2000. It will also assist the CAO and Council to ascertain whether the non-mandatory goal approach has been successful in reducing expenditure.

It is, therefore, recommended that in-year reporting on consulting expenditure in all six project categories be submitted by departments and the major City A, B, C's on a semi-annual basis to the Audit Division to merge the information for a City-wide overview of expenditure against the reduction goal, report the results to the Policy and Finance Committee, and forward the detailed information to PMMD for analysis.

Conclusion:

A new Policy on the Selection and Hiring of Professional and Consulting Services specifies definitions of consultants, project categories, and standards for when to use consultants. It is evident that many external services used by the City to directly meet and deliver its mandated service and regulatory responsibilities, are more appropriately considered alternative service delivery methods than consulting assignments.

This report offers a combination of strategies that taken together should meet Council's expectation to reduce consulting expenditure.

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The Administration Committee also submits the following report (June 19, 2001) from the Chief Administrative Officer, entitled "Summary of Year 2000 Actual Expenditures on Consultants vis-a-vis the Impacts of a 20 percent Reduction and Policies and Standards for the Use of Consultants":

Purpose:

To provide summary information on the 2000 actual expenditure on consultants; to address the significant negative impact of a 20 percent reduction in consulting for 2001 on delivery of City services and legislated responsibilities; and, to recommend a realistic reduction and the implementation of new purchasing and financial policies and standards for the use of consultants.

Financial Implications and Impact Statement:

A focus on potential cost-savings has triggered a series of directives respecting consulting expenditure. A review of consulting data for the year 2000 indicates that actual gross expenditure was 31 percent less than the \$100 to \$105 million commonly cited, and was nearly 23 percent less than that experienced in 1999 (not including Y2K Project consulting). The imposition of a further 20 percent reduction in consulting activities would result in significant, cumulative cost implications, the loss of Capital Works Program projects, work backlogs, and potential liability. In this context, a more reasonable reduction goal in consulting expenditure is required for 2001.

Recommendations:

It is recommended that:

- (1) City-wide consulting expenditure for the year 2001 be established five percent below the 2000 gross level, resulting in a 28 percent reduction from 1999;

- (2) the Finance Department report to the Administration Committee on 2001 consulting costs in the Operating Budgets of departments and major agencies, boards and commissions, upon completion of the transfer of recorded costs to new cost element categories recommended by the Chief Administrative Officer;
- (3) the report from the Chief Administrative Officer, The Use of Consultants and Expenditure Reduction Strategies, deferred at the March 27, 2001 meeting of Administration Committee, be adopted to achieve expenditure reductions, and to improve budgetary identification, monitoring and reporting of consulting expenditure across the City;
- (4) the report from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, Policy for the Selection and Hiring of Professional and Consulting Services, deferred at the March 27, 2001 meeting of Administration Committee, be adopted to improve evaluation processes and procedures to hire consultants, and to document all consultant use including sole-source procurement;
- (5) the Chief Financial Officer and Treasurer and the City Auditor, in consultation with the CAO, develop an appropriate review and approval process to justify the use of consultants, as well as to document consulting project results including matters respecting value for money; and
- (6) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

At the March 27, 2001 meeting of the Administration Committee, the CAO reported on a strategy to reduce the use of consultants. The strategy consisted of a Policy report to ensure rigour in selection, evaluation and hiring procedures, as well as a separate report recommending improved definitions of consulting to aid reporting, the creation of new budget line/cost-elements for consulting activities, new in-year reporting during 2001 on expenditure, and a City-wide five percent reduction goal over the consulting expenditure of 2000.

The Administration Committee deferred consideration of those reports to its June 5, 2001 meeting and, subsequently to its July 3, 2001 meeting in order to consider them with reports from the:

- (i) Auditor on the use of consultants;
- (ii) CAO on the implications of a 20 percent reduction in consultant use; and
- (iii) City Solicitor on outstanding legal concerns, if any.

Subsequently, arising from the April meeting of Council and the May meeting of Administration Committee, the CAO's report on a temporary moratorium on hiring management consultants was adopted, and the CAO was also directed to report to Administration Committee on:

- (i) Year 2000 actual consulting expenditure levels and an appropriate reduction for 2001;
- (ii) A list for departments and A, B, C's, of the 2001 Operating Budget consulting amounts; and
- (iii) A committee review and approval process for consulting assignments to include ensuring value for money spent and implementing study results after they are reported to committee.

Comments:

In order to report on the impact of a 20 percent reduction to the City consulting budget, a review of actual expenditures for 2000 is required. This enables a comparison with 1999 expenditure levels and the establishment of a realistic reduction for the year 2001.

Also related to these matters, as summarized later in this report, the CAO has previously recommended on the need to differentiate consulting from other contracted activities; implement strategies for 2001 and beyond that will reduce expenditure; and establish a short-term moratorium on the hiring of management consultants for new projects.

(a) Preliminary Analysis of Year 2000 Actual Expenditures:

Each year, in consultation with the CAO, the Purchasing and Materials Management Division of the Finance Department, asks departments and major A, B, C's to submit their previous year's expenditures on consulting activities. The detailed analysis of year 2000 expenditure is being submitted to the July 3, 2001 meeting of the Administration Committee, and is summarized below and in Table 1:

- (i) only one percent of the City's 2000 budget was comprised of gross consulting expenditure;
- (ii) nearly 79 percent of assignments have a value of \$50,000 or less;
- (iii) less than ½ a percent of assignments are valued at \$1 million or more; and
- (iv) nearly ¾ of assignments are for consulting services of a Professional/Technical nature.

Table 1: Summary of Consulting Expenditures, Year 2000

Project Purpose	Departments Gross \$	Major A,B,C's Gross \$	Non-Program	Total, Dept's and ABC's
Capital Consulting	\$ 37,570,471	\$ 2,318,809	\$ 214,826	Capital Total Gross \$ 40,104,108
Operating Consulting	\$ 17,909,833	\$ 11,102,570	\$ 368,782	Operating Total Gross \$ 29,381,185
Sub-Totals	\$ 55,480,304	\$ 13,421,379	\$ 583,608	City Grand Total Gross \$ 69,485,291

Notes:

- (1) A, B, C's include: Public Health, Housing Company, Public Library, Police Services, Zoo, Exhibition Place, TTC, and the Hummingbird Centre.
- (2) The City will be reimbursed nearly \$8 million, resulting in Net expenditure of about \$61 million.

(b) Impact of a 20 Percent Reduction:

In order to assess the impact of a 20 percent (and a 10 percent) reduction in consulting expenditures, departments were asked for input and examples. The following factors were taken into account:

- (i) contractual considerations arising from the work of consultants now underway/commenced;
- (ii) priority and cost impact considerations arising for projects already planned for 2001;
- (iii) higher future costs due to missed cost-savings and/or having to return related revenue;
- (iv) continuity, workload, and disruption associated with curtailing phases of approved projects;
- (v) liability considerations likely if stopping/deferring activity that is legislatively required; and
- (vi) requests for additional staff to meet City responsibilities.

Examples of reduction impacts include a number of Capital Works Program initiatives in the Works and Emergency Services Department. This would involve both 2001 and 2002 projects given that the selection of consultants is already underway for some high-value, large-scale projects scheduled to begin next year. Delays in these types of (primarily) engineering design consulting assignments, would reduce the time available for public consultation, increase the likelihood of error occurring, and increase capital costs as a result of accelerated construction at a later point in time. With a reduction of 20 percent, an estimated \$96 million in capital projects would be deferred or lost in 2001 and cumulative impacts would increase in each of the subsequent years.

Reductions of either 10 or 20 percent for other consulting fees in the capital budget would result in the deferral of library facility renovation and expansion in an area experiencing extensive population growth. Similarly, a 10 percent reduction would result in not maximizing City investment to-date in some infrastructure development projects, while a 20 percent reduction in these cases, would actually eliminate the incorporation of some Divisional and Departmental source systems thereby putting preparation for provincially mandated data transfers in jeopardy.

Such negative impacts are applicable to Professional/Technical projects in particular, but also apply to other types of consulting. These include, for example, the loss of services for non-English speaking patrons, or reduced support for operational activities such as reviews of complex contracts with potential City liability. The consulting projects of the City are primarily for priority services and activities critical to the day-to-day operations and workplans of departments. Many also have anticipated productivity or revenue enhancement results that would be seriously impaired if the consulting budget was reduced, as follows:

- (i) aspects of the Master Accommodation Plan to re-locate staff of the City;
- (ii) an Energy Efficiency Project and the potential loss of a 50 percent grant;
- (iii) tax collection Study involving joint collaboration between two departments;
- (iv) harmonization of a Council directed Billboard Sign By-law;
- (v) aspects of the Official Plan development and implementation;
- (vi) anticipated response to the Building Regulatory Reform Advisory Group regulations;
- (vii) time-critical Waterfront studies approved by Council; and
- (viii) accounts Payable Re-design project.

(c) Non-Consulting Services:

Not all external services engaged by the City fall within the definition of consulting services as defined in the March reports (Use of Consultants and Expenditure Reduction Strategies, and Policy on the Selection and Hiring of Professional and Consulting Services). Certain external services are used by the City to deliver its services and regulatory responsibilities and are more appropriately considered alternative service delivery methods. Activities of this nature that do not constitute consulting services include:

- (i) contracted-out/out-sourced services;
- (ii) purchase of service contracts;
- (iii) managed services such as facilities;
- (iv) fees paid by the City for services it requires such as sheriffs fees;
- (v) fees for service including service provided under an employee-employer relationship; and
- (vi) tendered work.

(d) Strategies Recommended to Reduce Expenditure:

In March, the CAO submitted a report to Administration Committee (deferred until this time), on a strategy to achieve meaningful results in 2001 and beyond to reduce the use of consultants.

First, it was recommended that consulting projects should be differentiated from other types of activities. Second, it was recommended that the Policy, developed by Audit, Purchasing and CAO staff be adopted to formalize the improved definitions, lead to consistent understanding across the City, and introduce standards and conditions for selecting and hiring consultants.

Third, it was recommended that effective 2002, a separate budget line for consulting services be introduced and kept separate from budget lines for other categories such as “contracted-out”, “out-sourced” services, or “fees and other payments”. Fourth, it was recommended that in-year reporting measures on consulting expenditure be introduced.

Fifth, it was recommended that an overall City-wide reduction in consulting expenditure of five percent be established for 2001 over that of 2000. At its April meeting, Council adopted a separate report from the CAO recommending the imposition of a temporary moratorium on the hiring of Management Consultants.

Conclusion and Recommendations to Reduce the Use of Consultants:

The degree of cost-savings available from City consulting is subject to the following:

- (i) references to 2000 consulting costs of \$100 million overstated actual gross costs by 31 percent;
- (ii) 2000 total actual gross consulting expenditure was 23 percent less (\$20 million) than in 1999;
- (iii) 1999 total actual gross consulting expenditure, excluding Y2K, was \$ 89.3 million;
- (iv) 2000 total actual consulting is about \$69 million gross, and \$61.5 million net;
- (v) the recommended 2001 consulting budget, is based on \$69 million gross, less five percent; and
- (vi) for the period 1999 to 2001, the City will have realized a 28 percent reduction in consulting costs.

The imposition of a 20 percent, or even a 10 percent, reduction in consulting budgets will have a significant negative impact on the City meeting its mandated and regulatory service responsibilities. A large reduction close to 25 percent has already been realized since 1999. Any further reduction for the year 2001, should be a City-wide target rather than a percentage cut applied equally to each department and major A, B, C in recognition that not all areas of the City have equal flexibility.

It is, therefore, recommended that City-wide consulting expenditure for the year 2001 be established five percent below the 2000 level, resulting in a 28 percent reduction from 1999.

In order to provide 2001 consulting budget information, it is recommended that the Finance Department report to the Administration Committee on consulting costs in the Operating Budgets of departments and major agencies, boards and commissions, upon completion of the transfer of recorded costs to new cost element categories.

It is also recommended that the report from the Chief Administrative Officer, The Use of Consultants and Expenditure Reduction Strategies, deferred at the March 27, 2001 meeting of Administration Committee, be adopted to achieve expenditure reductions, and to improve budgetary identification, monitoring and reporting of consulting expenditure across the City.

It is further recommended that the report from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, Policy for the Selection and Hiring of Professional and Consulting Services, deferred at the March 27, 2001 meeting of Administration Committee, be adopted in order to improve evaluation processes and procedures to hire consultants, and to document all consultant use including sole-source procurement.

Finally, it is recommended that the Chief Financial Officer and Treasurer (Purchasing and Materials Management) and the City Auditor (internal control) in consultation with the CAO, develop an appropriate review and approval process to justify the use of consultants, as well as to document consulting project results including matters respecting value for money.

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The Administration Committee also submits the following report (June 27, 2001) from the Chief Administrative Officer, entitled “Consulting Expenditures and Single/Sole Source Purchases for the Year 2000”:

Purpose:

The purpose of the report is to summarize the consulting expenditures by Departments, and major Agencies, Boards and Commissions of the City in 2000. Data is presented in a variety of ways including consulting expenditure as a percentage of total City budgets, consulting expenditure by Project Category, and consulting activity by value ranges of the projects. Comparisons to 1999 data are made as appropriate including that 2000 expenditure was \$20 million less than that in 1999 exclusive of the additional consulting monies for Y2K initiatives. The report on consulting expenditures is prepared annually and includes for the first time as directed by Council in July 2000, information on single/sole source purchases for all purposes, including consulting.

Financial Impact:

There are no new funding requests associated with the adoption of this report.

Recommendation:

It is recommended that this report be received for information.

Council Reference:

The Budget Committee at its meeting on January 13, 1999, requested that the Chief Administrative Office, report back to the Budget Committee at its meeting of June 22, 1999 on the hiring of outside consultants City wide, including Agencies, Boards and Commissions. On July 6, 1999, Council adopted the report criteria for the reporting of future years' consulting expenditures.

Council further directed, at its meeting of July 4, 5 and 6, 2000 [Audit Committee Report No. 3 item (j)], that a report be provided with respect to single/sole source purchases of goods and services of all kinds. This matter constitutes part of this report on consulting, and covers the year 2000 to the extent the information was available.

Comments and Discussion:

(a) Consulting Projects Definitions and Data Gathered:

All City Departments and major Agencies, Boards and Commissions (A, B, C's) of the City were contacted and asked to provide information on their 2000 Consulting expenditures. The following definition of "Consultant" was provided to Departments and A, B, C's:

Consultant: any firm or individual providing time-limited expertise, advice, or professional services not readily available from City staff. Consultants are engaged for a specific period of time for a defined purpose because the skills are not present in-house, it is not economical for the City to hire staff for that purpose, or the work cannot be accommodated internally in a timely fashion.

City Departments and major A, B, C's were asked to provide data on consulting expenditure as follows:

- (i) major Project Category (see list below);
- (ii) fate of contract;
- (iii) name of consultant;
- (iv) description of work;
- (v) dollar value of contract (including all taxes);
- (vi) amount of reimbursement to the City; and
- (vii) net cost to the City (including all taxes).

For the purpose of this report the following information was also provided to clarify the data to be submitted. Specifically, not all types of contracted services should be considered consulting contracts. Activities that contract with external parties for direct service delivery and to support the City's ongoing service responsibilities, are more appropriately considered alternative service delivery methods and should not be reported as consulting assignments/projects. These activities include:

- (i) contracted-out/out-sourced services;
- (ii) purchase of service contracts;
- (iii) managed service – such as golf course, concessions, certain facilities;
- (iv) fees paid by the City for services it requires such as Sheriffs' fees, or special examiners' fees;
- (v) monies paid for service provided under an employee-employer relationship; and
- (vi) tendered work.

The following Project Category information was also provided to Departments and major A, B, C's.

Technical and Professional Consultants undertake activities for a defined assignment to assist managers in delivering services requiring the application of mandatory or essential technical skills by accredited professional or quasi-professionals (can be architectural or engineering design, accounting, actuarial, medical, appraisal, scientific, urban planning, banking/financial, surveying or landscaping/interior design in nature).

Management Consultants undertake planning, organizing and directing activities to assist managers in analyzing management problems and in recommending solutions for a defined assignment (can be operational, administrative, organizational or policy in nature).

System Development Consultants undertake activities on a defined assignment to assist managers in developing and maintaining systems including information processing, telecommunications and office automation (can be analytical, project management, programming, testing or of an implementation nature).

Research and Development Consultants provide the City with increased knowledge or information.

Legal Consultants provide an area/degree of expertise not available in-house or required because of workload and timing, and City legal staff are to be consulted.

Creative Communications Consultants provide advertising, promotion, public relations and graphic design services.

This report also includes the incidence of consulting expenditures within the Non-Program Expenditures area of the Capital and Operating budgets for Council-approved corporate activities. This budget area includes Corporate Contingencies and Other Corporate Expenditures, such as corporate studies, in addition to expenditures associated with temporary borrowing.

(b) Single/Sole Source Purchase Definition and Data Gathered:

In addition, City Departments and major Agencies, Boards and Commissions provided information on their single/sole source purchases, as directed by Council in adopting the CAO report on consulting (for 1999) dated September 6, 2000. The following definition was used for "Single/Sole Source" purchases for all purposes, not just for consulting assignments:

Single/Sole Source: whereby the Corporation makes a purchase that does not follow the competitive process, for legitimate and defined reasons, and one supplier is awarded the project/contract.

Overview Analysis of City Consulting Expenditures in 2000:

(a) Consulting Expenditures for Capital versus Operating Purposes:

As anticipated, consulting expenditures for capital purposes in departments accounted for a very high proportion 67.7 percent of their total gross consulting expenditures. This finding was in contrast to that found across the major City Agencies, Boards and Commissions. Across all the major Agencies, Boards and Commissions, consulting expenditures for capital purposes accounted for 17.3 percent of their total gross consulting expenditures, while 82.7 percent of their consulting expenditures was for operating purposes.

(b) Gross versus Net Consulting Expenditures:

Departments, Agencies, Boards and Commissions complied with the request to report their consulting expenditures on both a gross and net basis. Specifically, in 2000 the City received reimbursement of \$7,935,482.00, about 11 percent of gross expenditure, across more than 1400 consulting projects. In 1999 the City received \$3,667,191.00 in reimbursements. This shows an increase in reimbursements from 1999 (at less than two percent reimbursement).

Consulting Expenditures as a Percentage of Total City Budget:

The total 2000 Capital and Operating Budget of the City of Toronto was \$6.9 billion. Of this, the Operating Budget was \$5.9 billion (excluding non-levy operations before adjusting for interdepartmental charges) and the Capital Budget was \$1.0 billion. The total 2000 gross consulting expenditures (\$69,485,290.89 for both capital and operating projects) of the City represents only 1.01 percent of the total City Budget. It is also a reduction of almost exactly \$20 million in consulting expenditure over that of 1999, not including the expenditure in that year attributable to the one-time Y2K Project.

Total Number and Value of 2000 Consulting Contracts Vis-à-vis 1999:

In 1999, Departments and the major Agencies, Boards and Commissions reported a total of 1200 consulting contracts. During 2000, the total number of contracts was 1465, including 8 corporate studies in the Non-Program Expenditure budget. Departmental contracts represented 74.47 percent of all consulting contracts, non-program expenditure consulting contracts represented only 0.55 percent of the total, and contracts at the major City Agencies, Boards and Commissions represented 24.98 percent of all consulting contracts. These findings are fairly consistent to 1999 when Departments issued 77 percent of consulting contracts, and the major A, B, C's issued 23 percent.

Appendix 1 shows the incidence and gross value of consulting expenditures by City Departments and major A, B, C's, as well as Non-Program Expenditures for corporate purposes.

(a) Departmental Gross Consulting Expenditures:

Focusing on Departments only, the figures from 1999 to 2000 for total gross consulting expenditures (i.e., all Departments and, all capital and operating purposes) shows a significant change in 2000 consulting expenditure over 1999. Specifically, total gross consulting expenditure in 2000 by Departments was reported at \$55,480,304.36, compared to Departments' reported \$77,753,328.82 in 1999.

(b) Gross Consulting Expenditures by Agencies, Board and Commissions:

Analysis of the total gross consulting expenditures by the City's major Agencies, Boards and Commissions, shows a difference of over \$2.5M between 1999 and 2000 (\$10,861,746.15 and \$13,421,378.24 respectively). As noted in the 1999 report, the Toronto and Region Conservation Authority has been removed (a provincial agency), and Toronto Public Health, Toronto Housing Company and the Toronto Public Library are properly reported as A, B, C's.

Number of Firms and Relative Value of Contracts:

A total of 1465 consulting contracts were issued across the City (departments and major agencies, boards and commissions) in 2000. In summary, departments had 1091 consulting assignments, agencies, boards and commissions had 366 assignments, and the non-program area had eight.

A basic "head-count" from the data indicates that departments used about 521 firms, 310 were used by agencies, boards and commissions and eight were used for non-program corporate studies. It appears that a total of 839 consulting firms/individuals did work for the City because Departments and A, B, C's used some of the same firms.

Detailed Analysis:

Appendix 2 shows the number of consulting contracts/assignments by their relative value and the number of firms used to undertake those assignments. Across the City, the majority of consulting firms, 631 or 75.21 percent, performed consulting assignments valued at \$50,000.00

or less. It can also be seen that there is a lower incidence of consultant firms used for assignment (839) than there were consulting assignments/contracts (1465). The difference indicates that 626 assignments (570 across departments, and 56 across agencies, boards and commissions) at all project value levels, were performed by consultants that also did other City work. Analysis of this finding may be relevant given concerns that are periodically raised about whether there is an over-reliance on certain consultants.

Using a manual count of the raw data, this time for Departments only, it was found that about 71 firms obtained consulting contracts for more than 3 assignments. Of these, the average value of the consulting contract was moderate, at \$51,863.02. Analysis also showed that the nature of the work undertaken by all firms receiving multiple contracts was almost entirely for technical and professional consulting purposes.

While these findings do not seem to indicate the need for concern respecting fair opportunity for firms interested in City consulting contracts, there are still initiatives underway to ensure on-going rigour in purchasing and consulting practices. These include the policy on Selection and Hiring of Professional and Consulting Services and the report on the Use of Consultants and Expenditure Reduction Strategies, as well as Lobby Disclosure requirements for certain City-issued competitive calls. In addition, as directed by Council at its meeting of July 4, 5 and 6, 2000 (Audit Committee Report No. 3), methods to enhance checks and balances on variations from purchasing policies and to report on all single/sole source purchases for goods and/or services are included in this report.

Assignment Values as a Percentage of Overall Consulting Expenditure:

As shown in Appendix 3, there were 1465 consulting assignments across the City (departments, non-program areas, and major agencies, boards and commissions) in 2000. Of these, 1091 were in departments, eight were in non-program expenditures and 366 were in agencies, boards and commissions.

Summarizing the more detailed analysis below, the majority of the 2000 City consulting assignments, 1152 or 78.63 percent, had an individual value of up to \$50,000.00. In contrast, five assignments exceeding \$1 million represented only 0.34 percent of the total number of consulting assignments, but accounted for 12.00 percent of the total gross consulting expenditures incurred across the City in 2000.

Detailed Analysis:

Of all City consulting assignments, a large majority, 1152 or 78.63 percent, had an individual value of up to \$50,000.00. Together they totaled \$11,607,774.17 representing 16.71 percent of the total gross consulting expenditure of the City. The Departmental portion, \$8,166,787.30, represented 11.75 percent of the total gross consulting expenditure of the City.

Of all City consulting assignments, 268 or 18.29 percent, had a value of \$50,000.01 up to \$250,000.00. Together they totaled \$30,628,897.39, representing about 44.08 percent of the total gross consulting expenditure for the City. The Departmental portion, \$21,790,795.40, represented 31.36 percent of the total gross consulting expenditure of the City.

Of all City consulting assignments, 26 or 1.77 percent, had a value of \$250,000.01 up to \$500,000.00. Together they totaled \$9,203,680.67 representing 13.25 percent of the total gross consulting expenditure of the City. The Departmental portion, \$8,352,783.00, represented 12.02 percent of the total gross consulting expenditure of the City.

Of all City consulting assignments, 14 or 0.96 percent, had a value of \$500,000.01 up to \$1 million. Together they totaled \$9,706,060.96 representing 13.97 percent of the total gross consulting expenditure of the City. The Departmental portion, \$8,831,060.96, represented 12.71 percent of the total gross consulting expenditure of the City.

Of all City consulting assignments, five or 0.34 percent, had a value of \$1 million up to \$2.5 million. Together they totaled \$8,338,877.70 representing 12.00 percent of the total gross consulting expenditure of the City, and were all projects of City departments.

Across the City, no consulting assignments had a value of over \$2.5 million.

Consulting Expenditures by Consulting Project Category:

Departments and major Agencies, Boards and Commissions were asked to identify consulting contracts according to the following “Project Categories”:

- (i) technical and Professional Consultants;
- (ii) management Consultants;
- (iii) system Development Consultants;
- (iv) research and Development Consultants;
- (v) legal Consultants; and
- (vi) creative Communications Consultants.

Appendix 4 shows the number of consulting assignments and expenditures by each area of the City, according to the six (6) Project Categories listed above.

In summary, across the City it was found that the majority of consulting assignments, 1091 or 74.47 percent, were in the Technical and Professional Consultants project category. The total value of Technical and Professional Consultants projects represented 68.06 percent of total City gross consulting expenditures, consistent with that found in previous years. In turn the majority (890) of Technical and Professional Consultants projects had a value of \$50,000.00 or less. This majority shows that 60.75 percent of all 1465 City consulting assignments (all Project Categories) represented only 11.5 percent of the total gross City consulting expenditures.

Together, all other Project Categories of consulting assignments combined made up just over one-quarter of the total consulting assignments and represented less than a third (31.94 percent), of the total City gross consulting expenditures. There were 130 consulting contracts in the

System Development Consultants category, or 8.87 percent of all City consulting contracts, and 67 in the Research and Development Consultants category, or 4.57 percent of all City consulting contracts. In the Management Consultants category there were 67 consulting contracts representing 4.57 percent of all City consulting contracts. In the Legal Consultants category there were 63 consulting contracts representing 4.30 percent of all City contracts, and in the Creative Communications Consultants category there were 47 consulting contracts representing 3.21 percent of all City consulting assignments.

Breakdown of 2000 Consulting Expenditures by Department, Agency, Board and Commission:

Using gross budgetary and consulting expenditure figures, data was analyzed to provide an overview of the amount spent on consultants by each department and major agency, board and commission. In addition, the percentage of each area's budget represented by such expenditures was also calculated. The detailed findings are provided in Appendix 5 to this report.

(a) Departmental Analysis:

An overview of the number of contracts for both capital and operating purposes, the value of the contracts, and the percentage the contracts represented of each Department's budget follows:

The Chief Administrator's Office issued a total of three assignments that had a total value of \$56,337.00 and represented 1.00 percent its total gross budget.

The City Auditor's area issued four consulting contracts totaling \$42,764.00 representing 1.63 percent of its gross budget.

The Corporate Services Department issued 393 consulting contracts totaling \$17,628,700.00 representing 5.46 percent of its gross budget for capital and operating purposes.

The Community and Neighbourhood Services Department issued 46 consulting contracts totaling \$2,973,907.00, representing 0.16 percent of its total gross budget for capital and operating purposes. Note that the Toronto Housing Company, Toronto Public Library and Toronto Public Health are being reported this year in the A, B, C data.

The Economic Development, Culture and Tourism Department issued 202 consulting contracts totaling \$2,944,204.00 and representing 1.00 percent of its total gross budget for capital and operating purposes.

The Urban Development Services Department issued 48 consulting contracts totaling \$1,530,684.00 and representing 1.97 percent of its total gross budget for capital and operating purposes.

The Finance Department issued four consulting contracts totaling \$397,239.00 and representing 0.58 percent of its total gross budget for capital and operating purposes.

The Works and Emergency Services Department issued 391 consulting contracts totaling \$29,906,469.00 and representing 1.81 percent of its total gross budget for capital and operating purposes.

(b) Non-Program Expenditure Analysis:

Non-Program expenditures covered eight consulting contracts for corporate studies totaling \$583,608.00 and represented 0.19 percent of the total funds in this budget area. About nine percent of the costs were reimbursed by other organizations, whose consulting projects were being managed by the City on their behalf.

(c) Major Agency, Board and Commission Analysis:

The decision to contract with consultants is an operational matter. In the case of most major A, B, C's, Council has delegated to the Boards of Directors of these organizations, the authority to determine and approve such matters. Council may, however, establish policy and certain administrative practices for most of these bodies, excepting those governed under separate statute.

In 2000 the following presents an overview of consulting expenditures in major City A, B, C's.

The Board of Governors at Exhibition Place, issued 64 consulting contracts totaling \$727,586.00 and representing 1.65 percent of its total gross budget for capital and operating purposes.

The Hummingbird Centre, issued 22 consulting contracts totaling \$187,452.00 and representing 1.37 percent of its total gross budget for capital and operating purposes.

The Toronto Police Services, issued 36 consulting contracts totaling \$2,194,382.00 and representing 0.37 percent of its total gross budget for capital and operating purposes.

The Toronto Transit Commission, issued 33 consulting contracts totaling \$4,066,305.00 and representing 0.33 percent of its total gross budget for capital and operating purposes.

The Toronto Zoo, issued 12 consulting contracts totaling \$177,034.00 and representing 0.55 percent of its total gross budget for capital and operating purposes.

The Toronto Housing Company issued 40 consulting contracts totaling \$3,133,565.00 and representing 1.21 percent of its total gross budget for capital and operating purposes.

The Toronto Public Library issued 41 consulting contracts totaling \$953,352.00 and representing 0.78 percent of its total gross budget for capital and operating purposes.

The Toronto Public Health issued 118 consulting contracts totaling \$1,981,703.00 and representing 1.58 percent of its total gross budget for capital and operating purposes.

Overview of Single/Sole Sourcing:

Departments and major Agencies, Boards and Commissions were asked to identify single/sole sourcing of goods and services for all purchase contracts, including but not limited to consulting, for the last half of 2000 (the directive was not approved by Council until mid-2000). As a result, not all departments were able to gather the data for the whole year. Additionally, some departments appear to have more reliable data than others do and the information may not reflect the true extent of single/sole source purchases by the City. Now that Departments know that they must provide full year data and capture this information on a continuous basis, the 2001 data is expected to be more accurate. The following are the categories used:

- (i) Sole Source – Emergency;
- (ii) Sole Source – Proprietary/Trademark/Patent;
- (iii) Sole Source – Utilities;
- (iv) Sole Source – Match Existing Equipment;
- (v) Sole Source – Health and Safety Issues;
- (vi) Sole Source – Time Constraints; and
- (vii) Sole Source – Others.

Appendix 6 shows the number of single/sole source purchases made by each area of the City according to the seven (7) categories listed above.

In summary it was found that there was a total of 448 single/sole source (SSS) purchases identified for this report totaling \$16,547,690.94. The majority of these purchases, 134 or 29.91 percent, were for Proprietary/Trademark/Patent reasons totaling \$5,826,527.16 and representing 35.21 percent of the total SSS dollar value. Another 126 or 28.13 percent, were reported as being for Other reasons totaling \$3,722,273.29 and representing 22.49 percent of the total dollar value, while 87 or 19.42 percent, were reported as due to Time Constraints totaling \$3,182,163.43 and representing 19.23 percent of the total SSS dollar value.

For Emergency purposes, 23 or 5.13 percent of all single/sole source purchases were reported totaling \$995,108.72 and representing 6.01 percent of the total SSS dollar value. Utilities purchases accounted for 12 or 2.68 percent totaled \$848,313.77 and represented 5.13 percent of the total SSS dollar value. Match Existing Equipment reasons accounted for 48 or 10.71 percent of the total single/sole source purchases, totaled \$1,623,377.56 and represented 9.81 percent of the total SSS dollar value, while 18 or 4.02 percent were reported as Health and Safety Issues totaling \$349,927.01 and representing 2.11 percent of the total dollar value.

Breakdown of Single/Sole Source Purchases by Department, Agency, Board and Commission:

The data provided was analyzed to provide an overview of the amount of Single/Sole Source purchases done by each department and major agency, board and commission for the period July to December 2000. In future reports, data for SSS will be further refined so as to identify the extent to which the purchase of consulting assistance specifically has been single/sole sourced. For this report, the data analysis only indicates the extent to which Departments and those A, B, C's reporting data, appear to have used SSS for all purposes (including consulting) relative to all SSS reported.

(a) Departmental Analysis:

An overview of the number of single/sole source purchases of each department indicates the trend of SSS use as follows:

The Chief Administrator's Office reported 3 or 0.67 percent single/sole source purchases having a total value of \$57,355.00 and representing 0.35 percent of the total dollar value of SSS purchases reported across the City.

The City Auditor's area reported 1 or 0.22 percent single/sole source purchases having a total value of \$15,000.00 and representing 0.09 percent of the total dollar value of SSS purchases reported.

The Community and Neighbourhood Services Department reported 52 or 11.61 percent single/sole source purchases having a total value of \$2,935,950.70 and representing 17.74 percent of the total dollar value of SSS purchases.

The Economic Development, Culture and Tourism Department reported 19 or 4.24 percent single/sole source purchases having a total value of \$830,996.85 and representing 5.02 percent of the total dollar value of SSS purchases.

The Urban Development Services Department reported 107 or 23.88 percent single/sole source purchases having a total value of \$879,713.19 and representing 5.32 percent of the total dollar value of SSS purchases.

The Finance Department reported 16 or 3.57 percent single/sole source purchases having a total value of \$2,054,795.92 and representing 12.42 percent of the total dollar value of SSS purchases.

The Works and Emergency Services Department reported 84 or 18.75 percent single/sole source purchases having a total value of \$3,897,755.39 and representing 23.55 percent of the total dollar value of SSS purchases.

(b) Major Agency, Board and Commission Analysis:

The Board of Governors at Exhibition Place reported 70 or 15.63 percent single/sole source purchases having a total value of \$191,557.29 and representing 1.16 percent of the total dollar value of SSS purchases reported across the City.

Toronto Police Services reported 56 or 12.50 percent single/sole source purchases having a total value of \$2,698,401.84 and representing 16.31 percent of the total dollar value of SSS purchases reported.

The Toronto Transit Commission reported 10 or 2.23 percent single/sole source purchases having a total value of \$1,328,794.00 and representing 8.03 percent of SSS purchases reported.

The other major agencies, boards and commissions did not report any information for single/sole source purchases.

Conclusions:

This report presents information on the 2000 expenditures on consulting, as defined, by City departments, agencies, boards and commissions. The expenditures of the City attributable to consulting services in 2000 represents 1.01 percent of the total gross City budget and a \$20 million reduction in expenditure on consulting over 1999 expenditure levels not including the Y2K Project expenditure.

There were 1465 consulting agreements/contracts across the City (departments, non-program areas and major agencies, boards and commissions) in 2000 totaling \$69,485,290.89. Of these contracts, 1091 (74.47 percent), were in departments, eight (0.55 percent) were in non-program expenditures and 366 (24.98 percent) were in agencies, boards and commissions. The majority of the 2000 City consulting contracts, 1152 or 78.63 percent of all City contracts had relatively low individual value up to \$50,000.00. In contrast, 5 contracts exceeded \$1 million representing only 0.34 percent of the total number of assignments, but accounted for 12.00 percent of the total gross consulting expenditures incurred across the City in 2000.

The majority of consulting firms, 75.21 percent, performed consulting assignments valued at \$50,000.00 or less, while roughly 71 firms obtained consulting contracts for more than three assignments. Of these firms, it is important to note that the average value of the consulting contract was moderate, at \$51,863.02 and was almost entirely for technical and professional consulting purposes. This was consistent with the majority of consulting across the City of which 1091 or 74.47 percent of all assignments were in the Technical and Professional Consultants project category.

Ongoing initiatives are underway to ensure rigour in purchasing and consulting practices, such as, the Policy on the Selection and Hiring of Professional and Consulting Services, the report on the Use of Consultants and Expenditure Reduction Strategies, and the Council approved Lobby Disclosure requirements for certain defined competitive calls issued by the City. An additional piece of information to this year's report is the inclusion of information on Single/Sole Source (SSS) purchases. The purpose of this reporting is to enhance checks and balances on variations from purchasing policies. Only partial 2000 data is available given that the directive for its reporting occurred in mid-2000.

There were 448 single/sole source purchases reported for the last half of 2000 by departments and major agencies, boards and commissions. All purchases for goods and services, not just consulting, were to be included. Of those reported, 312 or 69.64 percent were in departments,

while the major agencies, boards and commissions reported the remaining 136 or 30.36 percent. The majority of single/sole purchases (134 or 29.91 percent) fell into the category called Proprietary/Trademark/Patent and also represented the majority of the total dollars at \$5,826,527.16 or 35.21 percent of SSS purchases reported. Further clarification of the definitions may need to be undertaken so that the Departments are cognizant of the different types of single/sole sourcing. Departmental tracking and reporting management support systems are still evolving and are expected to result in improved reporting in the near future including the ability to comment specifically on the consulting projects that were SSS purchases.

Steps are currently underway to have a mandatory field created in the City financial system (SAP) where users must state the reason, as listed above for all single/sole source purchases when creating Blanket Contracts, Purchase Orders or Departmental Purchase Orders. This reportable field should be ready to be implemented with the upgrade to SAP scheduled for September 2001. Until this mandatory field has been implemented, departments and major agencies, boards and commissions will need to gather the information manually as they did for this report. It is expected that more accurate data will emerge in future years through continued analysis and with upgrades to the SAP financial system.

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List of Attachments:

- Appendix 1: Number and Value of Consulting Contracts by City Area
- Appendix 2: Number of Consulting Contracts by Value Category and Number of Firms
- Appendix 3: Number and Value of Consulting Contracts As a percentage of Total City Consulting Expenditures
- Appendix 4: Number and Value of Consulting Contracts by City Area for Each Project Category
- Appendix 5: Number and Value of Consulting Contracts As a Percentage of Each Area's Budget
- Appendix 6: Summary of Single/Sole Sourcing Activity (For All Purposes, Including Consulting)

Insert Table/Map No. 1
Summary of single/sole source activity

Insert Table/Map No. 2
Summary of single/sole source activity

Insert Table/Map No. 3
Summary of single/sole source activity

Insert Table/Map No. 4
Summary of single/sole source activity

Insert Table/Map No. 5
Summary of single/sole source activity

Insert Table/Map No. 6
Summary of single/sole source activity

The Administration Committee also submits the following report (June 28, 2001) from the City Auditor, entitled “Selection and Hiring of Professional and Consulting Services Review”:

Purpose:

To report on the selection and hiring of professional and consulting services in the City, as required by the 2001 audit work plan of the City Auditor approved by Council at its meeting of March 6, 7, and 8, 2001.

Financial Implications and Impact Statement:

There are no immediate financial implications resulting from the adoption of this report. However, the implementation of the recommendations in this report will strengthen the City’s control over its consulting expenditures, and potentially reduce consulting expenditures incurred by the City.

Recommendations:

It is recommended that:

- (1) all future reporting of consulting expenditures be based on actual expenditures incurred and not on the value of contracts awarded unless specifically requested by Council. In order to ensure that such reporting is accurate, all consulting costs reported to Council be reconciled to the City’s financial information system by each Department. The Chief Administrative Officer be required to communicate to senior staff the recommended reporting requirement;
- (2) the Chief Financial Officer and Treasurer advise all departmental staff of the specific reporting requirements for consulting expenditures. In addition, the Chief Financial Officer and Treasurer emphasize the importance of the need to accurately analyze all consulting related invoices in order to ensure that such expenditures are recorded accurately in the financial information system. Departmental staff be required to review such accounts on a regular basis and make appropriate and timely accounting adjustments, where necessary;
- (3) the Chief Administrative Officer be required to add to the “Policy for the Selection and Hiring of Professional and Consulting Services” the following, “A justification analysis is required prior to the engagement of a consultant which outlines in general terms the costs and benefits of using a consultant, including reasons why the consulting study can not be conducted by internal staff, either in whole or in part.”;
- (4) the Chief Administrative Officer to report back on the dollar threshold above which departments are required to prepare detailed business cases prior to the hiring of consulting resources. Consideration be given to the development of a formalized template and/or checklist in order to assist staff in the development of a standard business case. The business case should be approved by each Commissioner and should be filed in the department for future management review and subsequent audit;

- (5) the Chief Administrative Officer take immediate steps to ensure that the engagement of all consulting services is made in accordance with the City's purchasing policies. Consultants not be engaged until the appropriate approvals have been obtained and a duly authorized purchase order is processed and recorded on the financial management information system;
- (6) the Chief Administrative Officer require the Commissioners to provide the appropriate information on existing consulting contracts so that purchase orders can be processed by the Purchasing Agent. The Purchasing Agent take the necessary steps to record such purchase orders on the financial information system. Any payments processed in excess of original contract amounts be identified and explanations obtained for such occurrences. The need to process such purchase orders in the future will not be required if proper procedures are followed;
- (7) the Chief Administrative Officer advise all Commissioners that in making sole source procurement decisions, clear justification, target completion date of the project, duration of the consulting engagement, and estimated contract value be documented, properly authorized, and, as required by City policy, be submitted to the Chief Administrative Officer, and to the Purchasing Agent for issuance of a purchase order or contract. Where the justification does not meet the City criteria for sole sourcing such contracts be subject to a competitive tender process in accordance with the City's purchasing policies;
- (8) the Commissioners take the necessary action to ensure that staff assigned to project management duties, especially where consultants are hired, have an appropriate combination of training and experience in project management and knowledge in the subject of the assignment, especially in the areas of developing clear and measurable deliverables, milestones, and performance evaluation criteria;
- (9) the Chief Financial Officer and Treasurer advise staff that request for proposal documents should not contain information relating to the actual project budget;
- (10) the Commissioners be required to re-evaluate the administrative internal controls in their departments in order to ensure that invoices submitted by consultants are reviewed for reasonableness, proper supporting documentation and verified to the terms of the contract prior to authorization for payment. The review should also ensure that individuals approving invoices are in a position to assess whether the service has been rendered. In regard to reimbursable out of pocket expenses, consideration be given to including all such expenditures as part of the original contract price;
- (11) the Commissioners take the necessary steps to ensure that:
 - (a) measurable standards and acceptance criteria are included in contracts executed with consultants;
 - (b) regular, properly documented, meetings are held with consultants to ensure that the consultant is meeting contractual obligations and performing as required; and

- (c) upon completion of a project, the consultant's performance is documented and made available for review to relevant City staff, including the Purchasing Agent, when considering consultants for new projects;
- (12) the Chief Administrative Officer, in consultation with the City's Commissioners, identify areas where departments have skill shortages or insufficient staff resulting in the consistent and extensive long-term use of consultants and:
 - (a) present the appropriate business cases justifying meeting long-term operational demands by increasing staffing levels, such increases to be financed by the transfer of funds from consulting budgets to salaries and wages budgets;
 - (b) where possible, ensure sufficient City staff are trained in skills required frequently and on a long-term basis, thus reducing the City's reliance on consultants to perform such duties; and
 - (c) ensure that the continuous operation of critical management information systems is not dependant upon a single individual consultant;
- (13) the Chief Administrative Officer communicate to and remind each Commissioner of the policy relating to the hiring of former employees, either directly or indirectly, as consultants for a specified period of time after they participated in the employee separation program of the City;
- (14) the Chief Administrative Officer review the practice whereby individual consultants are required to contract with consulting firms for providing their services to the City rather than being engaged directly as individuals;
- (15) in view of the fact that the recommendations contained in this report may be relevant to the City's Agencies, Boards and Commissions, the General Manager of each of these entities be required to report to their respective Boards by August 31, 2001 on such recommendations and their applicability in relation to their operations. In addition, the respective Boards be requested to forward such reports to the City Audit Committee;
- (16) the Chief Administrative Officer be required to add to the "Policy for the Selection and Hiring of Professional Consulting Services" specific details relating to the consequences of non-compliance with the policy. The amendment to the policy be reported to the Administration Committee by August 31, 2001; and
- (17) the Chief Administrative Officer be required to report to the next meeting of the Administration Committee on the plans and timetable relating to the implementation of recommendations contained in this report.

Background:

The development of the City Auditor's annual work plan is based on a number of factors, one of which relates to the level of expenditures incurred in specific areas throughout the City. In preparing our 2001 Work Plan in November 2000, we noted the significant increase in consulting expenditures which had occurred between 1998 and 1999. Consulting expenditures in

1998 were reported as \$29 million while in 1999 they had increased to a level of \$159 million. Even allowing for the significant amount of 1999 expenditures related to the Year 2000 project, (approximately \$70 million), the level of expenses on consulting costs had increased significantly. Consequently, it was determined that the 2001 Work Plan of the City Auditor should include a review of consulting expenses. The Work Plan was approved by Council at its meeting of March 6, 7 and 8, 2001.

In March 2001, the Chief Administrative Officer and Chief Financial Officer and Treasurer issued a report entitled "Policy for the Selection and Hiring of Professional and Consulting Services". The purpose of this report was to "recommend a uniform purchasing policy for the selection and hiring of professional and consulting services for the City of Toronto."

Also in March 2001, the Chief Administrative Officer presented a report to the Administration Committee entitled "The Use of Consultants and Expenditure Reduction Strategies". The purpose of this report was to provide an "overview of the incidence and benefits of professional and consulting services, and to introduce parameters on the use of consulting assistance, as well as a policy to ensure standards and accountability when selecting and hiring consultants." In addition, the report recommended "a corporate-wide reduction goal and new annual budget and in-year reporting measures to achieve meaningful results in 2001 and beyond."

The Administration Committee, in considering the above reports at its meeting on March 27, 2001, passed the following motions:

- "(a) defer consideration of these reports until it considers the City Auditor's report on the use of consultants;
- (b) request the City Auditor to present his report on the use of consultants to the June 5, 2001 meeting of the Administration Committee;
- (c) request the City Solicitor to submit a report to the aforementioned meeting of the Administration Committee on any outstanding legal concerns, if any; and
- (d) request the Chief Administrative Officer to submit a report to the aforementioned meeting of the Administration Committee on the implications of a 20 percent reduction in the use of consultants."

In addition, the Administration Committee requested the Chief Administrative Officer to "submit a report directly to Council for its meeting scheduled to be held on April 24, 2001, respecting the placing of a moratorium on the hiring of new consultants unless specifically approved by Council, until such time as the Administration Committee gives consideration to the forthcoming report from the City Auditor in regard thereto at its meeting scheduled to be held on June 5, 2001."

As a result of the request of the Administration Committee, the City Auditor's proposed review of consulting services originally scheduled to be conducted in September of 2001 was moved forward to April and May 2001.

Audit Objectives and Scope:

The audit objectives were to review the City's practices in procuring consulting and professional services and to determine whether:

- (i) expenditures relating to consultants' contracts were accurately reported;
- (ii) the need for consulting services was appropriately determined, justified and documented;
- (iii) consulting services contracts were awarded based on sound business practices and in accordance with established procurement by-laws, policies and procedures;
- (iv) adequate justification existed for waivers from required procedures;
- (v) consulting contracts were effectively managed to ensure the contract deliverables were achieved and "value for money" was obtained; and
- (vi) payments were made in accordance with the terms of the contract.

The observations in this report are a result of our assessment of a sample of 90 payments made to various consultants and a review of 26 consulting contracts that were active in the year 2000. Our review included all Departments in the City and included discussions with staff from the Chief Administrator's Office, Finance, Corporate Services, and other appropriate staff.

Our review did not include an audit of the actual consulting amounts reported to Council in 1998 and 1999. Neither did it include a review of procedures and practices used by Agencies, Boards and Commissions in their selection and hiring of professional and consulting services.

Comments:

A summary of the major issues identified during the course of our review is included in the following Summary of Overall Audit Observations. Further details relating to each one of these observations, along with our recommendations, are provided in the body of the report.

Summary of Overall Audit Observations:

- (1) Consulting expenditures for both 1998 and 1999 reported to Council as \$29 million and \$159 million respectively, are misstated. The extent of the misstatements can not be accurately determined. In a report dated September 6, 2000, the limitations relating to the 1998 and 1999 expenditures were acknowledged by the Chief Administrative Officer.
- (2) Several non-Year 2000 Information Technology service contracts were awarded under the delegated Year 2000 authority without open competition and without the involvement of the Purchasing Agent, as required by the Toronto Municipal Code, Chapter 195, Purchasing, which establish procedures and authority for the procurement of goods and services.

- (3) In some cases, internal administrative controls to ensure that consulting and professional service contracts are awarded and extended in compliance with corporate purchasing policies and procedures have been by-passed.
- (4) Sole source procurement often did not meet the criteria set forth in the City's guidelines. In many cases, sole sourcing was justified as "continuing prior work" and "previous work relationship". Generally, there is no documented evidence to demonstrate that the sole source consultant is the only, or best, firm to provide the service at the best price for the City.
- (5) In many cases justification for the hiring of consultants is not documented. Formal business cases or justification analyses have not been prepared which, in general terms, should include the benefits and costs of hiring a consultant. There is no evidence to indicate that alternatives were considered, such as the use of City staff in whole or in part.
- (6) A number of Request for Proposals disclosed the approved funding for the project. Proposals received for these requests tended to be priced in a narrow range near the maximum approved funding amount. In such cases, there is no assurance that the City has received the best price for the goods or services acquired.
- (7) Invoices submitted by consultants often provide insufficient information to allow staff responsible for invoice approval to determine whether the service has been rendered or that the amount invoiced is reasonable and legitimate. In two of the contracts that we reviewed, out of pocket expense reimbursements, in our view, were excessive.
- (8) Project scope and deliverables are often not defined in sufficient detail to permit the effective management of consulting contracts, and to ensure that the project objective has been, or is being, met.
- (9) The City, in certain areas, has put itself at significant risk due to its reliance on various consulting organizations. The termination of certain services provided by consultants at the present time would have significant impact on the ability of the City to continue its day-to-day operations. In these cases, there is no long-term plan to replace the knowledge of those consultants, who are critical to the operation of the City, with City staff.
- (10) Consultants are often required because of insufficient staff resources or an absence in the skills necessary to complete certain work. Opportunities for cost savings exist where departments can identify a long-term need for these skills or resources.

Detailed Observations:

Reporting of Consultant Expenditures:

According to the Chief Administrative Officer's report to the Policy and Finance Committee entitled "Contracting of Consulting Services in 1999", the term "consultant" was defined as:

“Any firm or individual providing expertise, advice, or professional services that are not readily available from City staff” (i.e., skills that are not present or are not able to be accommodated internally in a timely fashion).

According to the report, the term “consultant” does not include “anyone considered an employee, nor does it include contracts for the purpose of services such as soil or concrete testing, language translation, certain inspections or other fee-for-service activities, such as training course instructors, required to support operations.”

In the new policy proposed by the Chief Administrative Officer and Chief Financial Officer and Treasurer, in their March 2001 report entitled “Policy for the Selection and Hiring of Professional and Consulting Services” the definition was slightly modified as follows:

“Any firm or individual providing time limited expertise, advice, or professional services that are not readily available from City staff. The skills are not present because it is not economical for the City to hire staff for that purpose, or the work is not able to be accommodated internally in a timely fashion.”

In a report dated August 31, 1998, prepared by the City Auditor entitled “Use of Long Term Consultants” in the Works and Emergency Services Department, it was recommended that “the Chief Administrative Officer be requested to report to Council every six months on the use of consultants by the City and all its Agencies, Boards and Commissions.” This recommendation was approved by Council, but at a later date was amended to require that such information be reported on an annual basis. Reports for 1998 and 1999 have been forwarded to Council. The information related to 2000 is still in progress and is expected to be submitted to the July 2001 Administration Committee meeting.

(1) Consulting Expenditures Reported for 1998:

At its meeting on January 13, 1999, the Budget Committee requested the Chief Administrative Officer to report on “the hiring of outside consultants City-wide, including Agencies, Boards and Commissions.” In order to comply with the request of the Budget Committee, all City Departments, Agencies, Boards and Commissions were contacted and asked to “provide details on the consulting services they contracted in 1998.”

The Chief Administrative Officer, in his report, also indicated that the “contracts included in this report are for consulting services only and do not include contracts for the purchase of services, such as soil testing, medical professionals, translation services, etc. made by City Departments, Agencies, Boards and Commissions.”

In his report to the Policy and Finance Committee in June 1999, the Chief Administrative Officer noted that City Departments, Agencies, Boards and Commissions issued 928 consulting contracts, inclusive of amalgamation, transition and restructuring consulting contracts, having a total value of \$29 million in 1998. Of this total, City Departments issued 760 consulting contracts (with a total contract value of \$19 million), and Agencies, Boards and Commissions issued 168 consulting contracts (with a total contract value of \$10 million).

While the request for information from the City's Departments, Agencies and Commissions was explicit, certain responses were not in compliance with the request. For instance, our review of the \$29 million in consulting expenditures for certain departments indicated that in some cases this amount did not consist of the amount of contracts awarded but represented actual expenditures incurred during the year. It is possible and, in some cases, likely that these reported expenditures related to contracts awarded prior to amalgamation.

In actual fact, it is unclear as to what information Council requested in terms of the use of consultants in 1998. The request from Council was a requirement to report on the "hiring of consultants". There was no reference as to whether the total contract awards should be reported on actual expenditures or contracts awarded. The amounts reported to Council represent a mix of consulting contracts awarded during 1998 and expenditures incurred during 1998.

The amount of \$29 million in consulting costs reported to Council is, therefore, inaccurate. The extent of this inaccuracy has not been determined.

(2) Consulting Expenditures Reported for 1999:

In September 2000, the Chief Administrative Officer reported to the Policy and Finance Committee details related to the contracting of consulting services in 1999. In his report to the Policy and Finance Committee, the Chief Administrative Officer indicated that in 1999, City Departments, Agencies, Boards and Commissions incurred expenditures of \$159 million (approximately 2.3 percent of the City budget) on consulting services.

In the Chief Administrative Officer's report of September 2000, City Council was advised in reference to 1998 expenditures that "the 1998 data submitted was acknowledged by Departments as questionable for some operations and it was concluded that consulting expenditures were likely under reported for that year." In addition, City Council was also advised that for the "1999 data, departments were asked to not submit data on contracts for purchased services. An examination of the data submitted, however, suggests that this has not been adhered to consistently. In addition, departmental tracking and reporting management systems are still evolving. It is expected that more accuracy and clearer trends on City consulting expenditure levels will emerge in future years through continued analysis using improving systems."

While the Chief Administrative Officer has recognized the limitations relating to the accuracy of consulting expenditures reported to City Council, the extent of the inaccuracies are significant. For example, our review of 1999 consulting expenditures reported to Council identified the following:

- (a) the reported 1999 consulting costs included the value of consulting contracts related to six multi-year projects (commenced in late 1999) totaling \$35 million;
- (b) certain departments only reported payments on new contracts issued in 1999, and excluded payments on active contracts committed prior to 1999;

- (c) certain departments reported all contract expenditures paid in 1999; and
- (d) contracted-out professional services were also included in the total amount reported.

The reporting of consulting expenditures to Council for 1999 was inaccurate. Departments have generally been unclear as to what is required to be reported and as a result, information from departments has been inaccurate, inconsistent and, in some cases, incomplete.

(3) Consulting Expenditures for 2000:

We understand that consulting expenditures for the year 2000 will be reported to the July 3, 2001 meeting of the Administration Committee. At the time of our review, the compilation of this information was in process. However, our initial review of the financial information system in relation to year 2000 consulting expenditures identified the following:

- (a) our review of 90 payments to various consulting organizations that total \$13.1 million, identified 16 of these payments related to non-consulting expenses. The dollar value of these items was \$6.8 million, which included \$5.6 million of direct capital construction payments. Thus, of the \$13.1 million that we reviewed, \$6.8 million (52 percent) should not have been classified as consulting expenditures given the proposed definition of consulting; and
- (b) we also noted five instances where payments to consultants were recorded in non-consulting accounts such as regular salaries and utilities. These payments totalled almost \$200,000 but represent a small sample of the expenditures we reviewed.

Summary:

The reporting of prior years consulting expenditures has been a mix of the value of contracts awarded along with actual expenditures incurred.

Should Council wish to know the value of consulting contracts issued as well as the value of actual consulting expenditures incurred during a particular year, these can be reported independently. Financial reporting, for the most part, including regular variance reporting, is based on actual expenditures incurred and this is the basis on which consulting expenditures should be reported.

Recommendation:

- (1) All future reporting of consulting expenditures be based on actual expenditures incurred and not on the value of contracts awarded unless specifically requested by Council. In order to ensure that such reporting is accurate, all consulting costs reported to Council be reconciled to the City's financial information system by each Department. The Chief Administrative Officer be required to communicate to senior staff the recommended reporting requirement.

Detailed information and analysis relating to consulting expenditures is not yet available on a centralized basis on the current SAP financial information system. Consequently, the collection of information required to compile the analysis of consulting expenditures for Council is requested by the Finance Department on a department by department basis. As a result, there is a significant time delay in preparing the annual report on consulting costs. Recently, the Finance Department, in consultation with the Chief Administrators' Office, has amended the account structure of the City's financial system to facilitate the recording of consulting costs. In order to provide relevant, complete and accurate information on the City's annual consulting costs, it is important that City staff understand what constitutes consulting expenditures, and how they should be accounted for in the City's financial system. Regular scrutiny of expenditures recorded in consulting and other professional services accounts will also minimize the risk of inaccurate reporting of the consulting expenditure.

Recommendation:

- (2) The Chief Financial Officer and Treasurer advise all departmental staff of the specific reporting requirements for consulting expenditures. In addition, the Chief Financial Officer and Treasurer emphasize the importance of the need to accurately analyze all consulting related invoices in order to ensure that such expenditures are recorded accurately in the financial information system. Departmental staff be required to review such accounts on a regular basis and make appropriate and timely accounting adjustments, where necessary.

The Justification for the Hiring of Consultants:

The responsibility for ensuring that the use of consulting services is required rests with departments. Our review of various documentation and discussions with departments noted that while departments may have implicitly assessed their need for consulting services, there was often no business case, or justification analysis, formally documenting the determination of the need for such services.

Specifically, there was little documentation to demonstrate that departments had adequately considered alternative service delivery options, such as using internal resources or offering longer-term employment contracts to qualified proponents. In addition, there appeared to be little consideration given as to whether it is necessary to have a consultant complete all stages of a project rather than using staff to conduct the major portion of the work and engaging the consultant on a more limited basis to provide direction and advice at critical stages of the project.

While it is possible that certain of these steps have been considered, there was generally little documentation in place which would confirm this to be the case.

The Chief Administrative Officer and the Chief Financial Officer and Treasurer, in a joint report dated March 8, 2001 entitled "Policy for the Selection and Hiring of Professional and Consulting Services", provided detailed information relating to the administrative requirements for the selection of consultants. This policy does not, however, contain information relating to the requirement that the hiring of consultants be justified from a business case perspective.

Given the significant consulting expenditures incurred by the City, the requirement for a properly documented business case, or justification analysis, would impose a degree of discipline and consistency in the engagement of consultants. In addition, it would ensure that the need for consulting services is justified and that the project will be conducted in the most cost-effective manner. Given the varying size of consulting contracts, it may be advantageous to implement a scaleable business case process based on the dollar value of the project being considered.

Recommendations:

- (3) The Chief Administrative Officer be required to add to the “Policy for the Selection and Hiring of Professional and Consulting Services” the following, “A justification analysis is required prior to the engagement of a consultant which outlines in general terms the costs and benefits of using a consultant, including reasons why the consulting study can not be conducted by internal staff, either in whole or in part.”
- (4) The Chief Administrative Officer to report back on the dollar threshold above which departments are required to prepare detailed business cases prior to the hiring of consulting resources. Consideration be given to the development of a formalized template and/or checklist in order to assist staff in the development of a standard business case or justification analysis. The justification analysis should be approved by each Commissioner and should be filed in the department for future management review and subsequent audit.

Compliance with the Toronto Municipal Code, Policies and Procedures:

The Toronto Municipal Code, Chapter 195, Purchasing, established procedures and authority for the procurement of goods and services. The Municipal Code provides the “Purchasing Agent” (defined as “the person holding the position of Director of Purchasing and Materials Management in the City’s Finance Department and whose responsibility it is to supervise and carry out the procurement function on behalf of the City in accordance with the by-law, and includes his or her designate.”) with the authority to make an award and enter into a commitment on behalf of the City. The purchase order is the mechanism used by the Purchasing Agent to authorize payments for a commitment.

The Chief Administrative Officer and Department Heads are authorized to make an award, in respect of consulting services, where the commitment resulting from the award is within the spending authority for such persons under the provision of the Financial Control By-law.

The following table summarizes the conditions and spending authority delegated by the Chief Administrative Officer.

Authority	\$ Amount	Conditions
Chief Administrative Officer	- Up to \$500,000	
Commissioners	- Up to \$250,000	- Where approved procurement procedures have been followed.
	- Up to \$50,000	- Where normal purchasing procedures are not possible, i.e., sole source, emergencies, time constraints, or where for economic reasons it is not possible to follow accepted procedures, etc.
General Managers* Executive Directors*	- Up to \$250,000	- Where approved procurement procedures have been followed.
Executive Director of HR Fire Chief City Clerk Medical Officer of Health City Solicitor City Auditor	- Up to \$25,000	- Where normal purchasing procedures are not possible, i.e., sole source, emergencies, time constraints, or where for economic reasons it is not possible to follow accepted procedures, etc.
Directors*	- Up to \$100,000	- Where approved procurement procedures have been followed.

* subject to delegation from the Commissioners

The Financial Control By-law requires that any commitment in excess of \$500,000 be approved by the Bid Committee, Standing Committee or Council.

Once staff have made the final selection of a consultant and obtained proper authority to award a contract, the Purchasing Agent is required to make a formal commitment on behalf of the City in the form of a purchase order or contract.

In our report dated April 24, 1999 entitled "Review of Commissioner Street Transfer Station Project Expenditures", we identified a number of situations where policies were not complied with. As a result, this particular audit report recommended that "the Chief Administrative Officer advise all department heads that the selection and engagement of all consulting services be made in accordance with the City's purchasing policies." While the Chief Administrative Officer communicated this requirement to the Commissioners, it is apparent that there continues to be instances of non-compliance in regard to purchasing policies.

Our current review identified a number of cases where City policies and procedures were not complied with. The following are some examples.

- (a) In our review of 26 professional service consulting contracts, seven were awarded without the involvement of the Purchasing Agent and consequently, a purchase order was not issued. The value of these contracts in total was \$1.1 million.
- (b) In 1999 and 2000, the Year 2000 Office had the delegated authority from Council, to recommend to the Year 2000 Steering Committee that the City extend, re-negotiate, terminate or enter into new contracts on Year 2000 related projects that affected priority business functions. The City also entered into a master agreement with each of the consulting firms retained to conduct Year 2000 work. While individual contract schedules were issued by the Corporate Services Department to authorize contract awards to these firms, a purchase order was not always issued. In addition, in our review of contracts awarded in 2000 and referenced to the Year 2000 authority, there were a number of instances of new contracts and contract extensions for projects/assignments that do not appear to be Year 2000 related. In these cases the City's purchasing procedures, such as the normal competitive process, the involvement of the Purchasing Agent and the issuance of a purchase order, as required under the Toronto Municipal Code, Chapter 195, were not followed.

Circumstances where purchase orders are not issued for consulting services, have internal management control consequences. The processing of a purchase order provides assurance that purchasing procedures are in compliance with the authorization to enter into commitments as outlined in the Municipal Code and, in particular, that a competitive process has been followed. Issuing a purchase order also allows complete and accurate information to be centrally maintained in the corporate financial information system for accounting, monitoring, control and reporting purposes. The monitoring of payments to consultants is conducted through the purchase order process as it identifies requests for payments in excess of contracted amounts. The processing of payment requests through a "non-P.O. voucher" by-passes this control. In these circumstances, there is no central accounting control in place which prevents the payment to a consultant in excess of their contracted amount.

In addition, in our review of 90 payments made to consultants, approximately 71 percent of them were processed as non-P.O. vouchers. Included in our review were four instances where actual payments to the consultant had exceeded the total value of the purchase order issued by the City. In one instance, a consulting firm was paid more than \$10 million in 2000, yet the total value of purchase orders recorded in the accounting system relating to this firm was only \$2.1 million. The services for this consultant were initially procured prior to amalgamation by the former Metro for the provision of information technology services to Metro departments for the years 1997, 1998 and 1999. The contract with the consultant was subsequently renewed in 2000 with the City under the Year 2000 authority without the involvement of the Purchasing Agent and, as a result, no purchase order was processed.

Contracts totaling approximately \$2.1 million were set up on the accounting system under the original authority as these contracts have been processed through the Purchasing Agent. The balance of the contracts were not processed through the Purchasing Agent.

Our review with staff of this particular contract indicated a general level of uncertainty and confusion relating to the need to issue a purchase order for consultants currently engaged by the City.

Recommendations:

- (5) The Chief Administrative Officer take immediate steps to ensure that the engagement of all consulting services is made in accordance with the City's purchasing policies. Consultants not be engaged until the appropriate approvals have been obtained and a duly authorized purchase order is processed and recorded on the financial management information system.
- (6) The Chief Administrative Officer require the Commissioners to provide the appropriate information on existing consulting contracts so that purchase orders can be processed by the Purchasing Agent. The Purchasing Agent take the necessary steps to record such purchase orders on the financial information system. Any payments processed in excess of original contract amounts be identified and explanations obtained for such occurrences. The need to process such purchase orders in the future will not be required if proper procedures are followed.

Control Over Sole Source Procurement Decisions:

The objective of the public procurement process is to provide fair and open competition to all interested vendors to ensure the City obtains its required goods and services at the best possible price. The use of sole source contracting is generally discouraged.

There are, however, situations when the service to be provided is of such a unique nature that only one person or firm is clearly and legitimately available to provide the service. In other cases, normal purchasing procedures are not possible due to time constraints. In these circumstances sole sourcing may be appropriate. If so, a purchase order or contract indicating the maximum contract value, will be issued by the Purchasing Agent as a formal commitment from the City.

The proposed Policy for the Selection and Hiring of Professional and Consulting Services, outlines situations where sole source procurement is authorized, as follows:

“Sole Source shall mean entering into a commitment without the issuance of a Request for Quotation (RFQ) or a Request for Proposal (RFP). This is applied only in cases where normal purchasing procedures are not possible (i.e., emergencies, time constraints or where for economic reasons it is not possible to follow accepted procedures).”

Our review of sole source contracts awarded in 2000 found that:

- (i) the justification for awarding sole source contracts often did not meet the criteria set forth in the City's guidelines.
- (ii) the justification for awarding sole source contracts was inadequately documented; and
- (iii) sole source contracts were sometimes awarded retroactively;

Our specific observations in relation to sole source contracts are as follows:

- (a) In a sample of 24 sole source justification reports, 13 cited “continuity”, “involvement in the earlier phase of the project”, or “previous working relationship with the consultant” as the reason for sole sourcing. In some cases, the consultant was initially sole sourced. New contracts were subsequently awarded to these consultants by using “involvement in the earlier phase of the project” as a reason for sole source contract extensions. Some of these consultants had commenced work before the purchase order was issued or the contract was signed. There was no competitive process in the procurement of these services.
- (b) In a number of instances the Purchasing Agent was not notified of sole source contracts contrary to the Toronto Municipal Code.
- (c) There was generally very little documentation to demonstrate that the sole source consultant was “clearly and legitimately” the only individual qualified to perform the service, or that it would be more economical to hire a consultant than using City staff.
- (d) Two consultants have been engaged as project managers to develop and maintain financial information systems in the Finance Department for a number of years. In 2000, while their contract limits were \$180,000 and \$100,000, they were paid \$501,000 and \$456,000 (inclusive of reimbursable expenses such as airfare, hotel accommodation, meals, etc.) respectively. Although the \$180,000 and \$100,000 were outlined in a schedule to an existing contract, we were not able to locate a contract specifically relating to the payments in excess of these amounts. We have been informed by staff that the two consultants were retained because of their previous experience and knowledge of the information systems of the former City of North York.

The contracts with these consultants in 2000, totaling \$180,000 and \$100,000 respectively pertained specifically to the Year 2000 project. The Finance Department, however, also engaged the services of these consultants for day to day systems maintenance activities without a formal contract outlining the services to be rendered and the upset limit.

The engagement of consultants in the circumstances described above could be construed as providing preferential treatment to certain consultants simply because they had previously performed work for the City. It also does not afford the City assurance that an equally qualified firm is given an opportunity to provide the same quality service at a fair market price.

The justification for sole sourcing citing reasons such as “continuity”, “involvement in the earlier phase of the project”, and “previous working relationship”, in our view, does not meet the criteria for sole sourcing.

The Chief Administrative Officer issued a directive to the Commissioners, dated January 15, 2001, entitled “Sole Sourcing of Consultants”, which states “sole sourcing of consultants should be the exception in hiring consultants. It is important staff understand this means that with the exception of unforeseen circumstances, the hiring of consulting services should be done through

proper purchasing procedures. Increasing a sole source amount, directly soliciting proposals, having work done before obtaining approvals and allowing projects to run close to or past the deadline dates are not valid reasons for sole sourcing.”

Recommendation:

(7) The Chief Administrative Officer advise all Commissioners that in making sole source procurement decisions, clear justification, target completion date of the project, duration of the consulting engagement, and estimated contract value be documented, properly authorized, and, as required by City policy, be submitted to the Chief Administrative Officer, and to the Purchasing Agent for issuance of a purchase order or contract. Where the justification does not meet the City criteria for sole sourcing such contracts be subject to a competitive tender process in accordance with the City’s purchasing policies.

Contract Management:

Our review identified a general need for improved management of consulting contracts, particularly with respect to the management of the consulting project’s scope, schedule and budget, as well as the payment process. The Chief Administrative Officer has recognized the need for an upgrading of staff skills in this area and has initiated project management training for appropriate staff.

Project Scope, Schedule and Budget:

Best practices call for a consultant’s scope of work statement to communicate to consultants what is required of them in clear, measurable statements of expected services and clearly defined performance standards (quality, quantity and timeliness) whenever possible.

Our review noted instances in which contracts were awarded without clearly defined and measurable deliverables, making it difficult to monitor project progress, control project costs, and to determine the extent to which the deliverables were achieved.

If the scope of work is not clearly defined, opportunities exist for disagreements related to the extent of the work contracted for. For instance, in one situation, a consultant was awarded a contract with a submitted bid of \$67,000. Due to the generality in which the deliverables were defined, the consultant was able to successfully argue that the scope of the work was expanded beyond the original requirements identified, and the value of the contract was increased to \$107,000.

We also noted a number of instances where billings for system development and maintenance projects were issued based on hours worked, instead of by service delivered (e.g., specified deliverables, milestones or other productivity measures). In these circumstances, the payments to the consultant may not necessarily be commensurate with the value of the services rendered, and there is no assurance that the City is receiving value for money. Without a clear definition of the deliverables, it is also difficult to determine completion, with one possible result being that the contract continues with no finite end, and with no process in place to monitor and control its costs.

It is important that appropriate benchmarks are developed against which to measure the performance of each consultant in order to ensure that the project satisfies the needs for which it was undertaken. How well deliverables are defined and articulated will have a direct impact on the quality of the consultant's performance, and the ability of the City to manage the consultant contract thus ensuring the City receives value for consulting fees paid.

In addition, our review of consulting contracts pertaining to system development and maintenance projects noted a number of situations where the requirements with respect to system documentation were not adequately defined. Discussions with departmental staff indicate that the technical documentation provided by the consultants, in many cases, was not detailed enough to facilitate the transfer of knowledge to City staff. This exposes the City to the potential risk of receiving a non-supportable system and may result in a dependency on the consultant for the future maintenance and support of the system.

Recommendation:

- (8) The Commissioners take the necessary action to ensure that staff assigned to project management duties, especially where consultants are hired, have an appropriate combination of training and experience in project management and knowledge in the subject of the assignment, especially in the areas of developing clear and measurable deliverables, milestones, and performance evaluation criteria.

Procurement:

According to the City's Purchasing Policy, the Purchasing Agent is required to issue a Request for Quotation (RFQ) or a Request for Proposal (RFP) when the value of a consulting assignment is expected to exceed the Departmental Purchase Limit. A RFQ is used when tasks and deliverables for the consulting project are highly specific, and consultants will likely use a similar approach to the project. A RFP is used when there is no clear or single solution to a complex problem or matter to be resolved, although the objectives, timing and deliverables can be defined, and as such, the method of reaching the results will be left to proponents to submit for comparative evaluation, and the price is not necessarily the primary factor for evaluation.

We noted that whenever the Purchasing Agent was involved in the procurement process, either a RFQ or RFP was appropriately developed jointly by the Purchasing Agent and the user department, and issued for competitive calls. Bids were received and opened by the Purchasing Agent, and later forwarded to the user department for review. An evaluation team, comprised of key departmental staff members who have relevant knowledge and experience of the project, evaluated the bids according to pre-determined criteria and submitted their evaluation summary and recommendation for award. The Purchasing Agent would then review the evaluation results to ensure adherence to proper procedures, and accordingly, issue the purchase order.

Our review did, however, identify several instances in which the RFP disclosed the budget for the assignment. With all bidders submitting similar quotes, all being at or near the disclosed budget amount, there is no assurance that the City has received the best price.

The Purchasing Agent indicated to us that the disclosure of the actual proposed budget was only done at the insistence of the user departments and is not a practice recommended by the Purchasing Agent. Departments indicated that they sometimes have a limited budget for the assignment and the disclosure of the upset limit for the assignment eliminates the need to re-tender if all bids exceeded the approved funding level. In those situations, the price factor was assigned a weighting factor of 10 percent in the evaluation process.

For high dollar value assignments, where the possibility exists for a large disparity in the bids submitted, the disclosure of the project budget does not ensure the City receives a fair, competitive price.

Recommendation:

- (9) The Chief Financial Officer and Treasurer advise staff that request for proposal documents should not contain information relating to the actual project budget.

Payment and Expense Authorization:

Several instances were noted in which the practices with respect to the review and approval of invoices submitted by consultants were inadequate to ensure that expenditures for consulting work was reasonable and accurate.

Approximately 24 percent of the 90 payment vouchers examined during the course of our review did not contain sufficient information to identify the nature of the service provided, project progress, hours worked or the rates charged. Given the circumstances, it is difficult to comprehend how staff were able to determine the appropriateness of the amounts invoiced and whether or not the services or the payment terms were in accordance with the provisions of the contract.

In certain consulting contracts, provision is made for the reimbursement of out of pocket expenses such as air fare, hotels, meals, transportation and other sundry expenses. In two particular cases, our review indicated that expense reimbursements totaling approximately \$100,000 in 2000 were paid to two consultants as invoiced but without supporting documentation. The expense reimbursements included weekly air fares to and from Toronto to the United States, as well as reimbursements for meal expenses totaling as much as \$175 per day.

In regard to the administration of reimbursable out of pocket expenses, certain municipalities in North America require that all such expenditures be included in the original contract price. Such a process would eliminate the need to administer and evaluate the appropriateness of out of pocket expenses.

Recommendation:

- (10) The Commissioners be required to re-evaluate the administrative internal controls in their departments in order to ensure that invoices submitted by consultants are reviewed for reasonableness, proper supporting documentation and verified to the terms of the contract prior to authorization for payment. The review should also ensure that individuals

approving invoices are in a position to assess whether the service has been rendered. In regard to reimbursable out of pocket expenses, consideration be given to including all such expenditures as part of the original contract price.

Quality Control:

The eventual design of a system or the receipt of a report does not in itself provide evidence that proper quality management was exercised or that value was received for money paid to a consultant. As part of our work, we reviewed ten consulting contracts to determine if the work being conducted by the consultants was effectively managed to ensure that directed actions were carried out as planned to achieve the desired action or goal.

While four of the projects noted that regular project status meetings were held with the consultant, there were no minutes maintained providing evidence that issues identified were addressed in a timely manner, if at all.

In addition, in all cases, there was no formal documented evaluation of the consultant's work at the completion of the project to assess the quality of the consultant's performance and to determine whether the consultant fully honoured the terms and conditions of the contract. A number of the consulting projects which we reviewed did not have pre-established measurable standards or acceptance criteria, to facilitate such an evaluation in order to determine whether the goals and objectives of the project had been achieved.

Recommendation:

(11) The Commissioners take the necessary steps to ensure that:

- (a) measurable standards and acceptance criteria are included in contracts executed with consultants;
- (b) regular, properly documented, meetings are held with consultants to ensure that the consultant is meeting contractual obligations and performing as required; and
- (c) upon completion of a project, the consultant's performance is documented and made available for review to relevant City staff, including the Purchasing Agent, when considering consultants for new projects.

Reducing Reliance on Consultants and Contracted Services:

Consultants are required for their specialized expertise, professional advice, impartial third-party evaluations, and to supplement existing staff resources. The implementation of policies and procedures outlined in the Chief Administrative Officer's proposed Policy for the Selection and Hiring of Professional and Consulting Services will provide consistency across the City for selecting, evaluating and awarding professional and consulting contracts, and support City staff in effectively controlling the use of consulting and professional services for the assignments.

However, there are opportunities to reduce the cost of consulting and professional services in the City. Over the past two years, circumstances such as restructuring and amalgamation activities, as well as significant one-time Year 2000 Project activities, were key drivers of consulting costs. While the demands driven by the Year 2000 project are now greatly reduced, the level of ongoing initiatives in the City, combined with staffing levels inadequate to meet these needs as well as day to day operational needs, will likely necessitate an ongoing need for the use of consultants and contracted services. Opportunities for cost savings exist where departments can identify a long-term need for a resource or particular set of skills. Where such needs are identified, every effort should be made to evaluate all service delivery alternatives prior to the hiring of consultants.

Notwithstanding the obvious benefits of using contracted professional services, such as easy access to "just-in-time resources", rates charged by consulting firms for these professionals, which also include the firms administrative charges and overhead, are relatively high.

Our review identified a number of situations where there are opportunities to reduce consulting costs and, more importantly, makes the City less vulnerable to reliance on certain consultants.

- (a) Two consultants have been working on projects such as the Property Database, Tax Billing and Water Billing systems since 1998 at the City and prior to that at one of the amalgamating municipalities. Total payments to these consultants were in the range of \$1 million in both 1999 and 2000. We were advised that since these systems need regular maintenance to address ongoing changes in provincial legislation, long-term ongoing full-time support is required. If this is truly a long-term need, consideration should be given to bringing this in house. An immediate plan is required to transfer the skills to City staff ensuring adequate depth of knowledge.
- (b) In 2000, a consulting firm was contracted to provide, among other information technology related services, a number of desktop support staff to City Departments at approximately \$110,000 each per year. The contract limit established for the engagement of desktop support staff totalled \$1 million for the first six months of 2001. City staff who work in similar capacity are paid significantly less. Again, savings may be achieved by either hiring staff to fulfil this long-term need or, investigating other alternative service delivery methods.
- (c) Two former City employees are currently working as sole source consultants on a system development project that is targeted for completion in 2004. The approved maximum contract value for each of them is approximately \$344,000 for 2001. In comparison, the pay scales of their positions, as City employees prior to amalgamation, were approximately \$80,000 to \$100,000 annually (including benefits). The work these consultants are doing is expected to take in excess of one year from start to finish. In such a case, savings may have been achieved by engaging the necessary staff as contract employees, if possible.

In relation to these two consultants, they were originally engaged individually. Subsequently, a decision was made by the City to engage these consultants through a consulting firm, thus avoiding employee/employer relationships and its potential

employee/employer withholding tax consequences. These two consultants were subsequently engaged by that firm and continued providing services to the City with their time being billed through the consulting firm. As a result of these changed arrangements, the cost to the City for these consultants increased by approximately 60 percent.

It should also be noted that one of the above former City employees took advantage of the employee separation program of the City in January 1999. According to the City policy entitled "Re-employment of Former Employees After Reorganizing", such employee is prohibited from participating, as a consultant, in projects directly or indirectly related to the City or its special purpose bodies for a period of two years. The policy also stipulates that the Chief Administrative Officer must recommend and City Council approve any re-hiring under extenuating circumstances before the two-year period expires.

The engagement of this former City employee in June 2000 was in contravention of the above City policy.

In many cases, significant cost savings could be realized through in-sourcing, particularly in situations where there may be an on-going requirement for certain skills or expertise. It makes good business sense to meet this long-term resource requirement through a combination of contracted service, in-house staff training and development, hiring new staff with the required skills, and hiring professionals as contract employees, perhaps at premium rates. In certain cases this may require adding to the City's complement of full-time employees. This should be considered only where the need is long term and the skills are transferable between projects or departments.

Recommendations:

- (12) The Chief Administrative Officer, in consultation with the City's Commissioners, identify areas where departments have skill shortages or insufficient staff resulting in the consistent and extensive long-term use of consultants and:
 - (a) present the appropriate business cases justifying meeting long-term operational demands by increasing staffing levels, such increases to be financed by the transfer of funds from consulting budgets to salaries and wages budgets;
 - (b) where possible, ensure sufficient City staff are trained in skills required frequently and on a long-term basis, thus reducing the City's reliance on consultants to perform such duties; and
 - (c) ensure that the continuous operation of critical management information systems is not dependant upon a single individual consultant.
- (13) The Chief Administrative Officer communicate to and remind each Commissioner of the policy relating to the hiring of former employees, either directly or indirectly, as consultants for a specified period of time after they participated in the employee separation program of the City.

- (14) The Chief Administrative Officer review the practice whereby individual consultants are required to contract with consulting firms for providing their services to the City rather than being engaged directly as individuals.

Agencies, Boards and Commissions:

This report contains a number of recommendations, which, in all likelihood, will have relevance to the City's Agencies, Boards and Commissions. It is therefore important that these entities be required to review the recommendations in this report, and implement those recommendations applicable to their operations.

Recommendation:

- (15) In view of the fact that the recommendations contained in this report may be relevant to the City's Agencies, Boards and Commissions, the General Manager of each of these entities be required to report to their respective Boards by August 31, 2001 on such recommendations and their applicability in relation to their operations. In addition, the respective Boards be requested to forward such reports to the City Audit Committee.

The March 16, 2001 report of the Chief Administrative Officer articulates specific policies in relation to the selection and hiring of consultants and provides clear direction and the need for consistency across the City for selection, evaluating and awarding consultants contracts in a fair, open and competitive process. The policy, however, is of little value if its contents are disregarded. Many of the issues in this audit report are examples of circumstances where current existing policies have been disregarded. The policy needs to clearly establish staff accountability for compliance and consequences for non-compliance.

Recommendations:

- (16) The Chief Administrative Officer be required to add to the "Policy for the Selection and Hiring of Professional Consulting Services" specific details relating to the consequences of non-compliance with the policy. The amendment to the policy be reported to the Administration Committee by August 31, 2001.
- (17) The Chief Administrative Officer be required to report to the next meeting of the Administration Committee on the plans and timetable relating to the implementation of recommendations contained in this report.

Management Initiates Underway to Address Concerns:

Initiatives are in process which address certain of the concerns outlined in this report. These initiatives include the following:

- (i) The development of a policy for the Selection and Hiring of Professional and Consulting Services.

- (ii) Recent recommendations made by the Chief Administrative Officer in various reports, such as the development of a review and approval process to justify the use of consultants.
- (iii) Training programs in project management sponsored by the Chief Administrative Officer's Department.
- (iv) Plans by the Commissioner of Corporate Services to review all consulting positions in the Departments within 60 days and, where appropriate, bring such contracts in-house.
- (v) Plans by the Commissioner of Corporate services to issue requests for proposals in those cases where current contracts have been inappropriately sole sourced.
- (vi) Hiring the position of Director of Information Technology in the planning area who will ultimately oversee contract management.
- (vii) Increasing staff in the Contracts Management Office in the Information Technology Division of the Corporate Services Department.

We support the above initiatives as being a step in the right direction in addressing many of the recommendations in this report.

Conclusions:

In the first three years of the new City, there was a general need to use consultants. In fact, Council clearly directed early in its first term that staff should obtain objective, impartial third party advice to assist in dealing with issues specific to the amalgamation process. Combined with the issues relating to amalgamation were concerns associated with the Year 2000 computer problem. Both of these areas were a contributing factor to the inordinately high levels of consulting expenditures incurred at the new City since its formation. In 2001, there should be a significant decline in consulting expenditures and, in fact, a process should be in place where certain consulting work is transferred to City staff.

Since amalgamation in 1998, there have been improvements to definitions, data collection efforts, and reporting on the use of consultants in the City. Audit Services concurs with recent reports from the Chief Administrative Officer which indicate more work is required. Definitions need to be tightened or clarified, data accumulation structures need to be refined, and reporting made less cumbersome and more timely.

Some of the circumstances surrounding certain consulting agreements we have reviewed indicate inadequate attention on the part of staff to ensuring the City has received value for the money it has paid in consulting fees. In the systems development area particularly, in several cases, the City has left itself in a position where critical systems cannot be maintained without the services of external consultants. Immediate steps need to be taken to ensure that the City has the necessary information to continue operating critical systems should a consultant decide to withhold services. Plans need to be formulated to transition from a dependence on these consultants to developing sufficient depth of in-house expertise for these critical applications.

The actions required to achieve these goals will need support at the senior City staff level and the political level. Resources are required to continue existing and future projects. If staffing is insufficient to meet the demand, then continued reliance on consultants can be expected. In some cases creative compensation arrangements may be necessary to attract and retain the required expertise. These situations will need to be carefully reviewed to ensure value for money is obtained on a long-term basis. Diligence must be exercised to ensure that staffing is not increased merely to meet short-term needs for resources. Thus, there will continue to be a need for consultants in an organization with such diverse services as the City of Toronto. However, savings are possible through investigation of alternative service delivery options and improved control over the processes involved in procuring, compensating, and evaluating consultants engaged by the City.

Action is being taken by senior staff to address certain of the concerns raised in this report. Clearly, there is a need to improve how and in what circumstances consultants are hired and how their performance is managed. The recommendations contained in this report will assist the City in better managing consulting costs throughout the City.

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The Administration Committee also submits the following joint report (June 29, 2001) from the Acting Chief Administrative Officer and the Acting Chief Financial Officer and Treasurer, entitled "Summary of CAO Reports on the Selection and Hiring of Professional and Consulting Services":

Purpose:

To advise the Administration Committee of the four CAO reports before you regarding the use of consultants and expenditure reduction strategies.

Financial Implications and Impact Statement:

There are no financial implications.

Recommendation:

It is recommended that this report be received for information.

Background:

At its meeting on July 3, 2001, the Administration Committee will have before it four reports from the Chief Administrative Officer, one report from the City Auditor on consultants and a Solicitor's report on the retention of outside legal expertise.

The four CAO reports are:

- (i) Policy for the Selection and Hiring of Professional Consulting Services;
- (ii) Use of Consultants and Expenditure Reduction Strategies;
- (iii) Summary of Year 2000 Actual Expenditures on Consultants vis-à-vis the Impacts of a 20 percent Reduction and Policies and Standards for the Use of Consultants; and
- (iv) Consulting Expenditures and Single/Source Purchases for the Year 2000.

At the March 27, 2001 meeting of the Administration Committee, the CAO reported on a strategy to reduce the use of consultants. The strategy consisted of a policy report to ensure rigour in selection, evaluation and hiring procedures, as well as a separate report recommending improved definitions of consulting to aid reporting, the creation of new budget line/cost-elements for consulting activities, new in-year reporting during 2001 on expenditure, and a City-wide five percent reduction goal over the consulting expenditures of 2000. The Administration Committee deferred consideration of these reports to its June 5, 2001 meeting and, subsequently to its July 3, 2001 meeting in order to consider them with reports from the Auditor on the use of consultants; the CAO on the implications of a 20 percent reduction in consultant use and a report from the City Solicitor.

Comments:

The CAO's office together with the Finance department have been working together for the last two years to develop and enhance management controls and reduce expenditures. Council on July 6 1999, adopted criteria recommended in a CAO report on project categories and improved data gathering for future reports.

Before the Administration Committee at its meeting on July 3, 2001 are a number of significant initiatives which are summarized below.

Policy for the Selection and Hiring of Professional Consulting Services:

The report sets out a proposed policy to provide consistency across the City for selecting, evaluating and awarding professional and consulting services in a fair, open and competitive process.

The policy was developed by staff from the CAO's office and the Finance department in consultation with Audit Services.

This policy was submitted for the March meeting of the Administration Committee but deferred so it could be considered in conjunction with the Auditor's report.

Use of Consultants and Expenditure Reduction Strategies:

This report proposes a number of improvements that are expected to have a significant impact upon managing the use of consultants and thereby reducing the associated expenditures. Several areas are recommended for immediate implementation in 2001 and these include: formalized and improved definitions to lead to consistent understanding across the City and stated standards and conditions for when to use consultants. In addition, a goal for expenditure reduction, annual budget information improvements, and in-year reporting mechanisms respecting consultants are being recommended.

20 Percent Reduction Report:

The report provides a summary of Year 2000 Actual Expenditures on Consultants vis-à-vis the Impacts of a 20 percent Reduction and Policies and Standards for the Use of Consultants.

Total expenditures on consulting (even excluding expenditures on the Year 2000 project) have been declining since 1999. Current figures on expenditure in this area, from 1998, from 1999 and 2000 include, in various cases, actual expenditure, in – year portions of multi-year commitments and also pre-commitments. Consistency of reporting will be realized in 2001 through clearly defined project categories for consulting and upgrades to the City's financial reporting systems that are currently being implemented.

There are now six project categories:

- (1) Technical and Professional Consultants undertake activities for a defined assignment to assist managers in delivering services requiring the application of mandatory or essential technical skills by accredited professional or quasi-professionals (can be architectural or engineering design, accounting, actuarial, medical, appraisal, scientific, urban planning, banking/financial, surveying or landscaping/interior design in nature).
- (2) Management Consultants undertake planning, organizing and directing activities to assist managers in analyzing management problems and in recommending solutions for a defined assignment (can be operational, administrative, organizational or policy in nature).
- (3) System Development Consultants undertake activities on a defined assignment to assist managers in developing and maintaining systems including information processing, telecommunications and office automation (can be analytical, project management, programming, testing or of an implementation nature).
- (4) Research and Development Consultants provide the City with increased knowledge or information.
- (5) Legal Consultants provide an area/degree of expertise not available in-house or required because of workload and timing, and City legal staff are to be consulted.

(6) Creative Communications Consultants provide advertising, promotion, public relations and graphic design services.

Consulting Expenditures and Single/Source Purchases for the Year 2000:

This report summarizes the consulting expenditures by Departments and major Agencies, Boards and Commissions. In 2000, there were 1,465 consulting agreements/contracts across the City totaling \$69,485,290.89 which represents 1.01 percent of the total gross City budget.

This report also references the ongoing initiatives that are underway to ensure rigour in the purchasing and consulting practices. Departmental tracking and reporting management support systems are still evolving and are expected to result in improved reporting in the near future including the ability to comment specifically on the consulting projects that were single/sole source purchases. Steps are currently underway to have a mandatory field created in the City financial system (SAP) where users must state the reason for all single/sole source purchases when creating blanket contracts, purchase orders or department purchase orders. This reportable field should be ready to be implemented with the update to SAP scheduled for September 2001. Until this mandatory field has been implemented, departments and major agencies, boards and commissions will need to gather the information manually as they did for the report submitted to the Administration Committee. It is expected that more accurate data will emerge in future years through continued analysis and with upgrades to the SAP financial system.

Auditor's Report – Selection and Hiring of Professional and Consulting Services Review:

Many of the Auditor's recommendations reflect the CAO's proposed recommendations to the Administration Committee, for example:

- (i) the proposal that the City adopt a uniform purchasing policy for selecting and hiring consultants;
- (ii) the recommendations for a policy on standards and accountability for the use of consultants;
- (iii) the proposal for a five per cent cut in consulting costs; and
- (iv) the recommendations for more timely reporting to Council about City expenditures on consulting.

A full management response will be provided to the Administration Committee at its meeting on September 6, 2001.

Conclusions:

The CAO's office and Finance Department have proposed a multi-faceted strategy regarding the use of consultants that includes a new policy to ensure rigour in selection, evaluation and hiring procedures; improved internal controls, and a five percent reduction in the use of consultants.

The Auditor's recommendations support the work of the CAO to ensure that there are stronger City control over its consulting expenditures.

Implementation of the Auditor's recommendations will be a priority within all departments of the corporation.

I will bring forward a full management response and an implementation status report to the September Administration Committee.

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The Administration Committee also submits the following report (June 29, 2001) from the City Solicitor, entitled "Policy for the Selection and Hiring of Professional and Consulting Services Modifications of Policy for Retention of Outside Legal Expertise":

Purpose:

The purpose of this report is to recommend modifications to the policy for the selection and hiring of professional and consulting services as it affects the retention of external legal expertise.

Financial Implications and Impact Statement:

There are no financial implications by the receipt of this report.

Recommendations:

It is recommended that, for the purpose of the retention of outside legal expertise by the Legal Services Division, the procedures for the selection of consultants contained in section 7 of the Policy appended to the report, dated March 16, 2001, from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, be modified in accordance with the modifications detailed in this report.

Background:

The Administration Committee will have before it as Item 5 on the Agenda a report, dated March 16, 2001, from the Chief Administrative Officer and the Chief Financial Officer and Treasurer on a Policy for the Selection and Hiring of Professional and Consulting Services. At its meeting on March 27, 2001, the Committee had deferred consideration of the report and as part of its recommendations, requested the City Solicitor to submit a report to the Committee on any outstanding legal concerns, if any.

Since the date of that report, the Legal Services Division (“Legal”) has been discussing with the Chief Administrator’s Office the application of the policy and the potential need for modifications to the policy in order to address the specific needs for retaining outside legal expertise. In the absence of any specific exception or modification to the policy, Legal will have to follow the procedures for selection as set out in the policy.

Comments:

As the report which is before the Administration Committee indicates, the category of Legal Consultants is one of six project categories to which the Policy for the Selection Hiring of Consultants is applicable. It is the position of Legal that the procedures set out in the proposed Policy will not work for it in accessing required legal assistance or if the policy is applicable to the retention of professional planning consultants for the purpose of any hearings.

As stated by Legal, much of the expert advice required is issue oriented. While many firms will indicate an expertise in a particular area and therefore qualify for inclusion on a proponents’ list, the Legal Division is more interested in the past experience and record of a firm in relation to the specific issue at hand, not just experience within an area of expertise. While specific experience and record of success on or in an issue is likely to emerge through a subsequent evaluation process, many legal issues are time sensitive requiring immediate access to external expertise.

The proposed roster basis of selection which is a cornerstone of the policy (where the top three firms in a proponents’ list are sent to the bottom of the list for the purposes of the next selection) is particularly troublesome to Legal and counter to the need to retain the best firm in relation to the matters in issue. Legal is therefore requesting greater flexibility in the retention of legal and planning consultant services.

The CAO has responded that, as the retention of planning consultants is usually undertaken in conjunction with Ontario Municipal Board hearings, that retention falls outside the scope of the policy. Such retention is for expert witnesses as opposed to consultants. Expert planning witnesses can be contrasted with the group of consultants referred to as “community planners” in the category of Technical/Professional Consultants. Accordingly, Legal does not have difficulty with the Policy respecting the use of planning consultant expertise.

In the matter of retention of outside legal expertise generally, we are recommending that the policy be modified to allow the Legal Division to:

- (i) supplement any Proponents’ List or Pre-Qualified List with additional firms for the purpose of any evaluation;
- (ii) be exempted from the requirement that the selection of proponents be undertaken on a rotating basis so that proponents invited to submit to a legal task will not be rotated to the bottom of any List; and
- (iii) solicit directly for legal services and to restrict those invited from a List to at least five firms so long as a minimum of 3 firms submit proposals in response.

Conclusions:

Legal has been in discussions with the CAO's Office in respect of Legal's concerns on the application of the consultant selection policy to the retention of outside legal expertise. The CAO is in agreement that the policy should be modified to allow for greater flexibility in the selection of firms or legal counsel given the nature of legal issues generally and the time sensitive nature of those issues. Subject to the modifications set out in this report, Legal would be adhering to the policy and any further Council directive on retention; this would include undertaking an appropriate evaluation of proponents for a particular legal task and the provision of any statement of justification for consultant retention, as may be required. In appropriate circumstances, Legal may also seek instructions from Council for retention of outside legal expertise.

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The Administration Committee reports, for the information of Council, having also had before it a communication (March 23, 2001) from Mr. D. C. Ingram, P. Eng., President, Consulting Engineers of Ontario, requesting that, rather than endorsing the proposed policy for the selection and hiring of professional and consulting services, that the consulting industry, through Consulting Engineers of Ontario, be given an opportunity to provide direct input to the policy as it relates to consulting engineers who are essential to the infrastructure development of the City.

The following Members of Council appeared before the Administration Committee in connection with the foregoing matter:

- Councillor Bas Balkissoon, Scarborough-Rouge River;
- Councillor Jane Pitfield, Don Valley West; and
- Councillor Michael Walker, St. Paul's.

(City Council on July 24, 25 and 26, 2001, had before it, during consideration of the foregoing Clause, the following report (July 24, 2001) from the Acting Chief Administrative Officer and Acting Chief Financial Officer:

Purpose:

The purpose of this report is to provide a preliminary management response to the Auditor's report Selection and Hiring of Professional and Consulting Services, dated June 19, 2001, and to make related recommendations.

Financial Implications and Impact Statement:

There are no financial implications associated with this report, except for recommended staff training enhancements that are suggested for inclusion in the 2002 budget submission.

Recommendations:

It is recommended that:

- (1) *Council adopt the report to the Administration Committee of the Former CAO dated March 16, 2001 entitled 'Policy of the Selection and Hiring of Professional and Consulting Staff.' The draft policy should be adopted as a first step. It should then be referred to staff to be expanded to address some of the additional recommendations in the Auditor's report;*
- (2) *staff report back to Administration committee on the relationship between staffing levels and the use of consultants. The report should include an examination of the staffing, compensation, and training issues related to minimizing the use of professional and consulting services;*
- (3) *a report should be prepared for Administration Committee providing options for the provision of temporary or project based staff. The report should seek Council endorsement of a method or methods of providing temporary staffing;*
- (4) *during the preparation of the 2002 budget, Departments should identify training and professional development needs for key staff who routinely manage contracts for outsourced services;*
- (5) *in the future, a report from the City Auditor should not be tabled with Committee or made public without an accompanying management response;*
- (6) *a detailed management response addressing each of the audited contracts will be submitted to the Administration Committee in October; and*
- (7) *the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.*

Background:

At the July 3rd, 2001 meeting of the Administration Committee, the City Auditor presented the report; Selection and Hiring of Professional and Consulting Services Review. The report was presented to Committee without the benefit of a management response.

This report is the initial management response to the Auditor's report. It also recommends further examination of a number of issues related to the City's use of professional and consulting services that will require further policy and business direction from Council.

The City Auditor's report makes a wide range of sweeping recommendations. In addition the report identifies several specific uses of professional and consulting services as illustrations of issues and concerns, or as evidence of mismanagement. This report will provide general comments on the report, comment on certain examples in the report, address each observation and recommendation, and outline steps taken to date to address this issue.

City management support the great majority of the observations and recommendations made in the report. In fact, most of the recommendations are similar to, or consistent with, recommendations made in a series of earlier reports from the former CAO. Generally stated, the recommendations of both reports suggest the creation of a more structured, rigorous, and consistent system for the selection and use of professional services. The auditor's report makes valuable recommendations on the reduction of sole sourcing and improved justification. In addition, both the Auditor and the former CAO recommend that the City reduce, to the extent possible, its reliance on the use of professional and consulting services. In order to put in place the recommendations of the auditor and the former CAO, Council must provide policy and business direction in a number of areas.

A number of key issues are raised by this report that require further examination. Minimizing the use of consultants will, in some areas, require improvements in staffing, measures to enhance staff retention, and greater investments in training.

However, the report was unfortunate in that it missed important information, and did not examine key documents and approvals that were readily available. This resulted in a number of conclusions that are demonstrably false. The report was also tabled without a management response. The subsequent commentary and sensationalist media coverage suggested mass incompetence involving large numbers of staff, and even criminal wrongdoing. This has had a seriously detrimental impact on staff morale.

Comments:

Developing a Policy

Recommendation

Council adopt the report to the Administration Committee of the Former CAO dated March 16, 2001 entitled 'Policy of the Selection and Hiring of Professional and Consulting Staff.' The draft policy should be adopted as a first step. It should then be referred to staff to be expanded to address some of the additional recommendations in the Auditor's report.

The former CAO's draft policy is an appropriate foundation for a comprehensive policy on the use of professional and consulting services. It should be adopted, and expanded to address some of the recommendations in the Auditor's report.

The terms consulting, professional services, alternate service delivery (ASD), and outsourcing are often used interchangeably. The differences between the terms are seldom clearly defined. The terms are used to cover outsourced garbage collection, software maintenance, management advice, catering, health services, legal support, efficiency expertise, and mainframe computing services. As well, consulting is also used to describe contracts with temp agencies for temporary

staff. To make the issue more confusing, there is no consistent use of the term in the private sector, although the use of the term 'consultant' is widely used for a broad range of businesses and services, particularly in information and technology.

For the purposes of this report 'outsourcing' is used to refer to any business arrangement with the private sector or other organizations for a service or good. In that context it is an umbrella term that would include ASD, consulting, professional services and temporary staffing.

The reports of the former CAO address this issue and seek Council direction to establish a formal understanding of different types of external services and Council's position on each. In the absence of that definition there will continue to be confusion about Council's preferred directions. There is similarly a confusion in terminology: While the outsourcing of building maintenance is typically referred to as ASD, the outsourcing of computer maintenance is typically referred to as consulting. The reason for this is unclear. In short, before staff can put in place more rigorous controls on professional services and consultants, Council must provide direction on how professional services and consultants differ from other types of outsourced services.

Staffing Levels, Compensation, and Training

Recommendation

Staff report back to Administration committee on the relationship between staffing levels and the use of consultants. The report should include an examination of the staffing, compensation, and training issues related to minimizing the use of professional and consulting services.

The use of professional services and consultants is inextricably linked to staffing. It is not coincidental that the greatest use of professional services and consultants is in areas where the most acute staffing, training, and compensation problems exist. Moreover, in the great majority of cases, professional and consultant staff are undertaking activities that must be delivered in some manner in order to support City services. Therefore ending, or not entering into, a professional or consulting contract means that another method must be found to provide the service. In order to transition functions from professional services to staff, or avoid future uses of consultants, the following must exist:

- Sufficient staff to undertake the function.*
- Reasonably competitive compensation to attract and retain qualified staff, particularly in fields with highly competitive external labour markets.*
- Sufficient funding to train staff to undertake the function and remain proficient.*

In some parts of the City none of these conditions exist. Information and Technology is a particular (but not exclusive) example. Most departments employ some I&T staff, although the largest number are employed in Corporate Services I&T Division. Staffing levels in that Division were reduced by 17% through amalgamation (from 344 staff to 288). Through the 2001 budget process the Division's staffing was reduced by another 20 staff. Thirteen permanent staff were gapped all year and seven contract staff eliminated permanently. This results in an on-the-ground staff reduction of about 20% since amalgamation. During the same period demand for I&T services has grown considerably.

In addition, the Division suffered approximately a 20% staff turnover in 2000, primarily because the City's I&T salaries are roughly 30% below market value. In some specialized skills, such as network architecture and maintenance, where salaries for front line staff exceed \$100,000, it is unclear that there is any method the City could use to come close to paying market value and attracting staff. Market value for a Cisco Certified Engineer, a qualification required by manufacturer warranty to work on the network routers used by the City, fluctuates from a current low of \$150,000 a year to \$250,000 a year. This is a front line, non-management technical position. There are other I&T positions where it is reasonable to attempt to compensate at or near market value and therefore keep the skill in-house. Similar problems exist in other specialized fields.

In the private and broader public sector there is significant investment in training in order to keep staff current in a highly technical and rapidly changing field. Training investment is typically from \$10,000 to \$20,000 a year per technical employee. The I&T Division's training budget allows for less than \$800 of training each year per employee, 1/12th of the industry average.

In these circumstances, transferring functions currently undertaken by contracted services is not possible without significant re-investment, which might in the short term be greater than the cost of outsourcing the service.

These problems are not exclusive to the IT field. They are mirrored in other high market demand areas in the City such as law, engineering, accounting, and human resources, all of which are experiencing attraction and retention problems, and are therefore under greater operational pressure to use professional and consulting services.

A second report before Council relates directly to this issue. The report from the Acting Chief Financial Officer identifies transition issues specific to re-examining the use of a consulting company to support the water and tax billing.

In summary, because professional and contracted services are often used to undertake non-discretionary business or support activities it is not possible to phase out many professional and contracted services, or not enter into new ones, without making an internal investment in staffing and training. As a result, savings from ending or avoiding consulting and professional services arrangements will be partial at best because an internal capacity to provide that service will need to be built and sustained.

Temporary Staff

Recommendation

A report should be prepared for Administration Committee providing options for the provision of temporary or project based staff. The report should seek Council endorsement of a method or methods of providing temporary staffing.

One of the largest professional and contracted services identified in the Auditor's report has to do with the use of temporary technical staff. The use of temporary staff is often called 'consulting' likely because the individual temporary staff whose services are purchased prefer to call themselves 'consultants'. From the City's perspective the individual, while free to call themselves whatever they like, are not a consultant but a technical temp whose services are purchased from an agency.

A number of areas of the City regularly need temporary staff for the following reasons:

- *To support time-limited capital or development projects, such as Toronto Healthy Environment Information System, Works Best Practices, Electronic Service Delivery, Y2K.*
- *To support known fluctuations in workload such as budget preparation.*
- *To backfill mission-critical positions after staff departures until the position is refilled.*

Council has approved standing agreements with three companies to provide temporary contract staff for I&T services. When a temporary staff is needed, a request is sent to Purchasing who then recommend a company. One company has had a consistently lower price and therefore figures prominently in the Auditor's report as a major contract. Finance Department similarly has a contract with an accounting temp agency.

While staff attempt to minimize the need for temporary staff, the nature of some business functions, particularly I&T and budgeting, entails major fluctuations in staffing needs. There will therefore be an ongoing need to obtain additional staff for a limited period of time. Hiring permanent staff and laying them off at the end of the project is rarely if ever desirable or economical. It is not possible at all in collective bargaining positions. Previously some amalgamation municipalities prohibited the hiring of contract staff directly through personal service contracts but required contracting through an agency. This is the current practice in the City.

It would be valuable for staff and Council to re-examine the issue of temporary staff and options available to obtain them when necessary. This should be a policy separate from a consultant policy to recognize the fundamentally different nature of the purchased service.

Contract Management

Recommendation

During the preparation of the 2002 budget, Departments should identify training and professional development needs for key staff who routinely manage contracts for outsourced services.

Many City staff routinely manage contracts for outsourced services. Some do it full time. This is a demanding field in which City staff are often preparing and monitoring complex contracts for a wide range of services. The companies providing the services under contract will often have highly experienced legal and contract management teams to manage their end of the contract. The City staff managing the City's interests may have little or no professional training in the field.

Research reviewing the British and American experience of contracting out consistently identifies the failure to properly train and re-train public sector contract management staff as a root cause of outsourcing problems and failures.

The City should commit to providing all necessary training to staff who prepare and manage contracts for outsourced services.

Audit Report Processes

Recommendations

In the future, a report from the City Auditor should not be tabled with Committee or made public without an accompanying management response.

The Auditor's report was presented to Administration Committee and discussed without an accompanying management report. While staff support the general intent of the Auditor's report, there are major concerns with some content, process, and implications of staff mismanagement or failure to follow process.

Many of the recommendations and conclusions are based on a sample of 90 payments on 26 contracts or about 10% of the payments on file. While this is a reasonably large sample it is not a random sample. The auditor indicated in his presentation to Administration Committee that the some of the payments and contracts audited were not random, but were targeted. Therefore the widely publicized conclusion, not in the Auditor's report but in the media, that this sample is representative of all City contracts is inaccurate.

In addition, the 90 payments and 26 contracts covered a very diverse range of purchased services, few of which were the traditional 'management consultants' who analyze issues and write reports. The majority involved the purchase of hard technology services, specifically temporary staff, and highly specialized IT expertise that the City does not possess internally. Some of the other contracts included: healthy baby programs, engineering services, outside legal, long-standing ASD initiatives, social service agencies, and flu shot clinics.

The examination of the payments and contracts is based on the incorrect premise that there has been a consistent and homogenous purchasing practice in the City since amalgamation. This is not the case. In the Auditor's report the payments and contracts are assessed against purchasing practice as it existed at the time the audit was undertaken (late spring 2001). However many of the contracts were entered into in previous years when there were different purchasing practices. Some audited contracts were entered into prior to amalgamation. This repeatedly leads to audit observations that are inaccurate. A common flaw identified by the audit staff in the sampled payments and contracts is the absence of a purchase order (PO) for a particular contract. The report concludes that POs were not used for 71% of the payments, which is entirely correct. The conclusion that this universally represents a routine violation is not correct. At the time, many of the audited payments purchasing practices were evolving and POs were not universally required. For instance, prior to the spring of 2000, comprehensive policies had not been fully implemented and a PO was not required for every transaction, particularly those involving a contract. Purchasing staff have been diligently improving purchasing practices since amalgamation. In short, the Auditor's report repeatedly identifies as shortcomings, practices that were accepted at the time.

Not only have purchasing practices changed through time, there have been special practices for special projects at a single point in time. The Y2K project is an example of a project-specific special purchasing framework created by Council. Council created and approved a special purchasing framework that included the following key components:

- (1) *A committee chaired by a member of Council was established to oversee the project.*
- (2) *The CAO had signing authority for the project, up to \$150 million.*
- (3) *Purchase orders were not required where contracts involved the expansion or extension of pre-amalgamation contracts.*
- (4) *City Audit staff were attached to the project to monitor spending practices.*
- (5) *All invoices were jointly signed by the Project Director and the Director of Accounting Services.*
- (6) *All project spending was reported out monthly.*

The authors of the Auditor's report appear to be unaware of this purchasing framework and as a consequence identify as problems contracts that were fully consistent with the Y2K purchasing framework.

In one instance, the report cites as an example a contract that appears to have only \$2.1 million of spending authority, yet paid the contractor \$10 million. The contract in question involves the outsourcing of temporary IT staff for projects, workload fluctuations, or to provide skills otherwise unavailable in-house. The serious implication in the report is that \$7.9 million was spent without any authority. In fact much of the \$7.9 million was fully authorized Y2K spending all of which was approved, documented and reported in accordance with the Council approved framework. As one of the larger Y2K contracts it would also be reasonable to assume it was monitored appropriately by the City audit staff attached to the Y2K project. The remainder relates to contract staff used to support a range of I&T capital projects in a number of departments. In these cases, contract staff services were purchased under a master contract from a vendor of record approved by Council. Documentation and approvals for these purchases are available, but were not asked for during the audit. Nevertheless, staff are now taking steps to dramatically reduce the use of temporary staff except where absolutely necessary.

The statement that two staff left the City and were rehired at much greater cost, in a manner that violated policy, is also false. Two staff did leave the City in early 1999 to form an I&T consulting company. The company was then hired, not by the City, but as a subcontractor to a large computer firm that built the Urban Development Services computer system and is now working on major Public Health systems. One of the two staff did not receive a package and therefore was fully entitled to work immediately for the City directly or as a subcontractor. The second staff member did receive an exit package but was still eligible to subcontract for City work under policies at the time. The City did not have a policy regarding departing staff who received packages subsequently working for the City as a subcontractor until the summer of 1999. Notwithstanding that, staff erred on the side of caution ensuring that the second individual did not receive any payments, directly from the City or indirectly through the contractor, until after the two year waiting period. Audit staff were attached to this project with the mandate to monitor spending practices. Again the process was fully consistent with practices and approved policies at the time, but is tested in the Auditor's report to current standards.

There is a second serious error in the Auditor's report on this issue. The report strongly implies that the two individuals were paid the full approved contract amount of \$344,000 in 2001. This was not the amount paid but rather the upset limit for the sub-contract. The amount actually paid was approximately \$60,000 to only one of the two individuals. All relevant documents are available.

In the case of the company contracted to build and maintain the City's tax and water systems software, all appropriate approvals are on file, including approvals reviewed and signed by the Auditor. The approvals show that the payments were within the approved spending limits. The total out-of pocket expenditures paid to the consulting firm do not exceed the total amounts approved in the contract. Finance staff are now working with I&T staff to move the support to the system in house, to the extent possible.

The Auditor's report cites as problematic a contract with a company that maintains the City's data network, and recommends that the function be brought in-house. This function was outsourced under the former Metro government as a model ASD project. It is not clear that the City's compensation policies will ever allow this function to be accomplished in-house. The market value for salaries in this IT sub-specialty is often well in excess of \$100,000 for front line, non-management, staff. However, the Acting Executive Director of Information and Technology has directed staff to examine the economic viability of bringing the service in-house.

In summary, there were significant errors of fact in the examples cited in the Auditor's report. Specifically, the report tested the 90 payments and 26 contracts by purchasing practices of today, not the practices at the time the contract was entered into. Similarly some of the largest examples in the report have to do with contracts which had a special Council endorsed purchasing framework with formal audit involvement.

Most alarmingly, the factual errors in the Auditor's report served as the catalyst for subsequent comments at Committee and in the media that large numbers of City staff were either incompetent, wilfully negligent, or even criminal. This has had a seriously detrimental impact on the morale and confidence of numerous staff who diligently and professionally followed approved purchasing policies.

Steps Taken to Reduce the Use of Consultants

In recent months a number of steps have been taken to more rigorously manage professional and consulting services and to reduce the use where possible.

In Works and Emergency Services detailed plans have been developed to end some contracts for professional and consulting IT services and to build an internal capacity. This was identified in the Department's budget submission and approved by Council.

The Finance Department is taking steps (in a report before Council at its July 2001 meeting) to begin to transition from its longstanding sole source contract for water billing. In addition, the SAP steering committee is examining sustainment support needs for SAP that could reduce dependence on consultants.

Finance department has developed categories for use by all city departments so that outsourced services can be tracked in a consistent manner.

In Corporate I&T the following changes have been implemented since February 2001:

- (1) *A stringent conflict of interest policy was implemented to ensure that staff interactions with consultants and vendors is both free of conflict, and is seen to be so.*
- (2) *A competition was started to fill the Director of I&T Planning position. This position will eventually oversee contract management and ensure that contracts are linked to Departmental IT plans, which in turn are linked to departmental and corporate objectives, so that IT resources are deployed efficiently and effectively. The position will also ensure that IT contracts provide expected value and meet standards.*
- (3) *The I&T Contract Management Office is being doubled in size (four staff are being added to the existing three). The reporting relationship of the Contract Management Office has been brought directly under the Acting Executive Director.*
- (4) *The Acting Executive Director now personally reviews and approves the business case for all I&T outsourced services, purchases, and leases and signs off all contracts and extensions, regardless of size.*
- (5) *Seven contract staff were terminated permanently in April to meet budget reduction targets.*
- (6) *All remaining contract positions are being reviewed with the goal of transitioning to permanent staff where possible.*

Auditor's Observations and Recommendations

Each of the recommendations of the auditor is reviewed below with management comments.

Auditor's Observations

- (1) *Consulting expenditures for both 1998 and 1999 reported to Council as \$29 million and \$159 million respectively, are misstated. The extent of the misstatements can not be accurately determined. In a report dated September 6, 2000, the limitations relating to the 1998 and 1999 expenditures were acknowledged by the Chief Administrative Officer.*

Staff agree that there is great difficulty generating accurate reports on consulting expenditures. This is at least partly a result of financial system changes, and partly a result of a failure to properly classify and define consulting services. This issue is now being remedied by implementing a consistent reporting process, and will be enhanced with policy direction from Council on definitions.

- (2) *Several non-Year 2000 Information Technology service contracts were awarded under the delegated Year 2000 authority without open competition and without the involvement of the Purchasing Agent, as required by the Toronto Municipal Code, Chapter 195, Purchasing, which establish procedures and authority for the procurement of goods and services.*

Some projects that followed Y2K, or resulted from Y2K, particularly the Toronto Healthy Environment Information System in Public Health, received partial funding from Y2K budgets. Elements of those projects were deemed by the Y2K steering committee to be delayed Y2K remediation or replacement projects and were therefore eligible for funding under Y2K initiatives. All Y2K spending was reported out monthly and purchasing processes were reviewed at the time by audit staff. In order to respond fully to this observation, further details will be needed from the auditor.

(3) *In some cases, internal administrative controls to ensure that consulting and professional service contracts are awarded and extended in compliance with corporate purchasing policies and procedures have been by-passed.*

Purchasing practice has changed both through time and by project since amalgamation, and many of the examples cited by the Auditor's report of errors were in fact consistent with the practices of the time.

(4) *Sole source procurement often did not meet the criteria set forth in the City's guidelines. In many cases, sole sourcing was justified as "continuing prior work" and "previous work relationship". Generally, there is no documented evidence to demonstrate that the sole source consultant is the only, or best, firm to provide the service at the best price for the City.*

Staff agree that there should be more stringent policies regarding sole source procurement, and that it should only be used in exceptional cases and even then with rigorous review at an appropriately senior level.

(5) *In many cases justification for the hiring of consultants is not documented. Formal business cases or justification analyses have not been prepared which, in general terms, should include the benefits and costs of hiring a consultant. There is no evidence to indicate that alternatives were considered, such as the use of City staff in whole or in part.*

Staff agree that there should be consistent and meaningful justification for professional and consulting services, as recommended in the proposed policy. However, in numerous cases in the Auditor's report this observation applies to the hiring of temporary staff from an agency on the vendor of record list. It is correct that there was not a business case for each of these contracts. This is in fact a different service where the deliverable is a temporary employee to do a short term job. What is prepared for these contracts is a job and responsibility and position description. These are on file.

(6) *A number of Request for Proposals disclosed the approved funding for the project. Proposals received for these requests tended to be priced in a narrow range near the maximum approved funding amount. In such cases, there is no assurance that the City has received the best price for the goods or services acquired.*

While best efforts are made to clarify the requirements of the review or project for which the Proposal is issued, there are times when the scope of a project cannot be clearly defined without some reference to the project's budget. There are other times where the scope requested and described could result in proposal costs submitted at amounts significantly greater than budget. Including budget amounts reduces the likelihood of bids far outside of the project limits. This saves staff and vendors work and frustration that usually far outweighs the chances of vendors simply proposing the budget amount.

(7) *Invoices submitted by consultants often provide insufficient information to allow staff responsible for invoice approval to determine whether the service has been rendered or that the amount invoiced is reasonable and legitimate. In two of the contracts that we reviewed, out of pocket expense reimbursements, in our view, were excessive.*

The contracts reviewed in the audit stipulated that the City was responsible for all associated travel expenses. However, staff agree that out of pocket expenses should be reasonable and considered in conjunction with the total cost of the contract, but not necessarily included or hidden in the total contract cost.

(8) *Project scope and deliverables are often not defined in sufficient detail to permit the effective management of consulting contracts, and to ensure that the project objective has been, or is being, met.*

Staff agree that a more rigorous process should be put in place to monitor the results of contracts, and ensure value for money. Greater staff training and extension of the CAO's Project Management Initiative would assist.

(9) *The City, in certain areas, has put itself at significant risk due to its reliance on various consulting organizations. The termination of certain services provided by consultants at the present time would have significant impact on the ability of the City to continue its day-to-day operations. In these cases, there is no long-term plan to replace the knowledge of those consultants, who are critical to the operation of the City, with City staff.*

This is true in a number of areas, and staff strongly agree that this puts the city in a position of vulnerability and should be minimized. However, minimizing the use of highly technical professional or consulting staff requires investments in permanent staff. In many cases there are no staff in place to whom such a transfer of knowledge and skills could be made. In order to build an internal capacity the city will need the ability to draw on the funds currently used for consultants to recruit and pay new staff. The city will also need to provide salaries that are reasonably competitive, and invest in skills development. This issue should be addressed in a recommended report.

It should also be noted that there are also areas where the city is exceptionally vulnerable to the unexpected departure of key internal city staff with highly specialized skills or knowledge.

(10) *Consultants are often required because of insufficient staff resources or an absence in the skills necessary to complete certain work. Opportunities for cost savings exist where departments can identify a long-term need for these skills or resources.*

Staff strongly agree. Consultants are most frequently used in those parts of the city organization that are having difficulty attracting and retaining staff, or that have suffered significant staffing reductions. This should be the subject of a recommended report.

Auditor's Recommendations:

(1) *all future reporting of consulting expenditures be based on actual expenditures incurred and not on the value of contracts awarded unless specifically requested by Council. In order to ensure that such reporting is accurate, all consulting costs reported to Council be reconciled to the City's financial information system by each Department. The Chief Administrative Officer be required to communicate to senior staff the recommended reporting requirements;*

Steps are being taken to enhance financial reporting systems so that actual expenditures and contract values are clearly delineated.

(2) *the Chief Financial Officer and Treasurer advise all departmental staff of the specific reporting requirements for consulting expenditures. In addition, the Chief Financial Officer and Treasurer emphasize the importance of the need to accurately analyze all consulting related invoices in order to ensure that such expenditures are recorded accurately in the financial information system. Departmental staff be required to review such accounts on a regular basis and make appropriate and timely accounting adjustments, where necessary;*

This enhancement of the financial reporting system, and the associated training and policy changes, are underway. In March 2001, the former CFO provided all departments with the six cost elements to be charged for consultant costs as specified in the report from the CAO recommending the "Policy for the Selection and Hiring of Professional and Consulting Services". In her memorandum, the former CFO requested departments to record their 2001 budget numbers in the appropriate cost centre and advised that all actuals charged to-date need to be transferred to these new cost elements.

The six cost elements are: Technical and Professional Consultants; Management Consultants; System Development Consultants; Legal Consultants; Research and Development Consultants; and, Creative and Communications Consultants.

(3) *the Chief Administrative Officer be required to add to the "Policy for the Selection and Hiring of Professional and Consulting Services" the following, "A justification analysis is required prior to the engagement of a consultant which outlines in general terms the costs and benefits of using a consultant, including reasons why the consulting study cannot be conducted by internal staff, either in whole or in part";*

This mirrors recommendation 5 in Item 5c in the draft policy in the report dated March 16th, 2001 from the former CAO.

(4) *the Chief Administrative Officer to report back on the dollar threshold above which departments are required to prepare detailed business cases prior to the hiring of consulting resources. Consideration be given to the development of a formalized template and/or checklist in order to assist staff in the development of a standard business case. The business case should be approved by each Commissioner and should be filed in the department for future management review and subsequent audit;*

This recommendation would be a necessary implementation element of part 5 of the draft policy of the former CAO.

(5) *the Chief Administrative Officer take immediate steps to ensure that the engagement of all consulting services is made in accordance with the City's purchasing policies. Consultants not be engaged until the appropriate approvals have been obtained and a duly authorized purchase order is processed and recorded on the financial management information systems;*

This mirrors part 5 of the draft policy of the former CAO.

(6) *the Chief Administrative Officer require the Commissioners to provide the appropriate information on existing consulting contracts so that purchase orders can be processed by the Purchasing Agent. The Purchasing Agent take the necessary steps to record such purchase orders on the financial information system. Any payments processed in excess of original contract amounts be identified and explanations obtained for such occurrences. The need to process such purchase orders in the future will not be required if proper procedures are followed;*

The Finance Department supports this recommendation. For those contracts in excess of D.P.O. limits, after the Purchase Requisition is entered electronically by the originating department the Purchasing Agent will issue a Purchase Order.

(7) *the Chief Administrative Officer advise all Commissioners that in making sole source procurement decisions, clear justification, target completion date of the project, duration of the consulting engagement, and estimated contract value be documented, properly authorized, and, as required by City policy, be submitted to the Chief Administrative Officer, and to the Purchasing Agent for issuance of a purchase order or contract. Where the justification does not meet the City criteria for sole sourcing such contracts be subject to a competitive tender process in accordance with the City's purchasing policies;*

This is strongly supported by management. The Commissioner of Corporate Services has prepared a sole source policy for that department. A City-wide policy should be developed.

(8) *the Commissioners take the necessary action to ensure that staff assigned to project management duties, especially where consultants are hired, have an appropriate combination of training and experience in project management and knowledge in the subject of the assignment, especially in the areas of developing clear and measurable deliverables, milestones and performance evaluation criteria;*

This recommendation is strongly supported and is reflected in a recommendation in this report. There is a need for a focussed program to develop and retain skills in contract development, management and evaluation for key staff. This should be addressed in budget submissions for 2002 and supported by Committees and Council through that process.

(9) *the Chief Financial Officer and Treasurer advise staff that request for proposal documents should not contain information relating to the actual project budget;*

A Request for Proposal process can be an expensive process for a vendor to go through. While best efforts are made to clarify the requirements of the review or project for which the Proposal is issued, there are times when the scope of a project can not be clearly defined without some reference to the project's budget. There are other times where the scope requested and described would result in proposal costs submitted at amounts significantly greater than budget. Including budget amounts reduces the likelihood of bids far outside of the project limits. This saves staff and vendors work and frustration that usually far outweighs the chances of vendors simply proposing the budget amount.

(10) *the Commissioners be required to re-evaluate the administrative internal controls in their departments in order to ensure that invoices submitted by consultants are reviewed for reasonableness, proper supporting documentation and verified to the terms of the contract prior to authorization for payment. The review should also ensure that individuals approving invoices are in a position to assess whether the service has been rendered. In regard to reimbursable out of pocket expenses, consideration be given to including all such expenditures as part of the original contract price;*

The requirement that invoices be reviewed by appropriate staff who can verify invoices against work is a reasonable element of a new corporate policy on the use of professional and consulting services.

It is at times preferable to negotiate and compensate out of pocket expenses as a separate component of a contract. Simply including them in the contract invites the possibility of inflation of the out of pocket component of the contract, or establishes in advance minimum payments that do not reflect actual expenditures.

(11) *the Commissioners take the necessary steps to ensure that:*

- (a) *measurable standards and acceptance criteria are included in contracts executed with consultants;*
- (b) *regular, properly documented meetings are held with consultants to ensure that the consultant is meeting contractual obligations and performing as required; and*
- (c) *upon completion of a project, the consultant's performance is documented and made available for review to relevant City staff, including the Purchasing Agent, when considering consultants for new project.*

Recommendation 5 in Item 5c of the report from the former CAO requires the development of processes for documenting project results and value for money.

(12) *the Chief Administrative Officer, in consultation with the City's Commissioners, identify areas where departments have skill shortages or insufficient staff resulting in the consistent and extensive long-term use of consultants and:*

- (a) *present the appropriate business cases justifying meeting long-term operational demands by increasing staffing levels, such increases to be financed by the transfer of funds from consulting budgets to salaries and wages budgets;*
- (b) *where possible, ensure sufficient City staff are trained in skills required frequently and on a long-term basis, thus reducing the City's reliance on consultants to perform such duties, and*
- (c) *ensure that the continuous operation of critical management information systems is not dependant upon a single individual consultant.*

This is the subject of the recommended report on the relationship between the use of professional and consulting services and staffing levels, compensation, and training.

(13) *the Chief Administrative Officer communicate to and remind each Commissioner of the policy relating to the hiring of former employees, either directly or indirectly, as consultants for a specified period of time after they participated in the employee separation program of the City;*

As indicated in this report, the relevant policies current at the time were not violated in the incident cited in the auditor's report.

(14) *the Chief Administrative Officer review the practice whereby individual consultants are required to contract with consulting firms for providing their services to the City rather than being engaged directly as individuals;*

This is the subject of a recommended report on the methods for securing temporary or project staff..

(15) *in view of the fact that the recommendations contained in this report may be relevant to the City's Agencies, Boards and Commissions, the General Manager of each of these entities be required to report to their respective Boards by August 31, 2001 on such recommendations and their applicability in relation to their operations. In addition, the respective Boards be requested to forward such reports to the City Audit Committee;*

This is a reasonable recommendation.

(16) *the Chief Administrative Officer be required to add to the "Policy for the Selection and Hiring of Professional Consulting Services" specific details relating to the consequences of non-compliance with the policy. The amendment to the policy be reported to the Administration Committee by August 31, 2001; and*

Non compliance with any City policy would be a breach of management responsibility and as such the subject for performance management and where necessary disciplinary process or further remedies. The auditor's report suggested inaccurately that this is a widespread problem, when in fact the great majority of the incidents cited in the report as deviations with policy, were in fact entirely consistent with the approved policies of the day.

(17) *the Chief Administrative Officer be required to report to the next meeting of the Administration Committee on the plans and timetable relating to the implementation of recommendations contained in this report.*

Staff will report out fully on the details of the payments and contracts audited and an implementation work-plan to the October Administration Committee.

Conclusions:

Staff fully support the creation of a structured, rigorous, and consistent corporate policy for the use of consultants. In particular, the report points out needed improvements in the area of sole source arrangements. Many of the recommendations in the Auditor's report are constructive recommendations that will help shape that policy. There are some recommendations that require further study, and a few that if implemented precisely as worded could present operational or efficiency problems.

Staff also agree that professional and consulting services should be minimized. However, in the circumstances where consultants are filling key functions this can only be accomplished if there are trained staff to do the job. The use of professional and consulting services, and how that use relates to staffing levels, compensation, and training budgets must be considered.

Finally, the report was unfortunate in that it missed important information, and did not examine key documents and approvals that were readily available. This resulted in a number of conclusions that are demonstrably false. The report was also tabled without a management response. The resulting commentary and sensationalist media coverage suggested mass incompetence involving large numbers of staff, and even criminal wrongdoing. This has had a seriously detrimental impact on staff morale.

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(City Council also had before it, during consideration of the foregoing Clause, the following report (July 21, 2001) from the Acting Chief Administrative Officer and Acting Chief Financial Officer:

Purpose:

The purpose of this report is to request approval to extend I & T contracted services for maintenance of the Revenue Services Division's Financial Systems/Applications until December 31, 2001.

Financial Implications:

The total cost of extending the required contracted services to December 31, 2001 is estimated to be \$380,000 based on the Division's workload requirement. No additional funding is requested as sufficient funding has been approved in the 2001 Operating and Capital budgets.

Recommendations:

It is recommended that contracted services for Synerware EDP Services Incorporated, Remarkable Software Incorporated and Beacon Software Revenue Systems LLC be extended to December 31, 2001, in the amounts of \$100,000, \$220,000 and \$60,000 respectively on the provision that these services are to be terminated following the finalization of a new contract or the transfer of responsibility to internal staff. Any new contract(s) will be the result of a Request for Proposal.

Background:

At its meeting held January 30, 31 and February 1, 2001, City Council approved contract extensions for numerous companies to June 30, 2001, including contracted services currently being provided to the Revenue Services Division, Finance Department by the following companies: Synerware EDP Services Inc.; Remarkable Software Inc.; and Beacon Software Revenue Systems LLC.

On June 26, 27, and 28, 2001, Council approved a report from the Commissioner of Corporate Services which extended contracts for various service providers to December 1, 2001, or to the end of the contract period, on the provision that these services are to be terminated following new awards resulting from a Request for Proposal process, and a transition process to the new contractors or staff. Inadvertently, the requirements of the Revenue Services Division, Finance Department to extend three contracts for the noted providers of service to the Division were not put forward as part of that report. This report is intended to address this omission.

Comments:

With the help of a team comprised of three providers of I & T contracted services and one staff, the Revenue Services Division is responsible for the development and daily maintenance of six financial systems. This team works, on-site and side-by side, with Revenue staff to enhance system functionality as required. They are not only required to provide specified deliverables, but also daily diagnostics, debugging and troubleshooting services. The following is a summary of the maintenance services required for each of the six Revenue Systems and/or sub-systems.

<i>Financial System</i>	<i>Description of Service Provided by Contracted Services</i>
<i>TMACS – Tax Management and Collection System</i> <i>An integrated, modular system facilitating property tax data base management, billing (approximately \$4.5 billion annually), collection and payment processing functions.</i>	<i>Diagnostics, debugging and troubleshooting. Develop specifications for program modifications. Maintaining operational integrity of the system. Programming modifications. Report generation support. Post and extract tax billings.</i>
<i>WMACS – Water Management and Collection System</i> <i>An integrated, modular system facilitating water customer data base management, billing (approximately \$450 million annually), collection and payment processing functions.</i>	<i>Diagnostics, debugging and troubleshooting. Develop specifications for program modifications. Maintaining operational integrity of the system. Programming modifications. Report generation support.</i>
<i>Property Application</i> <i>Provides online view and data management of OPAC year end assessment data (the City assessment base is approximately \$236.6 billion) and facilitates report generation capabilities</i>	<i>Maintaining operational integrity of the system. Diagnostics, debugging and troubleshooting. Programming modifications. Report generation support</i>
<i>Payment Application</i> <i>Administer online payment processing for TMACS, WMACS and ICI (approximately \$762.6, million annually)</i>	<i>Maintaining operational integrity of the system. Diagnostics, debugging and troubleshooting. Programming modifications. Report generation support.</i>

Financial System	Description of Service Provided by Contracted Services
<i>ICI – Industrial Collection Invoice system</i> Facilitates industrial waste collection billing (approximately \$1.9 million annually) and payment processing functions	Maintaining operational integrity of the system. Diagnostics, debugging and troubleshooting. Programming modifications. Report generation support.
<i>Works – Waste Collection Management System</i> Maintains garbage pick up schedule information and equipment monitoring. Serves as a front end for ICI system.	Maintaining operational integrity of the system. Diagnostics, debugging and troubleshooting. Programming modifications. Report generation support.

In June 2001, the Revenue Services Division issued a Request for Proposal to contract for the next phase of its financial systems development. Included in this proposal is the development of an Interactive Voice Recognition (IVR) system, a unified cashiering system and Data Warehousing. The proposal call is scheduled to close on July 27, 2001. Full details regarding the selection process along with a request for contract approval will be brought forward to Committee and Council in the Fall of 2001.

In keeping with Council's direction that requests departments to minimize dependence on contracted services for on-going system maintenance requirements, the Director of Revenue Services will be working with the City's Information and Technology Division (I&T) on reviewing the feasibility of maintaining and supporting the operations of the City's Revenue systems with in-house I&T staff. Currently, I&T does not have sufficient staff resources to perform this function.

Furthermore, the Revenue Services Division, in consultation with Corporate I&T is currently evaluating other options such as the possibility of issuing a Request for Proposal in late September or early October 2001 for the maintenance and support of the six revenue applications.

Notwithstanding this, the Division is continuously faced with many challenges that must be met to adhere to legislative and customer service requirements. Although the 2001 final property tax bills have been issued, other billing obligations remain. Issuance of supplementary/omitted tax bills for 2001, as well as a large number of billing adjustments resulting from appeals or other legislative changes, necessitates having a stable I&T team. The following highlights some of the Division's immediate deliverables:

- (1) *Bill 140, approved in November 2000, introduced many amendments in the method of calculating property taxes. Over the next few weeks, staff will review the Division's activities in order to implement the changes introduced by the legislation. Many programming changes will be required in order to fully complete the 2001 billing cycle. The following summarizes the most crucial requirements:*

(a) *Appeals Processing*

Under Bill 140, property taxes are calculated based on the prior year's annualized taxes. The appeals processing function must now be modified to comply with this requirement. Currently, there are approximately 1,200 appeals pending that cannot be processed until modifications are made to the system. If appeals are not processed within 30 days of receipt of the decision document from the Assessment Review Board, the City begins paying interest on the amount owing. In addition, a detailed tax calculation statement that accompanies a letter advising that an appeal has been processed must be modified to reflect the new method of bill calculation.

(b) *Tax Treatment for Properties that are New to the Class*

Legislation has introduced changes in the method of billing accounts that change from one property class. There are approximately 2,000 such accounts that have not been billed in 2001 pending the provision of six comparable properties from the Municipal Property Assessment Corporation (MPAC).

(c) *Supplementary/Omitted Billings*

Starting in 2001, MPAC has advised that the supplementary/omitted tax rolls will include in-year changes in property tax classes. This was not the case in the past and will require significant modifications to the tax billing system.

(d) *Vacancy Rebate Program*

Bill 140 introduced a new approach to the taxation of vacant industrial and commercial properties. Starting in 2001, responsibility for managing such vacancies has been transferred to municipalities. Effective June 30, 2001, landowners can report vacancies to the City and request a rebate of taxes paid. The City is awaiting regulations from the Province in regards to the details of this program. Once these details are available, the City will need to act quickly to develop the systems support required to administer the program. Staff estimate that within the next few months, approximately 5,000 applications will be received for the first half of 2001. The City has 60 days to process and issue the rebates, from the date the application is received, after which it must pay interest.

(e) *Charity Rebate Program*

Starting in 2001, legislation obligates municipalities to provide mandatory rebates to charities of at least 40% of their taxes, or another amount as prescribed by the Minister of Finance. The system must be readied to facilitate this program.

(f) *Correction of Errors to the Frozen Assessment Listing*

Under Bill 140, taxpayers may now formally request correction to the Frozen Assessment Listing (FAL) used as the basis of calculating the 1998, 1999 and 2000 taxes. As part of this process, taxpayers are requesting copies of the FAL. Staff currently must produce this information manually. Over the next few weeks, staff will work with IT to permit the automatic generation of this information from the system.

- (2) *For the final 2001 property tax bill, the Province regulated a new bill format. Provincial staff have indicated that a new format will be regulated for the 2002 interim bill. Work will begin soon to prepare for the 2002 interim billing and to ready the system for any change in the interim bill itself.*
- (3) *Recently, new harmonized water billing frequencies were implemented across the City. High volume accounts are now billed monthly and low volume accounts are billed every four months. However, the definition of high/low volume accounts continues to be based on the criteria used by the former municipalities. In the Fall 2001, the City will harmonize the classification of water accounts into high and low volume in order to further streamline and achieve efficiencies in billing. In order to implement this change and achieve this objective, IT support will be required.*
- (4) *Further work is also required to complete the collection module in the water billing system. IT resources will be working closely with staff to implement this functionality.*
- (5) *Earlier this year, Council approved a city-wide harmonized procedure for apportioning taxes on properties that are severed into two or more parts. Some programming is now required to permit the billing of these accounts under this new process.*
- (6) *Earlier this year, Council adopted new criteria for its tax deferral program for low-income seniors and low-income disabled persons. I&T support is required to implement these new criteria.*

In order to sustain the daily operations of the Division and permit the completion of the work requirements noted above, it is recommended that the current contracted services be extended to December 31, 2001 as detailed below:

<i>Supplier</i>	<i>Amount Approved Jan. 1 to June 30, 2001</i>	<i>Actual Expenditure Jan. 1 to June 30, 2001</i>	<i>Amount Requested July 1 to Dec. 31, 2001</i>
<i>Synerware EDP Services Inc.</i>	<i>\$ 200,000</i>	<i>\$ 88,600</i>	<i>\$ 100,000</i>
<i>Remarkable Software Inc</i>	<i>\$ 300,000</i>	<i>\$ 243,700</i>	<i>\$ 220,000</i>
<i>Beacon Software Revenue Services LLC</i>	<i>\$300,000</i>	<i>\$ 289,150</i>	<i>\$ 60,000</i>

Given the many challenges currently faced by the Division and its dependency on contracted services, it is imperative that any changes in I&T resources be planned and introduced appropriately. To ignore the current situation will put at risk the City's revenues, its operations and customer service. If these service contracts are not extended, the Division will be unable to bill in the current year approximately \$10-\$20 million in supplementary/omitted bills; issue approximately 1,800 final 2001 tax bills for properties that are either newly constructed or have experienced a change in property class in 1998, 1999 and 2000; process appeals for the 2001 taxation year; and prepare the system to manage the newly legislated Vacancy Rebate Program and the 2002 interim billing.

The Division has begun the work required to address Council's concern in regards to contracted services. We are moving from three, on-site service providers, to two (Remarkable and Synerware). In order ensure that the systems are appropriately resourced, during this transition period, and not put at risk, Beacon Software will be providing consultation and support off-site (i.e. Beacon will be available to answer questions and provide information by phone, as required. There will be no travel or other miscellaneous costs incurred.) Furthermore, the Division will be developing a strategy with Corporate I&T on how to best maintain the City's revenue systems beyond 2001. Options under review will include bringing the maintenance support functions in-house or contracting out via an RFP process in the Fall. An RFP for development of Revenue systems was recently issued and will be report to Committee and Council in early Fall.

The Revenue Services Divisional staff require the opportunity to effectively manage any changes resulting from the current RFP process for systems new development and those changes that will stem from its own evaluation process regarding how to best manage the Division's on-going support and maintenance requirements.

Conclusion:

As indicated previously, the City has issued an RFP for new development work required for the Revenue Services Division's systems. The Division, in consultation with Corporate I&T, is also evaluating the best approach to managing the Division's on-going system maintenance requirements.

The Division is continuing to face many on-going challenges. Without the recommended contracted services and in the absence of trained staff, the Division's ability to provide services to Toronto's taxpayers, businesses and water customers and to bill the city revenues will be at risk.

The City must take a planned approach when introducing any changes in this regard. These resources are critical during this transition period and are required for the transfer of knowledge from the current IT group to either new contracted services resources or city staff. As such, this report requests authority to extend contracted services to December 31, 2001 to permit a smooth transition.

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(City Council also had before it, during consideration of the foregoing Clause, a communication (July 20, 2001) from Ms. Ann Dembinski, President, Canadian Union of Public Employees, Local 79, respecting recommendations about the hiring and selection of professional consulting services, and urging City Councillors to take this opportunity to reduce the use of consultants, to improve the lines of accountability, and to support the Committee's recommendations.)