



City of Edmonton Office of the City Auditor

Consultant Services Review

October 30, 2018



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Objective

To assess whether consulting services are effectively managed by the City.

Scope

The scope of this audit includes all consultant services activities from 2013 to 2017 for City operations. The scope excluded all consulting activities related to external Boards such as the Edmonton Police Service and the Edmonton Public Library.

Statement of professional practice

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.



Executive Summary

Over the last five years, the City has spent an estimated \$616 million on consulting services. Almost \$158 million in expenses for consultant services contracts was miscoded by the type of consultant contract in the corporate financial system. An additional \$87 million of consultant services were miscoded in the system as something other than consulting. As a result, financial reporting related to the City's consulting expenses has been inaccurate by \$245 million in total over the last five years.

The increase in lower-risk procurement methods (tendering and limited competition) and the decrease in higher-risk procurement methods (sole and single source) is a positive change for the City. Continuing with this shift will help the City to receive better value from its consulting contracts and ensure that the principles of public procurement are applied.

The frequent use of change orders, and the increased costs associated with them, raises concerns around the adequacy of controls. Consultant costs increased 72% from their initial contract values due to change orders. Some change orders are expected and justified. However, the use of change orders should be appropriately controlled to ensure that the City abides by public procurement principles and manages costs effectively.

Consultant evaluations are not being used consistently in the organization. This increases the risk that consultants that provided poor value may continue to receive City contracts and the City may not be receiving best value for money. An electronic procurement system is being implemented that is expected to incorporate a consultant evaluation process.

We made two recommendations:

Recommendation 1

Training and Quality Assurance

Develop and implement a training program for staff engaged in classifying transactions and that regular quality assurance reviews are conducted.

Recommendation 2

Reducing Unplanned Change Orders

Improve business area scope of work preparation and estimation relating to consulting services in order to reduce the volume and value of unplanned change orders.



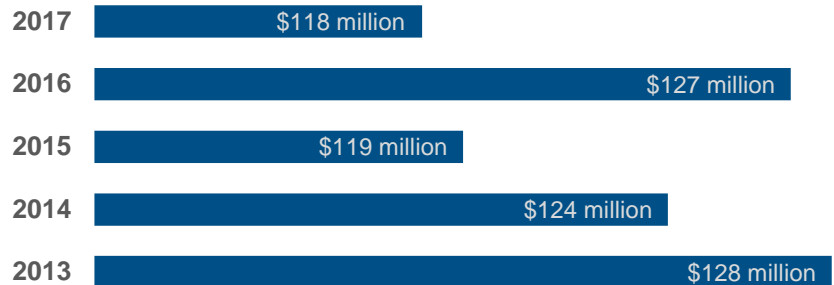
Background

City's use of consultants

The City procures consulting services to deliver both operating and capital programs. Consulting services include a variety of professional services such as engineering, management consulting, communications, information technology, legal, and medical services. These services are used when the City does not have the required expertise internally and also to supplement existing resources.

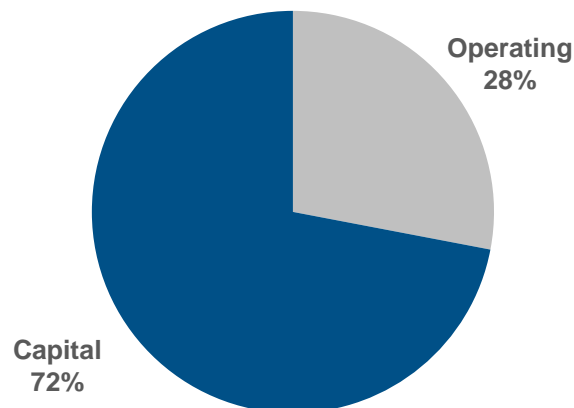
Over the **past five years**, the City has spent between **\$118 million and \$128 million** on consulting services.

On average, the City spends \$120 million per year on consulting services.



The **majority of consulting spending** in the last five years is for project work within the capital budget.

72% of all spend on consultants is through capital budgets.



Last audit in 2009

The Office of the City Auditor last reviewed City's consultant services in 2009. That audit identified the need for improved oversight of consultant engagement process including business cases which demonstrate the need for consultant services, clearly defined roles and responsibilities, and consultant evaluations. These recommendations were accepted by management, changes made to the City's procurement policy, online purchasing tools, and an implementation of a formalized vendor performance evaluation program was implemented.

Electronic procurement system

The City is currently in the process of implementing an electronic procurement system and as such the current processes and tools that are currently online will be replaced. The City has selected a cloud-based procurement service. This system is expected to deliver the required technology capability to the City's Procure to Pay strategic transformation.

Management asserts that this system will transform the current manual processes by leveraging highly automated workflows, allowing staff to focus on strategic and risk management activities rather than transactional tasks. This system should allow the City to adopt procurement and contracting practices such as spend analysis, proactive contract oversight, and supplier performance management to further modernize our procurement and contract management practices.



Data accuracy

Assessment

Approximately \$245 million in consulting contract financial data from 2013-2017 is miscoded in the corporate financial system. The City predominantly uses historical financial data to estimate future budget requirements. Using inaccurate financial data impacts the accuracy of City financial reporting.

\$616 million in 5 years for consulting services

Between 2013 and 2017, the City recorded \$529 million in consulting expenses. The OCA identified another \$87 million in consulting expenses coded as something else within the City's financial reporting. Therefore, in total, the City actually spent \$616 million on consulting services from 2013 to 2017.

Miscoding between consulting services accounts - \$245 million over 5 years

Our review of transactions identified as consultant services found that approximately \$158 million were recorded as an incorrect type of consulting expense. Combining this amount, with the \$87 million in consultant fees coded to other accounts, consultant services expenses have been miscoded by \$245 million from 2013 to 2017.

The miscoded transactions significantly impacted four expense categories as shown below. Engineering consulting increased the most significantly from \$171 million to \$375 million or 119%.

Engineering consulting	↑	Increased from \$171 million to \$375 million
Management consulting	↓	Decreased from \$159 million to \$73 million
Communications consulting	↓	Decreased from \$31 million to \$4 million
General professional services	↓	Decreased from \$103 million to \$79 million

Human error

Coding errors can occur when a mistake is made identifying the proper cost element or category for the expense. Administration indicated that these mistakes can occur as a result of lack of awareness or confusion over proper procedures or coding requirements.

Recommendation 1

Training and Quality Assurance

We recommend that the Deputy City Manager of Financial and Corporate Services develop and implement a training program for staff engaged in classifying transactions, especially relating to consulting services, and that regular quality assurance reviews are conducted.

Management response

Accepted by Management

The Financial & Corporate Services Department will provide training to staff to improve awareness and accuracy of coding of financial transaction relating to all expenses, including consulting services.

Staff within the Financial Strategies and Budget branch will perform informal quality assurance reviews of financial reports on a regular basis as part of the financial reporting process.



Implementation: June 30, 2019



Responsible party: Deputy City Manager, Financial and Corporate Services



Procurement

Assessment

The City's use of higher-risk procurement methods for consulting services has decreased, and the use of lower-risk procurement methods has increased since 2013. This is a positive shift that can help the City receive better value for money and reflects the principles of public procurement: openness, transparency, fairness, and accountability.

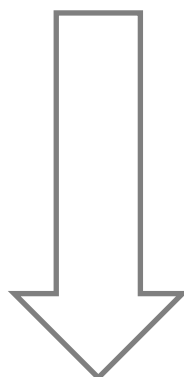
Procurement risk

Open tenders, when properly managed can provide the best value to the City. This is due to the competitive process that encourages bids from qualified bidders.



Higher risk, lower value for money

Lower risk, higher value for money



Single source – This type of direct award procurement occurs when a business decision is made by the Department to single out a particular supplier when other sources exist within the marketplace.

Sole source – This type of direct award procurement occurs when there is only one source of supply within the marketplace which can provide the goods, services or construction. It is considered to have medium risk.

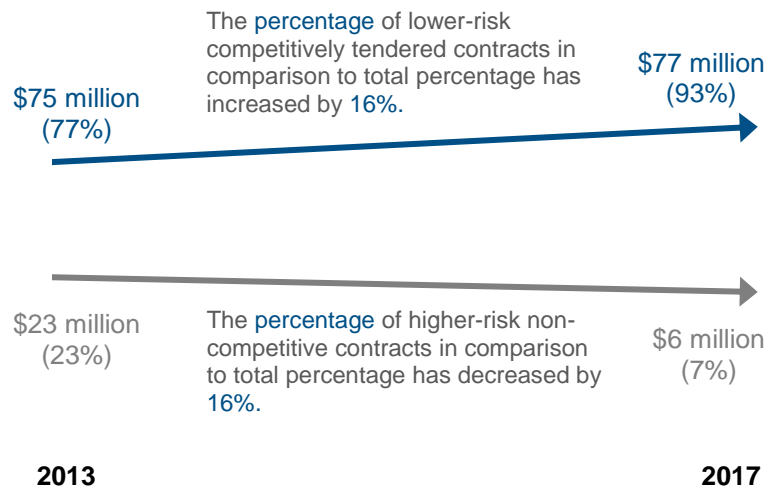
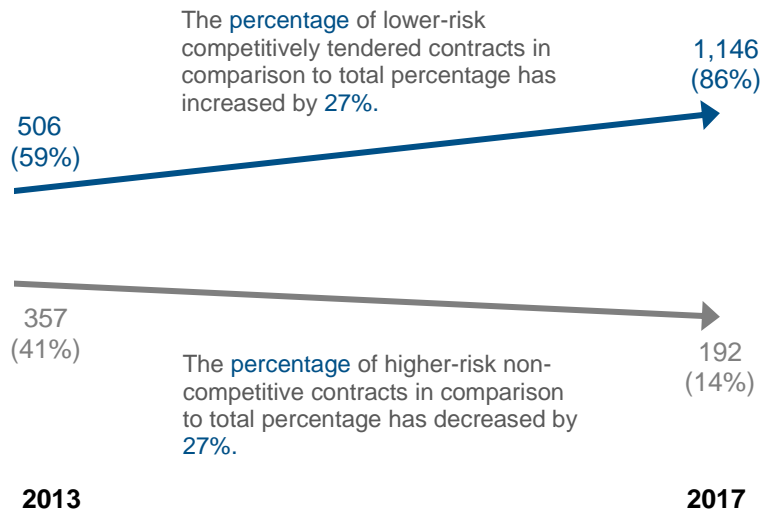
Limited Competition: A limited competition procurement is a purchasing method whereby quotes for goods and services are requested from at least three potential suppliers.

Competitive (Open Tender): A competitive or open tender procurement is a purchasing method in which the City publicly advertises the tender opportunity and interested suppliers may submit proposals to provide for goods, services and construction.

Consulting procurement trend

The City's shift from higher-risk procurement methods to lower-risk procurement methods for consulting services appears as both volume and value trends.

The shift to more lower-risk, competitive procurement for consulting services is a positive change for the City.





Change orders

Assessment

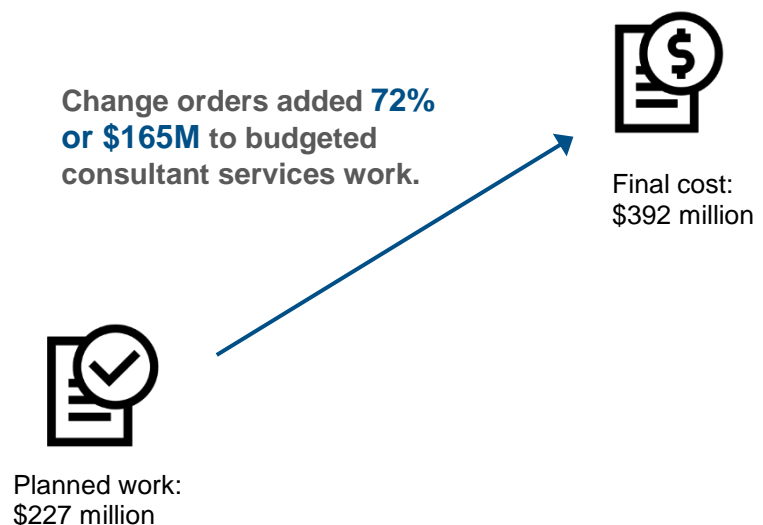
Change orders to consulting services contracts have added approximately 72% to the original cost of consulting contracts between 2013 and 2017. This includes additions due to scope changes and anticipated additions due to option year extensions. When costs are added through change orders, the additional funds must come from other areas within the program or organization or from contingency budgets.

The use of unplanned change orders should be appropriately controlled to ensure that the City abides by the public procurement principles and effectively manages costs.

Planned work

Based on purchase orders (2013 to 2017), the City planned to spend \$227 million in consultant services agreements. There was \$165 million in additional approved change orders for a total of \$392 million or a 72% increase.

As previously identified, the City actually spent \$616 million for consulting services during this same period. This variance between planned and actual consulting services expenditures is explained by actual expenditures exceeding planned amounts, timing variances, and miscoded services in non-consultant accounts.





Cases: Use of change orders

Energy System

An engineering contract for an energy sharing system was initially awarded as a tendered contract (\$186 thousand). The original agreement was structured to provide additional phases. There were 5 change orders for this phased project resulting in a total cost of \$5.0 million. Change orders were created to add an additional project phase to provide detailed design, resident engineering, and ongoing support to the original project.

An opportunity exists to reduce some of the unplanned scope changes.

Facility Repairs

An engineering firm was hired at an original cost of \$1.7 million to make repairs to a City owned public facility. There were 5 change orders that increased the overall project cost to \$5.4 million. Reasons for change orders included unforeseen asbestos and electrical services relocation possibly demonstrating a lack of project planning.

The City can improve on pre-planning of projects to reduce scope changes and unforeseen risks.

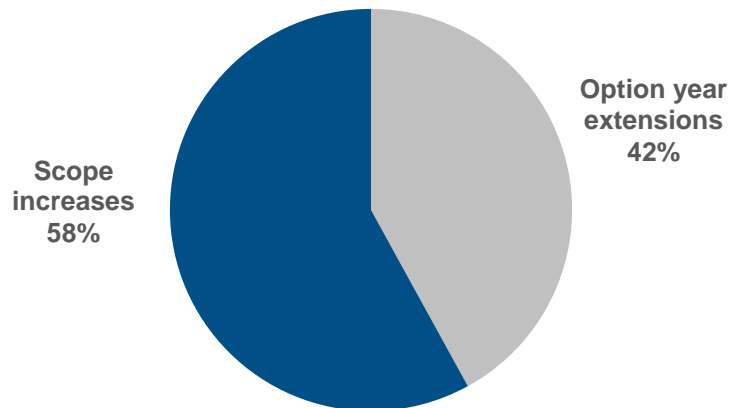
Wayfinding System

A management consultant group was hired to develop the downtown wayfinding system through a tendered award. The original award was for \$250 thousand and 3 additional change orders were added to also address signage for pedways and installations in LRT stations. The scope increases revised the contract's value to \$947 thousand.

An opportunity to tender some of this work at better pricing may have existed but was not acted upon.

Change order rationale

We analyzed 100 projects with change orders to understand the drivers of change orders on City projects. There were two main drivers of change orders: option year extensions and scope increases.



In our sample, change orders due to option year extensions amounted to \$69.3 million while scope changes amounted to \$95.7 million.

Scope changes are generally unplanned changes to a contract however in some cases scope changes are contemplated in the initial agreement. Option year extensions are anticipated contract continuations usually under the same contract terms. Option year extensions generally represent a lower risk to the City and can provide good value to the City given the business area's satisfaction with past services.

Reasons for scope increases can include additional phases to projects, enhanced design of project, increased volume of work, new services, and unforeseen health and environmental conditions. Scope increases represent a higher risk since they are generally unplanned and may be the result of inadequate project planning.

An opportunity exists for the City to improve project execution through better planning and preparation of scope of work in a contract prior to procuring consulting services. This becomes more important during the design versus construction phase as making changes during the latter is more costly.

The Capital Project Governance Policy (C591) was approved by Council in April 2017. Also known as the Project Development

and Delivery Model (PDDM), it requires formal checkpoint reviews of a project as it progresses through the strategy, concept, design, build, and operate stages. These checkpoints are intended to reduce project delivery issues. Management within Integrated Infrastructure Services stated that the use of change orders is preferable during the design phase as the cost of change orders during the build phase can be considerably higher.

Recommendation 2

Reducing Unplanned Change Orders


We recommend that the Branch Manager of Corporate Procurement and Supply Services work with business areas to improve scope of work preparation and estimation relating to consulting services in order to reduce volume and value of unplanned change orders.

Management response

Accepted by Management

The Branch Manager of Corporate Procurement and Supply Services will ensure that training materials have been deployed to City staff that provides in-depth understanding of how to develop an improved scope of work for procurement opportunities. Training will be provided as part of the revised corporate Procurement and Contract Management training curriculum to be delivered in 2019 to the Corporation.

 **Implementation:** June 30, 2019

 **Responsible party:** Branch Manager, Corporate Procurement and Supply Services



Consultant Evaluations

Assessment

Consultant evaluations are not being used consistently in the organization. This increases the risk that consultants that provided poor value may continue to receive City contracts and the City may not receive best value for its money.

Need for evaluations

Consultant evaluations should be performed to ensure the City is protected against poor performance by consultants. The City is currently only conducting consultant performance evaluations within the Integrated Infrastructure Services Department but plans to expand evaluations for all consultant services.

Evaluations were conducted on 61% of consultant agreements.

Integrated Infrastructure Services reported that from September 2013 to December 2015, there were 14 evaluations completed on 58 contracts (24% completion rate). From January 2016 to June of 2018, there were 94 evaluations completed on 154 contracts (61% completion rate).

Currently, tender packages inform vendors of the evaluation process they are expected to undergo. However, management indicated that some of the contracts were initiated prior to the establishment of the evaluation process. Therefore, no evaluations were conducted on these contracts.

Management also indicated that there are challenges ensuring evaluations are always completed with the current manual system. At the present time, consultant evaluations are conducted in a variety of ways to correspond to the nature of consulting services work. As such, we observed several evaluation forms being used.

Future plans for evaluations

Corporate Procurement and Supply Services (CP&SS) advised that the upcoming electronic procurement system will have functionality to evaluate all consultant services and retain all evaluations. CP&SS is currently working with business areas to develop the framework for this functionality with system implementation expected in 2019. However, management indicated that the manner in which evaluations will be used to select consultants should be discussed with the industry prior to implementing any vendor selection criteria. This step is necessary in order to create a fair and transparent procurement evaluation process. Given these actions by the Administration we are not making a further recommendation.



Conclusion

In this audit we assessed whether consulting services are effectively managed by the City. We conclude that overall, the City is effectively managing consultant services. However, opportunities exist to improve the process.

City staff incorrectly coded consulting expenses which can negatively impact accurate financial reporting. We have recommended that the City provide training and conduct regular quality assurance reviews.

The City's use of higher-risk procurement methods has decreased, and the use of lower-risk procurement methods has increased since 2013. This is a positive shift that can help the City receive better value for money and reflects the principles of public procurement: openness, transparency, fairness, and accountability.

The City spent an additional 72 cents for every dollar planned on consulting services from 2013-2017 due to change orders (total \$165M). We estimated that 42% (\$69.3M) are the result of exercising options to extend the contract while 58% (\$95.7M) are the result of scope changes. In some cases, the scope changes were planned to correspond with project phases. However, in other cases, the scope changes were higher risk as they were not anticipated. We have recommended that the City improve scope of work preparation and estimation relating to consulting services in order to reduce the volume and value of unplanned change orders.

We thank the staff of the Financial and Corporate Services Department for their cooperation on this audit.