



City of Edmonton Office of the City Auditor

Investigation

Current Planning Future State
(eServices) Project 2010-2015

August 21, 2018



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Report Contents

Investigation summary.....2
Project overview4
Were there competing interests or personal benefit?10
How were allegations investigated?16
Could this happen again?.....19
Conclusions23
Recommendations24
Appendix - Methodology.....26

Objectives

- 1. To determine if the contracted Project Manager of the Current Planning Future State (CPFS) project exercised improper hiring and time approval practices between 2010 and 2015 to personally benefit himself and employees of his own company.
- 2. To determine if the allegations against the contracted project manager and three other contracted resources of having competing interests with another organization were founded.
- 3. To determine if allegations were properly investigated by Corporate Services and Sustainable Development Departments when they were first identified in 2015.
- 4. To determine if current hiring, time approval and payment processes related to the IT Staff Augmentation Contract are properly monitored and managed.

Scope

The scope of this investigation includes the CPFS project that ran from 2010 to 2015. This investigation also includes the Pets ePermit POSSE Enhancements (ePets) project as it was merged with the CPFS during this time period.

All 35 contractors that worked on the CPFS project between 2010 and 2015 were hired through the IT Staff Augmentation contract. As this contract is still used today to hire IT contractors for various projects, we also reviewed this contract to ensure proper controls are currently in place to address any risks associated with hiring, time approval, and payment processes.

Statement of professional practice

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



Investigation Summary

Why did we investigate?

The current City Manager and Deputy City Managers reported the allegations to the Office of the City Auditor when they became aware of them.

The Office of the City Auditor reported on the CPFS project (eServices) in the *Current Planning Reserve Audit*, released on April 3, 2018.

In February 2018, the current City Manager and Deputy City Managers became aware of allegations that the contracted Project Manager had hired employees of his private company to work on the CPFS project, and that there had not been an appropriate investigation of these allegations.

They reported it to the Office of the City Auditor.

At the April 11, 2018 Audit Committee Meeting a motion was approved to have the Office of the City Auditor conduct an investigation into the CPFS project that took place from 2010 to 2015.¹

What did we find?

In this investigation, we confirmed that the CPFS project did not deliver value for money, and that project management and oversight was inadequate.

Additionally, we found that,

1. The contracted Project Manager and three other contracted IT resources had professional relationships and competing interests that could potentially have influenced the decisions they made on behalf of the City.
2. The allegations of inappropriate professional relationships and competing interests were investigated by the Corporate Services Department in 2015. However, appropriate documentation of the investigation was not retained.
3. There were weaknesses in the hiring and time approval processes used during the CPFS project that put the City at risk of mismanagement, error, and potential fraud.

¹ The CPFS project has also been referred to as eServices project. For the purposes of this report the term eServices project is only used for the relaunched project that happened after April 2015 and is still going on today.

4. As a result of the delay in appropriate investigation, and the lack of information still available, we were unable to determine if the control weaknesses in project oversight and the IT Staff Augmentation contract were exploited for personal gain.
5. The IT Staff Augmentation contract that was used to hire IT contractors for the CPFS project is still in use today to hire IT contractors for other projects. We identified opportunities to strengthen key controls that can reduce the risk to the City.

What do we recommend?

Recommendation 1

Improve fraud awareness

The Office of the City Auditor recommends that the Deputy City Manager Urban Form and Corporate Strategic Development work with the Office of the City Auditor and/or Corporate Security to facilitate a number of fraud awareness presentations to reinforce:

- fraud awareness, and
- compliance with the Fraud & Whistleblower Protection Administrative Directive (A1464).

Recommendation 2

Update contract management practices

The Office of the City Auditor recommends that the Deputy City Manager Financial and Corporate Services ensures that contract management practices related to the IT Staff Augmentation contract are updated and strengthened including but not limited to invoice verification and compliance with Contract Management Administrative Directive (A1205).



Project Overview

Background

The Current Planning Branch Future State (CPFS) project was primarily a strategic planning initiative to help the Current Planning Branch² build a comprehensive new business model as directed by City Council in 2009. A key objective of the CPFS project was to streamline internal processes to improve processing times and reduce the need for citizens to come in-person to initiate, review, and provide additional information relating to their applications, permits, and licenses. The CPFS project ran from 2010 to early 2015. It was restructured and relaunched as the eServices project later in 2015. The total spent on the CPFS project was \$11.6 Million.

Key roles

There were three key project roles:

The **Business Sponsor** for the project was the Branch Manager, Current Planning.

The **Business Owner** for the project was the Director, Business Strategy and Operations (Current Planning Branch).

The **Project Manager** for the project was contracted through the Information Technology Branch to perform the role.

None of these individuals are still employed by the City.

Value for money

The CPFS project did not provide value for money.

In April 2015, a project completion report indicated,

...the project had overspent its budget, under-delivered on its deliverables, and missed its delivery dates.

We found no evidence to contradict these findings.

Based on our documentation review, data analysis, and interviews with client areas, it was clear that the limited deliverables the project produced by early 2015 did not meet client expectations.

² There have been significant organizational changes since 2010. In most cases, the names of organizational units and position titles are reflective of the contextual time period being discussed, and may not reflect the current structure or position titles.

Project deliverables

The Project was intended to produce six deliverables by December 2014. By the time the project was closed down in April 2015 it had produced the following three deliverables:

1. Online Pet Licensing in February 2014 – this was not part of the original scope of the project but added in 2013.
2. Online Development Coordination in March 2014 – Only partially completed.
3. Online Business License Renewals in July 2014

Project budget & costs

This project went \$5.4 million over budget (87%).

The original budget for this project was \$6.2 million. The total spent on the CPFS projects since 2010 was \$11.6 million. This does not include the cost spent on the relaunched eServices Project starting in April 2015.

| | |
|------------------------------------|----------------------|
| Computer Hardware Purchase | \$ 336,334 |
| Computer Software Maintenance | \$ 165,893 |
| Computer Software Purchase | \$ 638,573 |
| Services - Professional & Contract | \$ 7,327,685 |
| IT Labour | \$ 2,622,344 |
| Services - Billings | \$ 4,353 |
| ePets ³ | \$ 537,000 |
| Grand total | \$ 11,632,182 |

Project management issues

Individual projects were not appropriately separated, nor appropriately coordinated.

Appropriate project management and adequate project oversight were lacking throughout the CPFS project. In addition, communication during and after the CPFS project was inadequate to ensure transparency and accountability for key decisions made.

Although we refer to it as a single project in this report, the CPFS project originally consisted of three separate projects intended to run consecutively.

- Current Planning Future State (CPFS)
- Current Planning Future State 2.0 (CPFS 2.0)

³ Some costs for the ePets project were tracked separately from the other projects. As such, they are included here as their own line item.

- Current Planning Future State 3.0 (CPFS 3.0)

The Pets ePermit POSSE Enhancements (ePets) project was also merged into this larger body of work.

To ensure that a project achieves its intended outcomes and remains on-time and on-budget, it is important that project goals, activities, and expenses are well-defined and appropriately tracked.

The CPFS projects were not run consecutively as distinct projects. They shared the same contracted Project Manager and IT Architect. Timelines and scope definition of the projects overlapped. Staff were shared between these projects without adequate tracking. Budgets for these projects were not effectively kept separate. This reduced the City's ability to effectively monitor the progress of the project against its schedule and budget.

External project assessment

In early 2015, an external consulting company was engaged to perform a *Situation Analysis* of the CPFS project. It identified significant project management issues. Based on our documentation review, data analysis, and interviews with both project team members and client areas, we concur with the observations made in the *Situation Analysis Report*.

Observations from the *Situation Analysis Report*

Project governance was limited to the Business Owner and Project Manager. The majority of the key decisions were made by the Business Owner and Project Manager without any formal approval process.

Project Scope was defined and documented at a high level. Additional **scope items were added** into the project without proper approval processes.

The 'Vision and Scope' document **did not define quantifiable and measurable outcomes** or success criteria against which the project success could have been measured.

Project management was done informally and did not follow professional project management best practices. The scope, budget, timelines, and quality of project deliverables were not well managed throughout the project.

There is **no evidence of any consistent project management methodology** or reporting format to address the complexity of the project.

Project status was not reported frequently enough, or in sufficient detail to the IT Project Management Office or Business Sponsor.

There was **no documented evidence of any meeting minutes and decisions** made throughout the project.

Insufficient budget tracking. Costs tracked against the baseline budget in the project logs were not of sufficient detail to identify or prevent any cost overruns.

There was **minimal engagement with the business** during the design, development or testing phases of the project.

The **online survey results** captured notable concern from users regarding the performance of eServices regarding **slow or non-functional experiences**.

During the project, **IT and Current Planning had different perspectives** on how the project should be managed and what the project outcomes should be.

As a result of this objective external assessment the Project Manager's contract was ended on April 1, 2015. The Business Owner left the City's employment on April 15, 2015. In addition, the project was completely restructured, re-scoped, and relaunched as eServices. A new Project Manager was assigned to manage this project.

Governance

From 2010-2015, decision making was not appropriately managed and monitored.

The *Situation Analysis Report* indicated that project governance was limited to the Business Owner and Project Manager. The majority of the key decisions were made by the Business Owner and Project Manager without any formal approval process. This is consistent with the information we received through interviews (both project team members and client areas). We were informed that the Business Sponsor relied strongly on the Business Owner to oversee the project. In addition, interviewees indicated that communication on the project was primarily done verbally.

Based on the interviews and documentation review, we found a misalignment between the IT Services Branch and the Current Planning Branch. The project was fully staffed with IT (contracted) resources. However, the project was funded through the Current Planning Branch (indirectly the Current Planning Reserve) and managed by a Business Owner in the Current Planning Branch. A few of the architectural decisions made during the project did not align with the overall IT roadmap for the City at that time.

In addition, the *Situation Analysis report* identified that during the project, the IT Services Branch and the Current Planning Branch had different perspectives on how the project should be managed. IT principles require a robust long-term solution consistent with other solutions in the City whereas the Current Planning Branch was looking to deliver operational results to client areas and the public as soon as possible. There was no effective governance in place to address these conflicting perspectives.

Project Oversight

Oversight during the project was lacking. Project Manager and Business Owner were not held accountable until April 2015.

Project oversight and accountabilities for decisions were not clearly documented and implemented. As a result, the Project Manager and Business Owner were not held accountable for project results by either the Business Sponsor or the Branch Manager, IT Services until April 2015.

Interviewees (both project team members and client areas) indicated that they had concerns about the project and the project management throughout the CPFS projects and that they had brought these concerns to the Business Owner and/or their supervisors at various times. A number of interviewees indicated that their concerns were not taken seriously or were rationalized away by the Business Owner.

In October 2015, an acting Branch Manager, Current Planning was appointed, followed by the appointment of a new Branch Manager in January 2016. The acting Branch Manager signed off on the Project Completion Report issued in December 2015. Both Current Planning Branch Managers were briefed on the eServices program. However, there are conflicting reports in the interviews on whether or not they were briefed on the history of the CPFS project and its issues.

Since 2015, Administration has made changes to the governance structure managing IT projects and project oversight.

We were informed that changes were made to the governance structure overseeing IT projects in general and this program in particular when it was relaunched in 2015. In addition, we were informed that the IT Services Branch has made significant changes to its project management practices and project oversight since 2015. An assessment of these changes was not part of the scope of this investigation.

Communication to City Council

Communication during and after the CPFS project was inadequate to ensure transparency and accountability for key decisions made. For example, there are only a limited number of references to the CPFS project (or eServices) in Council documentation between 2010 and 2016. None of these references provide information on the cost overruns, time delays or project management issues.

The most information is provided in a letter dated October 26, 2016 to City Council, written by the then Branch Manager Current Planning. The letter provided an update on the eServices program and indicates that the program was initiated in 2012,⁴ and “encountered barriers in the first years.”

The letter also indicates that following a review of stakeholder feedback in 2015 the eServices program was updated to ensure “team member expertise was consistent with specific program deliverables through conclusion of external contract...”

It continues to focus on the state and direction of the eServices program as at October 2016. The letter does not contain any information on the project management issues or financial data.

⁴ This is incorrect. The project was initiated in 2010.



Were there competing interests or personal benefit?

Assessment

The contracted Project Manager and three other contracted IT resources had professional relationships and competing interests that could have influenced the decisions they made on behalf of the City. However, we were unable to determine if any individual received a personal benefit from this situation.

The inability of the City to identify personal and professional relationships when hiring IT contractors was the root cause of this situation.

Thirty-five contractors were hired for the CPFS project using the IT Staff Augmentation contract. However, the City only deals with a single Service Provider as per the contract and is not involved in the process through which the Service Provider identifies candidates for contractor roles. As a result, any relationships that the candidates or contractors may have with each other are not easily identified. This meant that the CPFS Project Manager was able to hire contractors with whom he had a relationship without the City's knowledge.

Throughout this project, specific contractors received payments above the rate schedule, almost half of the contractor payments were paid to a small number of contractors, and there was a lack of documentation for various decisions. This raises concerns around the control environment.

Additionally, there were weaknesses in the hiring and time approval processes used during the CPFS project that put the City at risk of mismanagement, error, and potential fraud.

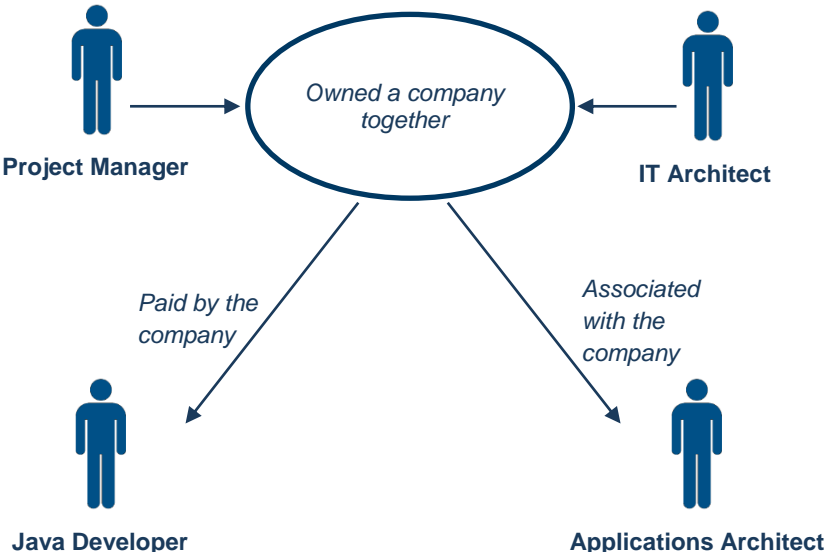
Due to the length of time since this project occurred, we were unable to determine if anyone took deliberate action to inappropriately benefit from the City, or if there were appropriate explanations for decisions made.

Competing interests

On April 17, 2015, the Branch Manager of Current Planning contacted the General Manager of Corporate Services with concerns related to the Project Manager of the CPFS project. It was alleged that the Project Manager and the IT Architect owned a company together and that the Project Manager had hired employees of their company as contracted resources for the CPFS project. Both the Project Manager and the IT Architect were not City of Edmonton employees. They were contractors hired through the IT Staff Augmentation Contract.

We confirmed that the contracted Project Manager and the IT Architect owned a company together. We also confirmed that the Java Developer was paid through this company. In addition, we received documentation that the Applications Architect was associated with the company. However, we have not been able to find any evidence that the Applications Architect was paid through the company. These four roles were key positions in the management and execution of the project.

The professional relationships between these key roles resulted in a situation where individuals making decisions on behalf of the City had competing interests or loyalties. As contracted resources on the CPFS project, the four individuals would be expected to act in the best interest of the City. However, as company owners and employees, these individuals are also expected to act in the best interest of the company. These interests could be contradictory.

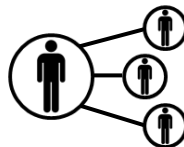


Personal benefit

The City hires IT contractors using the IT Staff Augmentation contract. This contract employs a single Service Provider to provide skilled contractor candidates for IT work required by the City. The Project Manager interviewed and hired contractors from the candidates provided by the Service Provider. At least two of these contractors also worked for the Project Manager's company.

By hiring contractors for City work, who also worked for his company, the Project Manager had the ability to benefit financially.

Below is a detailed description of how the IT Staff Augmentation worked as it relates to the IT contractor working for the project manager's company:



The City submitted request forms to the Service Provider to provide qualified IT candidates for specific positions. The CPFS Project Manager selected employees of his own company for these contractor roles. The City paid the Service Provider for the work done by the IT contractor.

The Service Provider uses staffing agencies to find qualified IT contractors for the City. The Service Provider paid the appropriate staffing agency for the work done by the IT contractor that was hired, and keeps a commission.

The staffing agency that supplied the IT contractor pays the company that provided the IT contractor to them. The staffing agency also keeps a commission.

The company, owned by the Project Manager that employs the IT contractor, pays the contractor for the work done for the City. This company can also keep a commission.

The IT contractor was paid by the company owned by the Project Manager, for the work they did for the City.

It is common practice for staffing agencies and IT resource companies to keep a commission for their services. Commissions can range anywhere from 10% to 20% of the amount received for the work conducted by a contractor depending on the job position.

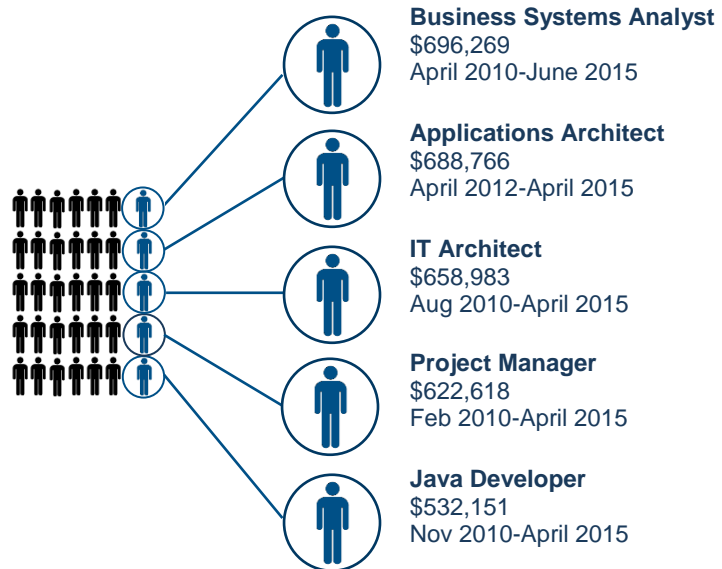
However, due to the complexity of the resourcing process we were unable to obtain evidence to confirm that the company owned by the Project Manager and the IT Architect kept a commission and/or that they personally benefited from this structure.

Contractor payments

Five contractors received a disproportionately large amount of the total payments made for IT services.

Between 2010 and 2015, the CPFS project spent \$7.1 million on services provided by 35 external IT contractors.⁵ Five of these IT contractors received 45% of the money. Four of these individuals had professional relationships that potentially resulted in competing interests.

\$7.1 million was paid to **35 contractors** for the CPFS project.
5 of these contractors **received 45%** of this money.



⁵ In addition, approximately \$200,000 was spent on other contracted services such as additional assistance of software providers.

The amounts paid to these five contractors for their work on the CPFS project is not the total amount that they received from the City.

All five contractors also worked on other City projects during the same time periods.



Business Systems Analyst

April 2010-June 2015

| | |
|---------------------------|-----------|
| CPFS project | \$696,269 |
| Total paid by City | \$748,480 |



Applications Architect

April 2012-April 2015

| | |
|---------------------------|-----------|
| CPFS project | \$688,766 |
| Total paid by City | \$694,017 |



IT Architect

Aug 2010-April 2015

| | |
|---------------------------|-------------|
| CPFS project | \$658,983 |
| Total paid by City | \$1,053,215 |



Project Manager

Feb 2010-April 2015

| | |
|---------------------------|-----------|
| CPFS project | \$622,618 |
| Total paid by City | \$966,020 |



Java Developer

Nov 2010-April 2015

| | |
|---------------------------|-----------|
| CPFS project | \$532,151 |
| Total paid by City | \$667,598 |

The City paid the same contractors for work on multiple projects during the same time period.

Hiring and time approval processes

As per the processes in place during the CPFS project, project managers had the responsibility to hire contractors to work on their respective projects and approve time.

We identified control weaknesses in the hiring and time approval processes that were in place between 2010 and 2015 as part of the IT Staff Augmentation contract.

Due to the lack of available documentation, and the limited number of employees involved in the CPFS project that remain employed by the City, we were unable to determine if any of these weaknesses were exploited during the CPFS project.

We identified the following control weaknesses and vulnerabilities at various steps in these processes.

There were control weaknesses in hiring and time approval processes at the time of the project.



When drafting and submitting resource requests, project managers had the ability to manipulate the requirements and favour a specific candidate.



Project managers had the ability to select their desired candidates for an interview.



When conducting interviews, there was initially no requirement for a second, objective interviewer to be present.



Project managers had the ability to deviate from the rate schedules included in the IT Staff Augmentation Contract. In the CPFS case, five contractors were paid at a rate that was higher than the contractual rate schedule. These five include the IT Architect, Applications Architect, and Java Developer. We did not find any documentation in the hiring file to justify these higher rates. This resulted in a total additional cost of \$262,552.



Project managers had the ability to approve incorrect time sheets for contractors and inflate their own hours without detection.



How were the allegations investigated?

Assessment

The allegations of professional relationships and potential personal benefit against the contracted Project Manager and three other contracted resources were not properly investigated at the time they were reported in 2015. In addition, Management of Sustainable Development and Corporate Services did not comply with the Fraud Directive and Procedure A1454.

Appropriate actions were not taken to mediate all the risks to the City. Management did address the risks to the CPFS project, but did not identify or address the risks associated with the IT Staff Augmentation contract.

Administration's handling of the allegations

The City's Fraud Directive (A1454), in its definition of fraud, addresses suspected abuse of authority assigned to or entrusted upon an individual by the City, to achieve an improper end.⁶

The allegations of professional relationships and potential personal benefit brought forward in April 2015 fall under this definition of Fraud.

"Fraud will typically involve the use of a dishonest act or omission in an attempt to gain some improper personal benefit or advantage, but can also include the abuse of authority assigned to or entrusted upon an individual by the City, to achieve an improper end."

- Fraud Directive

Management of Sustainable Development and Corporate Services did not comply with Administrative Directive A1454 Fraud.

When the allegations were brought to the attention of the General Manager of Corporate Services by the Branch Manager of Current Planning in April of 2015, the following actions should have occurred:

- The City Auditor should have been notified either directly or through one of the other reporting avenues available.
- The employee reporting suspected fraud (or other wrongdoing) should be supported.
- Employees should not initiate individual investigations, interviews, or interrogations, as this can compromise subsequent investigations.

⁶ In January 2017, the Fraud & Whistleblower Protection Administrative Directive (A1464) replaced the Fraud Directive (A1454). Both directives have the same definition of fraud.

As a result of Administration's investigation, the contracts of the IT Architect, Applications Architect, and Java Developer were ended.

During interviews and documentation review, we learned that management of Corporate Services did consider contacting the Office of the City Auditor. However, the Office of the City Auditor was not notified at the time. Instead an internal investigation was conducted by two individuals from the Corporate Services Department. Neither individual still works for the City of Edmonton. These individuals were not from Labour Relations or Corporate Security, two business areas that are typically involved in investigations.

No investigation file and no documentation was retained related to:

- Procedures and interviews conducted
- Documentation or data reviewed
- The scope of the investigation
- Detailed findings of the investigation

We were informed that only verbal updates on the investigation were provided at the time. We did obtain one document dated May 1, 2015, that reported on the results of the investigation to the General Manager of Corporate Services.

Results of Administration's investigation

As a result of Administration's investigation, the contracts of the IT Architect, Applications Architect, and Java Developer were ended. The Project Manager contract had previously been discontinued for performance reasons based on the results of the *Situation Analysis Report*.

We were informed that contractual recourse was considered. However, as the City did not have a direct contract with the Project Manager or his company for the delivery of any particular product, there was no contractual recourse available.

We found no evidence to suggest that the Service Provider who supplied the Project Manager and paid his wages was notified of any allegations as per the Resource Issue Resolution process included in the IT Staff Augmentation contract. There is also no evidence indicating that this contract was reviewed to identify potential changes to avoid a similar situation from occurring in the future.

Organizational changes

The organization has undergone significant changes to leadership, structure, and culture since 2015. Within the past few years, senior organizational leaders including the City Manager and many of the Deputy City Managers have contacted the City Auditor regarding a number of issues and investigations that, in prior years, may have been addressed internally.

This shift towards transparency and openness as a way to systematically investigate and address issues in the organization is a positive move towards a culture of continuous improvement.

See Recommendation 1



Could this happen again?

Assessment

The City's approach to hiring IT contractors by using a single Service Provider simplifies the processes for sourcing, hiring, and paying these contractors. However, there are some risks that the City is assuming by using this approach. These risks should be mitigated when possible.

For the CPFS project, the contracted Project Manager had the ability to hire individuals from his own company due to the layered structure of the IT Staff Augmentation contract and lack of oversight. A mitigation strategy requiring contractors hired through the IT Staff Augmentation contract to declare potential conflicting interests has since been implemented. In addition, hiring managers have to be City of Edmonton employees.

The City also made changes to time recording and approval processes to ensure that IT contractor time is verified and approved in the Service Provider's system by a City of Edmonton employee.

However, the City does not currently have procedures to retain copies of the timesheet hours that were entered and approved in the Service Provider's systems. As a result, it is not possible to verify that the hours recorded on the monthly invoice match what had been approved.

One appropriate mitigation strategy for this is for the City to retain a copy of what has been approved in the Service Provider's system for each time period at the approval cut-off date. The City would then be able to match this data to what is recorded on the Service Provider's monthly invoice.

IT Staff Augmentation contract

Staff augmentation is an outsourcing strategy which is used to supplement the City's workforce with skilled, temporary contractors. Using staff augmentation is more expensive than hiring in-house employees, but less expensive than using professional services.

The City has been using an IT Staff Augmentation contract since 2006. The first contract expired on June 30, 2011, and a new contract was issued in July 2011. The current contract is set to expire on June 30, 2019.

How it works

The IT Staff Augmentation model is based on a multi-vendor strategy coordinated through a managed Service Provider. The City has contracted with the Service Provider, to provide qualified candidates for available IT contract positions with the City. The objective of this contract is to simplify the sourcing process and ensure efficiency in staffing temporary IT positions.

The contracted Service Provider sources candidates from their own workforce as well as from three other staffing agencies.

The City does not directly pay the individual contractors for the work they perform and may not be aware of their personal and professional relationships. Instead, the City pays the contracted Service Provider using the Service Provider's time entry and payroll systems. The Service Provider pays the staffing agency or the contracted resource as appropriate.

Why did we look at this contract?

In this investigation, we identified control weaknesses that exposed the City to risks whereby professional relationships between contractors could have been exploited for personal gain. The lack of transparency related to the IT Staff Augmentation contract, and the control weaknesses related to hiring and pay approvals were root causes for these opportunities.

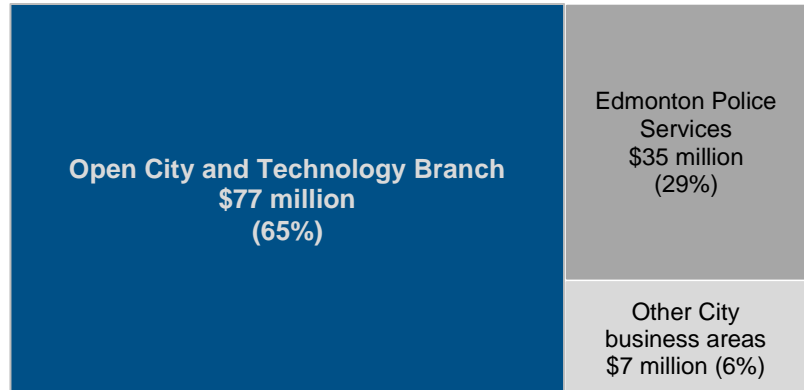
The IT Staff Augmentation contract is still in use and the City currently has approximately 30 to 40 IT contractors working on different projects at any time.

To determine if the risks that led to this investigation have been mitigated, we assessed the current controls related to hiring, time reporting and approval, invoice verification and payment, and contract management and oversight.

If controls are not adequate, there is a risk that the issues found in the CPFS project could occur in other situations.

Key controls

Since 2011, the City has spent approximately \$119 million through the IT Staff Augmentation contract. Sixty-five percent of the \$119 million spent has been in the IT Services Branch (now Open City and Technology Branch). As such, our control assessment focused on the processes in the Open City and Technology Branch.



We assessed the Open City and Technology Branch's current key controls in place to manage the IT Staff Augmentation Contract and found:

Hiring and time approval processes have been revised to mitigate risks to the City.

- In April 2018, the IT Open City and Technology Branch implemented a process requiring contractors hired through the IT Staff Augmentation contract to declare potential conflicting interests.
- Hiring managers have to be City of Edmonton employees.
- A City of Edmonton employee approves IT contractor time on a weekly basis in the Service Provider's system.

In addition, we also identified the following opportunities to strengthen key controls.

- Documented procedures for hiring do not include reference and qualification checks. The City relies on the Service Provider to conduct these checks prior to submitting IT candidates for the City's consideration. However, this is not included in the IT Staff Augmentation contract as a contractual obligation.

Invoice information is not verified for accuracy against independent supporting documentation.

- Billing information on monthly invoices is not consistently verified for accuracy against independent supporting documentation. Specifically:
 - rates applied on invoices are not consistently compared to a rate schedule or engagement agreement,
 - hours billed on monthly invoices are not consistently compared to hours approved, and
 - dates are not consistently checked to guard against double-billing for work.

See Recommendation 2



Conclusions

What did we find?

In this investigation, we confirmed that the CPFS project did not deliver value for money, and that project management and oversight was inadequate.

Additionally, we found that,

1. The contracted Project Manager and three other contracted IT resources had professional relationships and competing interests that could potentially have influenced the decisions they made on behalf of the City.
2. The allegations of inappropriate professional relationships and competing interests were investigated by the Corporate Services Department in 2015. However, appropriate documentation of the investigation was not retained.
3. There were weaknesses in the hiring and time approval processes used during the CPFS project that put the City at risk of mismanagement, error, and potential fraud.
4. As a result of the delay in appropriate investigation, and the lack of information still available, we were unable to determine if the control weaknesses in project oversight and the IT Staff Augmentation contract were exploited for personal gain.
5. The IT Staff Augmentation contract that was used to hire IT contractors for the CPFS project is still in use today to hire IT contractors for other projects. We identified opportunities to strengthen key controls that can reduce the risk to the City.



Recommendations

Recommendation 1


Improve fraud awareness

The Office of the City Auditor recommends that the Deputy City Manager Urban Form and Corporate Strategic Development work with the Office of the City Auditor and/or Corporate Security to facilitate a number of fraud awareness presentations to reinforce fraud awareness and compliance with the Fraud & Whistleblower Protection Administrative Directive (A1464).

Management response

 **Accepted** by Management

Corporate Security group has recently completed fraud awareness training for Branch Managers of the department and their strategic coordinators. Other departmental staff who are involved as a delegated authority or expenditure authority will be trained by the end of the year.

 **Implementation:** December 31, 2018

 **Responsible party:** Deputy City Manager, Urban Form and Corporate Strategic Development

Recommendation 2

Update contract management practices

The Office of the City Auditor recommends that the Deputy City Manager Financial and Corporate Services ensures that contract management practices related to the IT Staff Augmentation Contract are updated and strengthened including but not limited to invoice verification and compliance with Contract Management Administrative Directive (A1205).

Management response



Accepted by Management

The Branch Manager, Corporate Procurement and Supply Services will work with the supplier to ensure that the processes to recruit and manage augmented IT staff are implemented into the staffing services system and are followed consistently across the Corporation. Through this, the Branch Manager of Corporate Procurement and Supply Services will ensure this contract is in compliance with the City's Contract Management Administrative Directive (A1205).

Additionally, the Branch Manager, Corporate Procurement and Supply Services will work with timesheet and invoice approvers to ensure that consistent processes and controls are demonstrated for invoice verification.



Implementation: December 31, 2018



Responsible party: Branch Manager, Corporate Procurement and Supply Services



Appendix - Methodology

We partnered with Corporate Security to complete our investigation objectives. We used the following methods to conduct this investigation:

- Reviewed CPFS project documentation;
- Reviewed IT Staff Augmentation Contract documentation, including but not limited to procurement documents, individual engagement documents, and invoices;
- Performed an analysis of CPFS financial data obtained from the City's financial system;
- Conducted approximately 20 interviews with City of Edmonton employees connected to the CPFS project, including senior and project management, project staff, and client area representatives.
- Reviewed related City policies, procedures, and administrative directives; and,
- Reviewed related Council documents.

As a result of the timing of this investigation relative to the timeframe of the CPFS project, many City of Edmonton employees and contracted resources directly involved with the project no longer work for the City of Edmonton. In addition, limited project documentation is still available. This had a significant impact on the investigation.

Edmonton Police Services was consulted during this investigation.