

Clause embodied in Report No. 6 of the Audit Committee, as adopted by the Council of the City of Toronto at its meeting held on June 18, 19 and 20, 2002.

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**Corporate Accountability Framework -
Implementation Plan and Status Update
on the Use of Consultants**

(City Council on June 18, 19 and 20, 2002, amended this Clause by adding thereto the following:

“It is further recommended that the Chief Administrative Officer be requested to submit a report to the next meeting of City Council advising when the report requested in Recommendation No. (1) of the report dated May 31, 2002, from the Chief Administrative Officer, as embodied in the Clause, will be submitted, and outlining what information will be available to be used during the 2003 budget process.”)

The Audit Committee recommends the adoption of the report (May 31, 2002) from the Chief Administrative Officer:

Purpose:

The purpose of this report is to provide an update on the implementation of the recommendations adopted by Council at its meeting of December 4, 5 and 6, 2001 respecting the selection and hiring of consultants and to recommend an enhanced financial reporting process for the use of consultants by City staff.

Financial Implications and Impact Statement:

There are no financial implications resulting from approval of this report; however approval of the recommendations contained in this report will result in increased accountability and transparency regarding the use of consultants and enhance City staff's ability to manage in an effective and accountable manner.

Recommendations:

It is recommended that:

- (1) the CAO and the CFO, in consultation with the City Auditor, provide an annual report commencing with the period ending December 31, 2002, on consulting expenditures that will include actual consulting expenses for the previous year and the year prior (i.e. 2002 and 2001 actuals) organized by: department or local board, by the specific consulting categories, and by vendor; and

- (2) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Background:

On December 4, 5 and 6, 2001, City Council adopted Clause No. 10 of Report No. 10 of The Audit Committee, entitled “Policy for the Selection and Hiring of Professional and Consulting Services; Use of Consultants and Expenditure Reduction Strategies; Hiring of Professional and Consulting Services Review.”

An accountability framework – Path to Excellence – (which was presented to Audit Committee) will ensure that policies and processes are implemented to improve management controls and accountability.

This report outlines the actions that have taken place since the Council meeting of December 4-6, 2001 and the implementation plan for the remainder of 2002.

Comments:

“Consultant” is defined as any firm or individual providing expert advice/opinion on a non-recurring basis to support/assist management decision making. The main reasons for using consultants are: the skills are not present in-house; it is not economical for the City to hire staff for a specific purpose; the work cannot be accommodated internally in a timely fashion; or third party expertise or objective review is required.

It should be noted that not all external services engaged by the City fall within the definition of consulting services. For example, activities not constituting consulting services include: service provided under an employee-employer relationship (e.g. term-specific contract); contracted-out or out-sourced activities (e.g., waste collection) and purchase of service contracts (e.g., daycare).

In adopting the policy on the use of consultants, five categories of consultants have been identified: technical consultants; management consultants; system development consultants; legal consultants; and creative communication consultants.

Now that staff have had experience with the categories and definitions of consultants, it is recommended that there be further clarification on the difference between contracted (or purchased) services and consultants which are defined as any firm or individual providing expert advice/opinion on a non-recurring basis to support/assist management decision making in the following areas:

1. technical
 - who typically undertake activities on a defined assignment to assist managers in analyzing technical problems and recommending solutions, (including the selection of engineering/architectural designs, research, appraisals, planning);

2. management/research and development
 - 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);
3. information technology
 - who typically undertake activities on a defined assignment to assist managers in needs assessment and systems selection including information processing, telecommunications and office automation (can be analytical, testing or of a business process nature);
4. external lawyers and planners
 - determined in consultation with City legal staff; and
5. creative communications
 - inclusive of advertising, promotional, public relations and design advice.

Work Done to Date

Appended to this report is a summary of the key steps that have been undertaken to implement the policy on the use of consultants.

The work done to date includes:

1. Implementation of and Adherence to Council Approved Policies
 - a) Consultants: In adopting the policy on consultants, Council made two major amendments, specifically a requirement that a corporate business case template be developed with appropriate dollar thresholds to be used as justification for hiring consultants and identifying consequences of non-compliance with the policy.

Non-compliance with City policy is a breach of responsibility and as such will be the subject of performance management and, as appropriate, disciplinary action up to and including dismissal.

As per Council's direction, a "business case / authorization for the hiring of consulting services" a corporate template has been developed. This template must be completed and authorized prior to proceeding with the procurement process for hiring professional and consulting services.

- b) Conflict of Interest: the policy is integral to the Commissioner's performance review. The policy was also sent to all bidders on the City's bidding list and a copy is provided to all new bidders along with the bidder application form. Purchasing and Materials Management Division advises all bidders that a Conflict of Interest policy exists and that it is available at the City of Toronto's Website at www.city.toronto.on.ca.

- c) Re-hire of Former Employees: the policy has been communicated and Commissioners have reviewed their current practices and I have been advised there is compliance with the policy.
- d) Compliance with Purchasing Policies: The policy on consultants has been distributed to senior staff and they have been advised to ensure they are in compliance with the policy. The policy has also been posted on the city's intranet site so staff can have easy access to the policy.

2. Financial Reporting to Council

On an annual basis City Council, through the review and adopting of the budget, reviews consulting expenditures and proposed expenditures.

The CFO in a report to the April Audit Committee provided a schedule of Financial/Variance reports that will be produced during 2002 that will support the day to day financial monitoring and control framework in place to safeguard the city's financial assets, and to provide Executive Management and Council with timely financial information for decision making purposes.

Specifically this report proposes that an annual report on consulting expenditures be provided to Council that would include actual consulting expenses for the previous year (and the year prior) organized by: department or local board, by the specific consulting categories and by vendor.

3. Better Management of Consulting Contracts

- a) Ensured that there are measurable standards and criteria for the hiring and performance evaluation of consultants.
 - Hiring procedures have been approved and measurable standards and criteria for the performance of consultants are being developed.
- b) Developed appropriate review and approval processes to justify the use of consultants.
 - Implementation of business case/authorization for the hiring of consultants template.
 - Implementation of a corporate sole source template that clearly outlines that sole source purchases must have approval prior to the commitment for goods or services.
 - During the 2002 budget process the funding for consultants was zero-based and Commissioners were required to demonstrate funding needs.
 - Also as part of the 2002 budget process all information technology capital projects were subject to a review by the Executive Director of Information Technology.

- c) Reviewed the practice of contracting with firms rather than directly with individuals to meet legislated requirements.
- Individuals whose primary source of income is from one organization may be deemed to be an employee of that organization by Revenue Canada. Therefore, if the City of Toronto contracted with individuals instead of the present practice of contracting with firms, the City could be liable for payments such as CPP, WSIB and employer health tax.
 - There are four factors (control, ownership of tools, risk of profit/loss and integration) used to determine whether the relationship between an individual and a corporation is a business or employer/employee relationship.
 - There may, however, be instances where it is less costly to contract with individuals than firms for consulting services. In these situations, City staff will ensure compliance with all legislated tax requirements.
- d) Commissioners are re-evaluating administrative internal controls on an on-going basis.
- Commissioners have advised the CAO that they have reviewed all contracts and have ensured that all existing consulting contracts have purchase orders.
 - Commissioners are reviewing their internal controls to ensure all purchases and payments are made in accordance with Council policy.
 - The Audit Committee has directed the CAO to report on programs which would require all management to review their respective administrative controls and the implementation of review controls where necessary to reduce the potential for revenue/asset losses and submit a status report to Audit Committee.
 - Commissioners, as part of their performance review, have initiated a review of management controls within their department based upon a template adopted by Audit Committee (Audit Committee, Report 3, Clause No. 5).
 - Arising out of the management controls template there is one outstanding issue which is the development of a corporate asset management strategy. It is anticipated that this will be rolled-out later this year and I will be able to report out on this strategy in my January 2003 report to Audit Committee.

4. Increased Human Resources Competencies

A standard project management infrastructure is in the process of being implemented. This is supported by a large number of city staff being enrolled in project management training. The project management training curriculum targets skills development at all levels of the organization including project sponsors, project managers and project teams

Conclusion:

In order to oversee the corporate-wide implementation of the initiatives contained in appendix “A”, I am chairing regular meetings of the Corporate Accountability Steering Committee. The Committee’s mandate is to focus on strategic accountability issues and ensure that the workplan is implemented. Membership on this Committee includes the Chief Financial Officer and Treasurer, Commissioner of Corporate Services, City Auditor, Executive Director of Information and Technology, and the Executive Director of Human Resources.

In addition to this status report, I will be providing a final report to the Audit Committee in January 2003.

The work done by City staff over the recent months emphasizes accountability and compliance with Council’s direction.

Contacts:

Jim Hart, Director, Executive Management, Chief Administrator’s Office
Phone: (416) 392-8445; Fax: (416) 392-1827; Email: jhart@city.toronto.on.ca

Appendix A

Corporate Accountability Framework – Implementation Plan and Status Report #1

RECOMMENDATIONS	WORKPLAN	STATUS	REPORT TO AUDIT
Implementation of and Adherence to Council Policies			
1. Revise, communicate and implement the policy on consultants.	<ul style="list-style-type: none"> - Amend the consultants’ policy as directed by Council. - Communicate the policy to staff. - Integrate the policy into new corporate sole source template. - A business case template has been rolled out to all city departments. - Integrate this policy in the new corporate financial policy and procedures manual. 	<ul style="list-style-type: none"> Completed Completed Completed Completed Sept. ‘02 	<ul style="list-style-type: none"> June 13 June 13 June 13 June 13 Jan. ‘03
2. Ensure engagement of all consulting services is made in accordance with City’s Purchasing policies.	<ul style="list-style-type: none"> - Development of Sole Source template. - Commissioners have reviewed all contracts and have ensured that all existing consulting contracts have purchase orders. - Integrate the policy in the new corporate financial policy and procedures manual. 	<ul style="list-style-type: none"> Completed Completed Sept. ‘02 	<ul style="list-style-type: none"> June 13 June 13 Jan. ‘03

RECOMMENDATIONS	WORKPLAN	STATUS	REPORT TO AUDIT
3. Communicate the policy on the hiring of former employees and report out on the policy.	<ul style="list-style-type: none"> - Commissioners advised of the policy. - Integrate this policy in the new corporate financial policy and procedure manual. - Commissioners reviewed their operations and advised CAO in Feb. 2002 of their compliance with policy. 	<p>Completed Sept. '02</p> <p>Completed</p>	<p>June 13 Jan. '03</p> <p>June 13</p>
4. Communicate the Conflict of Interest policy.	<ul style="list-style-type: none"> - Commissioners reminded of the policy. - This policy forms part of the 2002 performance objectives signed off by the Commissioners and senior staff. - Integrate this policy in the new corporate financial policy and procedures manual. 	<p>Completed</p> <p>Completed</p> <p>Sept. '02</p>	<p>June 13</p> <p>June 13</p> <p>Jan. '03</p>
Financial Reporting to Council			
5. The Audit Committee has referred to the City Auditor the request from the Administration Committee that he report, in consultation with the Acting Chief Financial Officer and the Acting Treasurer, on an appropriate variance reporting procedure which will ensure timely reporting of variances for professional and consulting services.	<ul style="list-style-type: none"> - Commissioners have been advised that 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. - Annual Report on Consulting Expenditures 	<p>Completed</p> <p>Completed</p>	<p>June 13</p> <p>June 13</p>
Better Management of Consulting Contracts			
6. Development of appropriate review and approval processes to justify the use of consultants.	<ul style="list-style-type: none"> - Justification analysis and business cases, including analysis why the consulting study cannot be conducted by internal staff, either whole or in part, required prior to the engagement of a consultant. - A template has been created and placed on the intranet. This template will be reviewed in three months time. - All requests for information technology purchases, contract staff and consultants are reviewed by the Executive Director of Information Technology. 	<p>Completed</p> <p>Completed</p> <p>Completed</p>	<p>June 13</p> <p>June 13</p> <p>June 13</p>

RECOMMENDATIONS	WORKPLAN	STATUS	REPORT TO AUDIT
7. Changes to the RFP process.	<ul style="list-style-type: none"> - Tender RFQ's and RFP's do not contain actual project budget information unless otherwise approved by council. - Made changes to the RFP and RFQ process to ensure that bidders are notified of the City's Conflict of Interest policy and not to include actual project budget information. - The City's Conflict of Interest policy was sent to all bidders on the City's bidders list and a copy is provided to all new bidders along with the bidders application form. 	Completed	June 13
		Completed	June 13
		Completed	June 13
8. Review of Y2K and nonY2K contracts.	<ul style="list-style-type: none"> - Review of contracts by the City Auditor in consultation with the Executive Director of I&T. 	In progress	2003
9. Ensure that there are measurable standards and criteria for consultants.	<ul style="list-style-type: none"> - Commissioners are taking the necessary steps to ensure that measurable standards and acceptance criteria are included in contracts executed with consultants and that properly documented meetings are held with consultants to ensure that the consultant is meeting contractual obligations. 	Completed	June 13
10. Commissioners to re-evaluate administrative internal controls.	<ul style="list-style-type: none"> - Review internal controls and develop policies as needed in order to ensure that invoices submitted by consultants are reviewed for reasonableness, etc. - An electronic "three-way match" pilot will be conducted this summer. - A management (internal) control checklist forms part of the 2002 performance objectives signed off by the Commissioners and senior staff. 	Continuous	N/A
		In progress	Jan. '03
		Continuous	N/A
Human Resources Competencies			
11. Review of skills shortages or insufficient staff resulting in consistent and extensive long-term use of consultants.	<ul style="list-style-type: none"> - Bring in-house the intellectual knowledge before the issuance of the next RFP on Tax and Water Billing System. - Develop specialized recruitment strategy for specific functions. 	In progress	Dec. '02
		Dec. '02	Jan. '03
12. Ensuring that staff have project management skills.	<ul style="list-style-type: none"> - Commissioners to identify staff for training. - 412 staff are enrolled in project management training and it is anticipated that 500 staff will be trained by the end of 2002. - Implementation of standard project management infrastructure. - Review job descriptions to ensure project management is identified as a key qualification. 	Continuous	N/A
		In progress	Jan. '03
		In progress	Jan. '03
		In progress	Jan. '03

RECOMMENDATIONS	WORKPLAN	STATUS	REPORT TO AUDIT
<p>13. Review of the practice of contracting with firms rather than directly with individuals.</p>	<ul style="list-style-type: none"> - Individuals whose primary source of income is from one organization may be deemed to be an employee of that organization by Revenue Canada. Therefore, if the City of Toronto contracted with individuals instead of the present practice of contracting with firms the City could be liable for payments such as CPP, WSIB and employer health tax. - There are four factors (control, ownership of tools, risk of profit/loss and integration) used to determine whether the relationship between an individual and a corporation is a business or employer/employee relationship. - In instances where it is less costly to contract with individuals than firms for consulting services, City staff will ensure compliance with all legislated tax requirements. 	<p>Completed</p>	<p>June 13</p>