

**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.**

**3****Contract Management Practices**

*(City Council on June 18, 19 and 20, 2002, adopted this Clause, without amendment.)*

**The Audit Committee recommends the adoption of the report (May 28, 2002) from the Chief Administrative Officer:**

Purpose:

To provide the Audit Committee with an update on contract management initiatives within the City of Toronto.

Financial Implications and Impact Statement:

There are no financial implications contained in this report.

Recommendations:

It is recommended that:

- (1) the corporate financial policy and procedural manual include a section on contract management principles
- (2) the contract management examples and guidelines outlined in this report be communicated to the Executive Management Team and the Finance and Administration Committee Team (FACT) and other relevant staff;
- (3) a further update on contract management be provided to the Audit Committee at its first meeting in 2003, and
- (4) 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. 12 of Report No. 10 of the Audit Committee entitled "Contract Management Procedures – Transportation Services Division, Works and Emergency Services". Contained within this report was a recommendation that the Chief Administrative Officer report to the Audit Committee by March, 2002 on a City-wide framework for contract management as part of the internal controls required for the successful implementation of the Alternative Service Delivery strategies.

Comments:

City staff currently manage a number of different types of contracts depending on the specific nature and extent of the contract. Current practices range from the minimum acceptance of delivery and payment to the contractor.

Contract management practices at the City of Toronto are evolving and there is a co-ordinated approach underway to enhance and formalize our practices. Many of these initiatives are being implemented as part of the corporate accountability framework which encompasses the PATH to Excellence, greater internal controls and better management of consultants.

This report on contract management should also be reviewed in conjunction with the report I am bringing forward to the June Audit Committee regarding the implementation of the recommendations regarding the use of consultants.

In response to the Audit Committee's request for a corporate (city-wide) framework, I am highlighting the contract management initiatives that are currently underway.

Better Management of Consulting Contracts

Initiative	Status
- Development of appropriate review and approval processes to justify the use of consultants.	- A business case/authorizing template for the hiring of consulting services has been developed. This corporate template must be completed and authorized prior to proceeding with the procurement process for hiring professional and technical consulting services.
- Ensure that there are measurable standards and criteria for consultants.	<ul style="list-style-type: none"><li>- Staff are taking the necessary steps to include measurable standards and acceptance criteria included in contracts executed with consultants and that properly documented meetings are held with consultants to ensure that the consultant is meeting their contractual obligations. Upon completion of a project, the consultant's performance will be documented and made available for review to relevant City staff.</li><li>- The City has a contract management office as part of the Information and Technology Division. This office is a multi-functional, multi-disciplinary business unit responsible for contract management, asset management and procurement, and technology leasing administration. Staff of the office are also being trained in industry best practices for I&amp;T contract management, and will be adopting internationally recognized standards.</li><li>- Legal and Purchasing assist staff in ensuring that there are the appropriate terms and conditions in the contracts.</li></ul>

Initiative	Status
<ul style="list-style-type: none"> <li>- Commissioners are re-evaluating administrative internal controls.</li> </ul>	<ul style="list-style-type: none"> <li>- Staff are reviewing the administrative controls in their departments in order to ensure that invoices submitted by consultants are reviewed for reasonableness, accuracy, proper supporting documentation and the quality of service relative to the specific terms of the contract prior to authorization for payment. This will ensure that individuals approving invoices have the necessary information to assess whether the service has been rendered and to what extent within the dollar limits, time periods and quality standards specified in the contract. In regard to reimbursable out of pocket expenses, consideration is being given to including all such expenditures as part of the original contract price.</li> </ul>
<ul style="list-style-type: none"> <li>- Finance is currently in the process of creating a corporate finance manual which will be available by the fall of 2002.</li> </ul>	<ul style="list-style-type: none"> <li>- I have asked that this manual contain a section on contract management that identifies the best practices guidelines which will formalize our commitment to implementing successful contract performance procedures.</li> <li>- Examples of contract management guidelines to be communicated to staff immediately and which will also be included in the manual are as follows: <ul style="list-style-type: none"> <li>- deliverables should be clearly defined in the contract or purchase order to enable the determination of completion of the milestones or specific products/services to be provided under the contract, as well as an assessment of the quality of the product/service provided.</li> <li>- adequate acceptance criteria should be established for each deliverable/milestone to facilitate sign off.</li> <li>- necessary monitoring and verification procedures should be performed in managing the contract to ensure contractors have fulfilled their contractual obligations and adhered to the terms and conditions of the contract</li> <li>- payments should be reviewed and approved relative to the specific products or services provided and take into account hourly/daily fees or other rates, as appropriate;</li> <li>- payments should appropriately reflect progress towards the completion of specific deliverable(s), analogous to construction contracts in which payments are based on percentage of completion.</li> <li>- an appropriate portion of the total fee should be withheld, as appropriate, until final completion, such that the City retains the necessary leverage to ensure all deliverables have been provided to our satisfaction</li> <li>- invoices should contain sufficient information to enable applicable staff to determine that the products, services or other deliverables were provided to the specifications in the contract or purchase order, before the invoice is approved for payment</li> </ul> </li> </ul>

Initiative	Status
	<ul style="list-style-type: none"> <li>- roles and responsibilities with respect to the management of contracts must be clearly defined, such that necessary monitoring, certification, verification and approval procedures to effectively manage services rendered and payments made under the contract, are not overlooked.</li> </ul>

#### Human Resources Competencies

Initiative	Status
<ul style="list-style-type: none"> <li>- Ensuring that staff have project management skills which complement and enhance contract management.</li> </ul>	<ul style="list-style-type: none"> <li>- Through initiatives such as the corporate project management initiative, City staff are being trained in project management techniques. A customized project management training curriculum will target the specific needs of project sponsors, project managers and team members. The Project Management Methodology: "Applying the Corporate Standard" seminar focuses on the development of project management skills needed to identify and plan clear and measurable project deliverables, milestones, schedules, performance evaluation, monitoring and control. Development of these skills provides the project management foundation required to successfully manage the diverse contracts managed by staff on behalf of the City of Toronto. To date, 412 staff are registered for project management training and it is anticipated that over 500 staff will be trained by the end of 2002.</li> <li>- In addition, job descriptions are being reviewed to ensure project management skills are identified as a key qualification.</li> </ul>

Finally with regard to the issue of ASD. An ASD report is being submitted to the June Policy and Finance Committee which outlines the steps required to implement ASD. Depending on what Council approves, there may be a need to strengthen staff skill sets so they can effectively manage any new initiatives and there may be a need to augment current training with development specific to service delivery.

#### Conclusions:

Steps are being undertaken to ensure there are enhanced contract management practices within the City of Toronto. There is a co-ordinated approach to contract management underway in terms of: enhancing contract and project management skills and ensuring there are measurable standards and criteria for the hiring and performance evaluation of consultants. This approach is being lead by FACT (Finance Administrative Co-ordinating Team, a sub-committee of the Executive Management Team) and is linked with the PATH to Excellence and my report to the June Audit Committee meeting regarding the use of consultants.

A further update on contract management will be provided to the Audit Committee at its first meeting in 2003.

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