

Clause embodied in Report No. 1 of the Audit Committee, as adopted by the Council of the City of Toronto at its meeting held on April 14, 15 and 16, 2003.

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**Corporate Accountability Framework -
Final Status Update on Use of Consultants**

(City Council on April 14, 15 and 16, 2003, adopted this Clause, without amendment.)

The Audit Committee recommends adoption of the report (March 19, 2003) from the Chief Administrative Officer:

Purpose:

To provide a final 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.

Financial Implications and Impact Statement:

There are no financial implications resulting from the approval of this report; however, the workplan detailed in this report will increase 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 Commissioner of Corporate Services and the Chief Financial Officer and Treasurer report to the Administration Committee prior to December 31, 2004, on a policy regarding the control of fixed assets, such policy to include the keeping of detailed records for all fixed assets over a specified amount and a requirement for periodic physical inventory counts to ensure that adequate controls exist to safeguard the assets; 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".

Contained within the report was a recommendation that the Chief Administrative Officer review the results of the implementation plan contained in the joint report (November 16, 2001) from the Chief Administrative Officer in consultation with the City Auditor and report the findings to the Administration Committee by the end of 2002.

A mid-year status report on the implementation plan was adopted by Council on June 18, 19 and 20, 2002. This report outlines the actions that have taken place during 2002, to address all of the recommendations adopted at the Council meeting of December 4, 5 and 6, 2001.

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 consultant 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; and third party expertise and 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: services 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).

The five (5) categories of consultants are:

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 workplan that has been developed 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 accordance with Council's direction, a "business case/authorization for the hiring of consulting services" 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.

In addition, a corporate sole source template has been developed which details all sole source conditions.

Both of these templates have been distributed to all City departments and they are available on the City's intranet site.

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.

The consultants policy, business case and sole source templates have been included in the City's new corporate financial policies and procedures manual.

b) Conflict of Interest:

This policy is integral to the Commissioner's performance review and is reviewed with all management staff on an annual basis. The policy was also sent to all bidders on the City's bidders list and a copy is provided to all new bidders with the bidder application form. Purchasing and Material 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.toronto.ca.

The conflict of interest policy has been included in the new corporate financial policy and procedures manual.

c) Re-hire of Former Employees:

This policy has been communicated and Commissioners have advised me that there is compliance with the policy.

This policy has been included in the new corporate financial policy and procedures manual.

d) Compliance with Purchasing Policies:

Commissioners have reviewed all consulting contracts and have ensured that all existing contracts have the appropriate purchasing authority.

The purchasing policies related to consulting services have been included into the new corporate financial policy and procedures manual.

2. Financial Reporting to Council:

On an annual basis City Council reviews consulting expenditures and proposed expenditures through the operating budget review process.

The financial/variance reports provide an additional mechanism to support the 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.

In addition, an annual report on consulting expenditures is provided to Council that includes actual consulting expenses for the previous year (and the year prior) organized by: department or local board, by the five (5) 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 have been developed.

Staff from Works and Emergency Services (WES) have led a consultant performance evaluation project with Corporate Project Management staff and staff from Purchasing, Legal and Audit.

The group has developed a draft policy on consultant performance evaluation, a consultant performance template and the associated software.

In addition, Works and Emergency Services is commencing a trial of the evaluation methodology which will be applied to all consultant projects in 2003. Upon the completion of the trial period the evaluation system will be assessed to determine whether it requires modification prior to a corporate roll out.

b) Developed appropriate review and approval processes to justify the use of consultants.

Staff have developed a business case/authorization template for the hiring of consultants which is now in use by all City departments and is available on the City's intranet site. In addition, a corporate sole source template incorporating related City policies has been rolled out to all departments.

To further enhance accountability, all consultant budget requests are zero based in the operating budget and require the Commissioner to demonstrate funding needs and all information technology capital project requests are reviewed 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 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.

Where it is less costly to contract with individuals than firms for consulting services, 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 consulting contracts and have ensured that all consulting contracts have the proper purchasing authority.

At its meeting of January 22, 2003, EMT directed that monthly SAP reports be produced to identify contracts that are 80% spent. This will further increase management's ability to track contract expenditures.

Commissioners, as part of their performance review, have initiated a review of management controls within their department based upon a template adopted by Council (Audit Committee, Clause No. 5, Report No. 3, April 23, 24, 25, 26, 27, 30, and May 1 and 2, 2001).

Asset Management:

In our mid-year status report on the implementation plan (adopted by Council, June 18-20, 2002), we stated that we would report out on the roll out of a corporate asset management strategy in a year-end report.

The City Auditor in his "Finance Department – Management Letter for the Year Ended December 31, 1997", recommended that an inventory of fixed assets should be compiled as soon as possible with priority being given to computer equipment. Management should establish a policy regarding the purchase and control of fixed assets. This policy should include the keeping of detailed records for all fixed assets over a specified amount and a requirement for periodic physical inventory counts to ensure that adequate controls exists to safeguard the assets.

The Facilities and Real Estate Division of the Corporate Services Department has a current inventory of all city owned buildings including details on construction, occupancy, protection and adjacent exposure information on all assets required to be insured for direct physical loss on damage for which the City owns or is responsible to insure.

A plan has been developed to inventory and control all assets in Corporate Services facilities. This will involve setting up a bar coding system and a database for significant furniture items such as desks, credenzas, bookcases, etc. This inventory will be completed in 2004.

This pilot approach will provide a sufficient understanding of the depth, complexity, and resource requirements needed to develop and maintain an effective inventory control system, so that staff can recommend a policy that meets on risk management objectives at the lowest possible cost.

Subsequent to this pilot the Commissioner of Corporate Services and the Chief Financial Officer and Treasurer prior to December 31, 2004, will report to the Administrative Committee on a policy regarding the control of fixed assets.

Examples of the City of Toronto's established inventory control systems include:

Stores/Warehouses

An inventory of all materials and supplies available through the Finance Department's stores/warehouses is maintained electronically on SAP. Physical inventory counts are carried out using a cyclical counting method, where a portion of inventory is counted and reconciled each week. At the end of the calendar year, the entire inventory will have been counted at least twice.

Fleet

An inventory of all City vehicles is maintained by Fleet Services.

Fine Arts/Artifacts

Economic Development, Culture and Tourism collects information on the number of artifacts, description, appraisal value and location. Objects within the fine art collection that are valued over \$50,000.00 are inventoried on an annual basis.

Building Contents

Asset controls within buildings occur throughout City departments; however, in the absence of a City policy the information collected is not consistent. For example, in some programs all tools, photocopiers, fax machines, staff uniforms, materials, supplies, machine parts, furniture and equipment are captured. In other programs items over a certain dollar value are captured. In some programs inventories are outdated.

The pilot project to be commenced by the Facilities and Real Estate Division will result in policy recommendations and corporate consistency.

Infrastructure

Current inventories exist for all bridges, water plants, roads, sewers, water lines, etc., including their state of good repair.

Information and Technology

Corporate Services Information and Technology Division has a capital project to begin in 2003, to implement a city-wide asset management system for software and hardware.

4. Increased Human Resources Competencies

A standard project management infrastructure is in the process of being implemented. This is supported by over 500 city staff being trained in project management as of the end of 2002. The project management training curriculum targets skills development at all levels of the organization including project sponsors, project managers and project teams.

In the Information and Technology Division a number of management staff and senior front line staff have significant project management qualifications including some who are certified "Project Management Professionals".

With regard to job descriptions, Human Resources has ensured that appropriate project management skills are reflected in job qualifications.

In addition, Human Resources has performed a market salary survey for Information and Technology management and excluded positions. This has allowed the Information and Technology Division to adjust some salaries in certain specialized fields closer to the market rate and reduce their reliance on contract staff.

Conclusions:

The corporate-wide implementation of the initiatives contained in Appendix "A" demonstrates staff's commitment to corporate accountability.

The workplan was overseen by the Corporate Accountability Steering Committee. The Committee's mandate is to focus on strategic accountability issues. Membership includes the Chief Administrative Officer (Chair), Chief Financial Officer and Treasurer, Commissioner of Corporate Services, Auditor General, Executive Director of Information and Technology, and the Executive Director of Human Resources.

I will continue to Chair meetings of this Steering Committee throughout 2003, to address issues of strategic accountability as they arise.

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Appendix A

Corporate Accountability Framework – Implementation Plan and Final Status Report

Recommendations	Workplan	Status	Report to Audit
Implementation of and Adherence to Council Policies			
1. Revise, communicate and implement the policy on consultants.	– Amend the consultants' policy as directed by Council.	Completed	June 13, 2002
	– Communicate the policy to staff.	Completed	June 13, 2002
	– Integrate the policy into new corporate sole source template.	Completed	June 13, 2002
	– A business case template has been rolled out to all city departments.	Completed	June 13, 2002
	– Integrate this policy in the new corporate financial policy and procedures manual.	Completed	April 9, 2003
2. Ensure engagement of all consulting services is made in accordance with City's Purchasing policies.	– Development of Sole Source template.	Completed	June 13, 2002
	– Commissioners have reviewed all contracts and have ensured that all existing consulting contracts have the appropriate purchasing authority.	Completed	June 13, 2002
	– Integrate the policy in the new corporate financial policy and procedures manual.	Completed	April 9, 2003
3. Communicate the policy on the hiring of former employees and report out on the policy.	– Commissioners advised of the policy.	Completed	June 13, 2002
	– Integrate this policy in the new corporate financial policy and procedure manual.	Completed	April 9, 2003
	– Commissioners reviewed their operations and advised CAO in Feb. 2002 of their compliance with policy.	Completed	June 13, 2002
4. Communicate the Conflict of Interest policy.	– Commissioners reminded of the policy.	Completed	June 13, 2002
	– This policy forms part of the 2002 performance objectives signed off by the Commissioners and senior staff.	Completed	June 13, 2002
	– Integrate this policy in the new corporate financial policy and procedures manual.	Completed	April 9, 2003

Recommendations	Workplan	Status	Report to Audit
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.	– 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.	Completed	June 13, 2002
	– Annual Report on Consulting Expenditures	Completed	June 13, 2002
Better Management of Consulting Contracts			
6. Development of appropriate review and approval processes to justify the use of consultants.	– 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.	Completed	June 13, 2002
	– A template has been created and placed on the intranet. This template will be reviewed in three months time.	Completed	June 13, 2002
	– All requests for information technology purchases, contract staff and consultants are reviewed by the Executive Director of Information Technology.	Completed	June 13, 2002
7. Changes to the RFP process.	– Tender RFQ's and RFP's do not contain actual project budget information unless otherwise approved by council.	Completed	June 13, 2002
	– 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.	Completed	June 13, 2002
	– 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, 2002

Recommendations	Workplan	Status	Report to Audit
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. Certain contracts (Beacon, Remarkable and Ball Bsu) are being reviewed as part of the public inquiry. Other contracts are being reviewed by external consultants recently engaged by the City Auditor General. 	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, 2002
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. 	Continuous	N/A
	<ul style="list-style-type: none"> The Materials Management and Stores section of City Finance has been using the three-way match process for the payment of invoices since the implementation of SAP. In the fall of 2002, a roll out of three-way match began with a pilot project in Fleet Services. Three-way match will be introduced in the CAO's Office, Corporate Services, Auditor General and Finance this spring. 	Continuous	April 9, 2003
	<ul style="list-style-type: none"> A management (internal) control checklist forms part of the 2002 performance objectives signed off by the Commissioners and senior staff. 	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. 	Completed	April 9, 2003
	<ul style="list-style-type: none"> Develop specialized recruitment strategy for specific functions. Innovative recruitment strategies are practiced to target specific hard-to-hire job families (e.g., online, advertisements in technical journals, job fairs). 	Continuous	April 9, 2003

Recommendations	Workplan	Status	Report to Audit
12. Ensuring that staff have project management skills.	– Commissioners to identify staff for training.	Continuous	N/A
	– Approximately 500 staff will be trained in Project Management by the end of 2002.	In progress	April 9, 2003
	– Implementation of standard project management infrastructure. The establishment of the Project Centre in the Corporate Services Department has provided the foundation for the consistent application of project management throughout the City.	In progress	April 9, 2003
	– Review job descriptions to ensure project management is identified as a key qualification.	Completed	April 9, 2003
13. Review of the practice of contracting with firms rather than directly with individuals.	<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. 	Completed	June 13, 2002