

Clause embodied in Report No. 2 of the Audit Committee, as adopted by the Council of the City of Toronto at its meeting held on February 13, 14 and 15, 2002.

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Review of Y2K Spending and Contracts

(City Council on February 13, 14 and 15, 2002, adopted this Clause, without amendment.)

(City Council on December 4, 5 and 6, 2001, deferred consideration of this Clause to the next regular meeting of City Council scheduled to be held on February 13, 2002.)

(Clause 9 of Report 11 of the Audit Committee)

The Audit Committee recommends the adoption of the following report (November 28, 2001) from the Chief Administrative Officer and Acting Chief Financial Officer/City Auditor:

Purpose:

To seek Audit Committee and Council approval to undertake a focussed review of Y2K spending and report out on various aspects of Y2K spending. As well, the report seeks approval to renegotiate selected contracts on a case by case basis, if doing so is in the city's financial and operational interest.

Financial Implications and Impact Statement:

The financial implications of this report can be addressed from existing budgets.

Recommendations:

It is recommended that:

- (1) The Acting Executive Director of Information and Technology and the City Auditor undertake a focused review of Y2K spending and report to the Audit Committee in April 2002.
- (2) At a minimum, the review examine the scope of the spending, whether the amount spent was necessary to adequately prepare the city, whether Y2K funds were spent on non-Y2K initiatives.

- (3) Where there are outstanding opportunities to reduce contractual obligations and reduce the city's financial commitment, the Acting Executive Director of Information Technology in conjunction with the Acting Chief Financial Officer be authorized to negotiate contract reductions.

Background:

During the preparations for Y2K normal purchasing and contracting procedures were modified due to the urgency of the project and the inflexible deadline of 1 January 2000. The former CAO was given broad authority to extend existing contracts, sole source, and undertake emergency spending in order to prepare the city's computer systems and facilities.

On a day to day basis responsibility for the project was delegated by the former CAO to a Y2K steering committee which included a member of Council, the former Chief Financial Officer and former Executive Director of I&T. A Y2K Project Director was assigned to manage the project full time.

During the course of the project \$160 million dollars was spent on a wide range of initiatives, involving numerous companies.

Comments:

In recent months a number of questions have arisen related to the City's Y2K spending and spending practices. These include the extensive use of consultants and contract staff during Y2K that appeared to spill over into post Y2K business practices. Another report addresses issues related to the computer leasing contract that was entered into as part of the Y2K spending. The City Auditor has also raised concerns that some of the Y2K budget may have been used for non-Y2K initiatives.

As a result, the City Auditor and Acting Executive Director of Information Technology have undertaken a preliminary review of Y2K spending. That initial review suggests that there is a need for a more comprehensive examination of certain elements of the spending and certain contractual arrangements. The initial review indicates that \$160 million was spent in a short period of time on a significant number of contracts and purchases. The initial review also suggests that there is reason to believe that the spending may have exceeded that necessary to bring the city to a responsible level of preparedness.

The initial review has also been revealed that at least one contract includes options that the City could exercise that could reduce the City's ongoing financial obligations.

It is therefore recommended that the Acting Executive Director of Information and Technology, with the assistance of the City Auditor, undertake a review of selected Y2K contracts and report out on their findings.

Conclusions:

The City Auditor has been consulted on this report and concurs with the recommendations therein.

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