

APPENDIX 1

**REVIEW OF REPORTING ON
USE OF CONSULTANTS**

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Auditor General's Office

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EXECUTIVE SUMMARY

Why we did this review

In 2001, the City Auditor reported on the, “*Selection and Hiring of Professional and Consulting Services Review*”. That review identified the need for improvements in procuring, recording and reporting on the City’s use of consultants.

City staff have made many changes to rectify the issues identified in the 2001 report. The purpose of the current review is to ensure that process and procedural changes made by staff are effective.

Definition of “consultant” has changed

One significant difference between now and 2001 is that the definition of “consultant” has been changed. Consulting expenditures now include only circumstances where the City engages an expert to provide advice or an opinion to assist management in its decision making process. Previously, consultant expenditures included fees where the City engaged the services of an external professional due to a lack of staff resources or expertise. Such expenditures are now recorded as professional services.

Consulting expenditures are accurately recorded and reported to Council

Based on the work we performed, consulting expertise is acquired in accordance with City purchasing policies and amounts expended are properly recorded in the accounting system and reported to Council on an annual basis.

This review provides assurance that amounts reported to Council annually accurately reflect consulting expenditures incurred and that the related services were obtained in accordance with City policies and procedures.

BACKGROUND

In 2001 City Auditor conducted a review on professional and consulting services

At Council’s July 24, 25 and 26, 2001 meeting the City Auditor tabled a report titled, “*Selection and Hiring of Professional and Consulting Services Review*”. This report contained 17 recommendations to strengthen the City’s control over its expenditures on consultants.

http://www.toronto.ca/audit/2001/selection_prof_consulting_june_19_final.pdf

Issues were identified

Some of the issues identified in that report were:

- Lack of reliable accurate reporting
- Lack of compliance with procurement policies and procedures
- Inadequate documentation justifying engagements
- Project scopes, deliverables and schedules were not always clearly defined.

Information is available to the public

In response to the recommendations made staff have improved the reporting on the use of consultants. First, the City Treasurer submits an annual report to Council on consulting expenditures for the City and major Agencies, Boards and Commissions.

Second, the City provides the public with internet access to five years of data on consulting engagement activities.

Table 1 provides details on the annual operating and capital expenditures for consulting services.

Table 1:

| City Consulting Expenditures | | | |
|-------------------------------------|----------------------|------------------------|--------------------|
| Year | Capital (000) | Operating (000) | Total (000) |
| 2011 | \$4,641.5 | \$3,464.1 | \$8,105.6 |
| 2010 | \$3,963.9 | \$1,585.2 | \$5,549.1 |
| 2009 | \$16,960.3 | \$2,033.5 | \$18,993.8 |
| 2008 | \$11,071.4 | \$2,466.2 | \$13,537.6 |

Source: Accounting Services Division

The significant variances from year to year are attributed to annual changes in operational requirements. Increased expenditures in 2008 and 2009 are partially attributable to consultants engaged with respect to work at Union Station and to provide advice on the City's Financial Planning and Reporting System (FPARS).

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The Auditor General's 2011 Audit Work Plan included a review of the extent of consulting expenditures incurred by the City.

The objective of this audit was to determine if certain issues identified during the 2001 audit had been adequately addressed. Specifically our objective was to determine if consultant contracts and related expenditures were:

- awarded in accordance with City policies, procedures, and applicable regulations; and
- accurately recorded in the financial information system, validated and reported to Council on an annual basis.

The review examined the City's consultant engagements initiated or in effect between January 1, 2011 and December 31, 2011. In addition, limited review procedures were conducted on the reported expenditures for 2008, 2009 and 2010.

We did review a small sample of professional services expenditures to ensure they had been properly classified but have not done any extensive review on these expenditures. Also, we did not review consulting expenditures of the City's Agencies, Boards and Commissions.

Our audit methodology included the following:

- review of minutes of meetings of City Council and Committees
- interviews with Accounting Services and Purchasing and Materials Management staff
- review and analysis of City's financial information system data
- analysis of data on the City's Consulting Services Records and data publicly available on the City's website
- review of relevant documentation including:
 - divisional consulting expenditure declarations
 - accounting services validation and reconciliation documentation for 2010 expenditures
 - purchase order and procurement files

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Accuracy and Completeness of Annual Reporting Has Improved

*Annual report
fair and
reasonable*

Based on the work we have performed, the annual report to Council is a fair and accurate representation of the City's consulting expenditures.

*Problems
identified in
2001*

In 2001 there was a lack of clarity on:

- The amount that should be reported for consulting expenditures. Some divisions were reporting amounts related to services actually provided, others were reporting the value of the contract awarded even if the service was to be provided in a future year.
- There was no clear definition of which services were consulting services and amounts were charged to various general ledger accounts making it almost impossible to accurately report expenditures.

In the current reporting to Council, divisions have properly reported only amounts due in respect of services already provided.

*Definition of
"consultant" has
changed over the
years*

The second significant factor in the improved reporting is a result of a change in the definition of consultant such that all City divisions have a consistent approach to what is now reported as consulting expenditures.

The revision to the definition of a consultant was approved by Council in June 2002 through adoption of a report titled "Corporate Accountability Framework – Implementation Plan and Status Update on the Use of Consultants" from the Chief Administrative Officer.

<http://www.toronto.ca/legdocs/2002/agendas/council/cc020618/au6rpt/cl001.pdf>

The 2002 report clarified the difference between professional services and consulting. As set out in that report, the definition of the term consultant was broken down into five categories:

***Revised
definition of a
consultant***

“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*
- 2. Management/research and development*
- 3. Information technology*
- 4. External lawyers and planners and*
- 5. Creative communications”*

Divisions, with limited exceptions, have been consistently using this definition, which excludes specific professional services, to identify and report on consulting activities.

Separately recording services provided by professionals such as architects, engineers, lawyers and accountants as “Professional Services”, has significantly reduced the amounts recorded as consulting expenditures.

***Accounting
Services validate
expenditures
prior to reporting***

There is also greater scrutiny over consulting and professional services reported by divisions. Each year divisional staff are required to forward a list of all consulting service expenditures to Accounting Services Division. These submissions are tracked, validated and reconciled by Accounting Services prior to incorporation of the data in the annual report to Council and posting on the City’s website.

In addition, at various times during the year Accounting Services reviews expenditures recorded in the City’s financial information system as either consulting or professional service. They specifically focus on any items that may be incorrectly recorded. Any exceptions identified are explored further with divisions and corrections requested.

This analysis and review process in our view has been effective.

Better Compliance With Purchasing Policies and Procedures

In general, controls are in place to ensure that the procurement processes for consultants are in compliance with established policies and procedures.

During the 2001 audit, the City Auditor identified specific areas of concern related to the procurement process for consultants including:

- contracts awarded without open competition and without the involvement of the purchasing division
- services sole sourced but not meeting the criteria set out within City's guidelines or without sufficient documentation
- lack of evidence of required authorization based on value of procurement
- inadequate documentation to justify engagement of a consultant
- lack of defined project scope, clearly stated deliverables and schedules

For 2011, there were only 81 individual consulting expenditures for the City. From our review of the information recorded in the financial system for these expenditures, and a sample of related procurement files we noted that:

- competitive procurement was used in 94 per cent of purchases
- sole source engagements were reviewed and approved by Purchasing & Material Management Division and met City guidelines
- appropriate levels of authorization were evident on all files included in our sample
- files contained adequate justification for purchased consulting services
- all consultant purchase order and contract files we reviewed had clearly defined deliverables, project scopes and defined schedules

In addition to our review of recorded consulting expenditures, we reviewed a sample of expenditures recorded as professional services to ensure they were properly classified. Again, in all cases, the expenditures were properly recorded.

In summary, all files we reviewed were properly classified and complied with City policies.

CONCLUSION

Based on our review, we are satisfied that consulting services are being accurately recorded and reported to City Council.