



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

Service Efficiency Consultants Studies – Extent of Value for Money From Studies Has Not Been Clearly Demonstrated

Date:	February 11, 2015
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report provides information related to the results of the Auditor General's 2014 audit of the use of service efficiency consultants which was included in the 2014 Audit Work Plan and a January 2015 Budget Committee request related to the implementation status of the KPMG City of Toronto - Shared Services Efficiency Study.

Auditor General's 2014 Review of the Use of Service Efficiency Study Consultants

The Auditor General's 2014 Audit Work Plan included a review of the use of consultants on Service Efficiency Studies. The overall objective of this audit was to determine whether the City received value for money from the Service Efficiency Studies. The audit also examined whether the consultant deliverables met the stated expectations of quality, price and timeliness.

Attachment 1 includes a cover report and the audit report prepared and signed by the previous Auditor General as well as management's response to the recommendations contained in the report.

Management agrees with the four recommendations made in the report.

Request for Information – January 29, 2015

At the January 29, 2015 Budget Committee meeting, the Auditor General was requested to provide a status update on the implementation of recommendations related to the

shared services initiative. One of the 22 consultant reports reviewed during this project related to shared services. This report provides information related to the City Shared Services Project and consultant's shared service recommendations. The Auditor General included a project to monitor the progress of the City Shared Service Project in her 2015 Work Plan.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the City Manager, in consultation with the Director, Purchasing and Materials Management, to expedite the development and implementation of a formal consultant performance evaluation process. The consultant evaluation should include both qualitative and quantitative performance measures that help evaluate the quality and practicality of deliverables, the efficiency of the consultant in managing time and resources, and the cost of work in relation to the benefits received, ensuring that any such measures align with the scope of work.
2. City Council request the City Manager, in consultation with the Director, Purchasing and Materials Management Division, to require City Agencies and Corporations to participate in the sharing of information on consultant performance with the City.
3. City Council request the City Manager to submit a final report to City Council that clearly demonstrates the overall value for money achieved from the use of consultants on the Service Efficiency Studies. Such report should include a comprehensive analysis of the qualitative and quantitative effects of the Service Efficiency Studies, in particular the net financial impacts to date for all recommendations. Anticipated financial benefits and costs should also be quantified to the extent possible. This report be completed by September 30, 2015.
4. City Council request the City Manager to forward this report to the City agencies and corporations for information.

Financial Impact

Addressing the recommendations in this report will assist City efforts in holding itself accountable for the savings identified in the Service Efficiency Studies. Consultant performance evaluations will help ensure the City receives value for money in future consulting services.

COMMENTS

Auditor General's Review of the Use of Service Efficiency Study Consultants

The Auditor General's 2014 Audit Work Plan included a review of the use of consultants on Service Efficiency Studies.

The objectives of this audit were to determine whether the City received value for money from the Service Efficiency Studies and whether consultant deliverables met stated expectations of quality, price and timeliness.

Between 2011 and 2013 approximately \$3.5 million was spent to conduct these studies. In total, over 300 recommendations from 22 reports were presented to management. One of the Service Efficiency Studies conducted was a cross-corporate study on Shared Services.

Key issues identified in the attached audit report are identified below.

No Formal Evaluations of Consultant Performance

Our review found that no formal evaluations of the consultant performance was done.

Since City divisions, agencies and corporations will continue using external consultants on a variety of work, the quality of work performed and the benefits provided by consultants should be evaluated and documented to ensure value for money is achieved on future engagements. City divisions, agencies and corporations should work together to develop a consistent process for consultant performance evaluations, ensuring that such information is shared and used in making future award decisions.

Similar recommendations have been made in previous Auditor General reports.

Some Savings Achieved from Consultant Studies

Value for money measures were not defined as part of the Service Efficiency Studies project. Without defined value for money measures, we relied on management's estimate of financial impacts, to date, to evaluate the extent of financial benefits achieved from the Service Efficiency Studies.

The City Manager estimated that implementation of completed recommendations to date has resulted in cumulative savings of \$110.5 million since 2011, net of technology and other investment costs which totalled \$11.5 million.

The audit report states:

“We agree that there was likely some value for money from the use of the consultants on the Service Efficiency Studies, but not to the extent or value as indicated by the City Manager. Based on our review, the amount of savings is likely overstated by the following:

- \$60 million representing a one-time fund transfer of certain previously committed reserve funds. This amount has been included as a revenue increase and represents over half of the estimated savings.

- Certain savings related to various divisions and agencies, totaling at least \$34.4 million that were previously identified by staff and acknowledged as such by the consultants. This amount represents approximately one third of the estimated savings.

While we recognize that attributing cause and effect is not always easy, the items identified above should be excluded from cost savings achieved as a result of the Service Efficiency Studies. In our view, cost savings to date are likely closer to \$16.1 million when the items identified above are excluded.” These savings exceed the \$3.5 million spent on the studies.

In relation to the \$34.4 million in savings that were previously identified by staff, during the audit, staff confirmed that the consultant's reviews were 'a catalyst' in helping to move forward to achieve the savings.

The previous Auditor General’s cover report and audit report entitled “Service Efficiency Consultants Studies – Extent of Value for Money From Studies Has Not Been Clearly Demonstrated” is included as Attachment 1 and includes management’s response to each of the recommendations contained in the report.

Request for Status Update – January 29, 2015

On January 29, 2015 the Budget Committee requested the Auditor General to provide a status update on the implementation of recommendations related to the shared services initiative. Recognizing that in 2013, the consultant recommended consolidating many of the same areas that the Auditor General identified in 2011, the Auditor General’s Office probed further to better understand why the City Manager needed to engage independent consultants, given that the Auditor General previously identified many service areas that would benefit from a shared services approach.

The Shared Services - Service Efficiency Study highlighted that many stakeholders expressed concerns about the ability and authority of the City Manager to implement shared service models involving arms-length agencies, because of their independent nature, legislation, and their distinct mandate.

The consultant's report noted that a shared services model can be achieved by either:

- demonstrating value to the arms-length organizations, or through an
- ‘authority-driven’ approach where the City Manager obtains authority from Council to impose shared services arrangements.

The consultant’s report also included a detailed methodology to transition the City to the shared services model for certain services.

We believe that it is necessary to both demonstrate the value and to have the proper authority for the shared services model to be successful. In June 2013, based on the KPMG Shared Services Study, City Council directed staff to begin implementation of various short term shared services opportunities and to report back.

Now that stakeholders can better understand the value of sharing services and direction of Council is in place and the shared services methodology has been developed, the City is better positioned to pursue shared service benefits and opportunities.

The audit team made further inquiries to obtain an update on management's progress in the implementation of the consultant's report. Management has appointed a Shared Service Project Team to address recommendations made in the Service Efficiency Studies on Shared Services. We briefly reviewed management's proposed plan to implement a comprehensive shared services initiative.

According to the shared services project charter, the goal of the initiative is:

“for the City and its agencies to work collaboratively to identify and implement shared services opportunities that will achieve:

- Substantial and ongoing cost savings without service reductions and/or
- Service improvements”

Management's Shared Services overview was reported to the Executive Committee in July 2014. The plan includes both short and long-term goals. The project team intends to report again on progress made on short-term shared service opportunities to the respective agency boards in June 2015 and to City Council in July 2015. Long-term shared service opportunities are anticipated to be reported over a longer period of time.

Auditor General to Follow-up

The Auditor General conducts an annual follow-up to determine the status of outstanding recommendations. The status of recommendations contained in the audit report will be reviewed during the 2016 follow-up process.

In addition, the Auditor General has included a 2015 audit project to audit the progress of the City Shared Service Project on an ongoing basis. It will also assess whether there are additional opportunities to share services. The audit results will be reported out to the Audit Committee this year.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1: Previous Auditor General Report "Service Efficiency Consultants Studies – Extent of Value for Money From Studies Has Not Been Clearly Demonstrated"