



**AUDITOR GENERAL'S  
REPORT  
ACTION REQUIRED**

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

<b>Date:</b>	December 16, 2014
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

**SUMMARY**

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The Auditor General's 2014 Audit Work Plan included a review of the use of consultants on the Service Review Program's Service Efficiency Studies. The City Manager's Office identified 22 studies, including a cross-corporate Shared Services study. Various consultants were retained to conduct these studies, for a total cost of approximately \$3.5 million, excluding taxes. The consultants were asked to evaluate how certain services were delivered and to provide advice to the City Manager on actions and directions which could result in more efficient and effective service delivery, organizational and operational arrangements, and maximum of service efficiency savings in the shortest period of time. In total, over 300 recommendations were presented to the City Manager.

The overall objectives of this audit were to determine whether the City received value for money from the Service Efficiency Studies and whether the consultant deliverables met the stated expectations of quality, price and timeliness. The City Manager's Office advised that, on the whole, value for money from the use of consultants on the Service Efficiency Studies was achieved. However, value for money measures were not defined. Consequently, the extent to which value was achieved has not been clearly demonstrated. The issues identified in this report include the need to better evaluate and report on the value for money achieved. Additionally, we continue to have concerns related to the lack of consultant performance evaluations.

This report contains four recommendations along with a management response to each of the recommendations. The recommendations included in this report may be relevant to

the City's agencies and corporations and should be reviewed, evaluated and implemented as deemed appropriate

## **RECOMMENDATIONS**

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### **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 the City to be accountable for the value for money achieved from the Service Efficiency Studies and to become a more informed buyer of future consulting services. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

### **COMMENTS**

The overall objectives of this review were to determine whether the City received value for money from the Service Efficiency Studies and whether the consultant deliverables met the stated expectations of quality, price and timeliness. However, value for money measures were not defined. Consequently, the extent to which value was achieved has not been clearly demonstrated.

In particular, one the Service Efficiency Studies was a cross-corporate study on Shared Services. This particular study was the most expensive of all the Service Efficiency Studies, at a cost of \$460,800. Issues identified as a result of the study had previously been addressed and identified in various reports prepared by the Auditor General over the past number of years. In our view, the study did not represent value for money.

Our review also found that no formal evaluations of the consultants' performance were done. Since the City, its' agencies and corporations, will continue using external consultants on a variety of work, the quality of work performed and the benefits provided by consultants need to be evaluated and documented to ensure that 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 then shared and used in making future award decisions.

Finally, a comprehensive value for money analysis should be done in order to provide accountability to the City for the use of consultants now that all of the Service Efficiency Studies are complete.

The issues identified include the need to better evaluate and report on the value for money achieved. Additionally, the recommendation related to consultant performance evaluations made in previous Auditor General reports is reiterated in this report.

The audit report entitled "Service Efficiency Consultants Studies – Extent of Value for Money From Studies Has Not Been Clearly Demonstrated" is attached as Appendix 1. Management's response to each of the recommendations contained in the report is attached as Appendix 2.

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## **SIGNATURE**

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Jeff Griffiths, Auditor General  
14-CMO-01

## **ATTACHMENTS**

Appendix 1: Service Efficiency Consultants Studies – Extent of Value for Money From Studies Has Not Been Clearly Demonstrated

Appendix 2: Management’s Response to the Auditor General’s Review of Service Efficiency Consultants Studies – Extent of Value for Money From Studies Has Not Been Clearly Demonstrated

# **AUDITOR GENERAL'S REPORT**

## **Service Efficiency Consultant Studies**

### **Extent of Value for Money From Studies Has Not Been Clearly Demonstrated**

**November 25, 2014**

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**Jeffrey Griffiths, CPA, CA, CFE**  
**Auditor General**



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## EXECUTIVE SUMMARY

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***Service Efficiency Studies were part of a broader Service Review Program***

A Service Review Program, a key City Initiative, was approved by Council in April 2011, in preparation for the 2012 Budget Process and Multi-Year Financial and Service Planning Budgeting Process. The purpose of the Service Review Program was to help address the City's financial challenges, set the foundation for services and service levels and establish the basis for multi-year planning and service delivery to meet the City's objectives in 2012 and beyond. The Program was comprised of three parts: a Core Service Review, Service Efficiency Studies, and a User Fee Review.

***Auditor General's 2014 Work Plan***

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

***Consultants cost approximately \$3.5 million for 22 studies***

The City Manager and the Deputy City Managers identified certain divisions and agencies that would benefit from a Service Efficiency Study in 2011 and beyond. Twenty-two studies were identified by the City Manager's Office, including a cross-corporate Shared Services study. Various consultants were retained to conduct these studies. The consultant costs for these studies totaled approximately \$3.5 million, excluding taxes.

***Consultants made over 300 recommendations on service delivery, structure and savings***

The consultants were asked to evaluate how certain services were delivered and to provide advice to the City Manager on actions and directions which could result in more efficient and effective service delivery, organizational and operational arrangements, and maximum of service efficiency savings in the shortest period of time. In total, over 300 recommendations were presented to the City Manager.

***Audit objective and scope***

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

This review was a high level evaluation of the use of consultants and did not include the procurement process for retaining the consultants or an evaluation of the consultants themselves. For the most part, the review focused on how the City demonstrates whether value for money has been achieved from the Service Efficiency Studies.

### **Value for Money from Service Efficiency Studies is Unclear**

***Extent of value achieved not clearly demonstrated***

The City Manager’s Office advised that, on the whole, value for money from the use of consultants on the Service Efficiency Studies was achieved. However, value for money measures were not defined. Consequently, the extent to which value was achieved has not been clearly demonstrated.

***Shared Services study cost \$460,800***

In particular, included in the Service Efficiency Studies was a cross-corporate study on Shared Services. The cost of the study was \$460,800. This particular study was the most expensive of all the Service Efficiency Studies representing over 13 per cent of the total funds expended.

***Issues identified were not new***

In our view, this particular study did not represent value for money. Issues identified as a result of this study had previously been addressed and identified in various reports prepared by the Auditor General over the past number of years.

***Auditor General has previously identified opportunities for consolidation of various functions***

In 2011, the Auditor General prepared a report entitled “Previous Audit Reports – Common Themes and Issues”. The most prominent issue raised in that report was as follows:

*“There are significant efficiencies to be gained by the consolidation of various administrative functions throughout the City and its Agencies, Boards and Commissions.”*

***Issue of shared services has been raised since as far back as 2008***

Even as far back as 2008 this issue was raised by the Auditor General during deliberations with former Mayor Miller’s Fiscal Review Panel and documented in the Panel report entitled “Blueprint for Fiscal Stability and Economic Prosperity – A Call to Action”.



That report stated:

- *“The City should review its City-wide Shared Services departments and those of the ABCCs and look for opportunities to coordinate certain key functions and responsibilities.*
- *The City will secure greater alignment between its responsibilities, accountability and authority through more cooperation with and increased oversight of the ABCCs and increased opportunity to realize savings and execute joint initiatives.”*

Further, in our view the Shared Services efficiency study was incomplete as it did not include certain City functions and excluded significant City Corporations where shared services opportunities were significant.

Although a Shared Services Project Team was created in 2014, such steps for exploring shared services opportunities could have been taken much earlier and without the additional consultant expenditures.

*Reasons for engaging a consultant were unclear*

In view of the foregoing we are of the opinion that the reasons were unclear for engaging a third party to identify opportunities for shared services many of which had been identified previously.

#### **Quality of Consultant Work was not Assessed**

*No formal consultant performance evaluations*

Throughout the years, the Auditor General has also issued a number of reports related to the use of consultants. These reports identified concerns and recommendations relating to the lack of formal performance evaluations of consultants. In the files we reviewed, no formal evaluations of consultants' performance were done.

*Stakeholder feedback on value received was mixed*

In the absence of formal consultant evaluations for the Service Efficiency Studies, we interviewed senior management from a sample of divisions and agencies to obtain feedback on the value for money received, and whether the performance and deliverables met expectations. The feedback was mixed.

We recognize that certain benefits are not quantifiable. For example, some interviewees expressed that the greatest benefit from the use of consultants was in having an independent opinion that provided an impetus for action or change.

However, other interviewees expressed concerns that the accelerated timelines were too short to realistically find and implement immediate cost savings, that the ideas presented by consultants were not new, and that in some cases recommendations appeared to be made without due consideration for the political environment.

***Consultants will continue to be used and should be formally evaluated***

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

### **Budgeted Cost Savings could be Overstated**

Without defined value for money measures, we relied on management's estimate of financial impacts to date in order to evaluate the extent of financial benefits achieved from the Service Efficiency Studies.

***City Manager estimated significant financial savings***

The City Manager estimated that, for recommendations that are completed to date, cumulative savings of \$110.5 million have been achieved since 2011, net of technology and other investment costs totaling \$11.5 million.

***Auditor General agrees that some benefit is likely but savings attributed to consultants could be overstated***

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 release 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.

In our view, cost savings to date are likely closer to \$16.1 million when the items identified above are excluded.

*A separate comprehensive analysis of Service Efficiency Studies' results would be beneficial*

While the reporting out through individual divisional and agency budgets was done, this makes it difficult to identify the results of the Service Efficiency Studies as a whole. Reporting out separately from the annual budget process would be more informative. A comprehensive analysis of the qualitative and quantitative benefits and costs, including the net financial impacts from the implementation of the Service Efficiency Studies' recommendations, should be done in order to provide accountability to the City for the use of consultants on the Service Efficiency Studies.

*City Manager plans to issue a final report*

The City Manager advised that a final report to demonstrate the overall effects of the Service Efficiency Studies is being considered now that all of the studies are complete.

### **Conclusion**

This report presents the results of our review of the use of consultants on the Service Efficiency Studies. The issues identified include the need to better evaluate and report on the value for money achieved. Addressing the recommendations in this report will assist the City to be accountable for the value for money achieved from the Service Efficiency Studies and to become a more informed buyer of future consulting services.

The recommendations included in this report may be relevant to the City's agencies and corporations and should be reviewed, evaluated and implemented as deemed appropriate.

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## BACKGROUND

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***The Service Review Program***

A Service Review Program was approved by Council in April 2011, in preparation for the 2012 Budget Process and Multi-Year Financial and Service Planning Budgeting Process. The purpose of the Service Review Program was to help address the City's financial challenges, set the foundation for services and service levels and establish the basis for multi-year planning and service delivery to meet the City's objectives in 2012 and beyond. The Program was comprised of three parts: a Core Service Review, Service Efficiency Studies, and a User Fee Review.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX4.10>

***The focus of this audit was on the Service Efficiency Studies***

The focus of this audit was on the Service Efficiency Studies, managed by the City Manager's Office.

In defining the scope of the Service Efficiency Studies, the City Manager and the Deputy City Managers identified certain divisions and some of the larger agencies that would benefit from a Service Efficiency Study in 2011 and beyond. Various consultants were retained to conduct these studies.

***Consultants cost approximately \$3.5 million for 22 studies***

Twenty-two Service Efficiency Studies were awarded between 2011 and 2013, including a Shared Services efficiency study that was conducted across City divisions and certain agencies for common services and functions. Exhibit 1 lists the Service Efficiency Studies by year and consultant, and shows the cost of each study, which ranged from \$47,146 to \$460,800. The average cost per study was \$160,000.

Table 1 summarizes the consultant costs for these studies, totaling approximately \$3.5 million, excluding taxes.

Table 1: Consultant Costs for Service Efficiency Studies, 2011 to 2013:

<b>Year of Award</b>	<b>Total SES Consultant Costs (in millions)</b>	<b>Total Number of Studies</b>
2011	\$1.7	11
2012	\$1.5	9
2013	\$0.3	2
<b>Total</b>	<b>\$3.5</b>	<b>22</b>

Source: City Manager’s Office

*Consultants made over 300 recommendations on service delivery, structure and savings opportunities*

The consultants were asked to evaluate how certain services were delivered and to provide advice to the City Manager on actions and directions which could result in more efficient and effective service delivery, organizational and operational arrangements, and maximum of service efficiency savings in the shortest period of time. In total, over 300 recommendations were presented to the City Manager.

*Consultant reports are available on City’s website*

Consultants were selected using a roster established under Request for Expressions of Interest No. 9144-11-7001, dated February 11, 2011. The statements of work and consultants’ reports for completed Service Efficiency Studies are available on the City’s Service Review website.

<http://www.toronto.ca/torontoservicereview/efficiencystudies.htm>

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## **AUDIT OBJECTIVES, SCOPE AND METHODOLOGY**

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*Auditor General’s 2014 Work Plan*

The Auditor General’s 2014 Audit Work Plan included a review of the use of consultants on the Service Review Program’s Service Efficiency Studies. This review was selected based on the extent of expenditures and the Service Review Program being a key City Initiative.

*Audit objective and scope*

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

Specifically, our review focused on the following areas:

- Total cost of consultant work;
- Measures used to determine the value for money;
- Extent to which the program achievements have been reported;
- Level of oversight and ongoing monitoring of the recommendation impacts.

This audit covered the Service Efficiency Studies awarded between January 1, 2011 to December 31, 2013, as listed in Exhibit 1.

***High level review***

This review was a high level evaluation of the use of consultants and did not include the procurement process for retaining the consultants or an evaluation of the consultants themselves. For the most part, the review focused on how the City demonstrates whether value for money has been achieved.

Our audit methodology included the following:

- review of Committee and Council minutes and reports
- interviews with City and agency senior management
- examination of documents and records, including statements of work and consultant reports
- evaluation of management controls and practices
- review of relevant reports previously issued by the Auditor General and other jurisdictions
- other procedures deemed appropriate.

***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.

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## AUDIT RESULTS

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### A. Was Value for Money Achieved?

*What is value for money?*

In general terms, value for money can be considered to have been achieved if the costs were justified by the benefits achieved. However, determining the value for money from the use of consultants can be complex and requires a thorough assessment of the benefits achieved.

*Some challenges in assessing value for money from the use of consultants*

For example, it can be difficult to identify useful measures that are suitable for all types of projects. Measuring the quality of the work can be subjective, and judgement is often required. The mix of quality, cost, resource use, and timeliness needs to be judged together to determine whether the consultants provided good value.

*Extent of value achieved not clearly demonstrated*

The City Manager's Office advised that, on the whole, value for money from the Service Efficiency Studies was achieved.

However, value for money measures and a methodology for evaluating the benefits achieved were not defined. While the consultant costs totaling \$3.5 million are known, the extent of the value achieved has not been clearly demonstrated.

#### **Value from Shared Services Study is Unclear**

*Shared Services study cost \$460,800*

Included in the Service Efficiency Studies was a cross-corporate study on Shared Services. The study cost \$460,800 and was completed in 2013. This particular study was the most expensive of all the Service Efficiency Studies representing over 13 per cent of the total funds expended.

*Issues identified were not new*

In our view, this particular study did not represent value for money. Issues identified as a result of this study had previously been addressed and identified in various reports prepared by the Auditor General over the past number of years.

***Auditor General  
has previously  
identified  
opportunities for  
consolidation of  
various functions***

In 2011, the Auditor General prepared a report entitled “Previous Audit Reports – Common Themes and Issues”. The most prominent issue raised in that report was as follows:

*“There are significant efficiencies to be gained by the consolidation of various administrative functions throughout the City and its Agencies, Boards and Commissions.”*

Further, the report stated that:

*“The issue of the consolidation of various administrative and operations functions throughout the City and its Agencies, Boards and Commissions has been an issue which has been raised many times by the Auditor General in various reports including those relating to fleet, real estate, information technology and accounting services.*

*In regard to the potential for consolidation at the Agency, Board and Commission level, the response from senior management for the most part has revolved around the issue of a lack of authority by City staff at these entities. Consequently, for the most part, the City has adopted a “hands off” approach when dealing with its Agencies, Boards and Commissions in spite of the fact there are significant opportunities for cost savings.”*

That report further stated that:

*“Opportunities for consolidating services include the following areas:*

- *Financial Information Systems*
- *Information Technology*
- *Human Resources*
- *Procurement*
- *Legal Services*
- *Audit Services*
- *Accounting including payroll*
- *Fleet*
- *Real Estate Management*

*The consolidation of these functions does provide an opportunity for significant cost savings.”*

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.AU5.8>



***Issue of shared services has been raised as far back as 2008***

In addition to recommendations by the Auditor General, a Task Force formed by former Mayor Miller in 2008 produced a document entitled “Blueprint for Fiscal Strategy and Economic Prosperity – A Call to Action”. In connection with shared services, the report stated that:

- *“The City should review its City-wide Shared Services departments and those of the ABCCs and look for opportunities to coordinate certain key functions and responsibilities.*
- *The City will secure greater alignment between its responsibilities, accountability and authority through more cooperation with and increased oversight of the ABCCs and increased opportunity to realize savings and execute joint initiatives.”*

***In 2012, Council directed the City Manager to conduct a Shared Services review***

At its meeting on April 10 and 11, 2012, and in consideration of the Auditor General’s 2011 report, Council directed the City Manager to conduct a review giving consideration to the opportunities for consolidating services or a shared service approach in certain functional areas. As a result, the City engaged an external consultant to conduct a Shared Services study involving City divisions and the following six agencies:

- Exhibition Place
- Toronto Parking Authority
- Toronto Police Service
- Toronto Public Health
- Toronto Public Library
- Toronto Transit Commission

The City identified the following eight functions as priorities for shared services:

- Human Resources/Labour Relations
- Information Technology
- Insurance and Risk Management
- Internal Audit
- Legal Services
- Purchasing and Materials Management
- Records Management
- Real Estate Services

The City Manager, in his May 10, 2013 report entitled “Results of the Shared Services Study – City Agencies”, reported that:

*“The Shared Services Study confirmed that the City and its agencies are already sharing many corporate support services across a range of functions... The consultants suggested improvements to current shared services between the City and its agencies through establishing formal governance structures to monitor shared service arrangements and establishing robust service level agreements including performance metrics and issue resolution mechanisms.”*

***A Shared Services Project Team was created following consultant study***

Subsequent to the consultant study, a Shared Services Project Team was created in March 2014 to facilitate the creation of an Executive Steering Committee and 13 working groups that would explore options to accelerate the implementation of shared services opportunities identified in the consultant study.

***Steps for exploring shared services could have been taken earlier without additional expenditures***

In view of the recommendations made by the Auditor General over the past number of years and the recommendations contained in former Mayor Miller’s 2008 task force report, the need for a further study in our view did not represent value for money, particularly when the study did not identify any significantly new opportunities for shared services. Working groups could have been established much earlier and without the additional consultant expenditures. Specifically, an expenditure of \$460,800 to advise senior management that the City should share services has no merit.

***In our view, the study was deficient and incomplete in a number of areas***

Further, the final report on Shared Services study was in our view deficient and incomplete in a number of areas:

- The list of entities included in the study was incomplete particularly as one of the entities where significant opportunities for shared services, the Toronto Community Housing Corporation, was omitted.
- The review included a number of City functions but omitted the various fleet functions across the City.
- The estimated savings included in the report are significantly overstated and in our view are completely unrealistic, which is discussed further in this report.

- In spite of the fact that the consultant interviewed over 67 individuals and conducted 14 workshops, the Auditor General was not consulted during the engagement other than to provide views on the consolidation of internal audit functions, even though the Auditor General had been advocating shared services for the past 10 years or so.

Finally, organizations typically use consultants for the following reasons:

- access to specialist skills
- knowledge on how to approach a task
- an independent view and new innovative thinking.

*Reasons for expenditures on a shared services review were not evident*

The reasons for using consultants were not evident as far as the Shared Services study was concerned. Prior to engaging external consultants management needs to ensure that their use is necessary and will represent value for money. In view of the emphasis placed on shared services over the past number of years, in our view the expenditures on a shared services review were not required.

## **B. Quality of Consultant Work Was Not Assessed**

*No formal evaluations done*

In the files we reviewed, no formal documented evaluations of the consultants' performance or quality of work were done.

*Previous audits identified lack of formal performance evaluations*

Throughout the years, the Auditor General has reiterated his concern in a number of reports that the City does not formally evaluate the performance of its consultants. The concern is that the City is exposing itself to poor performing consultants that repeatedly win similar work. These reports include:

- Selection and Hiring of Professional and Consulting Services Review (June 19, 2001)
- Procurement Processes Review (March 31, 2003)
- Toronto Water Division Review of Wastewater Treatment Program – Phase Two (September 21, 2007)

Although certain previous audit recommendations related to consultants performance evaluations have not yet been fully addressed, the City has made some progress.

***Evaluations for construction contractors is already in place***

For example, in 2013, the Purchasing and Materials Management Division developed and implemented the “Contractor Performance Evaluation Procedure” for construction contractors. The procedure provides guidance to staff on creating and maintaining an evaluative record of a construction contractor’s performance for the purpose of contract management and future purchasing decisions, and includes a tool, the Contractor Performance Evaluation Form, that helps summarize and quantify the quality of work performed by a construction contractor.

***Development of an evaluation process for consultants is now underway***

While this procedure is currently specific to construction contractors, we understand that the Purchasing and Materials Management Division is leading the development efforts to expand the existing procedure to include consultants.

### **Stakeholder feedback**

***Sample of divisions and agencies were interviewed***

In the absence of formal evaluations for the consultant work done on the Service Efficiency Studies, we interviewed senior management from a sample of divisions and agencies to obtain feedback on the value for money received from the consultants and whether the performance and deliverables met expectations. The feedback was mixed.

***Certain benefits from the use of consultants are not quantifiable***

We recognize that there are certain benefits from the use of consultants which are not quantifiable. For example, some interviewees expressed that the greatest benefit from the use of consultants was in having an independent validation by a third-party of the cost-savings initiatives, business model, management structure, or resources requirements, some of which were already identified by staff or underway. Some interviewees felt that the consultants helped to get buy-in and to bring a sharper focus to certain ideas. Some said that they benefitted from getting a wider industry perspective.

However, the most common concerns expressed by the interviewees were:

***Most agreed that timelines were too short to extract full benefits of the review***

- Most interviewees agreed that the accelerated timelines for the studies were too short to realistically find and implement immediate cost savings. For example, some studies that were complex and large scale were expected to be completed in a period of eight to ten weeks. Some studies that had longer timelines were still delayed. Our review noted two studies that were delayed by six and eight months respectively beyond the initial timelines.

***Concerns about the lack of new ideas***

- Nearly all interviewees responded that the ideas presented by consultants were not necessarily new. Based on our analysis, 68 per cent of the 300 recommendations made were considered “feasible” by management. However, many were staff findings that the consultants validated. The short timeframes likely contributed to the difficulty in generating significantly new ideas.

***High level recommendations without due regard for political environment***

- Some interviewees commented that the consultants made recommendations that were too high level. For example, our analysis found that 20 per cent of recommendations “required further analysis” to determine feasibility.
- In some cases, recommendations appeared to be made without due consideration for the political environment. In particular, the cross-corporate Shared Services study identified cost savings that ranged from \$60.4 million to \$66.9 million annually, of which \$47 million annual savings was expected from developing and implementing a City-wide labour relations and collective bargaining strategy.

***Shared Services study - City Manager acknowledged that savings likely to be lower than consultant estimates***

The City Manager, in his June 17, 2014 report entitled “Update on the Shared Services Project” regarding KPMG’s estimated \$47 million annual savings, indicated that:

*“...the City Manager, DCM & CFO, and Executive Director of Human Resources agree that there are potential cost savings particularly the avoidance of higher and rising future costs, but are of the opinion that cost savings will likely be lower than the KPMG estimates given the complexity of the collective bargaining process and the pragmatic realities of collective bargaining in the public sector – specifically for those agreements that are subject to binding arbitration.”*

Exhibit 2 summarizes the interview comments received.

## Lessons Learned

*Consultants will continue to be used and should be formally evaluated*

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

### Recommendations:

- 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.**

## C. Budgeted Cost Savings Could Be Overstated

Without defined value for money measures, we relied on management's estimate of financial impacts to date in order to evaluate the extent of financial benefits achieved from the Service Efficiency Studies.

## **Certain Cost Savings Have Been Included in 2011 to 2014 Budgets**

***Financial Planning tracks the budgetary impacts***

The City Manager's Office, with the assistance of the Financial Planning Division, has tracked the implementation status of more than 300 Service Efficiency Studies' recommendations that were identified or validated by consultants. This tracking compiled certain data related to each recommendation, including the initial staff assessment of feasibility, current implementation status, and the financial impacts on the budgets for 2011 through 2014.

***City Manager estimated significant financial savings***

The City Manager estimated that, for recommendations that are completed to date, cumulative savings of \$110.5 million have been achieved since 2011, net of technology and other investment costs totaling \$11.5 million.

***Auditor General agrees that some benefit is likely but savings attributed to consultants could be overstated***

We agree that there was likely some benefit from the use of consultants on the Service Efficiency Studies, but not to the extent or value as indicated by the City Manager.

Based on our review of the \$110.5 million in budgeted savings attributed to the Service Efficiency Studies' consultants, the amount of savings could be overstated by the following:

- \$60 million representing a one-time release of certain previously committed reserve funds. This amount was 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 attributed to the Service Efficiency Studies. In our view, cost savings to date are likely closer to \$16.1 million.

Other potential adjustments to the estimated savings amount may be required. These include the financial impacts from the ongoing implementation of the remaining recommendations not yet completed, and a projection of anticipated financial benefits and costs in the immediate future. We understand that some of these impacts are not determinable at this time.

We noted that there is no requirement to track the actual savings realized for individual recommendations. Budgeted savings may not necessarily reflect actual savings realized. Changes to the budget may occur throughout the year based on actual experience. In this context, it was not possible to determine the extent to which the estimated savings have actually been realized.

### **Separate Reporting Should Be Done**

*Reporting is done through the annual budget process*

At its September 26, 2011 meeting, Council requested the City Manager to report the findings of the Service Efficiency Studies as part of the annual budget process. In the sample we reviewed, we were satisfied that the recommendations with significant budgetary impacts were reported in the divisional and agency analyst notes.

*Separate reporting would be beneficial*

While the reporting out through individual divisional and agency budgets was done, this makes it difficult to recognize the results of the Service Efficiency Studies as a whole. To date, a separate report on the consolidated results of the Service Efficiency Studies has not been done. In our view, reporting out separately from the annual budget process would be more informative. It will better articulate the benefits and costs, and provide accountability to the City for the use of the consultants on the Service Efficiency Studies.

In addition to financial impacts, other measures that could be reported to demonstrate overall value for money may include the qualitative and quantitative impacts and improvements to:

- Inter-divisional and agency collaboration
- Process efficiency
- Service delivery

*City Manager plans to issue a final report*

The City Manager advised that a final report to demonstrate the overall effects of the Service Efficiency Studies is being considered now that all of the studies are complete.



**Recommendation:**

- 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.**

The recommendations included in this report may be relevant to the City's agencies and corporations and should be reviewed, evaluated and implemented as deemed appropriate.

**Recommendation:**

- 4. City Council request the City Manager to forward this report to the City agencies and corporations for information.**

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## **CONCLUSION**

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This report presents the results of our review of the use of consultants on the Service Efficiency Studies. The issues identified include the need to better evaluate and report on the value for money achieved. The recommendation related to consultant performance evaluations made in previous Auditor General reports is reiterated in this report.

Addressing the recommendations in this report will assist the City to be accountable for the value for money achieved from the Service Efficiency Studies and to become a more informed buyer of future consulting services.

**EXHIBIT 1****Consultant Costs for Service Efficiency Studies**

#	Year Awarded	Study	Consulting Firm	Final Cost <sup>1</sup>
1	2011	Fleet Services	Western Management Consultants	\$202,228
2	2011	Facilities Management & Real Estate	KPMG	\$214,920
3	2011	Solid Waste Mgmt	Ernst and Young	\$142,934
4	2011	Toronto Public Library	DPRA	\$97,368
5	2011	Toronto Police Services	Ernst and Young	\$249,865
6	2011	TTC	Accenture	\$280,747
7	2011	Environment & Energy Offices	KPMG	\$52,750
8	2011	Transportation Services	KPMG	\$225,100
9	2011	Shelter Support & Housing Administration	MCC Workplace Solutions	\$47,146
10	2011	Corporate Communications	Western Management Consultants	\$60,000
11	2011	Parks, Forestry & Recreation	DPRA	\$125,335
12	2012	Museums	Lord Cultural Resources	\$90,000
13	2012	Toronto EMS-Toronto Fire Services Review / RFP Fairness Consultant	POMAX Inc / P1 Consulting	\$378,802
14	2012	Long-Term Care Homes & Services	DPRA	\$128,281
15	2012	Children's Services	Deloitte	\$110,000
16	2012	Shared Services	KPMG	\$460,800
17	2012	Court Services	Sierra Systems	\$104,235
18	2012	Counter Services	Deloitte	\$80,000
19	2012	City Planning	MNP LLP	\$90,000
20	2012	311 Toronto	Deloitte	\$90,000
21	2013	Business Process Review of Staff Recruitment Process	Western Management Consultants	\$71,974
22	2013	SAP Governance Review	Ernst and Young	\$159,975
			<b>Total Expenditures</b>	<b>\$3,462,460</b>

Source: City Manager's Office

<sup>1</sup> Exclusive of taxes and HST recoveries

**Summary of Interview Comments**

<p><b>Critical Feedback</b></p> <ul style="list-style-type: none"> <li>• Focus of the review was too high level; in part due to a timeline that was too short to realistically find and implement immediate cost savings</li> <li>• Timelines were accelerated, some studies were conducted in as few as two months, sometimes for complex and large scale undertakings. Timelines should be longer in order for quality results and to extract the full benefits of the review</li> <li>• Consultant ideas presented were not necessarily new</li> <li>• The consultants gave a simplistic view / too high level</li> <li>• Recommendations lacked detailed “how-to” steps</li> <li>• Consultant team lacked expertise and did not understand the risks</li> <li>• Staff time needed to support the consultants was significant</li> <li>• It is unfortunate that the City has to pay money to get the same advice</li> <li>• Whether the City received value for money will depend on the outcomes of implementing some of these recommendations, some of which are long-term, and will need the political will of all stakeholders</li> </ul>
<p><b>Negative Feedback</b></p> <ul style="list-style-type: none"> <li>• No value at all</li> <li>• In years following budget restraints, objective to find immediate savings was unreasonable</li> <li>• The Service Review Program was flawed from the beginning</li> <li>• The whole review has raised expectations on savings that won’t be achieved.</li> <li>• A pre-determined mandate of 10 per cent budget reductions created a greater expectation of cost savings compared to whether or not these are actually achievable</li> </ul>
<p><b>Positive Feedback</b></p> <ul style="list-style-type: none"> <li>• Value not necessarily just in cost savings</li> <li>• Value in the form of independent validation of strategic direction, business model, management structure, resources requirements by a third-party</li> <li>• Value of an external report sometimes gets you more cooperation from others</li> <li>• It helped get buy-in, changed the mind-set, and provided a sharper focus on efficiencies and savings when meetings happen or decisions need to be made</li> <li>• Recommendations were made in consideration of the wider industry perspective</li> <li>• Consultant team had the right skills and experience</li> <li>• Gave us what we wanted</li> <li>• The detailed steps were supposed to be left up to the Division to determine what would be appropriate / required to implement the recommendations</li> </ul>

**Management’s Response to the Auditor General’s Review of Service Efficiency Consultants Studies –  
Extent of Value for Money From Studies Has Not Been Clearly Demonstrated**

<b><u>Rec No</u></b>	<b><u>Recommendation</u></b>	Agree (X)	Disagree (X)	<b><u>Management Comments:</u></b> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<b><u>Action Plan/ Time Frame</u></b>
1.	<b>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.</b>	X		The City Manager accepts the recommendation of the Auditor General.	The City Manager and the Director, Purchasing and Materials Management, with the appropriate Inter-Divisional team, will expedite the development and implementation of a consultant performance evaluation process.  Time frame:  Q4 2015 for the process to be developed  Q1/Q2 2016 for roll-out to City Divisions
2.	<b>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.</b>	X		The City Manager accepts the recommendation of the Auditor General.	The City Manager and the Director, Purchasing and Materials Management Division will, as part of the consultant performance evaluation process, build in sharing of information with Agencies and Corporations. We will work with the Agencies and Corporations to develop their own consultant evaluation

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
					<p>process and procedures for sharing of information about consultant performance with the City.</p> <p>Timeframe: Q1 2016</p>
3.	<p><b>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.</b></p>	X		<p>The City Manager accepts the recommendation of the Auditor General.</p>	<p>The City Manager recommends that the requested report be completed by September 30, 2015, to ensure that staff have enough time to collect updated information from City divisions and agencies and that the divisions and agencies have sufficient opportunity to conduct the comprehensive quantitative and qualitative analysis required to include in the City Manager's report to City Council.</p> <p>Timeframe: Report to City Council by September 30, 2015.</p>
4.	<p><b>City Council request the City Manager to forward this report to the City agencies and corporations for information.</b></p>	X		<p>The City Manager accepts the recommendation of the Auditor General.</p>	<p>The City Manager will forward this report to City agencies and corporations for information.</p>