INTERNAL AUDIT REPORT

USE OF EXTERNAL CONSULTING

FINAL
June 26, 2014

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EXECUTIVE SUMMARY

The use of external consulting is a fundamental means to access specialized skills and knowledge that are not necessary, sensible or economical for an organization to build or maintain itself. The use of external consulting can also provide a means to manage fluctuations in workload and resource capacity to achieve finite project objectives.

This Value for Money audit was primarily focussed on the efficiency and effectiveness of external consultant use at the City. It did not focus on compliance or internal controls as the procurement audit, conducted in 2013, confirmed there were no issues of non-conformance or concerns with the controls for the procurement of external services. All procurement activities, including external consulting were found to be in compliance with existing by-laws and internal controls.

It is also important to note that all consulting related expenditures within the review period were within the Council-approved budgets.

It can be difficult to determine if the organization is receiving value-for-money when using external consulting as it is dependent on many factors, including:

- clearly defined and communicated requirements
- standards and methods to monitor and assess the performance of external consultants and
- governance and accountability including clear corporate objectives, adherence to the purchasing by-law and methods to identify and measure the benefits provided by the service

For the purpose of this audit external consulting is defined as an individual not employed by the City or an independent firm with professional or technical expertise and competence that is needed by the City. While the City sets out guidelines and expectations through the contract process, the City does not control the manner of performance or the result of the service. The end product is usually a written and/or oral report, study or list of recommendations. This is separate and distinct from outsourced or contracted services.

Outsourced services are roles normally existing within the organization that function under the direction of the management of the organization but for various reasons management has decided to hire an external party to perform the service.

City Council approves the funding for both capital and operating annual budgets. The hiring of specific consultants is approved at various levels across the organization, dependant on the amount or value of the contract.

Council-approved budgets generally include funding for external consulting, but based on the methods of reporting, the costs and justification for hiring external consultants are not always transparent. The data in this report illustrates that the use of external consulting is widespread across the organization and can be coded to a variety of object codes in both...
capital and operating budgets. This makes it difficult to accurately identify all costs incurred for external consulting. Total costs are not easily visible to management due to the inconsistent coding of expenditures and the number of object codes in use for similar expenses. With poor support for the tools with which to manage consulting costs and a lack of business intelligence tools, management is handicapped in performing one if their essential tasks. Subsequent to the completion of the audit a number of business tools have been developed and are now available for use. A detailed business case analysis tool and departmental work plans will be helpful going forward.

Hiring of external consulting is at the discretion of the administration across the organization, with no governing policy to require a business case or methodology for validation and reporting of the service provided.

In some service areas, there is no evidence of a formal process for evaluating the performance of external consulting and no validation of deliverables to determine if expected outcomes were delivered or benefits realized. This lack of performance measurement limits our ability to validate the effectiveness of external consultants, as well as identify future resource and training and development needs for the organization.

Often for studies, process reviews, needs assessments and other types of service reviews, a steering committee is convened from staff to provide oversight and management to the external consulting activity. There is a risk of a lack of impartiality or objectivity when this steering committee is primarily comprised of staff from the affected department. It is recommended that a member of the Internal Audit department participate in each of these specific types of steering committees to provide objective oversight, risk assessment and to ensure that the review methodology is consistent with the standards used by our Internal Audit department.

While the audit has identified a number of opportunities for the City to improve its management of the use of external consulting, it must be acknowledged that these business process changes take time to fully evolve.

Management has the responsibility for implementing the audit recommendations but it will require the full commitment of staff, leaders and Council to realize the maximum benefit of these changes.

**Executive Summary - Key Findings and Recommendations**

There is the potential for a reduction in expenses with improved business processes and guidance over the use of external consulting. Primary recommendations from this audit include:

1. Development of a formal policy to govern the process for the use of external consulting. This policy should include:
   a. Criteria for when to utilize external consulting
   b. Cost Benefit Analysis tools

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c. Business case tools and guidelines
d. Defined review and approval process
e. Performance monitoring and assessment
f. Reporting requirements

2. Development of performance assessment, monitoring and reporting tools to ensure the City receives value-for-money when utilizing external consulting.

3. To ensure value-for-money (and potential reduction in consulting costs) develop tools and methodologies to conduct cost benefit and capacity analysis and create a core competency inventory to determine the requirements for external consulting vs. utilization of internal resources.

4. Provide clarity on object code usage for external consulting to ensure standardized use across the organization and provide visibility in reporting and performance monitoring.

5. Conduct a review of business processes, where repetitive/ongoing use of external consulting occurs as well as areas where the external consulting is utilized for corporate services, to investigate the potential for a more cost effective and efficient way to access these services.

6. Adjust the staffing of certain steering committees used to manage the use of external consulting to include a member of the Internal Audit function, to assist in providing objective oversight, risk assessment and ensuring consistent methodology.

The complete list of all Corporate Findings and Recommendations may be found on page 25 of this report.

**AUDIT OBJECTIVES**
The primary objective of this value-for-money audit was to determine if the processes and governance are in place to ensure external consulting use is efficient and effective.

**SCOPE**
- All services areas and departments within the Corporation
- Financial analysis (2010-2013) of object code 3501 (Professional Consulting)
- Budget performance analysis (2010-2013)

- **Out of Scope**
  - Local boards and agencies
  - Purchasing controls and procedures
Outsourced and contracted services (3500 series object code other than 3501)
- The Purchasing By-law (2009)-18777

AUDIT TEAM
- Katherine Gray, Business Performance Specialist
- Loretta Alonzo, Internal Auditor

METHODOLOGY
The following research and analysis was undertaken for this audit:

- Staff interviews
  - An online survey was distributed to all management within the organization.
  - Selected department/division heads with high usage of external consultants over the four years (2010-2013) were interviewed.
- Internal documentation review and analysis
  - Purchase orders with 3500 series object codes for operating and 6560 for capital.
  - Budget performance in the same objects codes for the same time period.
- External Literature review
- Municipal comparison
- Process mapping

The report is presented in sections, by department, as follows:
- Corporate Overview
  - Current Environment
  - Key Findings and Recommendations
- Planning, Building, Engineering and Environment
- Corporate and Human Resources
- Finance and Enterprise
- Community and Social Services
- Office of the Chief Administrative Officer
- Operations, Transit and Emergency Services

CORPORATE OVERVIEW

Current Environment
City Council approves the funding for both capital and operating budgets. The hiring of specific external consultants is approved at various levels within the organization, dependant on the cost or value of the contract.
Retaining external consulting is at the discretion of the administration across the organization, with no governing policy beyond the procurement by-law, to require a business case or methodology for validation and reporting of the service provided.

Expertise and capacity were identified by staff as equal drivers in the need to utilize external consulting.

Staff also identified a lack of formal guidelines for the use and assessment of external consulting, nor is there a business case or review process to identify and validate the need for external consulting services. Providing a corporate standard for this activity was identified by staff as a suggestion for improvement. Staff also identified the desire to have access to a skills inventory to leverage another area’s skill set to achieve results and goals instead of utilizing external consultants, where applicable.

Chart 2 illustrates this staff response.
The corporate systems WAM (procurement software) and RAC (financial reporting software) were utilized to conduct data analysis. There is a challenge in definitively identifying all consulting charges due to the wide range of object codes available for use and the lack of governance and controls to ensure all expenditures are allocated to the appropriate object code.

Historically, the average annual spending for external consulting at the City of Guelph has been approximately $2 million in operating expenses and $8.5 million in capital expenses. This amount includes costs incurred in both tax supported and non-tax supported service areas and departments.

It is important to note that all expenditures incurred within the review period were within the Council-approved budgets.

Chart 3 illustrates the overall corporate operating budget and expenditures in operating and capital related to external consulting use over the last four (4) years. Actual operating expenditures have increased an average of 25% (average of $460,000 a year) over the last four (4) years, while capital expenditure has decreased an average of 31% (average of $3 million a year).

**Capital Expenditure**

An average of 40% of the capital expenditure in 2010 and 2011 was for federally supported Infrastructure Stimulus Fund and Recreation Investment projects. These projects received an average of 75% funding reimbursement from the Federal Government. However, these recoveries and revenues are not tracked across the corporation in a manner that allows for the direct correlation between the expense and revenue for the consulting activity.
While some external consulting use is mandated by legislation (for testing and reporting) staff identified capacity issues and expertise as the main reasons for the use of external consulting. This data is as reported from the corporate financial reporting software.

**Recommendation**
Overall governance policy should define capital vs. operating expense and the application of each.

Of note, there are grants and other sources of funding, such as federal funding and development charges that can be used to offset the external consulting costs incurred for projects. For example a continuous improvement grant received for the automated cart project in Solid Waste, is allocated for the whole project and not itemized in the financial reporting to specific aspects of the project or program.

**Recommendation**
Overall governance policy should provide guidelines and criteria for reporting recoveries as they offset the expenditures to provide transparency and clarity for management of this service.

These recoveries and revenues are not tracked across the corporation in a manner that allows for the direct correlation between the expense and revenue for the consulting activity. Therefore, the amount reported in this audit is the amount allocated to the object code for professional consulting and does not include any reduction for grants or other forms of fund recovery.

There is a lack of guidance to direct when activities are consistent with a capital expenditure vs. operating. For example Wellness Audit, Strategic/Master Planning, Temporary Staffing to backfill a position and current state needs assessments are all found within the external consulting object codes in capital expenditures.

This is not to say that these expenditures are incorrect but that these types of services are not generally indicative of a capital expense. A well-defined policy would include guidance on the definition of capital vs. operating expenditures and the application of each for external consulting use.

**Recommendation**
Overall governance policy should define capital vs. operating expense and the application of each.

When looking at the operating financial performance distribution, the budget has increased across most services areas and overall expenditures have been within the Council-approved budget.

Chart 4 illustrates this financial distribution and budget performance for operating expenditures.
Purchase orders from the Corporate WAM system were reviewed to identify distribution use of external consulting across the organization by category and reason. This review identified an average of 45% of purchase orders (for 2013) occur within the Planning and Building, Engineering and Environment Service Area, with the remainder of the purchase orders for external consulting fairly evenly distributed across the other service areas.

Chart 5 identifies both the four (4) year average and 2013 specific distribution of purchase order expense for the use of external consulting.
Planning and Building, Engineering and Environment (PBEE) Service Area generates an average of 59% of the external consulting purchase orders, refer to above Chart 6: Four Year Average External Consulting Purchase Order Distribution.

The majority of this expenditure is related to the Water Services area. Further information is provided in the applicable service area section of this report.

During the review of categories of use for external consulting we note that multiple departments are utilizing external consulting for expertise related to corporate services such as communications, legal services and project management. Operational reviews of these services and business processes should be conducted to investigate if there is a more cost effective and efficient way to access these services.

**Recommendation**

A review of these corporate business processes (for which external consulting is utilized) should be undertaken to investigate the potential for a more cost effective and efficient way to access these services including the addition of FTEs.
**Categories of Use**

All purchase orders for the four-year period (2010-2013) identified in the scope section of this report, were reviewed and a category of service was applied to each. Chart 6 illustrates the categories of use for external consulting.

![Chart 6: Breakdown of External Consulting Use by Category](chart)

These categories were based on the description of service provided in the individual purchase orders. The categories utilized were:

- **Project Management**
  - *Provision of project management services and expertise*

- **Subcontracting**
  - *Physical service provided such as traffic counts, equipment repairs, spill response, calibration activities, printing services*

- **Program/Policy Development**
  - *Development of processes and policies for various services at the City such as Source Protection Policy, Guelph Wellbeing, City Identity, Innovation Fund*
• Engineering Services
  o *Provision of technical services of an engineering nature*

• Assessment/Review
  o *Includes technical reviews, needs assessments, current state reviews*

• Environmental
  o *Technical services/support of an environmental nature*

• Temporary Staffing
  o *Staffing to support project implementation, backfill vacancies, contract staff*

• Recruitment
  o *Professional recruitment services*

• Strategic/Master Planning
  o *Development of large, long term plans such as the Urban Forestry Master Plan, Transit Growth Strategy, Community Investment Plan, etc.*

• Reporting
  o *Development of various types of reports such as technical annual reports, CofA reports, Landfill reports, etc.*

• Auditing
  o *Internal audit support, technical audits and financial audits*

• Legal
  o *Legal services, opinions and appraisal reports*

• Economic Development
  o *Assessments for economic development activity*

• IT Upgrades/Solutions
  o *Various items such as licensing, data drops, software/hardware upgrades or development, fibre optic charges, etc.*

• Communications
  o *Development of communication plans, advertising, marketing and branding, graphic design, media relations*

• Research
  o *Technical research primarily with the universities*

• Miscellaneous Fees
  o *Various payments including donations, TSSA fees, Storm seat commissions, memberships, maintenance fees, subscriptions, etc.*
• Benchmarking
  o *Comparisons conducted to inform activity and projects at the City*

• Planning Services
  o *Technical services of a planning nature*

• Facilitation
  o *Provide facilitation services for a variety of projects*

• Coaching
  o *Mentoring, coaching, performance development*

• Training
  o *Provide training to staff, i.e. driver training, dangerous goods, software, webinars, use of a fire extinguisher*

• Issue Management
  o *External support to assist with direction and strategic advice to manage issues affecting the City and community*

• Supplies
  o *Purchase of items such as paper, cardboard, printer cartridges/toner, tables and chairs, etc.*

• Monitoring
  o *Environmental monitoring services*

• Community Engagement
  o *Provide service to engage the public and community through meetings, surveys, public consultation, etc.*

• Health and Safety
  o *Auditing, assessments and development of improvements*

• Integrity Commissioner
  o *Professional services rendered*

• Employee Engagement
  o *Support for employee engagement activities.*
Chart 7: illustrates the distribution of purchase order expenditure across the top twenty (20) category types of service.

It is apparent that a number of charges have been reported through the professional development object code (3501) that are not by definition consulting (refer to page 3 of this report, for the full definition of external consulting used in this audit).

The following Chart 8: Purchase Order Expenditure for Actual Consulting Service depicts the amounts reported on purchase orders with categories that meet the definition of external consulting.

This value has had categories of subcontracting, temporary staffing, legal services, IT upgrades/solutions, miscellaneous fees and supplies removed from the total.

**External Consulting**

For the purpose of this audit, external consulting is defined as an individual not employed by the City or an independent firm with professional or technical expertise and competence that is needed by the City.
On average 20% of the charges identified in the purchase order system do not fit the definition of external consulting. The average year-over-year increase in external consulting expenditure is 25% (as mentioned previously in this report). This spending includes projects such as the Transit Growth Strategy, Urban Forest Master Plan, Community Investment Strategy, Capital projects and New Infrastructure projects and the Information Technology Strategic Plan, to name a few.

**Recommendation**

Governance policy should include guidelines and criteria for object code use and financial reporting and monitoring to provide clarity, transparency and control to use of external consulting.
Vendor Selection

Of the total four-year (2010-2013) purchase order expenditure for external consulting, 32% was paid to ten (10) vendors. Chart 9 illustrates spending with these vendors.

Chart 9: Top Ten (10) Vendors

The procurement audit conducted in 2013 did not identify any non-conformances or concerns with the controls for the procurement of services. This data on repeated use of vendors raises the following questions:

1. If this service is required continuously has a Cost Benefit Analysis been conducted to determine if external or internal staffing would be more efficient and effective?
2. Is there a plan for knowledge transfer to staff?
3. Are external consultants being utilized to increase work capacity without increasing FTE (full time equivalent) staffing levels?

Recommendation

Develop a detailed inventory of core competencies to provide information to justify or analyze the necessity of utilizing external consulting and to inform internal training and development plans.

A detailed inventory of internal staff core competencies would provide information to justify or analyze the necessity of using external consulting. An inventory of staff expertise would also inform training and development plans as well as assisting in development of hiring strategies through core competencies.
Cost Benefit Analysis

Using the average salary and benefit costs (as identified in the 2014 Council-approved budget), the average annual operating expenditures for external consulting (2010-2013, object code 3501) equate to approximately 20.2 FTE (full time equivalent) staff or 1.63% of the current 2014 Council approved staffing levels.

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Total Salary &amp; Benefit*3</th>
<th># FTE*2</th>
<th>Average External Consultant Cost (3501 operating expenditure-actual)</th>
<th>Potential FTE from Consulting $</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAO</td>
<td>$1,051,400.00</td>
<td>10</td>
<td>$90,399.00</td>
<td>0.9</td>
</tr>
<tr>
<td>OTEG</td>
<td>$53,345,756.00</td>
<td>619</td>
<td>$96,422.00</td>
<td>0.9</td>
</tr>
<tr>
<td>PBEE*</td>
<td>$28,841,100.00</td>
<td>319</td>
<td>$841,857.00</td>
<td>9.3</td>
</tr>
<tr>
<td>CSS</td>
<td>$16,515,733.00</td>
<td>149</td>
<td>$234,693.00</td>
<td>2.1</td>
</tr>
<tr>
<td>CHR</td>
<td>$11,339,008.00</td>
<td>95</td>
<td>$322,804.00</td>
<td>2.7</td>
</tr>
<tr>
<td>FE</td>
<td>$4,562,625.00</td>
<td>44</td>
<td>$437,759.00</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total Operating</strong></td>
<td><strong>$125,659,622.00</strong></td>
<td><strong>1,235</strong></td>
<td><strong>$2,069,595.00</strong></td>
<td><strong>20.2</strong></td>
</tr>
</tbody>
</table>

*PBEE includes non-tax supported numbers from Water and Waste Water

*CHR includes non-tax supported numbers from Court Services

*2 FTE as identified in the 2014 approved budget

*3 Based on fully loaded salary & benefit estimates

The data in the above table raises the question of whether this is the most effective and efficient method to achieve the required results. Without a core competency inventory it is difficult to measure the efficiency and effectiveness of utilizing external consulting. Developing this core competency map/matrix for the individual roles within the organization would provide tools for gap analysis to inform development and recruitment activities and plans.

**Recommendation**

Develop a core competency inventory map/matrix for the individual roles within the organization.

**Performance Monitoring and Reporting**

It was identified during the course of the audit that there is no evidence of a process for evaluating the performance of external consulting. There is no validation of services or performance so no means to identify or validate if expected outcomes or benefits were realized. This lack of performance measurement limits our ability to validate effectiveness of external consultants, as well as identify future resource and training/development needs for the organization.

Annual reporting is a recognized practice at the City of Guelph for departments and service areas. These performance reports could include identification of external consulting use, categorize the purpose and highlight the lack of capacity or expertise. For
example, if the need was a one-time expense with no foreseeable repeat or if the requirement will be ongoing, identify a development plan to address these future needs (training and development, recruitment, etc.) This data can also be used to inform the budget process annually.

Some form of assessment tool should be developed to provide a method to validate and report on the effectiveness or external consulting.

**Financial Reporting**

During the audit financial performance data for the external services classified as consulting (3500 series object codes from the corporate RAC system) were reviewed. This identified a total of forty-six (46) individual object codes within this series. 3501 Professional Consulting Fees is the object code scoped for this audit. There were many items charged to this object code that were not consulting service (as defined on page 3 of this report) and consulting services which were charged to other object codes within the 46 codes. This indicates that object codes are not clearly understood throughout the organization and that staff are not clear when an expense is a professional consulting fee.

The lack of consistent coding makes it difficult to obtain accurate and complete data. Consistent use of object codes would provide consistent data and the ability for tracking to assist with decision-making and reporting to monitor and control costs.

This inconsistency in financial reporting prevents management from having clear visibility on the total use of external consulting. With poor support from the tools with which to manage consulting costs and a lack of business intelligence tools, management is handicapped in performing one if it’s essential tasks.

A complete policy for the use of external consulting should include guidelines and criteria for object code use and performance monitoring.

**Governance and Controls**

Hiring of external consulting is at the discretion of the administration across the organization, with no policy, guidance or set criterion available to govern the use of external consulting. The only guidance is found in the Purchasing By-law (2009)-18777.

The use of external consulting can provide access to varying expertise and skill sets for specific, finite time periods, creating efficiencies that hiring staff would not. However, there is a lack of governance, controls, performance measurement and business case justification, to support the decision to use external consulting. This does not mean a lack
of due diligence in the hiring and use of external consulting but indicates the need for improved governance.

Given the level of expenditures on the use of external consulting a corporate policy needs to be developed to ensure all decisions to use external consulting are made in compliance to a set of criteria. Based on data gathered through benchmarking and external literature review and research, a well-developed policy should include;

- **Criteria and Guidance**
  - When external consulting can and should be used
  - Process for selection

- **Business Case development requirement**
  - Identify expertise or capacity requirements
  - Identify the development plan for in-house staff to address future requirements
  - Cost Benefit Analysis
  - The business case should answer the following questions (at a minimum)
    - Is the expertise available in-house?
    - If expertise is available in-house, is there capacity to do the work?
    - If the expertise is not available in-house, is this work required only for the short term?
    - If this work and skill set is required for a long term or on a repetitive basis what is the plan to develop the skill in-house?
    - *The internal business case process currently under development at the City of Guelph should be considered as the tool to use to justify the use of external consulting.*
    - Define the expenditure limit that would require the use of the business case tool.

- **Approval Process**
  - This aspect should be completed prior to initiating purchasing activities
  - Define the levels of approval required

- **Identification of all required documentation**

- **Performance Monitoring**
  - Develop a tool for assessment of performance and quality control
  - Evaluation methodology of service deliverables

- **Reporting Requirements**
  - Financial reporting
  - Service delivery/Effectiveness reporting
  - Annual Reporting

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**Recommendation**

*Develop a corporate-wide policy to govern the use of external consulting. The Executive Team should define the threshold for requiring a business case.*
A defined management cycle or process provides guidance to effectively assess the need for external consulting then plan, procure, manage, report on, evaluate and continuously improve this use. Illustration 1: Core Management Cycle, depicts what a core management cycle, applied to the use of external consulting, could look like.

Illustration 1: Core Management Cycle - Use of External Consultants

Often for studies, process reviews, needs assessments and audits, a steering committee is convened from staff to provide oversight and management to the external consulting activity. There is a risk of a lack of impartiality or objectivity when this steering committee is primarily comprised of staff from the affected department. It is recommended that a staff member from the Internal Audit area sit on each of these committees. This

**Recommendation**

*Steering committees convened to manage projects utilizing external consulting should have an Internal Audit staff member included.*
would provide objective oversight; risk assessment and assist in ensuring deliverables are achieved. Illustration 2: depicts the type of activity that would have Internal Audit representation on associated steering committees.

**Illustration 2: Internal Audit Involvement with Steering Committees**

<table>
<thead>
<tr>
<th>IA Member of Steering Committee</th>
<th>IA Not a Member of Steering Committee</th>
</tr>
</thead>
</table>

**Corporate Benchmarking**

All municipalities identified on the Council-approved municipal comparators list were contacted regarding their use of external consulting. There was limited response from these municipalities, driving an external literature review for other municipalities and levels of government that have completed audits and reviews of the process for use of external consulting.

The literature review found only four government audits/reviews of the use of external consulting. The review was then expanded to other types of organizations including health care.

**Observation**

The City of Guelph is again demonstrating it’s commitment to ‘doing business differently’ by auditing a process that has not been reviewed widely by other municipalities.
This audit recognizes the value of comparators at an overall corporate level in the areas of control and governance and not for their specific departments and expenditures because of differences in financial practices and reporting.

While most municipalities included in this benchmarking activity lack a governance and control model other than the Procurement by-laws and policies of the municipality, some did have performance evaluation and reporting requirements as well as policies for the selection process for external consultants.

### Corporate Key Findings and Recommendations

The audit has identified the following corporate-wide findings and recommendations. They have been grouped with similar or related findings and recommendations under overall theme headings.

<table>
<thead>
<tr>
<th>FINDING</th>
<th>RECOMMENDATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a lack of policy, guidance or set criterion to govern the use of external consulting, including</td>
<td>1. Develop a corporate-wide policy to govern the use of external consulting. A well-developed policy should include;</td>
</tr>
<tr>
<td>• a lack of business case justification to support the use of external consulting</td>
<td>• Criteria and Guidance</td>
</tr>
<tr>
<td>• no corporate-wide approval process defined or utilized, outside of the purchasing bylaw</td>
<td>o When external consulting can and should be used</td>
</tr>
<tr>
<td>• a lack of guidance to direct when activities are consistent with capital expenditure vs. operating expenditure. For example external consulting, capital expenditures for categories of Coaching, Temporary Staffing (to backfill a position) and Strategic/Master Planning</td>
<td>o The overall governance policy should define capital vs. operating expenses and the application of each for external consulting use</td>
</tr>
<tr>
<td>• no evidence of a formal process for evaluating the performance of external consulting</td>
<td>o Define the process for selection</td>
</tr>
<tr>
<td>• the ability to code expenses to a variety of object codes results in a lack of clarity in total expenses and financial charges</td>
<td>• Business Case development requirement</td>
</tr>
<tr>
<td>• lack of performance measurement limits our ability to validate effectiveness of external consultants, as well</td>
<td>o Identify expertise or capacity requirements</td>
</tr>
<tr>
<td></td>
<td>o Identify the development plan for in-house staff to address future requirements</td>
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<td>o Cost Benefit Analysis</td>
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<td>o The business case should answer the following questions (at a minimum)</td>
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<td>▪ Is the expertise available in house?</td>
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<td>▪ If expertise is available in-house, is there capacity to do the work?</td>
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<td>▪ If the expertise is not available in-house, is this work required only for the short term?</td>
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<td>▪ If this work and skill set is required for a long term or on a repetitive basis what is the plan to develop the skill in-house?</td>
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<tr>
<td>FINDING</td>
<td>RECOMMENDATION</td>
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| as identify future resource and training/development needs for the organization | - The internal business case process currently under development at the City of Guelph should be considered as the tool to use to justify the use of external consulting.  
- Define the expenditure limit that would require the use of the business case tool.  
- Approval Process  
  - This aspect should be completed prior to initiating purchasing activities  
  - Define the levels of approval required  
  - Provide standardized approach and methodology for the corporation  
- Identification of all required documentation  
- Performance Monitoring  
  - Develop a tool for assessment of performance and quality control  
  - Evaluation methodology of service deliverables  
- Reporting Requirements  
  - Financial reporting  
  - Service delivery/Effectiveness reporting  
  - Annual performance reports could include identification of external consulting use, categorize the purpose and highlight the lack of capacity or expertise. |
| There is a lack of transparency and consistency in financial reporting. Management is not able to provide the level of oversight required for this expense because there is no cumulative view of total consulting dollars. | 2. Create a tracking and reporting system/process that makes all expenditures for the use of external consulting visible to management and transparent in financial reports. |
| Significant expenditures occur for external consulting for corporate services, where expertise is likely available in-house, specifically in areas of project management, strategic/master planning and communications | 3. The expenditures in these areas should be reviewed and a capacity analysis should be done to determine if increased staffing would reduce overall external consulting expenditures and create efficiencies. |
### FINDING

**Of the total four-year (2010-2013) purchase order expenditures for external consulting 32% was paid to ten (10) vendors. This use raises the questions:**

- If this service is required continuously has a Cost Benefit Analysis been conducted to determine if external or internal staffing would be more efficient and effective?
- Is there a plan for knowledge transfer to staff?
- Are external consultants being utilized to increase work capacity without increasing FTE (full time equivalent) staffing levels?

### RECOMMENDATION

4. Develop a detailed inventory of core competencies to provide information to justify or analyze the necessity of utilizing external consulting and to inform internal training and development plans. Determine the gap that drives this recurrent consulting cost which will assist in development of hiring strategies through core competencies.

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<th>RECOMMENDATION</th>
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<td><strong>The Water Service area relies of the use of external consulting for repetitive/ongoing services in the areas of project management and environmental monitoring.</strong></td>
<td>5. A review of these business processes should be undertaken to investigate the potential for a more cost effective and efficient way to access these services including the addition of FTEs.</td>
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<td><strong>Often for studies, process reviews, needs assessments and other service reviews a steering committee is convened from staff to provide oversight and management to the external consultants. There is a risk of a lack of impartiality or objectivity when this steering committee is primarily comprised of staff from the affected department.</strong></td>
<td>6. A staff member from the Internal Audit area should sit on each of these committees to assist in providing objective oversight, risk assessment ensuring consistent methodology is used.</td>
</tr>
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</table>
**PLANNING & BUILDING, ENGINEERING & ENVIRONMENT**

Planning and Building, Engineering and Environment (PBEE) service area comprises Engineering Services, Planning Services, Building Services, Waste Water Services, Water Services and Solid Waste Resources.

PBEE has an annual average operating budget of $1.4 million for external consulting with average actual operating expenditures of $842,000. Refer to Chart 10: PBEE External Consulting Budget Performance. Note: this amount includes both tax and non-tax supported departments within the PBEE service area. PBEE financial performance, over the four-year period, for the use of external consulting has consistently been within the Council-approved budget.

![Chart 10: PBEE External Consulting Budget Performance](image)

When we look at the distribution of purchase order expenditure over the four-year period, it is noted that an average of 65% of all expenditures occur within the Water Services Area. It is important to note that a significant percentage of the costs charged to “consulting” for water testing and other controls are actually for “contracted services” or “sub-contracting” and not for actual consulting services. The distribution of the expenditures for the use of external consulting is illustrated in Chart 11.
Chart 12 illustrates that the highest expenditure within PBEE has been for Project Management, Engineering Services, Subcontracting and Environmental Services/Monitoring.

During the course of this audit it was identified that the Water Services area uses external consulting to conduct project management and environmental services on continuous basis. A review of these business processes should be undertaken to investigate the potential for a more cost effective and efficient way to access these services. Performance validation is evident within the Water Services area particularity for subcontracted work, where there are legislative requirements.

**Recommendation**

Conduct business process reviews on the project management and environmental services/monitoring in the Water Services area.
Corporate and Human Resources (CHR) service area comprises of Legal and Realty Services, Court Services, City Clerk’s Office, Human Resources, Information Technology and Corporate Communications.

CHR has an annual average operating budget of $162,000 for external consulting with average actual operating expenditures of $323,000. Refer to Chart 13: CHR External Consulting Budget Performance. CHR financial performance, over the four year period, for the use of external consulting has been above the Council-approved budget primarily in areas of Information Technology, Human Resources and the Legal and Realty Services area. The lack of consistent financial coding makes it difficult to obtain accurate and complete data. Consistent use of object codes would provide consistent data and the ability for tracking to assist with decision making and reporting to monitor and control costs.

The lack of visibility and easily accessible information limits management’s ability to adequately oversee expenditures related to the use of external consulting.

Recommendation

Governance policy should include guidelines and criteria for use of object codes, as well as financial reporting and monitoring of expenses.
When we look at the distribution of purchase order expenditure over the four-year period, it is noted that an average of 47% of all expenditures occur within the Information Technology Area. The distribution of the expenditures for the use of external consulting is illustrated in Chart 14.

Chart 14: CHR Four Year Average Purchase Order $ Distribution

Chart 15 illustrates that the highest expenditure within CHR has been for Recruitment, Assessments/Reviews and Temporary Staffing.

Chart 15: CHR Use of External Consulting by Category

The creation of a tracking and reporting process to make all expenditures for the use of external consulting visible and transparent would provide this service area with the ability to assess the need for external consulting, validate value and track expenditures to the object codes.
**FINANCE & ENTERPRISE**


F&E has an annual average operating budget of $411,000 for external consulting and average actual operating expenditures of $437,000. This actual expenditure average is impacted by two (2) key expenditures in 2012 for the Integrated Operational Review and the Community Energy Audits, without those two large expenditures the average annual operating expenditures for external consulting is $390,000. Refer to Chart 16: F&E External Consulting Budget Performance. F&E financial performance, over the four-year period, for the use of external consulting has primarily been within the Council-approved budget.

When we look at the distribution of purchase order expenditure over the four-year period, it is noted that an average of 36% of all expenditures occur within the Economic Development Area with another 30% occurring in the Finance Area. The distribution of the expenditures for the use of external consulting is illustrated in Chart 17.
Chart 18 illustrates that the highest expenditure within F&E has been for Economic Development, Temporary Staffing and External Auditing.

No significant opportunities for improvement for the service area specifically, were identified during this audit.
Office of the Chief Administrative Officer (CAO) comprises of CAO Administration, Strategic Planning & Corporate Initiatives, Policy & Intergovernmental Affairs, Internal Audit and Mayor & Council.

CAO Office has an annual average operating budget of $95,000 for external consulting and average actual operating expenditures of $65,000. Refer to Chart 19: CAO Office External Consulting Budget Performance.

In 2013 the CAO Contingency object code was moved from the F&E area to the CAO area, resulting in the increase reported in the chart below. This is not new funding but a reallocation to provide increased accuracy in reporting. CAO financial performance, over the four-year period, for the use of external consulting has been within the Council-approved budget.

When we look at the distribution of purchase order expenditure over the four-year period, it is noted that an average of 58% of all expenditures occur within CAO Contingency Area. The distribution of the expenditures for the use of external consulting is illustrated in Chart 20.
Chart 21 illustrates that the highest expenditure within CAO has been for Assessment/Reviews, Auditing Support and Facilitation.

No significant opportunities for improvement for this service area specifically, were identified during this audit.
COMMUNITY & SOCIAL SERVICES

Community and Social Services (CSS) service area comprises Corporate Building Maintenance, Administration and Customer Service, Community Engagement and Social Services Liaison, Arts, Culture and Tourism and Parks and Recreation.

CSS has an annual average operating budget of $409,000 for external consulting and average actual operating expenditures of $264,000. Refer to Chart 22: CSS External Consulting Budget Performance. CSS financial performance, over the four-year period, for the use of external consulting has been within the Council-approved budget.

Of note, there are grants and other sources of funding that can be used to offset the external consulting costs incurred for projects. For example grants received for the Local Immigration Partnership is allocated for the whole project and not itemized in the financial reporting to specific aspects of the project or program.

These recoveries and revenues are not tracked across the corporation in a manner that allows for the direct correlation between the expense and revenue. Therefore the amount reported in this audit is the amount allocated to the object code for professional consulting and does not include any reduction for grants or other forms of fund recovery.

Recommendation
Overall governance policy should provide guidelines and criteria for reporting recoveries as they offset the expenditures to provide transparency and clarity for management of this service.
When we look at the distribution of purchase order expenditure over the four year period, it is noted that an average of 56% of all expenditures occur within the CSS Administration Area. The distribution of the expenditures for the use of external consulting is illustrated in Chart 23.

Chart 23: CSS four Year Average Purchase Order $ Distribution - External Consulting

Chart 24 illustrates that the highest expenditure within CSS has been for Program/Policy Development and Strategic/Master Planning.

Chart 24: CSS Use of External Consulting by Category

No significant opportunities for improvement for the service area specifically, were identified during this audit.
OPERATIONS, TRANSIT & EMERGENCY SERVICES


OTES has an annual average operating budget of $63,000 for external consulting and average actual operating expenditures of $96,000. Refer to Chart 25: OTES External Consulting Budget Performance.

OTES financial performance, over the four-year period, for the use of external consulting has been above the Council-approved budget primarily in areas of Transit and Public Works. The lack of consistent financial coding makes it difficult to obtain accurate and complete data. Consistent use of object codes would provide consistent data and the ability for tracking to assist with decision making and reporting to monitor and control costs.

Recommendation
Governance policy should include guidelines and criteria for use of object codes, as well as financial reporting and monitoring of expenses.

As previously noted, the lack of visibility and easily accessible information, on the use of external consulting, limits management’s ability to adequately oversee these expenditures.

When we look at the distribution of purchase order expenditure over the four year period, it is noted that an average of 58% of all expenditures occur within the Transit Area primarily for the Transit Growth Strategy development and implementation. The distribution of the expenditures for the use of external consulting is illustrated in Chart 26.
Chart 27 illustrates that the highest expenditure within OTES has been for Subcontracting, Strategic/Master Planning and Assessment/Review.

No significant opportunities for improvement for this service area specifically, were identified during this audit.
CONCLUSIONS

It is important to note that the use of external consulting is not unique to the City of Guelph and that all municipalities face similar challenges and issues.

While the audit has identified a number of opportunities for the City to improve its use of external consulting we must acknowledged that the current use of external consultants is within all Council-approved budgets and in compliance (as identified in the 2013 Procurement Control and Compliance Audit) with the Purchasing By-law.

Management has the responsibility for implementing audit recommendations but it will require the full commitment of staff, leaders and Council to realize the maximum benefit of these changes.

In the Corporate Strategic Plan, the organization has committed to “Organizational Excellence” and “Innovation in Local Government” as two strategic focus areas. This commitment is further defined in the following Strategic Directions:

1.3 Build robust systems, structures and frameworks aligned to strategy
2.3 Ensure accountability, transparency and engagement

This is an excellent opportunity for the organization to demonstrate its commitment to these principles by setting a new standard for the use of external consulting through improved business processes and transparency to increase the value-for-money received.

NEXT STEPS

Management is required to provide a response to the Internal Auditor by July 10, 2014 in order to accommodate the deadlines for presentation to Council on July 28. As a corporate audit there is no specific auditee therefore Executive Team members are required to respond to specific service area recommendations within their portfolios. The Executive Team should provide their collective response to corporate-wide recommendations directly to the Internal Auditor. It is the responsibility of the CAO to sign off on all responses and to present the organization’s position to Council at the same time that this audit report is presented.