

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2014-05  
ROSTER REQUIREMENTS REVIEW  
FOLLOW UP**

**Original Audit Report (*Follow Up Comments are highlighted in grey*)**

**BACKGROUND**

A Consulting and Professional Services Roster is established every two years through a formal Request for Rostered Candidates process. Candidates in a total of 40 specified categories submit Forms of Submittal that outline the hourly rates and any disbursement costs that will be charged when Roster assignments are awarded to successful candidates.

When a candidate is successful and accepted for inclusion in the Consulting and Professional Services Roster, the consultant agrees to abide by specific rules including using the rates outlined in the Form of Submittal if selected to complete an assignment.

A Roster Assignment Proposal is submitted by the consultant selected from the Roster. This proposal includes the estimated total cost of the assignment along with a breakdown of hours and corresponding hourly rates as well as any disbursements (e.g. mileage, travel, photocopying and printing costs) that will be invoiced. The hourly rates and disbursement costs on the proposal are to be consistent with those on the original Form of Submittal provided by the consultant when they were awarded a place on the Roster.

The hourly rates and disbursement costs charged on any issued invoices must be consistent with those on the proposal and Form of Submittal.

The Procurement Section performed a review of purchase orders issued under the Roster from January 1 to May 31, 2012 and found that only 6% of these purchase orders had been invoiced correctly (i.e. in accordance with Roster Procedures).

**REVIEW OBJECTIVES AND SCOPE**

The objectives of this review were:

- To evaluate compliance of Roster-based expenditures with the existing Roster Requirements. In particular, the level of compliance of project invoices from Roster contractors with terms and rates as per the Forms of Submittal and the project proposals was assessed.
- To determine if there have been improvements in the level of compliance with Roster Requirements since the Procurement Section's review that was performed in 2012.

The scope for this project was limited to all Purchase Orders related to a roster category issued between January 1, 2013 and June 30, 2013. Twenty percent (a sample of 41 purchase orders) of the overall population was examined during the review.

**ANALYSIS**

Of a total population of 205 purchase orders issued from January 1, 2013 to June 30, 2013 related to a Roster assignment, a sample of 41 purchase orders was selected over most of the categories. For each of the selected purchase orders, a further sample of related invoices was chosen for detailed rates and disbursement terms comparisons with previously submitted proposal and submittal documents from the Roster contractor. The same five broad categories – (i) Wrong Rate/Disbursement Inclusions (e.g. invoice rates do not agree with proposal rates; disbursements charged which proposal did not indicate or at different rates), (ii) Billing as a % Completion or Lump Sum without Detail (e.g. original submittal/proposal provided rates and hours of individual staff but invoices billed as lump sum or percentage completion and no detail or build up provided for comparison), (iii) No Invoices Received to Date, (iv) Billed Correctly/No Discrepancies and (v) No Info Provided for P.O – as were developed for a similar exercise conducted by Procurement in 2012 were applied to both the POs selected (Chart 1) and the corresponding invoices (Chart 2).

**CHART 1**

COMPLIANCE CATEGORY	2014 REVIEW		2012 REVIEW (TOTAL)	
	SAMPLE P.O.s		ASSIGNMENT	
	#	%	#	%
Wrong Rate/Disbursement Inclusion	8	19.5%	241	38.9%
Billing on a % of Completion or Lump Sum without Detail	15	36.6%	242	39.0%
No Invoices Received to Date	2	4.9%	77	12.4%
<b>Billed Correctly/No Discrepancies</b>	<b>16</b>	<b>39.0%</b>	<b>37</b>	<b>6.0%</b>
No Info Provided for PO	0	0.0%	23	3.7%
	41	100.0%	620	100.0%

\*NOTE: The 2012 “#” figures presented for general comparison relate to assignments as the total invoice population was reviewed. The 2014 figures represent the sample of P.O.s examined.

As noted in CHART 1, there has been some improvement in the agreement of roster related P.O.s with original rates and disbursements costs in the Forms of Submittal and project proposals. The 2014 selection of P.O.s provided compliance (i.e. Billed Correctly/No Discrepancies) in 39% of the cases as compared to the 2012 exercise which provided consistency and no billing discrepancies in only 6% of the assignments.

The 2014 selection of invoices produced similar results in regard to the level of agreement with the Forms of Submittal and project proposals. As summarized in Chart 2 below, 44% of the invoices were billed correctly with no discrepancies from the original quotations. However, this still leaves 18% of invoices paid with incorrect rates or unlisted disbursements and another 34% of invoices billed as a % completion or lump sum without providing the build up based on rates and hours, not allowing for the determination of conformity with original documentation as in the Forms of Submittal. These two categories account for 52% of the sampled invoices being paid with no evidence of meeting compliance.

## **CHART 2**

INVOICE CATEGORY	2014 REVIEW SAMPLE	
	INVOICES	
	#	%
Wrong Rate/Disbursement Inclusion	9	18%
Billing on a % of Completion or Lump Sum without Detail	17	34%
No Invoices Received to Date	2	4%
<b>Billed Correctly/No Discrepancies</b>	<b>22</b>	<b>44%</b>
No Info Provided for PO	0	0%
	50	100%

Even though there has been increased compliance, the overall level of compliance still remains low and further improvements and oversight are required.

## **RECOMMENDATIONS**

The issues identified above deal primarily with invoices received for approved Roster contracts. In some case, these invoices do not agree to the rates/disbursement details on the Form of Submittal. As seen in the chart above, a large portion of the non-compliant invoices are in the form of lump sum or percentage completion billings without rate details to compare to the original submitted documents. In these cases, it is necessary for proposals to contain stated rates and hours extended to justify the lump sum or total billing amount so that comparison to the original Form of Submittal can be made and staff can pass judgement on the reasonableness of the total charge. The current Roster Procedures do not address the fact that invoice rates and disbursements need to agree to both the Roster Assignment Proposal and the Form of Submittal or that alternately, steps required to allow for lump sum/percentage completion billings.

It is recommended:

***That the Roster Committee update the Roster Procedures to include invoice approval responsibilities, in particular checking conformity with original documents submitted. Particular instructions for dealing with lump sum/percentage completion billings should be developed and included in the update. The Roster Captains should participate in the development of these amendments.***

### **Management Action Plan:**

*Agreed. The Roster Procedures were updated in March, 2014 to allow for lump sum/percentage completion billings. However, the procedures remain silent in regards to invoices. Roster Procedures will be updated further to include invoice approval responsibilities, in particular checking conformity with original documents submitted. Roster captains will be included in the development of these amendments.*

*Work will be completed by year-end 2014 such that the update aligns with next roster cycle (2015-2016).*

### **Follow Up – July 2016**

**Completed** - The Roster Procedures have been updated to include invoice approval responsibilities and instructions for dealing with lump sum/percentage of completion billings.

Per the current Roster Procedures, it is the responsibility of the Roster Captains to explain the procedures to staff who have been approved to use a rostered contractor and review the Roster Assignment Proposal for compliance.

It is recommended:

***That the Roster Captains provide adequate training to Roster users in regard to ensuring compliance with roster requirements. Methods of checking invoice compliance prior to approval for payment should be clearly defined and explained.***

**Management Action Plan:**

*Agreed. For training of Roster users, Roster Captains currently provide the following documents for City staff that are outside of the Category Captain's Section:*

- i. Information on where to find City Policy #9 or a copy of the Policy #9;*
- ii. Professional and Consultant Roster Procedures (latest version);*
- iii. Roster Use Agreement Form;*
- iv. Rates and disbursements for the roster consultant to be utilized.*

*The Roster User must review the documents and sign and return the Roster User Agreement prior to utilizing the roster. By signing the Roster Use Agreement form, the City staff person requesting the use of the Roster has read, understood and agrees to the terms and conditions provided within.*

*This requirement has been added to the updated Roster Procedures (dated March, 2014). To ensure Roster Captains are aware of this requirement, this will be included as a standing agenda item at Roster Captain meetings. This will be completed by August 2014.*

**Follow Up – July 2016**

**In Progress** - A Roster Use Agreement form has been developed by the Roster Captains to acknowledge that the Roster User has read, understands and agrees with the Roster procedures. However, the form is not used consistently. Therefore, it is not possible to verify that Roster Users have been adequately trained regarding roster requirements especially as they relate to checking invoice compliance prior to payment approval. Expected Completion: Undetermined

Roster Captains maintain a summary of Roster Assignments to ensure a reasonably equitable distribution of the work over the term of the Request for Roster Candidates document. This is reported to the Procurement Specialist on a semi-annual basis. Random spot checks for invoice conformity with the original submissions, similar to the one carried out by Audit Services, should be conducted by each Roster Captain and the results reported to Procurement in the semi-annual report mentioned above.

It is recommended:

***That Roster Captains report the results of random invoice checks for conformity with Forms of Submittal and proposal terms as part of the semi-annual reporting requirements to Procurement. In turn, Procurement should review these outcomes with the aim of bringing compliance to an acceptable pre-established level with the option of conducting its own monitoring and checking activities.***

#### **Management Action Plan:**

##### ***Roster Captains:***

*Agreed with the intent of this recommendation. However, the responsibility of this should not lie with the Roster Captains as they would, in many cases, be auditing themselves. This approach would not be as open, transparent or successful as random invoice checks conducted by another party.*

*Therefore, we suggest that this is a function that be carried out by a third party on behalf of Finance and Corporate Services effective the start of the 2015/2016 roster term.*

##### ***Procurement:***

*Agreed. It would be best if the random check is undertaken by a third party, independent of the Roster Captains. However, Procurement does not have the financial or staffing resources to undertake the review. Procurement will incorporate a request for the necessary funding for the invoice checking in the 2015 operating budget submission and if Council approves the funding, Procurement will engage an external resource to conduct the invoice checking.*

#### **Follow Up – July 2016**

**Alternative Implemented** – Random invoice checks for conformity with Forms of Submittal and proposal terms are now performed by the Procurement Section. These checks are performed twice a year.