



**CITY OF HAMILTON**  
**CITY MANAGER'S OFFICE**  
**Audit Services Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	April 10, 2017
<b>SUBJECT/REPORT NO:</b>	Performance Audit Report 2016-03 - Use of External Consultants (AUD 17008) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Charles Brown CPA, CA, CPA (Illinois) 905-546-2424 x4469
<b>SUBMITTED BY:</b>	Charles Brown CPA, CA, CPA (Illinois) Director, Audit Services City Manager's Office
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That recommendations #1 – 12, as attached in Report AUD17008, respecting the Use of External Consultants Performance Audit, be approved; and
- (b) That the Senior Leadership Team (SLT) be directed to provide to the Audit, Finance and Administration Committee by the 2017 calendar year end the management action plans for addressing the implementation of the Audit report recommendations.

**EXECUTIVE SUMMARY**

Audit work plans approved by Council included audits pertaining to both operational and capital related consulting activities. Consulting engagements were reviewed to assess if the processes used to procure, manage and use external consultants operated with due regard to economy, efficiency and effectiveness.

Audit Services identified a lack of corporate governance over the hiring and management of consultants including business cases, significant cost coding errors, unbudgeted expenditures, cost overruns, project changes, delays, large contingencies and non-value added activities that do not demonstrate effective and efficient management practices. Consultant's work was not fully utilized by management to provide value to the City for six operational-related engagements with a cost of \$280,000. In addition, two capital-related engagements resulted in rework at a cost of \$6,000,000 to date and one engagement resulted in \$170,000 of unused work.

Based on the audit findings, opportunities exist to improve overall project management, financial management and budgeting processes and the alignment of spending to

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overall corporate priorities. Recommendations were made to identify opportunities to improve value for money, improve systems that support accountability, transparency and align consultant-related decisions with corporate priorities, and the accuracy of the City's financials to assist management in making informed business decisions

The results of this audit are presented in a formal Performance Audit Report (2016-03) containing observations and twelve recommendations. SLT will be directed to supply action plans to the twelve recommendations in the Performance Audit Report 2016-03 attached as Appendix "A" to Report AUD17008 to the Audit, Finance and Administration Committee by the 2017 calendar year end.

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The implementation of the recommendations in this report may result in cost savings by reducing contingencies, change orders, waste and /or rework.  
The overall related cost savings cannot be estimated at this time.

Staffing: None

Legal: None

**HISTORICAL BACKGROUND**

Part I of this audit, operational-related consulting, was scheduled as part of the 2015 Performance Audit work plan approved by Council and part II of this audit, capital-related consulting, was scheduled as part of the 2016-2018 Audit Services work plan approved by Council. The audit fieldwork was completed in January 2017. The results of this audit are attached as Appendix "A" of Report AUD17008.

The Audit, Finance and Administration Committee receives and approves value for money audit reports as part of its responsibilities for the oversight of governance.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

None

**RELEVANT CONSULTATION**

Appendix “A” to Report AUD17008 includes analysis of the use of external consultants by all departments across the city. The results were discussed with the following particular individuals:

- City Manager
- General Manager Public Works
- Directors of Hamilton Water, Financial Planning & Policy and Financial Services

### **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

City departments engage external consultants to undertake a wide variety of projects. In 2016 the City spent approximately \$1,700,000 on operational-related consulting activities and \$38,600,000 on capital-related consulting activities. Audit Services analysed budgeted and actual consulting costs, and identified the cause and funding source for unbudgeted operational consulting expenses.

Audit Services performed a detailed analysis of 19 operational and 13 capital consulting engagements. This included a review of the rationale for hiring the consultant, alternatives considered; scope, cost and timeline deliverables agreed to and provided, change orders and cost allocations. In addition, the use of the consultant’s work was reviewed to determine if it added value to the organization and any instances of waste were identified.

A formal Performance Audit Report (2016-03) containing background information, audit objectives, scope, audit methodology, findings and recommendations was issued. Twelve recommendations were included in Audit Report 2016-03 (attached as Appendix “A” to Report AUD17008). The recommendations made are as follows:

- Identify roles and responsibility to set policy; including documentation, business case and approval requirements, annual reporting and oversee the use of consultants.
- Develop policies and procedures relating to contingencies and investigate the automation of contingency limits.
- Investigate methods for electronically tracking vendor performance and how to incorporate into the awarding of future contracts.
- Investigate methods of electronically tracking change orders for improved reporting and monitoring capabilities.
- Develop policies and procedures relating to the use of gapping outlining approval and reporting requirements.
- Review skills sets being obtained to identify opportunities for insourcing and to access services in more cost effective ways.

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- Improve planning and approvals for consulting expenses through the budget process.

Audit Services conducted the above review and follow up audit in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the review and follow up audit to obtain sufficient, appropriate evidence to support the findings and conclusions based on the review and follow up objectives. Audit Services believes that the work performed provides a reasonable basis for the review and follow up comments and conclusions.

### **ALTERNATIVES FOR CONSIDERATION**

Not applicable.

### **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

#### **Our People and Performance**

*Hamiltonians* have a high level of trust and confidence in their City government.

### **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report AUD17008

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