



---

**Use of External  
Consulting Services  
Fiscal Years 2007/08  
through 2010/11**

---

April 2012

---

# Use of External Consulting Services

## Fiscal Years 2007/08 through 2010/11

March 2012

---

<i>Table of Contents</i>	<i>Page</i>
Preamble	3
Executive Summary	5
Scope	8
Objectives	8
Methodology	8
Key Performance Indicators - Value for Money	9
Summary of Recommendations	11
Overall Cost of Consultants Hired by Business Units Section 1.0	16
Lack of Formal Policies Regarding Hiring of Consultants Section 2.0	20
External Consultants Engaged as Specific Expertise Required Section 3.0	22
Repetitive Use of the Same Vendors Section 4.0	30
Expertise Inventory Section 5.0	31
Impact on Staff Expertise through the Extensive Use of External Consultants Section 6.0	34
Accountability for the Performance of Consultants Section 7.0	35
Use of Consultants in the Capital Program Section 8.0	36
Coding of Expenses Section 9.0	37
Use of SAP Section 10.0	40

## Preamble

The 2010/2011 work plan of the Office of the Auditor General (OAG) included a project to review the use of external consultants by the Halifax Regional Municipality (HRM). The OAG embarked on this project to assess the effectiveness of any processes in place used to ensure the most appropriate use of external consultants and if HRM is receiving the highest value for money. Given the extensive nature of this topic, the OAG intends to complete this review in a multi-phased approach. In this first phase, we concentrated on a high-level review of external consulting services used. In subsequent phases, we intend to:

- review processes related to services classified as outsourced or contracted out,
- review the specific processes used for the expertise and capacity hired externally most often,
- review the performance measures used when deciding to hire externally, and
- review the overall approach to performance management with respect to external service providers.

During the early stages of this review, it quickly became apparent the term consultant could, and in fact does, have many different meanings at HRM. As a result, the first step was to define what the OAG considered an external consultant for the purposes of this review. Based on a review of the types of external services hired by HRM, the OAG has defined external consultants as those hired to provide professional or expert advice. Generally, consultants have specific areas of expertise upon which HRM draws. In this context, an external consultant is someone hired to provide advice in an area of expertise, but who would generally have no direct authority to implement change.

This is separate and distinct from services outsourced or contracted out. Outsourced services are roles normally existing within the organization and under the direction of the management structure of the organization. However, for various reasons Management has decided to hire an external organization to perform these services.

In the simplest of terms, consultants advise on how to do something, outsourcing providers actually do it. In some cases, it can be difficult to distinguish between the two, in part because many firms provide both consulting and outsourcing services<sup>1</sup>. In this review, the OAG has (with significant input from the business units) isolated the advice-related consulting services which HRM obtained between 2007/08 and 2010/11. The services identified by the business units as outsourced services are anticipated to be reviewed in a later project.

---

1 International Association of Outsourcing Professionals, Welcome to Outsourcing, [www.iaop.org/firmbuilder/articles/19/50/590](http://www.iaop.org/firmbuilder/articles/19/50/590)

Once the advice-related consulting services were identified, the OAG reviewed various information including those business units using consultants, the types of consulting services being procured, how often HRM hired consultants, as well as which consultants HRM regularly engaged. Based on the data received, it is apparent HRM purchases a wide range of consulting services such as engineering, architecture, site planning, human resources, urban design and legal.

As identified in a Report by the Comptroller and Auditor General, through the National Audit Office of the United Kingdom:

Consultants, when used correctly, can provide great benefit to clients. Using consultants can provide access to skills that it is not necessary, sensible or economic for the organisation to build or maintain itself. Organisations typically use consultants for one of three reasons:

1. People – access to specialist skills.
2. Process – knowledge on how to approach a task.
3. Perspective – an independent view; new innovative thinking.<sup>2</sup>

In addition, from the OAG's perspective, there is one additional potential reason:

Capacity – existing in-house resources are fully utilized and do not have the current capacity to take on a project which is a priority for the organization.

---

2 Report by the Comptroller and Auditor General, through the National Audit Office of the United Kingdom, 14-Oct-10, Central Government's Use of Consultants and Interims, [www.nao.uk/publications/1011/use\\_of\\_consultants.aspx](http://www.nao.uk/publications/1011/use_of_consultants.aspx), page 4, item 3.

## Executive Summary

The primary objective of this project was to determine if there are sufficient governance and accountability structures in place to ensure the hiring of external consultants by HRM is the most efficient and effective means of achieving the desired outcome and if HRM is receiving best value for money.

It can be difficult to determine if the organization is receiving value for money when hiring external consultants as it is dependent on several factors, such as:

- clearly defined requirements,
- the development of a standard with which to monitor and assess performance of the external consultants,
- overall governance and accountability structures including:
  - a. overall corporate objectives,
  - b. adherence to proper procurement practices (Note: this review did not look at procurement practices followed as these are the subject of a separate OAG report),
  - c. documentation and measurement of the benefits received.

Regional Council is HRM's governing body and as such, approves the funding for both the capital and annual operating budgets. The hiring of specific external consultants is approved at various levels in the organization depending on the dollar value of the contract, under the guidance of the Procurement Policy Administrative Order #35. As such, the budgets approved by Regional Council generally include funding for external consultants, but based on the way the information is presented, the amounts and justification for hiring the external consultants are not transparent or obvious. As the data within this report will show, the use of consultants is widespread across the organization and coded to a variety of accounts within the HRM general ledger, often based upon the function performed. As a result, it is difficult and time consuming to identify the costs incurred by HRM related to the use of external consultants. Based on the information provided to the OAG, it appears there is little or no review or reporting done within HRM regarding the use of external consultants.

The purpose of the following summary is to highlight the key areas the OAG feels HRM Administration can improve upon related to the hiring of external consultants. The full report detailing the results of our review follows this summary. For clarity, we reiterate this project specifically excluded the services identified as outsourced or contracted out.

*The budgets approved by Regional Council generally include funding for external consultants, but based on the way the information is presented, the amounts and justification for hiring the external consultants are not transparent or obvious.*

*HRM spends an average of \$4.1 million per year on external consulting services*

During the course of this review, several key points became apparent to the OAG:

1. HRM spends an average of \$4.1 million per year on external consulting services, the majority (81%) of which falls within the Capital program.
2. The amount spent by HRM on external consultants is increasing annually from \$3.5 million in 2007/08 to almost \$5.0 million in 2010/11.
3. There is no formal organizational guidance on when external consultants should or should not be hired.
4. There is no process approval required, except what is set out in Procurement Policy Administrative Order #35, which is based on contract value.
5. The OAG's research on best practices used in other municipalities noted it is common practice to have a specific policy on the hiring of consultants, as well as the requirement for a specific approval, supported by a business case identifying the reasons for the need to hire externally. Neither of these is in place at HRM. An overarching policy and a separate approval process, perhaps based upon dollar limits, would work to strengthen the corporate governance of an area incurring significant costs.
6. In addition, it appears there is currently no reporting mechanism in HRM to provide accountability and transparency regarding the use of external consultants. In fact, through the course of this review, the OAG was unable to identify definitively all of the consulting expenses incurred during the period under review. However, we did not feel dedicating additional time and OAG resources was appropriate or warranted as it was felt the efforts undertaken had provided sufficient information to allow for the writing of this report. This point is raised as the OAG questions how HRM can ensure it is following best practices and providing the accountability and transparency necessary, if the organization cannot easily identify all related costs.
7. As part of this review, the OAG reviewed a sample of expenditures identified as incurred due to specific expertise being required. However, the documentation provided did not identify the specific expertise required or why it was lacking within the organization. This leads the OAG to suggest the need for the development of business cases clearly identifying what expertise is needed and why it is felt to be unavailable within the organization.
8. In the absence of this process and with the results of the review of the expenditures mentioned above, it is reasonable to conclude in the current situation, decisions to hire external consultants could be made without a full understanding of what expertise is needed or what is available in-house.

*It appears there is currently no reporting mechanism in HRM to provide accountability and transparency regarding the use of external consultants.*

9. HRM Administration repeatedly hires the same expertise from external consultants (often from the same vendor). Engineering, architecture and corporate services expertise (human resources, legal and communications) appear to be those hired most often. The lack of documentation supporting the basis for the repeated hiring of external consultants raises a number of questions for the OAG. Does HRM not have the right expertise in-house, and if not, why not? Is HRM using our internal staff appropriately? Does HRM have sufficient staff to complete the work required?

Throughout the course of this review, it became clear (to the OAG) that HRM's spending on external consultants is increasing and the area responsible for incurring the majority of the consulting charges is the Capital Program.

Overall, in the view of the OAG, there is a strong need for increased governance, accountability and oversight structures within HRM with regard to the hiring of external consultants in order to ensure HRM is receiving best value for money. This could happen in a number of ways, including:

1. implementation of a corporate policy which includes measurable criteria regarding the use of consultants,
2. implementation of regular reporting on the use of external consultants,
3. implementation of an approval process using a business case approach to ensure hiring decisions have been well researched and are the best approach,
4. implementation of a process of performance management for consultants to ensure they are providing services at the level and quality expected and outlining mechanisms to deal with inadequate performance. This provides recourse for existing contracts and informs future decisions,
5. development of a definition and guidance for staff regarding what constitutes a consulting services charge,
6. implementation of a policy regarding the specific account coding to be used for consulting services acquired so complete and accurate reporting can be done.

*Overall, in the view of the OAG, there is a strong need for increased governance, accountability and oversight structures within HRM with regard to the hiring of external consultants in order to ensure HRM is receiving best value for money*

## *Scope*

This project focused on the processes used to determine if HRM's hiring of external consultants was in keeping with the organization's goals and objectives, and looked at expenses processed between April 1, 2007 and March 31, 2011. Data was reviewed from a number of different perspectives, including who the major users were, what services HRM acquired, did HRM do recurring business with the same organizations, etc..

For purposes of this project, the OAG's defined consulting services as professional services primarily focused on providing advice in a particular area of expertise, for a limited time or specific project or a one-time task. Included in the project were all HRM business units, the Halifax Public Libraries, and the Halifax Forum. The project excluded the Halifax Regional Water Commission at this time.

As noted earlier, this project excluded the provision of services to outsource capacity (contracting out). Given the magnitude of the expenditures for these services, a separate review of this area is contemplated.

## *Objectives*

The overall objective of the project was to determine if there are sufficient and appropriate processes, procedures and policies in place to ensure HRM uses external consultants only when it is the most efficient and effective use of HRM resources. The OAG also considered whether HRM is a learning organization, developing its staff with the use of and working with, the external consultants.

## *Methodology*

The baseline data was retrieved from SAP for expenses processed between April 1, 2007 and March 31, 2011. The information from SAP was filtered using the definition of consultants noted in the Scope section above and separated by the business unit responsible for the purchase. Business unit staff were provided with a list of purchases related to their areas of responsibility and were asked to:

1. confirm the completeness of their list,
2. confirm the items listed were in fact charges for consulting activities as defined within the scope of this review,
3. provide information with respect to the types of expertise acquired, and
4. provide the reason external services were hired rather than using internal services.



The OAG compiled the information returned from the business units and identified who were the largest users of consulting services, what services/expertise were being acquired and what the rationale was for hiring externally.

Once the primary users were identified (the Capital program, Infrastructure and Asset Management, and Community Development)<sup>3</sup>, key staff were interviewed to discuss the process used to identify their needs related to external consulting services. The OAG also discussed how they obtained the services (tendered, RFP, sole source, etc.), what formal and informal processes and policies existed for hiring external consultants, and what was the knowledge transfer to staff at the end of the process.

## *Key Performance Indicators - Value for Money*

As has been pointed out in previous reports prepared by the OAG, the creation and monitoring of appropriate measures of efficiencies and economies with respect to any expenditure is difficult. As is customary with OAG projects, two approaches to the review of the use of consulting services could have taken place: one being of a compliance nature, the second more focused on performance.

Ideally, the OAG would prefer Management have fully developed performance processes and measures in place with respect to all significant expenditures or expenditure categories. Had these processes and measures been in place, the OAG would have been able to undertake an independent review of the validity of the data compiled by Management, otherwise known as an attest function.

In the development of a performance matrix for use in the public sector, the question of what the key stakeholders (the public) might expect is of great importance. The literature suggests and the OAG concurs, the development of a true performance matrix is a complex matter, which has many critical components including benchmarking. However, for purposes of the public's expectation, it is fair to say two questions likely are relevant:

- Are consulting contracts awarded fairly?
- Do the contracts result in value for money?

With the above comments regarding processes and measures in mind, the following provides a basis for comments on the part of the OAG as to performance related to the ongoing engagement of consultants.

### **Possible ad hoc framework:**

- With any review of key performance indicators, a fundamental question which needs to be answered is, does the expenditure in fact, have to be incurred?

---

3 The business units referenced in this report are based on the reporting structure in place when the project was started and do not reflect the revised structure which came into effect on October 3, 2011.

- In answering the question of whether an expenditure needs to be incurred, several questions are relevant:
  - Are alternatives to the expenditure available?
  - Is the expenditure strategic (relates to Council Focus Areas) or does it address a strategic risk?
  - Does the expenditure need to be incurred at this time?
- After the above are answered, the fundamental question of value needs to be answered. Does the expenditure add value?
- Once the question of value is answered, three basic questions around performance are appropriate:
  - Is HRM making the most of available resources and are we using these resources in the most economical way?
  - Are processes being designed to minimize costs?
  - Are specific aims and goals being met directly through the expenditures being incurred?
- Also, as has been the previous practice of the OAG, the question of risk management becomes relevant. In this context, the OAG kept two questions in mind as this project was undertaken:
  - What, if any, risks to the organization exist by incurring the expenditure?
  - What, if any, risks to the organization exist by not incurring the expenditure?

With the above as a backdrop, many of the recommendations contained in this report have as their basis the questions listed above relating to both performance and risk.

## *Summary of Recommendations*

- 2.0.1 The OAG recommends HRM Administration develop a corporate policy regarding the hiring and use of external consultants to ensure all decisions to hire are fully vetted against a policy and set of criteria to ensure the most efficient and effective use of HRM resources. This policy should provide guidance regarding when a consultant can and should be hired, what documentation is needed to support the decision and what are the approval and reporting requirements.
  
- 2.0.2 In conjunction with the policy (2.0.1), the OAG recommends HRM Administration develop an approval process, requiring business units to prepare a business case for hiring external resources for any contracts above a specified dollar value. The business case should identify the expertise required, how it compares to the resources currently on staff, how it will assist in developing in-house staff for future requirements and a cost-benefit analysis compared to other options. It is important this process be a full and robust process, not just a cursory paperwork exercise. The approval process should be completed prior to any procurement activity commencing, and the documentation should be retained so the rationale for decisions can be reviewed in the future, if necessary.
  
- 2.0.3 The business case prepared (2.0.2) to justify hiring the external consultants should specifically address what skills existing staff do not possess and why the external consultant is needed.
  
- 2.0.4 In addition to developing a policy regarding the hiring of external consultants, the OAG also recommends HRM Administration develop a policy regarding budgeting for the use of external consultants. This could include requiring business units provide the Finance - Budget Office with information such as proposed business plans which support the amount of budget requested or allocated for use of external consultants. This would also enable the organization to identify whether the expense was budgeted/ planned when considering a request for approval to purchase and allow for planned versus actual comparisons in order to provide increased transparency.

- 3.0.1 RFPs issued when specific expertise is required should clearly specify the expertise HRM is looking for in addition to the work to be done and deliverables required. The evaluation criteria for the proposals submitted should be weighted towards expertise.
- 3.1.1 The OAG recommends each business unit provide an annual report to the CAO outlining consulting services incurred. This report should include for each RFP or consultant engaged:
- specific identification of what expertise was not available internally,
  - which consultant was hired to provide the expertise,
  - the original budget, final cost and an explanation of any significant variance,
  - a discussion of how HRM plans to manage in the future – i.e. was it a one-time project with expertise not being needed again, developing expertise internally, recruiting, etc..
- 3.1.2 HRM Administration should provide a report to Regional Council (perhaps through the Executive Committee) on an annual basis (as a minimum) regarding all professional expertise acquired from external consultants, and should include information which identifies the highest areas of usage. This reporting could be organized by Council Focus Area to give increased transparency regarding the costs associated with implementing the strategic initiatives. The OAG contemplates this reporting would occur annually, in conjunction with the reporting and approval of the annual budget. In researching best practices used by other municipalities, the City of Regina provided a good example of transparent and informative reporting on the use of consultants.
- 3.2.1 Given the frequency of use and significant dollars attributed to the expertise categories noted, the OAG recommends HRM Administration review the specifics around external human resources, information technology, legal and communications consulting services provided and investigate if there is a more cost effective way to access the services.
- 5.0.1 The OAG recommends HRM Administration identify the core competencies needed by the organization and for the individual roles within the organization. Once this is completed, it should then be used to assist with the creation of an overall competency map, identifying the areas where HRM is missing any necessary core competencies.

- 5.0.2 The OAG recommends HRM Administration create a database of staff expertise based on core competencies, which should be used to determine what expertise is available in-house prior to hiring an external consultant.
- 6.0.1 The OAG recommends HRM carefully consider the circumstances where it has traditionally hired external consultants to determine if there are opportunities to engage existing staff as a developmental opportunity.
- 7.0.1 Given the current significant use of consultants by HRM, the OAG recommends establishing and adopting a process and criteria for assessing the performance of external consultants to be used to inform future decisions.
- 9.0.1 The OAG recommends HRM Administration determine the level of detail it feels necessary to manage the use of external consultants, identify the general ledger accounts which would be used to accomplish this and set a policy on the appropriate coding for the use of consulting services.
- 9.0.2 While the following recommendation is not part of the scope for the project, it results from the work undertaken which was within the scope.

The OAG recommends HRM Administration review the current chart of accounts and identify any accounts not used regularly, and determine those which do not assist the organization with its financial management.

- There are currently 496 general ledger accounts available for use for income and expenditure related entries.
- During the 2009/10 fiscal year, there were entries posted to 339 of these accounts within the HRM operating accounts.
- In addition, there are a further 991 general ledger accounts available for use for balance sheet related items. Even taking into consideration HRM is a large, complex organization, this number of accounts appears high.

9.0.3 While the following recommendation is not part of the scope for the project, it results from the work undertaken which was within the scope.

The OAG recommends HRM Administration develop a policy regarding the use of all general ledger accounts, including updating the account definitions and ensuring the list is widely distributed within the organization.

9.0.4 While the following recommendation is not part of the scope for the project, it results from the work undertaken which was within the scope.

The OAG recommends HRM Administration implement a process of regularly reviewing all general ledger accounts in order to ensure consistent use.

## *Management Response*

*I have reviewed the report Use of External Consulting Services Fiscal Years 2007/08 through 2010/11, submitted to me on March 26, 2012 by your office and am in agreement with the recommendations. HRM Administration has, as is now our stated practice, taken the individual recommendations under consideration and will develop a more comprehensive management response and work plan to address each individual issue identified in the report.*

*In keeping with past practices, the Audit and Finance Committee of Council will be briefed on the detailed response and fully engaged as work progresses. HRM Administration will continue to work with the committee to ensure that the range of recommendations made by your office are addressed in a coordinated and appropriate manner, while maintaining a high level of transparency and accountability in reporting.*

*CAO Richard Butts*



---

## **Detailed Findings and Recommendations**

---

## 1.0 Overall Cost of Consultants Hired by Business Units

*Given the way HRM records these expenses, it was difficult to identify definitively all consulting charges.*

*Based on the review of the data received, the OAG was able to conclude HRM spent at least \$16.7 million on external consulting services during the four-year period under review.*

The starting point for this project was a review of data retrieved from HRM's financial system (SAP) in order to identify expenses processed between 2007/08 and 2010/11 for consulting services as defined in the Scope section of this report. Given the way HRM records these expenses, it was difficult to identify definitively all consulting charges. (The issue of HRM's approach to coding its consulting expenses will be discussed in detail in Section 9.0 of this report). Once the list of potential consulting expenses was compiled, it was provided to the business units with the request they review the list, confirm which items were consulting services and confirm the list contained all consulting service charges as defined. Additionally, for the items identified as consulting services, the business units were asked to provide information such as the reason for hiring the external consultant and the type of expertise or service hired. The OAG then compiled and reviewed the data provided by the business units.

Based on the review of the data received, the OAG was able to conclude HRM spent at least \$16.7 million on external consulting services during the four-year period under review, primarily due to the perceived need by business units for specific expertise. This amount includes costs related to both operating and capital activities.

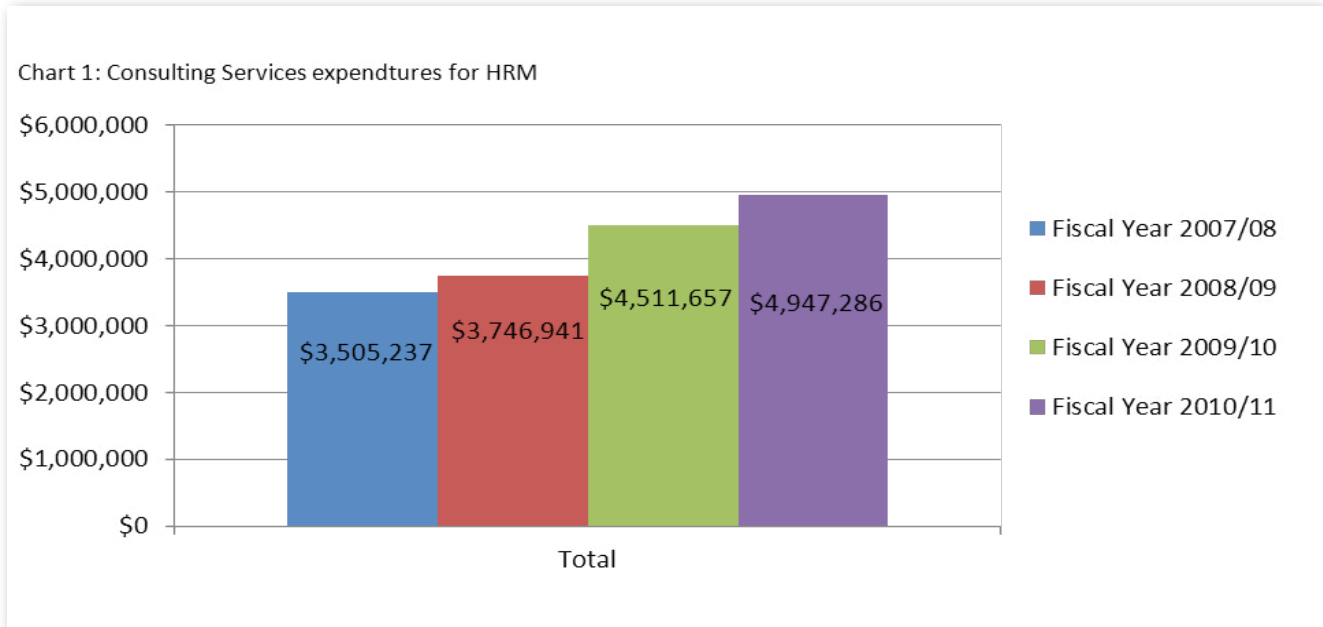
Operating expenses are defined as costs arising during the ordinary course of running an organization and include items such as salaries, legal fees, bank charges, office supplies, utilities, insurance, etc. Operating expenses are incurred for items related to the operations of the organization during a specific period and are not generally expected to create a lasting benefit extending beyond the end of the accounting year.

Alternatively, capital expenses arise when an organization incurs costs either to acquire a new capital asset (through purchase or construction) or to add value to an existing capital asset with a useful life extending beyond a year. Capital expenses are related to physical assets. The costs related to capital assets are included in operating expenses in the form of an annual amortization charge as well as, for example debt service charges (principal and interest). At HRM, the Capital program is managed by the Infrastructure and Asset Management business unit.

Both capital and operating expenses are critical components of a diversified organization such as HRM. As a result, both need to be included in this review to gain a complete picture of the organization's use of external consulting services.



As shown in Chart 1 below, the cost of the external consultants hired has increased every year during the period under review (+7% in 2008/09, +20% in 2009/10, +10% in 2010/11 for an overall increase for the 4-year period of 41%)



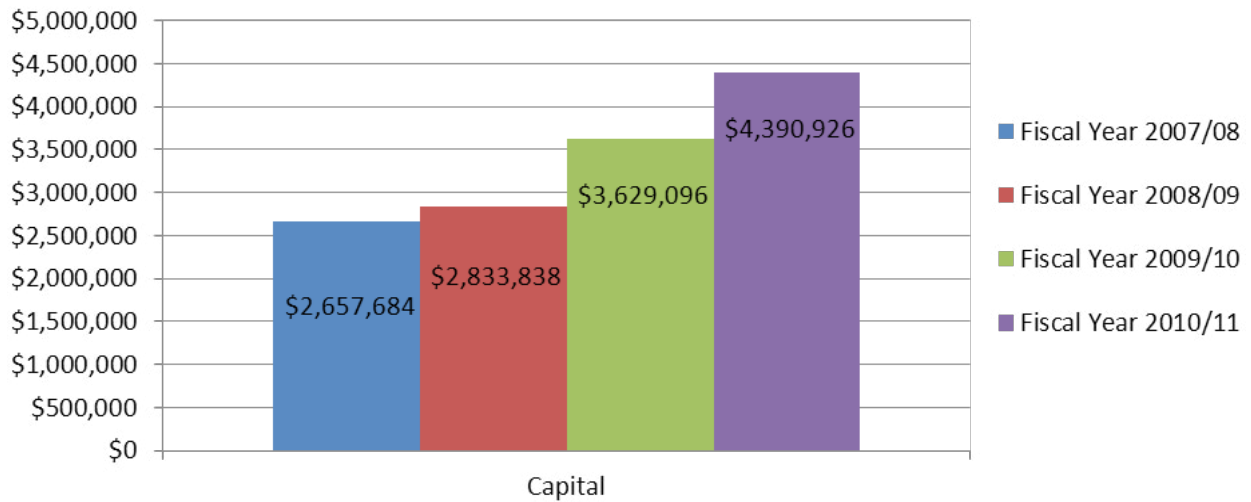
*The information received from the business units showed HRM used external consulting services primarily in the Capital program.*

*As shown in Chart 2, during the four-year period under review, the Capital program incurred \$13.5 million of the total \$16.7 million. It is interesting to note costs incurred related to the use of external consultants in the Capital program increased significantly each year under review (+7% in 2008/09, +28% in 2009/10, and +21% in 2010/11) for a total increase of 65% for the period under review.*

*Comparatively, the gross budget for the Capital program increased by a net of 21% over the same period (+53% in 2008/09, -26% in 2009/10, and +11% in 2010/11).*

The information received from the business units showed HRM used external consulting services primarily in the Capital program (the area responsible for the purchase or upgrading of HRM's capital assets such as its buildings, equipment, roads, sidewalks, etc.) and within three operational business units (Infrastructure and Asset Management (IAM), Community Development (CD) and the Office of the Chief Administrative Officer (CAO)). As shown in Chart 2, during the four-year period under review, the Capital program incurred \$13.5 million of the total \$16.7 million. It is interesting to note costs incurred related to the use of external consultants in the Capital program increased significantly each year under review (+7% in 2008/09, +28% in 2009/10, and +21% in 2010/11) for a total increase of 65% for the period under review. Comparatively, the gross budget for the Capital program increased by a net of 21% over the same period (+53% in 2008/09, -26% in 2009/10, and +11% in 2010/11). The OAG notes the receipt of stimulus funding can impact the timing and hiring of consultants.

Chart 2: Consulting Services expended in support of HRM Capital Program

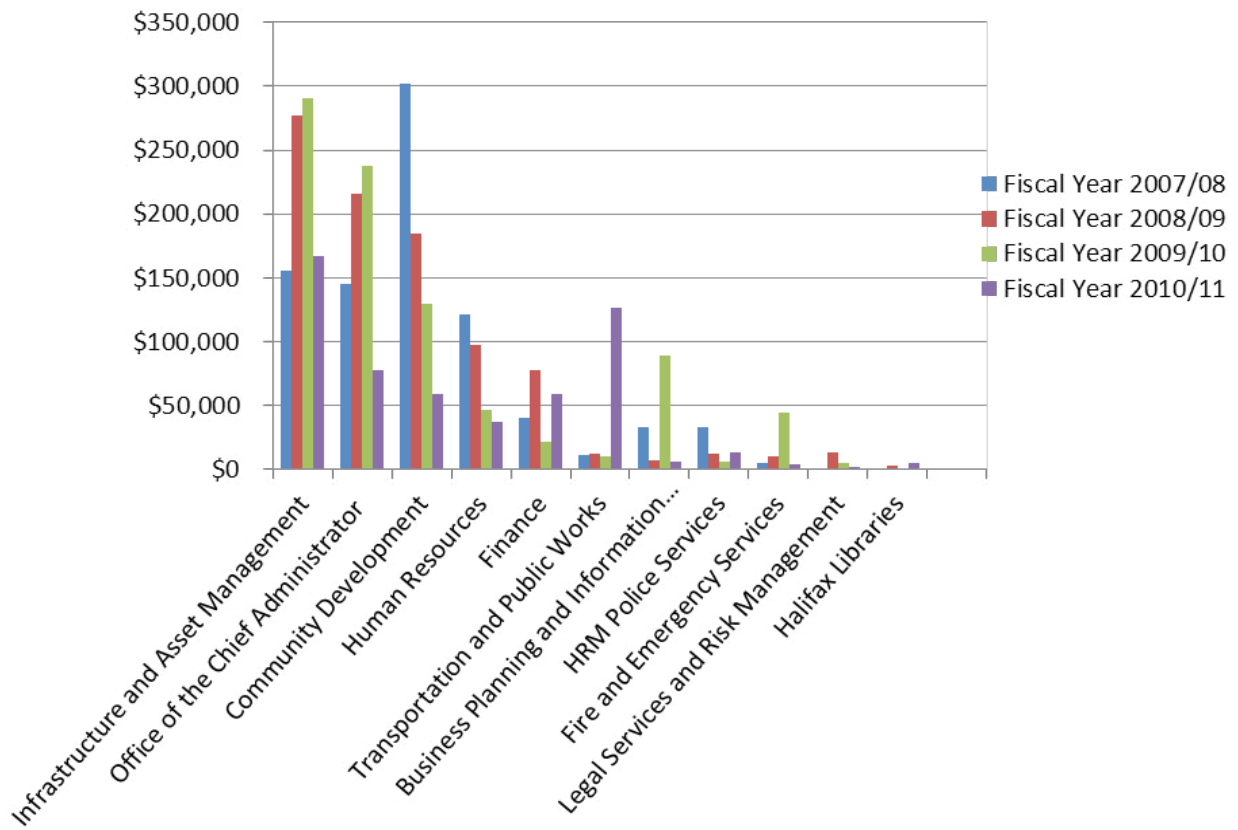


*External consultants were used in approximately 69% of capital projects*

When reviewing the use of external consultants by the Capital program, the OAG was curious as to how prevalent the use of consultants was. Were most of consulting services incurred for a few significant projects or was the use of consultants a regular part of delivering the capital program? Based on the data available, the OAG has calculated external consultants were used in approximately 69% of the projects, leading to the conclusion HRM uses consultants as a regular tool in delivering the Capital program. Given the significant and regular use of consultants in the Capital program, the OAG wonders why HRM is accepting of not having the expertise on staff and if the heavy reliance on consultants in the past is still considered efficient and effective going forward.

As noted earlier, as part of ongoing business operations, there were three business units which incurred the majority of external consulting expenses: Infrastructure and Asset Management (IAM) \$0.89 million, the Office of the Chief Administrative Officer (CAO) \$0.68 million and Community Development (CD) \$0.68 million (see Chart 3 below). The remaining business units incurred less than \$0.5 million each.

Chart 3: Consulting Services expended in support of HRM Operating Business Units



## 2.0 Lack of Formal Policies Regarding Hiring of Consultants

*During this review, business unit staff advised the OAG there is no specific policy regarding the use or hiring of external consultants.*

*This lack of a specific policy combined with inconsistent coding of charges and the absence of reporting on the use of consultants, highlights a lack of control and oversight at both the business unit and corporate levels.*

As suggested in the ad hoc performance framework, when considering the hiring of external consultants, business units should ensure the expenditure is both necessary and represents the most efficient and effective use of HRM's resources. During this review, business unit staff advised the OAG there is no specific policy regarding the use or hiring of external consultants. The only formal guidance is contained in Procurement Policy Administrative Order #35, which guides the overall purchasing activity for the organization. This lack of a specific policy combined with inconsistent coding of charges and the absence of reporting on the use of consultants, highlights a lack of control and oversight at both the business unit and corporate levels. Given the magnitude of spending on consultants, it would seem a degree of formal oversight would be appropriate, at both the business unit and overall organizational levels.

### **Recommendations:**

- 2.0.1 The OAG recommends HRM Administration develop a corporate policy regarding the hiring and use of external consultants to ensure all decisions to hire are fully vetted against a policy and set of criteria to ensure the most efficient and effective use of HRM resources. This policy should provide guidance regarding when a consultant can and should be hired, what documentation is needed to support the decision and what are the approval and reporting requirements.
- 2.0.2 In conjunction with the policy (2.0.1), the OAG recommends HRM Administration develop an approval process, requiring business units to prepare a business case for hiring external resources for any contracts above a specified dollar value. The business case should identify the expertise required, how it compares to the resources currently on staff, how it will assist in developing in-house staff for future requirements and a cost-benefit analysis compared to other options. It is important this process be a full and robust process, not just a cursory paperwork exercise. The approval process should be completed prior to any procurement activity commencing, and the documentation should be retained so the rationale for decisions can be reviewed in the future, if necessary.
- 2.0.3 The business case prepared (2.0.2) to justify hiring the external consultants should specifically address what skills existing staff do not possess and why the external consultant is needed.

2.0.4 In addition to developing a policy regarding the hiring of external consultants, the OAG also recommends HRM Administration develop a policy regarding budgeting for the use of external consultants. This could include requiring business units provide the Finance - Budget Office with information such as proposed business plans which support the amount of budget requested or allocated for use of external consultants. This would also enable the organization to identify whether the expense was budgeted/ planned when considering a request for approval to purchase and allow for planned versus actual comparisons in order to provide increased transparency.

### 3.0 External Consultants Engaged as Specific Expertise Required

*As indicated in Table 1 below, for 87% of purchases, the need for specific expertise was identified as the reason for the purchase.*

As part of the data collection process for this project, the OAG asked business unit/program staff to identify for each charge, why external consulting services were engaged. As indicated in Table 1 below, for 87% of purchases, the need for specific expertise was identified as the reason for the purchase. This accounts for \$14.5 million of the \$16.7 million spent on external consulting services during the four-year period reviewed.

Table 1: Rationale for Hiring Consulting Services, Capital Program and Operational Business Units Combined

Rationale for Expenditure	Fiscal Year 2007/08	Fiscal Year 2008/09	Fiscal Year 2009/10	Fiscal Year 2010/11	4-Year Total	%
Specific expertise required	\$ 2,870,467	\$ 3,471,154	\$ 3,353,737	\$ 4,845,424	\$ 14,540,782	87.0%
Capacity	621,973	235,189	709,012	98,101	1,664,275	10.0%
Capacity and specific expertise	5,307	38,741	380,858	0	424,906	2.5%
Other	7,492	1,855	68,050	3,761	81,158	0.5%
<b>Total</b>	<b>\$ 3,505,239</b>	<b>\$ 3,746,939</b>	<b>\$ 4,511,657</b>	<b>\$ 4,947,286</b>	<b>\$ 16,711,121</b>	<b>100.0%</b>

In order to understand how the specific expertise required was identified and acquired, the OAG reviewed a sample of thirteen (13) Request for Proposal (RFP) files for consulting services. Each RFP file contained an original Request for Proposal, which outlined the specifics HRM required from each respondent as well as the evaluation criteria assigned to each requirement under evaluation. The evaluation criteria were broken out into seven to eight sections depending on the RFP. The sections were as follows:

- project team/capability,
- understanding,
- methodology,
- work plan,
- fee schedule,
- past/related experience,
- innovation and
- overall quality and compliance.

If the justification for hiring a consultant was the need for a specific expertise, it would seem reasonable for the RFP evaluation process to reflect this clearly, either by the specific expertise required being outlined in the RFP itself, or through a heavier weight assigned to the project team/capabilities criteria.

*RFPs in our sample did not clearly outline a specific expertise expected/required and the highest weights in the RFP evaluation were generally for 'Methodology' and 'Understanding'.*

*In the majority of RFPs reviewed, it seemed HRM was seeking to hire expertise the OAG would assume HRM likely had on staff.*

*This leads the OAG to wonder why it was felt HRM staff did not have the capability to be forward thinking and how HRM assesses this expertise in external consultants.*

The RFPs in our sample did not clearly outline a specific expertise expected/required and the highest weights in the RFP evaluation were generally for 'Methodology' and 'Understanding'. In reviewing these RFPs, the OAG developed two main areas of concern:

- 1) The RFPs reviewed did not clearly identify the skills or expertise HRM was seeking. The deliverables were identified, but the skills or expertise required were not separately identified. As a result, the OAG questions if HRM truly understands the expertise needed and if Management understands what expertise exists within staff or if HRM hires external consultants primarily as a way to manage workload or public expectations.
- 2) In the majority of RFPs reviewed, it seemed HRM was seeking to hire expertise the OAG would assume HRM likely had on staff (i.e. engineering, traffic design, communications, public relations, project management, development of design and construction documents, the ability to create a strategic plan or provide an operational review) given the job titles and roles held by many staff members. This raises questions for the OAG regarding how HRM assesses the need to hire external consultants when it seems reasonable to assume it has or ought to have staff resources with same or similar skill sets and expertise.

Given the results of our sample, the OAG has a number of questions:

- How does HRM know the external consultants to be engaged have the expertise needed?
- Given the needed expertise is not clearly articulated in many of the RFPs reviewed by the OAG, how does HRM know it is obtaining the needed expertise?
- How does HRM hold business unit managers accountable for managing their resources appropriately?
- Does HRM have the right expertise in-house?

In addition, in several RFP responses in the sample reviewed, a detailed breakdown was provided of the team members proposed by the bidder, the number of hours expected to be billed by member and the billing rate. Given the level of base information available, it would seem reasonable to expect HRM would prepare a cost/benefit analysis before any further external consultants are hired who have similar expertise to existing staff.

In some cases, business units indicated they needed external individuals who had been involved in leading edge, world-class projects of a similar type. This leads the OAG to wonder why it was felt HRM staff did not have the capability to be forward thinking and how HRM assesses this expertise in external consultants. This finding is consistent with other work completed by the OAG. The report "Review of Request for Proposal (RFP) Process – Procurement", released January 2012 also speaks to the need for better definition and weighting of the technical evaluation criteria.

*In fact, it appears staff may not be given credit for the expertise they possess.*

Generally, the effort placed on defining the need for consultants and the outcomes expected from the engagements appears to be limited and informal. The OAG understands the business units who make the most use of consultants do attempt to assess available in-house expertise prior to hiring externally. However, based on discussions with HRM staff, the effort put into assessing alternate methods of achieving desired results is done at a high level and on an informal basis. As a result, consultants may be used when in-house staff have the necessary expertise to undertake the work. In fact, it appears staff may not be given credit for the expertise they possess. Business units need to always consider and articulate what specific expertise is needed and whether the expertise is available from within HRM before turning to external consultants. If consultants are the only option, then business units need to define from the outset the benefit and measurable outcomes they expect to achieve.

Based on the RFPs reviewed, there appears to be no clear delineation organizationally or by business unit as to when HRM is hiring for a specific expertise or simply hiring capacity.

**Recommendation:**

- 3.0.1 RFPs issued when specific expertise is required should clearly specify the expertise HRM is looking for in addition to the work to be done and deliverables required. The evaluation criteria for the proposals submitted should be weighted towards expertise.



Human Resources  
\$703,380

Engineering  
\$471,762

Legal  
\$363,126

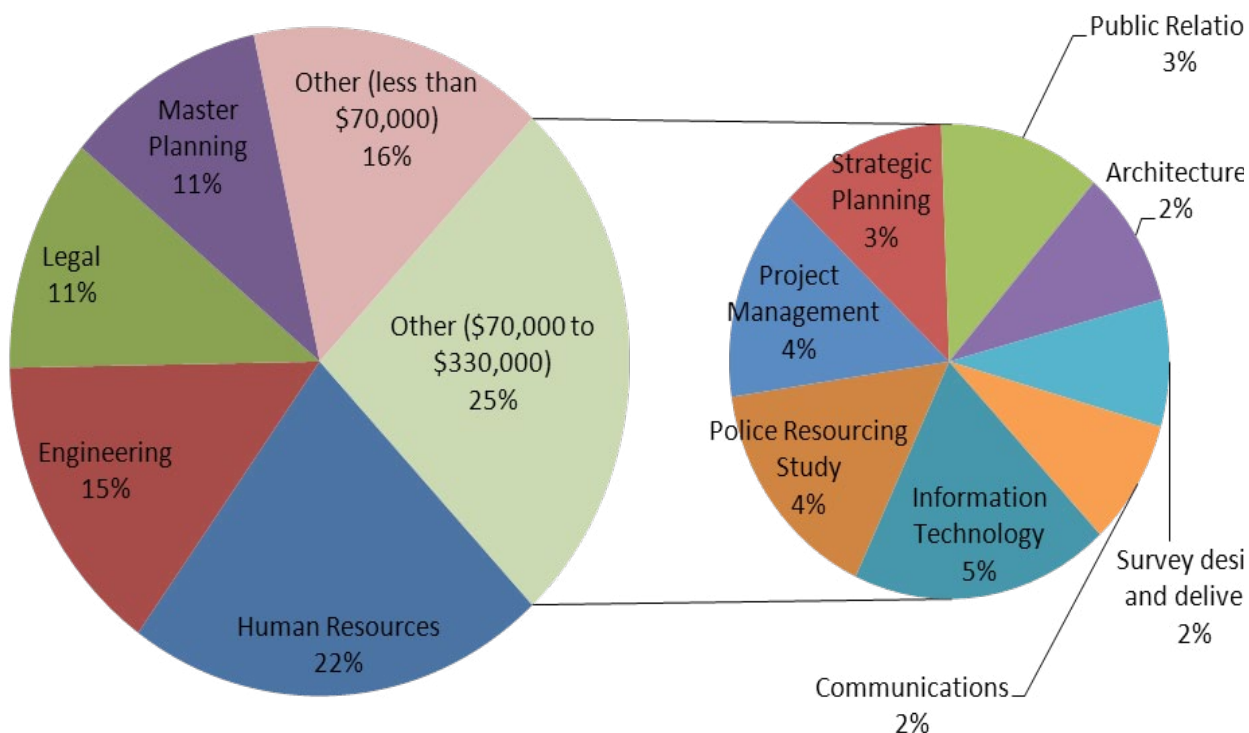
Master Planning  
\$337,027

### 3.1 Types of Expertise Hired

#### Operating Business Units

After determining the reason for hiring external consultants and understanding the focus on expertise, the OAG then looked at what type of expertise was procured. As shown in Chart 4 below, within the operating business units, the primary areas of expertise acquired were human resources (\$703,380), engineering (\$471,762), legal (\$363,126), and master planning (\$337,027).

Chart 4: Expertise Obtained by Operating Business Units, Fiscal Years 2007/08 to 2010/11 Inclusive



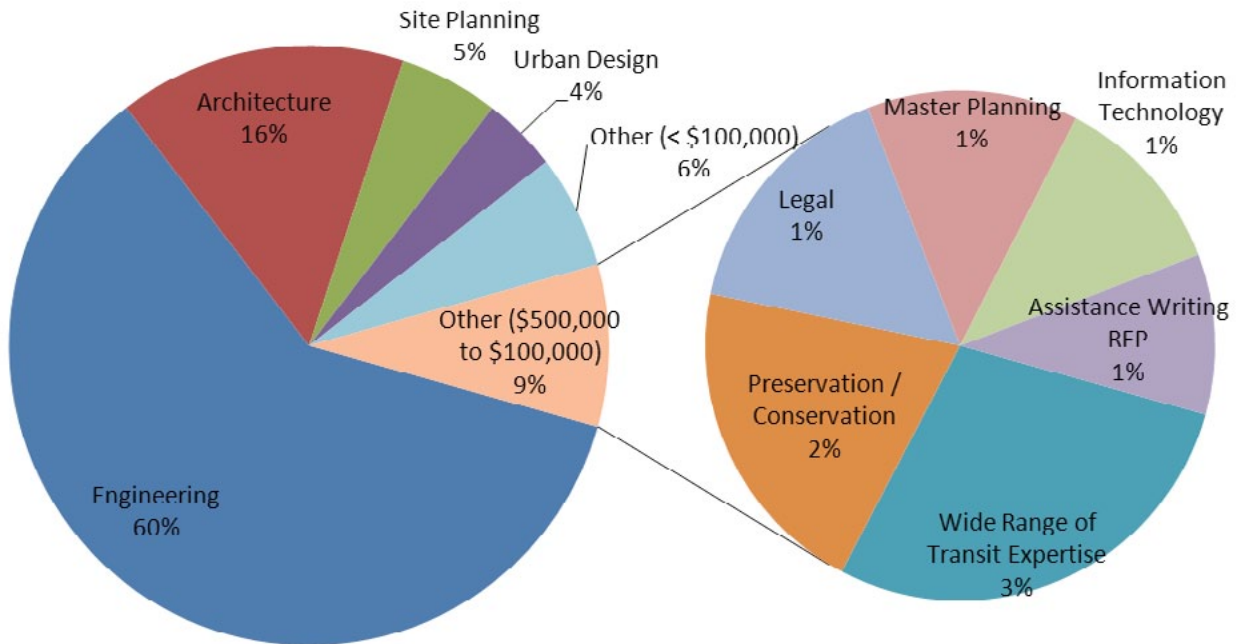
Given the staff funding resources allocated to the various business units within HRM, the OAG again wonders why HRM repeatedly spends significant amounts to hire external expertise when staff could reasonably be expected to have the expertise. For example, engineering expertise given the number of engineers on staff, employee recruitment fees when HRM has a robust Human Resources department or the communications and public relations expertise given HRM has a section dedicated to Communications and External and Corporate Affairs.

Given the staff funding resources allocated to the various business units within HRM, the OAG wonders why HRM repeatedly spends significant amounts to hire external expertise when staff could reasonably be expected to have the expertise.

## Capital Program

Within the Capital program, as expected, engineering expertise (\$8.1 million) is the most used, followed by architecture (\$2.1 million), site planning (\$726,746) and urban design (\$547,758) (see Chart 5 below).

Chart 5: Expertise Obtained for Capital Program, Fiscal Years 2007/08 to 2010/11 Inclusive



## Recommendations:

3.1.1 The OAG recommends each business unit provide an annual report to the CAO outlining consulting services incurred. This report should include for each RFP or consultant engaged:

- specific identification of what expertise was not available internally,
- which consultant was hired to provide the expertise,
- the original budget, final cost and an explanation of any significant variance,
- a discussion of how HRM plans to manage in the future – i.e. was it a one-time project with expertise not being needed again, developing expertise internally, recruiting, etc..

3.1.2 HRM Administration should provide a report to Regional Council (perhaps through the Executive Committee) on an annual basis (as a minimum) regarding all professional expertise acquired from external consultants, and should include information which identifies the highest areas of usage. This reporting could be organized by Council Focus Area to give increased transparency regarding the costs associated with implementing the strategic initiatives. The OAG contemplates this reporting would occur annually, in conjunction with the reporting and approval of the annual budget. In researching best practices used by other municipalities, the City of Regina provided a good example of transparent and informative reporting on the use of consultants.

### 3.2 Services Hired by Most Business Units

When reviewing the data from a different perspective, it becomes apparent there were similarities in specific expertise sought externally across a majority of business units. Over the four-year review period, 10 of the 13 business units hired external human resources expertise, 9 of the 13 business units hired external legal expertise, 7 of the 13 business units hired external communications/public relations expertise and 6 of the 13 business units hired external engineering and information technology expertise as shown in Table 2.

Table 2: Consulting Expertise Obtained by Multiple Business Units for Fiscal Years 2007/08 to 2010/11 Inclusive

Type of Expertise Purchased	Number of Business Units Obtaining Expertise	4-Year Total	Annualized Average
Human Resources	10	\$ 708,465	\$ 177,116
Legal	9	549,636	137,409
Communications/Public Relations	7	253,316	63,329
Engineering	6	8,606,952	2,151,738
Information Technology	6	295,569	73,892
Architecture	5	2,203,905	550,976
Facilitation	5	52,307	13,077
Master Planning	4	495,075	123,769
Project Management	4	153,620	38,405
Site Planning	3	741,010	185,253
Financial Analysis	2	96,114	24,029
Strategic Planning	2	181,468	45,367
Urban Design	2	570,558	142,640
Assistance Writing RFP	1	119,652	29,913
Commissioning	1	91,444	22,861
HAZMAT Study	1	47,096	11,774
Police Resourcing Study	1	129,697	32,424
Preservation/Conservation	1	242,375	60,594
Real Estate	1	59,025	14,756
Specified Procedures Audit - E-voting	1	66,399	16,600
Survey Design and Delivery	1	71,800	17,950
Wide Range of Transit Expertise	1	333,744	83,436
Other		641,894	160,474
<b>Total</b>		<b>\$16,711,121</b>	<b>\$4,177,780</b>

*It is interesting to note the expertise obtained by multiple business units are primarily areas related to Corporate Service departments – Human Resources, Legal, Information Technology, and Communications. This trend raises questions regarding the level and/or type of services the business units are receiving as corporate administrative support.*

*Data provided by the business units identified an additional \$861,376 spent on external legal services, \$1.69 million on external information technology services, and \$75,360 on communications, marketing and public relations services over the 4-year period, which were categorized as contracting out.*

It is interesting to note the expertise obtained by multiple business units are primarily areas related to Corporate Service departments – Human Resources, Legal, Information Technology, and Communications. This trend raises questions regarding the level and/or type of services the business units are receiving as corporate administrative support. It is interesting to note the Human Resources business unit was one of the heaviest users of external human resources consultants, accounting for 41% of all consulting expenses identified as human resource related. The CAO business unit was one of the heaviest users of communications/public relations expertise (49%). It is also interesting to note, Legal Services incurred none of the legal consulting expenses. As well, data provided by the business units identified an additional \$861,376 spent on external legal services, \$1.69 million on external information technology services, and \$75,360 on communications, marketing and public relations services over the 4-year period, which were categorized as contracting out as opposed to consulting. This is in addition to the totals presented in Table 2.

**Recommendation:**

- 3.2.1 Given the frequency of use and significant dollars attributed to the expertise categories noted, the OAG recommends HRM Administration review the specifics around external human resources, information technology, legal and communications consulting services provided and investigate if there is a more cost effective way to access the services.

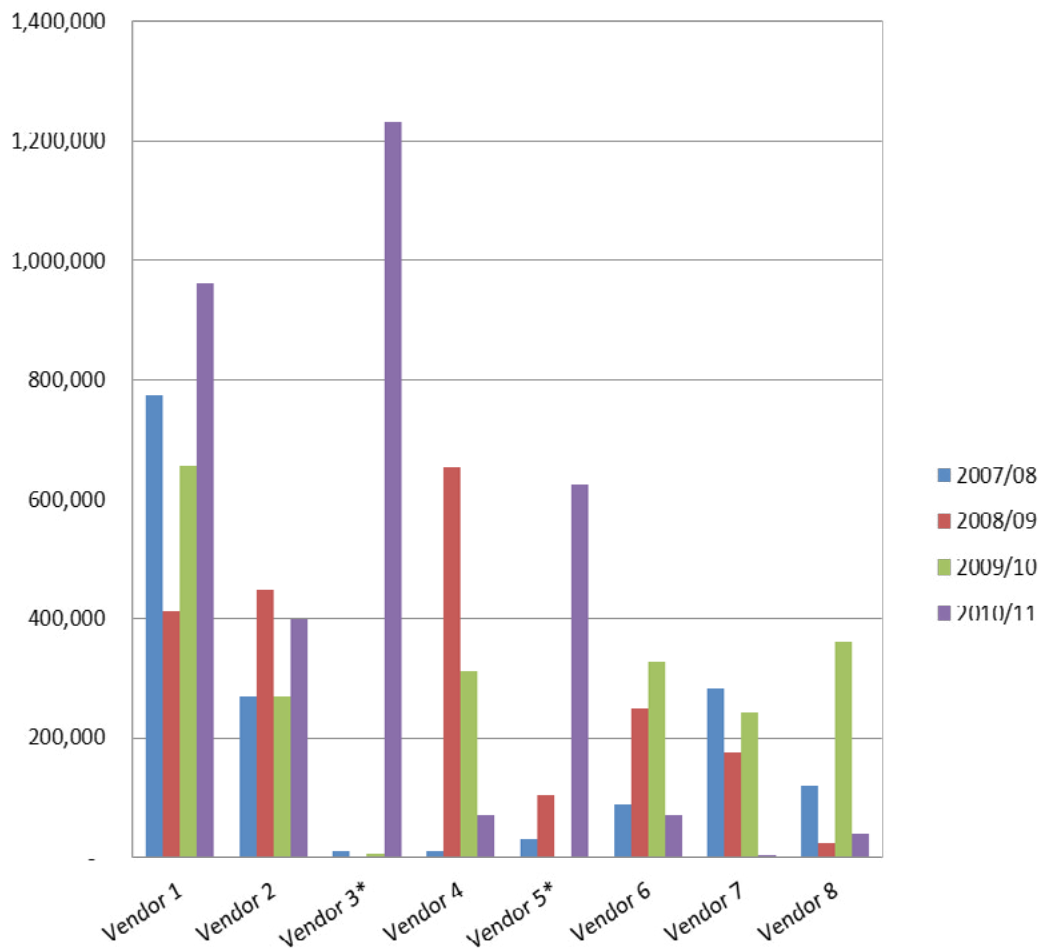
## 4.0 Repetitive Use of the Same Vendors

*Of the \$16.7 million spent by HRM on consultants in fiscal years 2007/08, 2008/09, 2009/10 and 2010/11, \$9.2 million (55%) was paid to eight vendors, each billing in excess of \$500,000 during the period under review.*

*Is HRM working to transfer knowledge to internal staff or is the use of external consultants a way to effectively increase staffing levels while circumventing the internal hiring processes and controls?*

Of the \$16.7 million spent by HRM on consultants in fiscal years 2007/08, 2008/09, 2009/10 and 2010/11, \$9.2 million (55%) was paid to eight vendors, each billing in excess of \$500,000 during the period under review. Chart 6 shows the spending with these vendors. This is not to imply there is mismanagement or the vendors have acted inappropriately. Instead, the reason for raising the point is to question why HRM continues to repeatedly hire the same vendors, presumably for the same or similar expertise. Obvious questions are, is HRM working to transfer knowledge to internal staff or is the use of external consultants a way to effectively increase staffing levels while circumventing the internal hiring processes and controls? Does HRM properly plan to provide for the assessment of and hiring of needed expertise in staff? We see with the hiring of consulting services from all vendors, the majority of services from these eight vendors were engineering related. This raises the question of how HRM manages their internal engineering resources and why there is such a high need for external services.

**Chart 6: Top Eight (8) Vendors hired for Consulting Services, Fiscal Years 2007-08 to 2010-11**



\*2010/11 charges for Vendors 3 and 5 primarily relate to separate, individual large capital projects

## 5.0 Expertise Inventory

*It would seem reasonable to conclude, based upon role titles, HRM likely has or should have staff with expertise similar to that provided by external consultants. However, a detailed inventory of staff expertise does not seem to be maintained, either at a corporate or business unit level.*

*It could be used to form a hiring strategy through the development of core competencies for given roles, tied in with a competency map at both the individual and corporate levels. This could then be used to develop training plans and make more informed hiring decisions.*

In reviewing the information in Section 4.0, the OAG began to question why HRM spends significant amounts to repeatedly acquire similar expertise from external consultants. It would seem reasonable to conclude, based upon role titles, HRM likely has or should have staff with expertise similar to that provided by external consultants. However, a detailed inventory of staff expertise does not seem to be maintained, either at a corporate or business unit level. As a result, we were unable to obtain any specific, detailed information to justify the necessity of hiring this expertise externally.

The OAG suggests developing documentation of staff expertise would be beneficial to HRM. If HRM were to develop an inventory of staff expertise this could serve multiple purposes. It could be used to identify what expertise HRM has on staff prior to hiring an external consultant and it could be used to form a hiring strategy through the development of core competencies for given roles, tied in with a competency map at both the individual and corporate levels. This could then be used to develop training plans and make more informed hiring decisions.

Based on the data contained in the 2009/10 budget, the OAG has calculated HRM incurs an average of \$75,741 in salary and benefit costs per Full Time Equivalent (FTE). The OAG recognizes this is not a salary indicative of all employees, particularly those with professional qualifications. We include it here for illustrative purposes based on the information available. An FTE equates to a number of work hours, which comprises a "work year". At HRM, the FTE count includes permanent full and part-time positions. Using

Table 3: Analysis of Salary Costs by FTE to Consulting Costs, Fiscal Year 2009/10

Business Unit	Compensation and Benefits		Average Annual External Consulting		
	Budget 2009/10	Budgeted FTEs 2009/10	Costs incurred by Business Unit	Average Compensation Cost per FTE	Potential FTEs from Consulting \$
<b>Capital Program**</b>			\$ 3,377,886		44.60
<b>BPIM</b>	\$ 12,029,779	167	\$ 33,871	\$ 72,035	0.50
<b>CAO</b>	6,522,400	66	169,173	98,824	1.70
<b>CD</b>	20,094,400	244	169,029	82,354	2.10
<b>Finance</b>	10,663,200	192	49,765	55,538	0.90
<b>Fire</b>	44,592,900	494	15,906	90,269	0.20
<b>Fiscal Services<sup>1</sup></b>	6,685,400				
<b>Human Resources</b>	3,872,600	48	75,755	80,679	0.90
<b>IAM**</b>	7,568,000	109	222,619	69,431	3.00
<b>Legal</b>	2,139,780	25	5,185	85,591	0.10
<b>Library</b>	14,571,600	279	2,049	52,228	-
<b>Police</b>	65,863,200	746	16,208	88,288	0.20
<b>TPW</b>	79,578,600	1250	40,336	63,663	0.60
<b>Total Operating</b>	<b>\$ 274,181,859</b>	<b>3620 *</b>	<b>\$ 799,896</b>		<b>10.20</b>
<b>Total Operating and Capital</b>			<b>\$ 4,177,782</b>		<b>54.80</b>

<sup>1</sup> Fiscal Services includes the budget for annual salary increases, anticipated labour negotiation settlements, and other corporate salary and benefit related costs.

\* excludes 178 FTEs related to RCMP which are identified in the 2009/10 budet book as these are not HRM employees and the associated costs are not included in Compensation and Benefits.

\*\*The Capital program is primarily carried out by IAM.

average salary costs for all FTEs, the \$4.5 million spent on consultants in 2009/10 equates to the cost of approximately 55 HRM staff or 1.5% of HRM's 2009/10 budgeted staff complement.

It is our understanding from discussions with business units, hiring an external consultant gives HRM access to a team of people with varying expertise and specialties for specific, short time periods, creating efficiencies which hiring staff directly would not. However, given the amount of money spent annually on external consulting services, the OAG feels this area would benefit from a more formal review as the OAG was not able to find performance measures to support the reasoning noted.



*However, without the expertise inventory as suggested by the OAG, it becomes difficult to measure the economic performance of the decision to obtain external services.*

*If the needed HRM resources are not currently available in-house, without an appropriate process in place for the identification of “missing” resources and a plan to acquire these resources, the reliance on external consultants will continue indefinitely.*

Overall, the consultants hired by HRM for their expertise clearly are capable (hence effectiveness has likely been achieved), however given the total expenditures for 2009/10 of \$4.5 million, the question around whether this is the most economical manner to achieve the outcome becomes relevant. However, without the expertise inventory as suggested by the OAG, it becomes difficult to measure the economic performance of the decision to obtain external services.

The OAG offers the following as questions, which would assist in determining the level of economic value added:

- Was the expertise needed to carry out the project available in-house?
- If the expertise was available in-house, why was it not used on the project where consultants were engaged?
- If the FTEs with the necessary expertise were available, were they deployed in the most cost effective manner to achieve highest value for HRM?
- If HRM in-house resources are not available but are being regularly engaged from the outside, what is the business case for not adding additional FTEs?
- If the needed HRM resources are not currently available in-house, without an appropriate process in place for the identification of “missing” resources and a plan to acquire these resources, the reliance on external consultants will continue indefinitely?

### **Recommendations:**

- 5.0.1 The OAG recommends HRM Administration identify the core competencies needed by the organization and for the individual roles within the organization. Once this is completed, it should then be used to assist with the creation of an overall competency map, identifying the areas where HRM is missing any necessary core competencies.
- 5.0.2 The OAG recommends HRM Administration create a database of staff expertise based on core competencies, which should be used to determine what expertise is available in-house prior to hiring an external consultant.

## 6.0 Impact on Staff Expertise through the Extensive Use of External Consultants

One of HRM's stated goals is to be an employer of choice. Implied within this goal is providing a work environment for staff which supports learning and development. In order to grow and develop, staff need to be involved in new and innovative learning experiences. Without this opportunity, the risk is staff may stagnate, and in an environment which is moving more and more towards specialization, become obsolete if not provided an opportunity to grow and develop new skills. This would then lead HRM to become even more reliant on the use of external consultants, which is arguably a more expensive option than having well trained capable staff.

*The importance of HRM investing in staff and providing opportunities for continued growth and development is raised by the OAG as a cautionary note.*

The importance of HRM investing in staff and providing opportunities for continued growth and development is raised by the OAG as a cautionary note, due to the possible long term impact on staff. This is important both in support of the goal of being an employer of choice and to ensure HRM is finding the most cost effective and efficient means to fulfill its mandate.

### **Recommendation:**

- 6.0.1 The OAG recommends HRM carefully consider the circumstances where it has traditionally hired external consultants to determine if there are opportunities to engage existing staff as a developmental opportunity.

## 7.0 Accountability for the Performance of Consultants

*The OAG found no evidence of a process for evaluating the performance of a consultant*

During work on this project, the OAG found no evidence of a process for evaluating the performance of a consultant and wonders, if performance is not adequate, how does HRM assess this and what is the recourse? How does HRM ensure the services delivered meet what was proposed by the consultants and required by HRM? Business units generally do not seem to focus on how consultants are performing and do not formally assess the quality of services provided. In discussions with staff, the OAG was advised HRM does not formally capture information regarding the performance of external consultants and therefore has no means to evaluate whether the expected benefits were delivered or whether the use of consultants was in fact necessary. This results in having no direct means to use knowledge of the external consultants' past performance in future hiring decisions. There is a program as part of the procurement process which the OAG understands might address this concern. Unfortunately, it is apparently not known to or used by the business units who are the largest user of external consultants.

### **Recommendation:**

- 7.0.1 Given the current significant use of consultants by HRM, the OAG recommends establishing and adopting a process and criteria for assessing the performance of external consultants to be used to inform future decisions.

## 8.0 Use of Consultants in the Capital Program

*When projects are funded using borrowed funds (debt), future ratepayers are charged with the original cost and related interest costs as the debt is repaid.*

*Given debt financing incurs the additional cost of interest, it is even more critical the costs for these projects be incurred in the most efficient and effective manner.*

Expenses related to the Capital program can be funded through a number of sources such as the general tax rate, debt and/or gas tax funds. When projects are funded using borrowed funds (debt), future ratepayers are charged with the original cost and related interest costs as the debt is repaid. During our review, we identified a sample of 80 capital projects and reviewed the level of debt funding associated with each. Overall, approximately 28% of the funding for these projects was debt financed.

Given debt financing incurs the additional cost of interest, it is even more critical the costs for these projects be incurred in the most efficient and effective manner. For example, HRM frequently borrows with 10-year debentures. If we assume a 4.5% interest rate, and given HRM spends an average of \$3,000,000 per year on consultants for capital projects and borrows 28% of the funding for the projects, HRM would incur an additional \$212,000 in interest costs related to these consultants over the term of the debenture.

The general budgeting practice observed for capital-related costs tends towards using one general ledger account to capture all costs (versus separate project categories such as consultants, electrical, landscaping, equipment purchases, legal fees, etc.). This leads the OAG to question how the budget for a capital project is developed. It seems reasonable to assume in order to estimate the costs to complete a project, the various individual components would have been estimated. If the estimates were entered into the SAP system at this level of detail, it would aid in the management of the various components of the project and would provide a tool for project managers to monitor the project status from a cost perspective. It would also provide a corporate tool to assess budgeting accuracy for capital projects. In the absence of a detailed budget, questions arise as to the process used to ensure the budget reflects an accurate estimate of the total cost and the most efficient and effective way to complete the project? The intention here is not to delve into the capital budgeting process as this is contemplated in a separate review; however, it is important to understand the means used to ensure the consultants hired for these projects represent the best use of taxpayers' money.

## 9.0 Coding of Expenses

*During our review, we noted at least 34 separate general ledger accounts were used to record the costs associated with the consulting services identified by the business units. In addition, \$6.1 million of expenses were charged to “consulting fees” but were identified as something other than a consulting service by business unit staff.*

*This lack of consistent coding makes it very difficult to obtain complete or accurate information regarding all consulting services used in any given period.*

A general ledger is a record summarizing all of an organization’s financial transactions through the use of offsetting accounts (called general ledger accounts or cost elements). The accounts are generally structured to allow the organization to summarize information on the types of revenues and costs it is incurring. A general ledger often includes accounts such as salaries, office supplies, rent, etc. and can include items for which the organization incurs significant spending such as consulting, legal fees, contract cleaning, etc..

During this review, we noted at least 34 separate general ledger accounts were used to record the costs associated with the consulting services identified by business units. In addition, \$6.1 million of expenses were charged to “consulting fees” (general ledger account 6303) but were identified as something other than a consulting service by business unit staff. This indicates what constitutes a “consulting fee” is not clearly understood throughout the organization and also indicates staff are not clear on when an expense should be considered a consulting fee and to what account it should be coded.

This lack of consistent coding makes it difficult to obtain complete or accurate information regarding all consulting services used in any given period. This observation was reinforced when one of the business unit directors commented on how difficult it was to provide the information requested by the OAG.

The value to the organization from using consistent coding within accounts can be significant. As noted previously, the general ledger account coding provides a mechanism for Management to track spending on various types of expenses and prepare appropriate analysis to assist in decision-making. The general ledger, when properly prepared, also allows for a comparison of actual expenses against a budget (the plan) and to the spending in prior years (history). The OAG obtained an HRM Business Planning and Budget Guideline from 2009/10 containing definitions for many of the general ledger accounts available and providing guidance on when to use them. (A similar document was provided to the business units during the 2012/13 budget planning process). Unfortunately, this guidance does not appear to be widely followed. This is of concern to the OAG as one of the primary benefits of a consistent use of a general ledger account is to provide for ease of oversight and control of specific expenditures. Given the number of accounts used for consulting services, it indicates the organization is not using this mechanism appropriately to monitor and control costs. As a result of this finding, the OAG is concerned with the lack of functionality to effectively monitor and control specific costs. Although it is outside the scope of this review, the OAG is aware of other situations where there is a lack of consistent coding and wonders about the overall value of current information in the general ledger.

The OAG accepts the expenditures coded to the 34 accounts have benefit; however, without some additional performance measures in place to measure economy and effectiveness, critical components of the ad hoc framework cannot be answered.

The OAG would suggest, without policies in place as to the accepted definition(s) of consulting services and the accounts to which they should be coded, the measurement of economy and effectiveness becomes difficult.

Table 4: General Ledger Accounts used for Consulting Charges

General Ledger Account Number	Fiscal Year 2007/08	Fiscal Year 2008/09	Fiscal Year 2009/10	Fiscal Year 2010/11	4-Year Total
Consulting Fees (6303)	\$2,151,925	\$1,931,819	\$2,543,319	\$3,369,843	\$ 9,996,906
Contract Services (6399)	651,681	1,020,132	1,330,161	1,041,107	4,043,081
Other Goods and Services (6999)	281,632	456,532	244,733	140,203	1,123,100
Professional Fees (6301)	194,225	139,373	104,042	85,112	522,752
Legal Fees (6302)	48,291	38,819	101,127	92,218	280,455
Special Projects (6919)	126,369	52,328	37,524	13,166	229,387
Finance (2063)	19,917	14,522	37,324	16,807	88,570
Recruiting (6914)	11,689	44,933	-	-	56,622
Land Purchase (6920)	-	-	49,611	-	49,611
Advertising/Promotion (6912)	-	3,028	33,497	9,194	45,719
Corporate Training (6937)	-	3,468	-	36,009	39,477
Finance (2123)	-	-	-	33,119	33,119
Courier/Postage (6202)	-	-	-	32,524	32,524
Office Furniture and Equipment (6203)	-	-	-	29,784	29,784
Training & Education (6905)	-	7,803	1,842	17,251	26,896
Building - Exterior (6610)	-	-	486	23,399	23,885
Outside Personnel (6310)	764	2,824	13,221	638	17,447
Vehicle R&M (6802)	-	9,300	-	-	9,300
Printing & Reprod (6205)	-	8,517	-	-	8,517
Travel - Out of Town (6904)	7,132	1,323	-	-	8,455
Refuse Collection (6312)	-	7,510	-	-	7,510
Equip - R&M (6705)	5,189	-	-	-	5,189
Property Survey (6306)	-	-	4,520	-	4,520
Facilities Rental (6911)	4,275	-	-	-	4,275
Other Building Costs (6699)	-	-	1,064	2,881	3,945
Design Services (6307)	-	-	-	3,860	3,860
Elevator & Escalator (6609)	-	-	3,856	-	3,856
Rewarding Excellence (6938)	-	-	3,164	-	3,164
Conferences/Workshop (6902)	-	1,855	-	171	2,026
Accounting Suspense (2368)	-	1,695	-	-	1,695
Recoveries External Parties (5508)	-	763	820	-	1,583
Research Data Acquisition (6915)	1,350	-	-	-	1,350
Asphalt (6501)	-	-	1,346	-	1,346
Community Events (6933)	800	395	-	-	1,195
<b>Totals</b>	<b>\$3,505,239</b>	<b>\$3,746,939</b>	<b>\$4,511,657</b>	<b>\$4,947,286</b>	<b>\$ 16,711,121</b>

## **Recommendations:**

9.0.1 The OAG recommends HRM Administration determine the level of detail it feels necessary to manage the use of external consultants, identify the general ledger accounts which would be used to accomplish this and set a policy on the appropriate coding for the use of consulting services.

While the following recommendations are not part of the scope for the project, they result from the work undertaken which was within the scope.

9.0.2 The OAG recommends HRM Administration review the current chart of accounts and identify any accounts not used regularly, and determine those which do not assist the organization with its financial management.

- There are currently 496 general ledger accounts available for use for income and expenditure related entries.
- During the 2009/10 fiscal year, there were entries posted to 339 of these accounts within the HRM operating accounts.
- In addition, there are a further 991 general ledger accounts available for use for balance sheet related items. Even taking into consideration HRM is a large, complex organization, this number of accounts appears high.

9.0.3 The OAG recommends HRM Administration develop a policy regarding the use of all general ledger accounts, including updating the account definitions and ensuring the list is widely distributed within the organization.

9.0.4 The OAG recommends HRM Administration implement a process of regularly reviewing all general ledger accounts in order to ensure consistent use.

## 10.0 Use of SAP

*HRM has spent and continues to spend significant funds operating the SAP system, but as noted in previous OAG reports, does not appear to be using the system to its full potential.*

Given the source data for this review was extracted from SAP, it is important to note the challenges the OAG encountered obtaining information. HRM has spent and continues to spend significant funds operating the SAP system, but as noted in previous OAG reports, does not appear to be using the system to its full potential.

When extracting information from SAP, certain information which it would be reasonable to expect to be readily available, was not available in reports and had to be obtained through a laborious, manual process. Items such as account coding, purchase order numbers and cheque numbers were not consistently available without physically looking up individual documents. In addition, there was no single point of contact available to discuss the information needed and what reports would be available to obtain it. It was particularly challenging to attempt to identify what information might be available and in which reports. As well, much of the information related to individual staff members' areas of responsibility contained in SAP appears to be out of date or inconsistently used.

The OAG found staff contacted during this project were always accommodating and did their best to assist; however, the means of obtaining information was frequently cumbersome, done by trial and error and did not result in the full information needed.

As part of a performance review, the OAG applies reasonable and attainable standards, representative of an informed person's expectations of "what should be" to assess the efficiency, effectiveness and economy of processes/activities. The challenges encountered by the OAG in extracting data for this review were not "reasonable", given a system as sophisticated as the HRM SAP system. While staff have developed processes to overcome many of these challenges, the inefficiencies of the current SAP system were evident.