



**CITY OF VANCOUVER
INTERNAL AUDIT REPORT
External Consulting Audit**

Distribution:

Audit Committee
Auditor General
External Auditor

City Leadership Team
Alexander Ralph – Director, Supply Chain
Management & Chief Procurement Officer
Michael Walia – Associate Director, Accounting
Operations

EXECUTIVE SUMMARY

August 2, 2022

The external consulting audit was initiated to provide assurance that existing internal controls and business processes related to the procurement and administration of consulting services are adequate, effective, and in compliance with City policies.

In general, internal controls relating to vendor performance evaluation processes and monitoring of consulting spend in accordance with Procurement Policy requirements need improvement to ensure that services provided meet expectations and intended outcomes. The key findings and recommendations are:

F.1 Enhance performance evaluation process for consulting services

There is currently no formal requirement for an evaluation to be completed and submitted by departments for consulting services upon completion of work. Documented performance evaluation information for completed consulting engagements that is centrally stored would provide mitigation of procurement risk when assessing future bids.

F.2 Monitor adherence to Procurement Policy for non-PO consulting spend

There is opportunity to strengthen monitoring controls for consulting payments over \$10,000 processed without a purchase order to ensure purchases are made through a competitive process in accordance with the Procurement Policy.

F.3 Review P-Card transactions involving consulting expenses

The City's Corporate Purchase Card Policy states that consulting charges are prohibited from being charged to a City credit card. Consulting charges paid by P-Card should be reviewed and a reminder communicated to departments on P-Card policy requirements.

F.4 Enhance scope of work guidance documentation

Scope of work guideline documentation and reference materials should be enhanced for the procurement of consulting services to aid staff in developing concise scope requirements.

Carmen Fuellbrandt, CPA, CMA, CIA
Chief of Internal Audit

Jennifer Chow, CPA, CMA, CIA
Senior Internal Auditor

A. BACKGROUND

External consulting is generally considered as any individual or company providing professional services or expertise. Types of external consulting services obtained by the City include management consulting, environmental, architectural, engineering, public engagement, and information technology related. Annual spend charged to the City’s consulting services general ledger category is as follows:

2018	2019	2020	2021
\$37.9M	\$51.9M	\$74.1M	\$57.3M

Procurement Policy

The City of Vancouver’s Procurement Policy (ADMIN-008) outlines the requirements for competitive bidding processes and authorization of commitment authority levels for awarding of contracts. Procurement of external consulting services falls within the general Procurement Policy, which was most recently updated in 2018. The goal of the policy is to ensure an open, transparent and competitive process for the procurement of goods and services at the City. Contracts valued at \$75,000 or less require efforts to obtain at least three bids, and contracts exceeding this threshold are required to be procured through a public call for bids. Examples of procurement mechanisms used include Request for Proposals (RFPs), Request for Applications (RFA), or Invitation to Tender (ITT).

Roles and responsibilities for procurement of external consulting services

The Supply Chain Management (SCM) division within the Finance, Risk, and SCM department provides procurement expertise and support for department operations and initiatives through issuing public calls and RFPs, evaluating bids, awarding contracts, and establishing vendor contract terms and conditions. SCM also oversees and administers the Procurement Policy.

Administration and monitoring of consulting contract terms is the responsibility of departments undertaking the project or initiative requiring external consulting services. Section 5 of the Procurement Policy states that: “Following SCM’s exercise of its primary authority over the Call, and where a Contract results from the Call, the Department Head will have primary responsibility for proper administration and enforcement of the Contract”.

B. SCOPE

The external consulting audit was initiated to provide assurance that existing internal controls and key business processes related to the management and administration of consulting services are adequate, effective and efficient, and in compliance with City policies.

The scope of the audit included review of current policies and processes for awarding contracts, monitoring consulting work, and evaluating performance of deliverables. Our work included:

- Interviews with management and staff;
- Walkthrough of bid tendering and evaluation processes;
- Evaluation of key controls relating to vendor selection and contract awarding;
- Review of a sample of 20 consulting contracts in 2020/2021 and related bid documentation; and
- Assessment of compliance with City procurement policies and procedures.

Vancouver Police Department (VPD) and Vancouver Public Library (VPL) were out of scope for this audit.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

The external consulting audit was initiated to provide assurance that existing internal controls and business processes related to the procurement and administration of consulting services are adequate, effective, and in compliance with City policies. In general, internal controls relating to vendor performance evaluation processes and monitoring of consulting spend in accordance with Procurement Policy requirements need improvement to ensure that services provided meet expectations and intended outcomes.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- Financial and legal risk resulting from non-compliance with agreements;
- Contracts are not awarded in an open and transparent manner;
- Contracts are not awarded in compliance with City policy;
- Contract deliverables are not achieved;
- Reputational risks which may deter bidding from potential future suppliers; and
- Value for money spent is not obtained.

E. POSITIVE OBSERVATIONS

The following positive observations were noted during review of procurement processes relating to external consulting.

- Contracts and related bid documentation are stored electronically in a centrally accessible document repository (VanDocs);
- The Procurement Policy has been reviewed, approved and updated on a regular basis as needed;
- Contracts for professional services are signed using City standardized templates;
- Pre-qualified vendors have been established for some consulting services to streamline the procurement process;
- An E-sourcing system and online supplier portal was implemented in 2022 to improve efficiency of processes including storing and maintaining vendor information. Additional modules are available in the e-sourcing system that have potential to further efficiencies in contract management and vendor performance monitoring through automation.

F. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

F.1 Enhance performance evaluation process for consulting services

Evaluation of work performed by a consultant is an effective method of ensuring deliverables adequately meet requirements and value is obtained for a contract.

Responsibility for managing consulting contracts

Under section 11.0 of the City's Professional Services Agreement contract terms, a departmental project manager or staff member is designated as an administrator of the contract. Duties include reviewing and approving invoice charges and being the primary point of contact for communication with the consultant on behalf of the City. In line with project management best practices, vendor management and performance monitoring are also part of a project manager's duties.

Performance evaluation process not formalized

There is currently no formal requirement in place for an evaluation or vendor assessment to be completed by departments for consulting services upon completion of work. However, various methods are in place to manage vendor performance issues as they arise. Project managers or departmental staff are the first point of contact to resolve vendor issues. Further, SCM provides vendor management expertise and support to department operations when notified by departments of issues. Departmental staff can also request a contract to be terminated before expiry if a consultant is not performing adequately as per contract terms. These are handled on an individualized case by case basis.

Formalized evaluation process needed for consulting services

While these are necessary processes to have in place, a systematic and documented evaluation of consultant vendor performance would be more effective and provide additional procurement risk mitigation. Performance evaluation information for completed engagements would also be useful to consider when reviewing future bids submitted by the same vendor.

Interim evaluation on performance to date

In addition to an evaluation upon completion of work, an interim check in process on performance to date for key consulting vendors can allow for corrective measures to be taken as necessary before contract completion.

Recommendations:

F.1.1 The Chief Procurement Officer / Director, Supply Chain Management should facilitate a formalized performance evaluation and assessment process for consulting services and require feedback from business units on vendor performance. Identification of key contracts as a pilot for this process and a minimum contract dollar value should be considered, to focus efforts and efficiently allocate staff resources. This should be in place by March 31, 2023.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan: SCM will implement a pilot project to test the feedback vendor performance process by March 31, 2023.

F.1.2 The Chief Procurement Officer / Director, Supply Chain Management should ensure consultant performance evaluations are documented and stored in a centrally accessible repository. This should be in place by March 31, 2023.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will develop, document and implement a process to document and store consultant performance evaluations by March 31, 2023.

F.1.3 The Chief Procurement Officer / Director, Supply Chain Management should incorporate consultant performance evaluation information when assessing future bids. This should be in place by March 31, 2023.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will develop, document and implement a process to incorporate consultant performance evaluations when assessing future bids by March 31, 2023.

F.1.4 The Chief Procurement Officer / Director, Supply Chain Management should facilitate an interim or mid point check-in evaluation process to ensure business unit feedback is obtained on whether a consultant is performing satisfactorily and is on track to meet deliverables. By implementing an interim check-in, this would allow for corrective actions to be implemented as needed on a timely basis. This should be in place by March 31, 2023.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will develop, document and implement a process to facilitate consultant performance mid point check-in evaluations when assessing future bids by March 31, 2023.

F.2 Monitor adherence to Procurement Policy for non-PO consulting spend

Procurement Policy requirements for purchases over \$10,000

Under section 9.1.c of the Procurement Policy, purchases exceeding \$10,000 are required to be conducted through a competitive process, which can include a request for quote or public call for

bids. Purchases under this threshold are permitted to be sole sourced. For contracts awarded through a competitive process, a purchase order (PO) number is issued. A PO authorization is a form of cost control and is required to be approved in advance of receiving goods and services as part of the City's SAP Procure-to-Pay (P2P) process.

Non-PO charges to consulting services category

In 2021, \$6.1 million (11%) out of \$57 million charged to the consulting services category was processed without a purchase order number and instead paid through a non-PO invoice. There were 52 non-PO transactions exceeding \$10,000 totaling \$5.1 million, with an average transaction value of \$97,658. As the Procurement Policy requires purchases over \$10,000 to be made through a competitive process, these transactions may not be in compliance with the Policy unless specific exemptions were applicable¹.

Monitoring compliance with Procurement Policy requirements

There are no system controls to ensure adherence to the procurement policy requirements for purchases exceeding \$10,000 to follow a competitive process. Monitoring of adherence to the Procurement Policy is currently limited to random sampling of non-PO payments over \$10,000 and follow-up with departments by Finance. There is opportunity to strengthen monitoring controls by implementing a more comprehensive review process to assess for compliance, such as through use of exception reports to determine validity of non-PO purchases. In addition, improving awareness of procurement policy requirements through communication reminders and training for new and existing staff will be beneficial.

Recommendations:

F.2.1 The Chief Procurement Officer / Director, Supply Chain Management should work with Accounting Operations to ensure that consulting charges over \$10,000 processed through non-PO invoice are reviewed to determine adherence to Procurement Policy requirements. This should be in place by December 31, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will work with Accounting Operations to develop, document and implement a process to review consulting charges over \$10,000 processed through non-PO invoice to determine adherence to the Procurement Policy by December 31, 2022.

F.2.2 The Chief Procurement Officer / Director, Supply Chain Management should work with Accounting Operations to increase awareness of the requirement for consulting services over \$10,000 to be procured in accordance with the Procurement Policy, such as through communication reminders or procurement training workshops. This should be completed by December 31, 2022.

¹ Section 9.1 of the Procurement Policy outlines conditions to be met for permitted sole source purchases. <https://policy.vancouver.ca/ADMIN008.pdf>

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will work with Accounting Operations to increase awareness of the requirement for consulting services over \$10,000 to be procured in accordance with the Procurement Policy through communication reminders and training by December 31, 2022.

F.3 Review P-Card transactions involving consulting expenses

City Purchase Card Policy requirements

The City's Corporate Purchase Card (P-Card) policy (AF-010-01) outlines the authorized usage for payment of goods and services by credit card. In general, the value of each purchase transaction should not exceed \$2,000 under section 1.1 of the policy.

In addition, under section 1.2, consulting charges are prohibited from being charged on a City credit card.

2021 P-Card consulting spend

Review of P-Card transactions in 2021 identified the following:

- \$50,924 in payments were charged to the consulting services category (531070). All transactions were under \$5,000 with an average value of \$738; and
- Five transactions charged to consulting services exceeded \$2,000.

Transactions were reviewed for reasonableness and no instances of inappropriate charges were noted. However, as the P-card policy does not allow consulting charges, reinforcement of prohibited purchases on P-Card would improve compliance to the policy.

Expense processing software upgrade

Accounting Operations management indicated that enhanced front end controls will be included in the processing of P-Card transactions as part of the Chrome River software upgrade which is expected to be launched in late 2022 / early 2023.

Recommendations:

F.3.1 The Chief Procurement Officer / Director, Supply Chain Management should work with Accounting Operations to communicate a reminder to departments on types of credit card charges that are prohibited (including consulting charges) under the P-Card policy and communicate appropriate alternate methods of payment. This should be completed by December 31, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will work with Accounting Operations to communicate a reminder on types of credit card charges that are prohibited (including consulting charges) under the P-Card policy by December 31, 2022.

F.3.2 The Chief Procurement Officer / Director, Supply Chain Management should work with Accounting Operations to review 2021 P-Card expenses charged to consulting services and follow up with departments as needed to discuss appropriate methods of payment going forward. This should be completed by September 30, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will work with Accounting Operations review 2021 P-Card expenses charged to consulting services and follow-up with departments as needed by September 30, 2022.

F.3.3 The Chief Procurement Officer / Director, Supply Chain Management should work with Accounting Operations to ensure that a review and monitoring process for P-Card exceptions including consulting charges is performed on a regular and timely basis. This should be in place by December 31, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will work with Accounting Operations to develop, document and implement a process to review and monitor for P-Card exemptions including consulting charges by December 31, 2022.

F.4 Enhance scope of work guidance documentation

A well-defined scope of work (SOW) provides a foundation to ensure expected goals and outcomes of a consulting engagement are met. Business requirements, interim and final deliverables, timelines and reporting methods should be described in sufficient detail in order to allow a consultant to provide an accurate proposal and cost of services.

Scope of work guidelines

SCM has developed a general guideline for City staff to refer to when creating a scope of work in preparation for the procurement process. Although the guideline is not specific to consulting services, it does outline the core elements and types of relevant information that should be included in a SOW for goods or services at a high level. A scope of work guideline designed specifically for IT services is also available for reference.

As consulting services engagements are often complex and can be significant in cost, there is an opportunity to enhance the guidance documentation and reference materials available for staff to

ensure the development of a well-defined and concise scope of work. This can include scope of work sample templates for different types of consulting, or a listing of past completed SOWs by category that staff can refer to as examples when developing a SOW for current projects. Ensuring availability of these types of reference materials in a centrally accessible location for City staff will be beneficial.

Due to the diverse range of consulting services used at the City, consideration may be given to prioritizing the most commonly used services such as management consulting to develop more detailed scope of work requirements.

Recommendation:

F.4.1 The Chief Procurement Officer / Director, Supply Chain Management should consult with departments to enhance guidance documentation and reference materials on preparing a well-defined and sufficiently detailed scope of work for consulting services. This should be completed by March 31, 2023.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan: SCM will consult with departments to enhance guidance documentation on preparing SOW for management consulting services by March 31, 2023.

F.5 Update staff evaluator guidelines with cooling off period in bid evaluation process

Role of Evaluation Committee in reviewing bids

For consulting services over \$75,000, bids are assessed by an evaluation committee comprising of SCM and department operations staff. The Evaluator's Guidelines and Scoring Manual document outlines proper procedures to be followed when assessing request for proposal (RFP) bids. The objective of the guideline is to ensure that vendors are treated fairly and equally and staff involved in the evaluation process are free of bias. Section 2 of the document requires any actual or potential conflict of interest to be declared before vendor proposals are evaluated.

Conflict of interest declaration process

The requirement in place for disclosing conflicts of interest is an essential control for ensuring objectivity. However, there is currently no formalized guidance on an appropriate length of 'cooling off' period to address situations where a staff member on the Evaluation Committee may have been previously employed by a vendor submitting a bid for evaluation and their potential or perceived conflict of interest in carrying out duties as an evaluator.

Recommendation:

F.5.1 The Chief Procurement Officer / Director, Supply Chain Management should determine a reasonable and appropriate length of time for a cooling off period for Evaluation Committee staff and update the guidance accordingly. This should be in place by March 31, 2023.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will determine and document an appropriate length of time for a cooling off period for Evaluation Committee staff by March 31, 2023.

F.6 Ensure appropriate use of contract templates for consulting services

A sample of 20 consulting contracts were selected for review, totaling \$2.7 million in consulting charges in 2021. In general, consulting contracts valued over \$100,000 used a Professional Services Agreement format signed by the vendor and City representative. However one contract awarded for \$500,000 was in the form of a Standing Offer Service Contract instead of a Professional Services Agreement. The contract expires as of July 2022.

As Standing Offer Services Contracts are used for general purchases, the use of a Professional Services Agreement format would be more appropriate as it includes additional terms and conditions specific to professional services such as consulting.

Recommendation:

F.6.1 The Chief Procurement Officer / Director, Supply Chain Management should ensure that a Professional Services Agreement is used for consulting services contracts in the future. Exceptions to this should be documented and approved by the Chief Procurement Officer. This should be completed by December 31, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan: SCM will develop, document and implement a process to approve exceptions in the case a Professional Service Agreement is not used for consulting services by December 31, 2022.