

3

CONSULTING CONTRACTS AND SERVICE ARRANGEMENTS

BACKGROUND

- 3.1** The government uses the services of consultants extensively. In 2004-05 government spent \$145 million (2004 - \$131.5 million) on professional services, consulting services and external information technology consulting. The impact of a consulting project can be many times more significant than the size of the contract. Consultants may provide advice that affects programs with significant expenditures or other impacts. The House and public expect that contracts will be awarded fairly and engagements will result in value for money.
- 3.2** Our Office last examined and reported on the use of consulting services in 1990. The audit found, in most cases, that a competitive process was used to obtain the services, there was adequate monitoring of the projects, and there was little post-completion evaluation.
- 3.3** For purposes of this audit, a consultant was defined as any provider of consulting or professional services, whether a company or firm, or an individual. The service providers could be accountants, lawyers, computer consultants, management advisors, and others.

RESULTS IN BRIEF

- 3.4** The following are the principal observations from this audit.
- The results from the audit are specific to the projects and contracts we reviewed and should not be generalized to the broader population of consulting contracts within these departments and government as a whole.
 - We examined the procedures and controls in place for the planning, selection, monitoring, payment and evaluation of 25 consulting service contracts. For the most part, we found the procedures and controls were adequate to ensure the projects and consulting contracts were properly managed. However, we also noted a number of instances where procedures and controls were weak and improvements could be made.
 - The weaknesses identified included the following.
 - The business need for the project was not always documented.
 - Certain aspects of the Procurement Policy were not always followed.
 - Changes to the projects were not always documented.
 - Invoices did not always provide adequate details to determine if the amount paid for the work received was reasonable.

- Formal, post-completion evaluations of projects and the performance of the consultants were not prepared.
- Assessments of the consultant's report and related action plans were not always documented.

AUDIT SCOPE

- 3.5** The objectives for this assignment were to determine and assess the policies and procedures used for the management of selected professional and consulting service contracts to determine whether:
- there is due regard for economy and efficiency in the selection, management and payment of professional and consulting service contracts;
 - there are adequate systems and controls to ensure professional and consulting service contracts are properly monitored and evaluated; and
 - there is compliance with provisions of the government Procurement Policy, Government Purchases Act and interprovincial procurement agreements.
- 3.6** Our approach was based on a review of government-wide procurement legislation and policies, examination of contracts and supporting documents, and interviews with managers of the contracts.
- 3.7** We selected 25 contracts over \$10,000 over the three years from 2002 to 2004 from among the Departments of Finance, Intergovernmental Affairs, and Tourism, Culture and Heritage; Communications Nova Scotia; the Office of Economic Development; the Public Service Commission; and Treasury and Policy Board (see Exhibit 3.1 on page 29). For our sample, we looked at the overall project for which the services were contracted, including any related contracts. We excluded certain large consulting service contracts scheduled to be examined under separate audits.
- 3.8** The 25 contracts we reviewed were judgementally selected as the nature of the information on consulting contracts made it impractical to draw a statistically representative sample. Given our sampling method, the results from the audit are specific to the projects and contracts we reviewed and should not be generalized to the broader population of consulting contracts within these departments and government as a whole.
- 3.9** Criteria were developed from recognized sources including the Project Management Institute's *Project Management Body of Knowledge Guide* (2000 edition), *Management Consulting Engagements in Government* from the Office of the Auditor General of British Columbia's 2000 - 2001 Report, and the Government Purchases Act and Procurement Policy.

PRINCIPAL FINDINGS

Project Initiation and Planning

- 3.10** The initiation of a project should be supported by a business need, an analysis of benefits and costs, and a determination that a consultant is required. Many of the files we reviewed did not have complete documentation on the need for the project. The business need was adequately documented in 14 (56%) of the 25 project files although in 6 cases it was done after the decision to hire a consultant was made. Only one project file contained an analysis of the benefits and costs.
- 3.11** Project scope, objectives, responsibilities and deliverables should be identified to provide authorization and expectations for the project. Most of the contract files we reviewed had adequate project planning documentation although it was not always formally approved or prepared prior to hiring the consultant. There were five projects where project planning documentation was insufficient or was missing from the files.

Recommendation 3.1

We recommend that the business need and other planning considerations be adequately documented in the project files to support the initiation and implementation of a project.

Selection of Consultants

- 3.12** The government Procurement Policy provides direction on the process for awarding consulting contracts. Contracts may be awarded through a competitive bid process, through selection from a list of pre-qualified firms and individuals (standing offers), or through sole-source or direct awarding to a consultant.
- 3.13** Consultants were selected following a competitive bid process for six (24%) of the projects we reviewed. Consultants for 12 (48%) of the projects were selected from the standing offer list of eligible firms and individuals. Seven projects (28%) involved sole-source awarding of contracts.
- 3.14** The Procurement Policy states that consulting services selected through the standing offer should not exceed \$50,000 and a project should not be subdivided in order to meet the policy limit. The Policy was not followed for 2 (17%) of the 12 contracts awarded through the standing offer. The two contracts were phases of the same project, for a combined total of \$92,025.
- 3.15** For consultants selected through the standing offer, an official purchase order provides authorization for the contracted services. Work was started prior to the release of the purchase order for 6 (50%) of the 12 contracts awarded through the standing offer.

- 3.16** The Procurement Policy allows directly awarding (sole sourcing) a contract to a consultant under certain conditions. An alternative procurement practices report is required as authorization. The report was signed after the project had started for three (43%) of the seven sole-sourced contracts. In two other cases, the report was signed after the consulting work had been completed.

Recommendation 3.2

We recommend that departments and agencies ensure the Procurement Policy is followed when awarding consulting contracts and that appropriate documentation is prepared on a timely basis.

Consulting Service Contracts

- 3.17** We reviewed the project contracts to assess the adequacy of the terms and conditions in defining the deliverables, delivery dates, roles and responsibilities. Contract terms were adequately documented for 21 (84%) of the 25 projects we reviewed, although some minor terms and conditions were not always documented. There were two projects where the contract terms were not well-defined and two projects where a formal written contract outlining the terms and conditions was not used. We suggest that written contracts be used for all consulting projects. The terms and conditions should be adequately detailed to protect the government in its dealings with the consultants.

Project Management

- 3.18** The government Procurement Policy provides some guidelines on general project management. We reviewed project documents and held discussions with staff to determine how the projects and performance of the consultants were monitored and managed. Project management processes were adequate for 22 (88%) of the projects we reviewed. Methods varied among projects; for example, in some cases management worked closely with the consultants, and had regular communication and meetings. In other cases, there were steering committees which received status reports and project updates.
- 3.19** Difficulties were encountered on one project from the planning stage through to development which resulted in a product which had limited applicability to the needs of the project. On another project, amendments to the contract were required and additional consultants were hired in order to complete the project. In a third case, the consultant's work was accepted but the project was delayed due to resource and training issues. Most of the difficulties encountered on these projects could be attributed to inadequate planning, unclear or inadequate contract terms, poor contract management, or a combination of these factors.
- 3.20** We also looked for clearly-defined change management processes to control changes to the projects. None of the projects had a change management process defined and documented prior to the start of the project. Most of the projects were completed without requiring significant changes. On the five projects where

significant changes were required, they were often based on an oral agreement with the consultants.

Recommendation 3.3

We recommend that change control procedures be defined and documented to control changes to projects. Change requests should be handled as described in the change control process.

Controls over Payments

- 3.21** We assessed the controls over payments to consultants to determine if they were adequate to ensure billings were in compliance with contract terms and properly supported, verified, approved and recorded. Controls over payments were adequate for 23 of the 25 projects we reviewed. We noted billing discrepancies on two projects resulting in possible overpayments of \$300 and \$1,267 respectively. We also noted in 9 of the 25 projects that details on the invoices were limited; they did not indicate hours, billing rates or the persons performing the work. Although 6 of the 9 projects were fixed-price contracts, detailed information is necessary in order to determine the reasonableness of the amount paid for the work effort and results received.

Recommendation 3.4

We recommend that departments ensure invoices include adequate details to support billings prior to payment. Payments should be in accordance with the terms of the contract.

Project Evaluation

- 3.22** Our audit included determining whether an evaluation was carried out upon completion of a consulting project to provide lessons learned on managing the project and performance of the consultants. If a consultant's report was prepared as part of the contracted services, we also looked for whether an assessment of the report was done and if action plans were prepared to address the recommendations.
- 3.23** A formal, post-completion evaluation of the project and the performance of the consultant was not prepared for 24 (96%) of the projects. There was only one project tested where a review and assessment of the service provided were prepared.
- 3.24** A consultant's report was prepared as part of the contracted services for 14 (56%) of the 25 projects we reviewed. Many of the departments and agencies, as noted below, did not document their assessment of the report or create an action plan to address the recommendations.

- For five (36%) of the projects, management indicated acceptance of some of the recommendations, although there was no documented assessment of the report.
- An assessment of the report and action plans were documented for four projects.
- Two projects tested were completed at the time of our audit and the final reports were undergoing review.
- Action on the report was not required for two other projects as they were undertaken for research or advisory purposes only.
- The report was never finalized for one project as the department did not accept the recommendations.

Recommendation 3.5

We recommend that departments undertake post-completion evaluations to assess project management, consultant performance, and lessons learned to improve future projects. Where the consultants provide a report, the usefulness of the report should be assessed and an action plan documented to address any recommendations.

CONCLUDING REMARKS

- 3.25** For the 25 consulting projects we reviewed, we observed how planning for certain of the projects, and how some contracts were awarded could have been improved. Controls and processes to ensure proper monitoring and payment of consulting service contracts would be strengthened by expanding invoice information requirements.
- 3.26** Formal, post-completion evaluations and assessments of the performance of the consultants were not completed for 24 of the 25 projects we reviewed. We have recommended that departments ensure such evaluations are completed to provide lessons learned for future projects. Any actions necessary to implement recommendations resulting from the project should also be documented.
- 3.27** Overall, there was room for improvement in how several of the projects and contracts we tested were managed and controlled. There were too many instances where documentation and/or other considerations were assessed as less than fully adequate.
-

Professional and Consulting Services Contracts Reviewed in this Audit

Exhibit 3.1

Purpose of Contracts	Dollar Amount	Award Method
Department of Finance		
Advisory services	\$18,648	Standing Offer
Review of the mandate, structure and resources of the Corporate Internal Audit section	\$21,590	Standing Offer
Assist with implementation of SAP for municipal taxes and water utilities	\$29,520	Standing Offer
Overview of SAP usage and development of an optimization strategy	\$12,000	Direct
Review of the governance and control practices in the Investment, Liability Management and Treasury Services, and Capital Markets Administration divisions	\$92,529	Competitive
Audit of compliance with cost sharing agreements	\$34,500	Competitive
Review of compensation for the Investment, Pension and Treasury Services staff	\$72,309	Direct
Annual update of the Euro Medium Term Note Program documents	\$37,410	Direct
Customer service benchmark survey	\$25,000	Direct
Asset/liability study for two pension plans	\$65,000	Competitive
Review of payroll functions and recommendation for integration within SAP	\$49,228	Standing Offer
Department of Intergovernmental Affairs		
Legal research and strategic analysis	\$158,536	Direct

Department of Tourism, Culture and Heritage		
Development of an electronic records management system	\$187,718	Competitive
Design of a web-based inventory system for heritage properties	\$32,830	Standing Offer
Review of Nova Scotia's travelway and scenic drives system	\$43,015	Competitive
Communications Nova Scotia		
Creation of a multi-media advertising campaign	\$48,635	Standing Offer
Office of Economic Development		
Review of the organizational structure of the Core Competency Centre	\$48,500	Standing Offer
Access to information, research and news for the Information Technology sector	\$82,392	Direct
Assistance in the planning and execution of two elements of a branding Nova Scotia project	\$72,406	Competitive
Development of a governance framework for the SAP Public Sector Program	\$45,000	Standing Offer
Development of an organizational change management strategy for SAP	\$24,225	Standing Offer
Implementation of the organizational change management strategy for SAP – Phase 1	\$47,025	Standing Offer
Implementation of the organizational change management strategy for SAP – Phase 2	\$45,000	Standing Offer
Public Service Commission		
Review of the organizational structure of the Public Service Commission	\$41,058	Standing Offer
Treasury and Policy Board		
Research to develop a value profile of Nova Scotians	\$39,000	Direct