

The logo for the City of Edmonton, featuring the word "Edmonton" in white text on a blue square background.

Edmonton

OFFICE OF
THE CITY AUDITOR

REPORT
Use of IT Contracted
Resources Audit

FEBRUARY 8, 2022

Report Summary

BACKGROUND

The City uses IT contracted resources to obtain specialized skills and to augment in-house staff requirements for limited time periods. Business areas can retain IT contracted resources in two ways:

Corporate IT staff augmentation contract - part of City's resourcing strategy, whereby, after a competitive procurement, one vendor is retained to be the contractor for City-wide on-demand labour. This enables business areas to procure IT contracted resources by submitting a sourcing request to the contractor rather than undertaking individual procurements. Between 2018 and 2020, the City engaged a total of 89 IT contracted resources through the IT staff augmentation contract and spent \$23.3 million¹.

Direct contracting with a vendor - where resources are not available through the IT staff augmentation contract, the City can source IT contracted resources through competitive or non-competitive procurements.

We could not determine the amount spent on IT contracted resources retained through direct contracting.

AUDIT OBJECTIVES & SCOPE²

To determine whether the City:

- Complied with the procurement and contracting directives and procedures, the City's staff augmentation contracts, collective agreements and government policies.
- Managed IT contracted resources in accordance with contract terms.

¹ The number of IT contracted resources and amount spent do not include Edmonton Police Services.

² We conducted this engagement in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Please refer to Appendix 1 for the Scope of the audit.

WHAT WE FOUND

The City retained the IT staff augmentation contract through competitive procurement and in compliance with the City's procurement directives and procedures. In addition, the City manages IT contracted resources in accordance with contract terms regardless of whether IT contracted resources were obtained through the IT staff augmentation contract or through direct contracting.

However, we did observe a lack of documentation on why IT contracted resources obtained through the IT augmentation contract are needed. As well, contractor fees are not always consistent with the pay schedule included in the IT staff augmentation contract.

We also reviewed direct contracts with IT vendors outside of the IT staff augmentation contract. We observed that these contracts require additional support to justify non-competitive procurements.

RECOMMENDATIONS

- Recommendation 1 We recommend the Corporate Procurement and Supply Services Branch strengthen the requisition of IT contracted resources through the IT staff augmentation contract.
- Recommendation 2 We recommend the Corporate Procurement and Supply Services Branch review documentation to support the justifications for non-competitive procurements.

WHY THIS IS IMPORTANT

The City expects that procurement will be conducted in an open, fair, and transparent manner. Without appropriate justification, supporting documentation and approvals there is a risk that procurements do not meet these principles and are non-compliant with administrative directives and procedures.

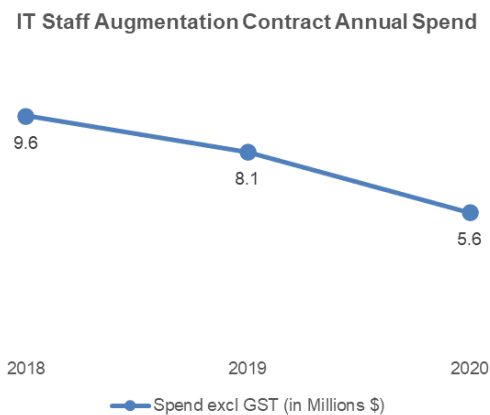
PROGRAM & SERVICE DETAILS

IT CONTRACTED RESOURCES

The City uses IT contracted resources to obtain specialized skills and to augment in-house staff volumes for limited time periods. Business areas can retain IT contracted resources in two ways:

Corporate IT staff augmentation contract - part of City's resourcing strategy, whereby, after a competitive procurement, one vendor is retained to be the contractor for City-wide on-demand labour. This enables business areas to procure IT contracted resources by submitting a sourcing request to the contractor rather than undertaking individual procurements. This contractor supplies the business area with IT contracted resources using a suite of providers. This contractor is also responsible for managing the contingent workforce, including request management, vendor relationship management and overall governance of the staff augmentation program.

Between 2018 and 2020, the City engaged a total of 89 IT contracted resources through consecutive IT staff augmentation contracts and spent \$23.3 million.



Direct contracting with a vendor - where resources are not available through the IT staff augmentation contract, the City can source IT contracted resources directly with vendors through competitive or non-competitive procurements.

We could not determine the amount spent on IT contracted resources retained through direct contracting. The City financial system does not allow for selection of IT contracted resources as that is not how contracts are recorded and classified.

ROLES AND RESPONSIBILITIES

The Corporate Procurement and Supply Services Branch is responsible for the overall management and oversight of the IT staff augmentation contract. The individual business areas are responsible for the day-to-day management of the IT contracted resources including but not limited to time approval.

As indicated, the City also retains IT contracted resources through direct contracts with vendors. For these contracts, business areas can use a variety of contractual arrangements, including competitive and non-competitive procurements. In these cases, business areas are responsible for both contract and day-to-day management of any IT contracted resources.

Recommendation 1: IT Staff Augmentation Contract

RECOMMENDATION

We recommend the Corporate Procurement and Supply Services Branch strengthen the requisition of IT contracted resources through the IT staff augmentation contract.

KEY FINDINGS

The City retained the IT staff augmentation contract through competitive procurement. This procurement was conducted in compliance with City of Edmonton procurement and contracting directives and procedures.

However, there is a lack of documentation on why IT contracted resources obtained through the IT augmentation contract are needed. As well, contractor fees are not always consistent with the pay schedule included in the IT staff augmentation contract.

LACK OF DOCUMENTATION

The rationale to use selected IT contracted resources is currently not documented:

- The initial request to hire a contractor through the IT staff augmentation contract is typically accompanied by an approval email from the appropriate expenditure authority.
- The approval emails we reviewed did not contain a justification for why the resource was needed. For example: the approval email could have contained a link to or copy of a project charter for which the resource is required.

CONTRACTOR FEES

Fees paid for individual IT contracted resources are not always consistent with the rate schedule included in the IT staff augmentation contract.

- The IT augmentation contract includes a fixed rate schedule per job position and experience level to ensure transparency and consistency on rates paid. To pay IT contracted resources at a rate above the standard rate schedule, the

business area must complete a form with a business justification for the higher rate. This form must be emailed to the appropriate expenditure authority. The response email with the approval must be retained in the electronic procurement file.

- We reviewed several electronic files where contractors were paid above standard rates without sufficient justification and support for the higher rate.
- We also determined that there currently is no guidance on the form for what is a suitable business case justification and supporting documentation.

WHY THIS IS IMPORTANT

The City expects that procurement will be conducted in an open, fair, and transparent manner. Without appropriate justification, supporting documentation and approvals there is a risk that procurements do not meet these principles.

RECOMMENDATION 1 MANAGEMENT RESPONSE

We recommend the Corporate Procurement and Supply Services Branch strengthen the requisition of IT contracted resources through the IT staff augmentation contract by:

1. Confirming documentation exists that justifies the hiring of IT augmentation contract resources.
2. Providing guidance for what is a suitable business case justification for higher rates



Responsible Party

Branch Manager, Corporate Procurement and Supply Services



Accepted by Management

Management Response

To satisfy both topics in Recommendation 1 CPSS will be leveraging the requisition form within the current vendor system to collect the required information by adding:

- A field within the main page of the requisition which will request the hiring manager upload a PDF which provides both the justification for the use of IT Augmentation as well as the business area approval.
- A guidance document linked within the job details section of the requisition which will provide the necessary information on what constitutes a suitable business case justification when a business area wishes to exceed the pre-populated rate card for the role they are acquiring.
- In addition, CPSS will then receive quarterly reporting from the vendor to ensure these requirements are met and tracked for compliance purposes.

**Implementation Date**

March 31, 2022

Recommendation 2: Sourcing Outside of Staff Augmentation Contract

RECOMMENDATION

We recommend the Corporate Procurement and Supply Services Branch review documentation to support the justifications for non-competitive procurements.

KEY FINDINGS

We observed that most of the sampled IT resources obtained outside of the staff augmentation contract were obtained through non-competitive procurement. As well, most of these contracts did not fully comply with the City's procurement directives and procedures as the business area should have used an invitational procurement.

Additionally, we did not find documentation in procurement files to support the justifications for the non-competitive procurement.

COMPLIANCE WITH PROCUREMENT DIRECTIVES

According to the City's procurement directive, a business area should use an invitational procurement for services where more than one supplier is available in the market and the contract value is between \$25,000 and \$75,000. An invitational procurement is one where the business area purchaser requests a minimum of three qualified suppliers to submit a written proposal to supply goods or services.

In ten of the twelve non-competitive procurements between \$25,000 and \$75,000 sampled, we did not find evidence that an invitational procurement procedure was considered. Evidence of an invitational procurement could include copies of the

request for proposal emails sent to qualified suppliers, a listing of qualified suppliers and/or responses received.

JUSTIFICATIONS FOR NON-COMPETITIVE PROCUREMENTS

According to the City's Non-Competitive Procurement Procedure, non-competitive procurements require a valid justification and sufficient documentation to support the justification.

We did not find documentation in these ten procurement files to support the justifications for non-competitive sourcing. For example: one sourcing request included the following justification: "Vendor has an excellent Senior Infrastructure Architect required on urgent basis." The urgency was not explained or supported. In addition, the request was not accompanied with a resume for Senior Infrastructure Architect to support his qualifications.

WHY THIS IS IMPORTANT

Non-competitive procurement sourcing methods have inherent risks including that the value for the City may not be optimized due to the lack of competition.

In addition, valid justification and supporting documentation provide assurance that proper procurement options are selected and used.

RECOMMENDATION 2 MANAGEMENT RESPONSE

We recommend the Corporate Procurement and Supply Services Branch review documentation to support the justifications for non-competitive procurements.



Responsible Party

Branch Manager, Corporate Procurement and Supply Services



Accepted by Management

Management Response

CPSS is reviewing all of our procurement processes in preparation for Enterprise Commons implementation. Work on this recommendation is underway and is estimated to be completed before March 31, 2022.



Implementation Date

March 31, 2022

ACKNOWLEDGEMENT

We would like to thank staff and management of the Corporate Procurement and Supply Services Branch and the operational business areas who contracted with IT resources, for sharing their knowledge and time throughout the review.

Appendix 1 – Audit Scope

The scope of this audit included all IT contracted resources that worked on hourly contracts for the City from January 1, 2018 to December 31, 2020.

As a result, the following were out of scope of this audit:

- Fixed-fee consulting engagements: Consulting or contractor services based on fixed fees payable for completion of specific deliverables.
- Technology projects where the vendor assumed overall project management responsibility and a certain degree of project risk (for example: turnkey systems, systems integration, new technology supply and implementation projects).
- Hardware and software maintenance services.