

OntarioBuys Program

Follow-up on VFM Section 3.08, 2009 Annual Report

Background

OntarioBuys is a government initiative launched in 2004 to help the broader public sector (BPS) save money when procuring goods and services. The BPS Supply Chain Secretariat, part of the Ministry of Finance (Ministry), is responsible for administering and managing OntarioBuys.

Since the 2004/05 fiscal year, OntarioBuys has provided funding of about \$185 million for two areas: about \$116 million as of March 31, 2011 (\$88 million at the end of the 2008/09 fiscal year), for the formation and/or expansion of collaborative groups called “shared-service organizations” (SSOs) whose members are BPS institutions; and \$69 million as March 31, 2011 (\$61 million at the end of the 2008/09 fiscal year), for 54 projects aimed at helping BPS institutions become more efficient and effective in their supply-chain and other back-office processes. In the 2010/11 fiscal year, the BPS Supply Chain Secretariat incurred total direct operating expenses of \$4.4 million (\$4.8 million in 2008/09).

In our *2009 Annual Report* we reported that, although the government announced in its March 2009 Budget that OntarioBuys had helped BPS organizations—mostly from the hospital sector—redirect \$45 million in savings toward front-line services, almost \$20 million of this reported amount was not redistributed to hospitals to provide front-line services. Rather, it was retained by the SSO that reported the savings to develop

information technology for its back-office processes. The balance of the reported savings came from a number of projects; however, OntarioBuys had not verified these savings nor was it able to demonstrate that they had actually been invested in front-line services.

We also found that, although OntarioBuys had undertaken significant efforts to promote its collaborative supply-chain initiatives, participation in the SSOs, particularly in the education sector, was well below the level required for OntarioBuys to achieve its goals. Our other significant observations included:

- OntarioBuys approved funding for projects on the basis of business cases prepared by BPS organizations that included estimated costs and potential savings. However, the reasonableness of the estimates was often not appropriately assessed. For example, the largest project approved for funding projected savings of \$669 million over five years, but we found that \$294 million of this amount was not included in OntarioBuys’ funding review and that the balance of \$375 million was determined on an arbitrary basis. Subsequent to our audit fieldwork, OntarioBuys revised the estimated savings down to \$113 million over five years.
- The education SSO, which had received \$30 million in OntarioBuys funding by March 31, 2009, committed to sign up 13 of the province’s educational institutions and

1,000 suppliers by June 2009 to participate in a new electronic purchasing system called e-Marketplace. As of June 2009, e-Marketplace had yet to become operational, and no institutions had formally signed up to be members.

- We reviewed a list of project savings that OntarioBuys provided us and found some purported savings to be questionable. For example, our review of savings totalling \$7.3 million for two projects, which were supposed to be completed by December 2006, showed that neither project had been completed by the time of our audit. Subsequent to our review, OntarioBuys revised the total savings for the two projects down to \$1.1 million.
- OntarioBuys did not have program-specific guidelines for consistent and effective monitoring of project progress, with requirements for conducting site visits, documenting work performed, verifying deliverables prior to the release of final payments, and closing files for completed projects.
- In the 2004/05 through 2008/09 fiscal years, the SSOs and BPS organizations involved in the projects spent about \$45 million of the funding provided to them to hire some 270 consultants for a variety of reasons. We reviewed \$15 million of consulting contracts from various projects and found that over 40% did not comply with the competitive procurement requirements of the project funding agreements.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

Status of Actions Taken on Recommendations

According to the information we received from the BPS Supply Chain Secretariat of the Ministry of

Finance, some progress has been made in addressing all of our recommendations, and substantial progress has been made on most of them.

OntarioBuys informed us that it had embarked upon a strategic planning exercise and a review of the OntarioBuys program following our 2009 audit. It completed the strategic review and finalized the strategic plan in September 2010. Following the review, OntarioBuys streamlined the program, focusing on stabilizing the recently created hospital and education SSOs to maximize long-term benefits, savings, and efficiencies. OntarioBuys also developed improved guidelines and provided training on its new monitoring processes and the new Management Board of Cabinet BPS Procurement Directive to OntarioBuys and BPS staff.

The status of the action taken on each recommendation at the time of our follow-up was as follows.

APPROVAL OF REQUESTS FOR FUNDING

Recommendation 1

To ensure that estimated costs and benefits in business cases are appropriately assessed before being approved, OntarioBuys should:

- *obtain the necessary supporting materials from applicants to appropriately assess the reasonableness of projected savings and estimated costs; and*
- *address identified risks and document actions taken or to be taken to mitigate these risks.*

Status

OntarioBuys informed us that it had developed new guidelines, processes, and tools for assessing business cases to help it ensure that the projected costs and savings are reasonable. All documentation must be completed before the business case review can be signed off by OntarioBuys senior management. Before signing off, senior management must review the completed business case guidelines template and supporting documentation, which includes assessments of the costs, benefits, and risks.

Business cases for projects requesting more than \$1 million in funding are still required to be reviewed by the Ministry of Finance's Internal Audit Services. If OntarioBuys considers it necessary, Internal Audit can also be asked to review projects with less than \$1 million in funding.

In March 2011, Internal Audit released a report that summarized its reviews of funding requests in excess of \$1 million for the 2010/11 fiscal year. The report noted that a common issue identified in its review of project proposals was a need for greater clarity and detail in the business case and supporting documentation in three areas: financial information, specifically the defining of baselines and targets; documentation to support savings; and identification of relevant risks.

OntarioBuys informed us that it is taking a number of actions to address Internal Audit's areas of concern. One of these is referencing the documentation supporting the savings in transfer-payment agreements. Before Internal Audit's report, OntarioBuys had already developed a standardized risk management template to help it identify risks, to document risk analyses and risk mitigation, and to track actions taken for the risks identified. OntarioBuys informed us that, to improve its risk management template, it had begun working with Internal Audit to develop a more detailed risk analysis framework to use in assessing future business cases.

MONITORING OF FUNDED PROJECTS AND EXPENSE CLAIMS

Oversight of the Status of SSOs and Projects and the Achievement of Deliverables

Recommendation 2

To ensure that the shared-service organizations (SSOs) and projects that OntarioBuys funds achieve contract deliverables and that funds are used for the intended purpose, OntarioBuys should:

- *develop monitoring guidelines to assist its staff in consistently conducting appropriate oversight of the SSOs and projects funded; and*
- *monitor, on a timely basis, the progress of funded SSOs and projects against contract deliverables and take appropriate action when there are significant delays.*

Status

OntarioBuys indicated that in 2010 it had developed new Project Monitoring Guidelines outlining the tools and processes necessary to effectively monitor the required deliverables throughout the various phases of a project. The guidelines include guidance on the type of information required in project status reports, management approval requirements, and the extent of review work that staff should do based on the assessment of risks, savings, costs, and other benefits. A project monitoring flowchart of the review and approval process for release of funds was also developed. OntarioBuys staff were trained on the new guidelines and processes in July 2010.

To monitor the progress of projects, OntarioBuys has developed an electronic transfer-payment tracking system, which was fully implemented by September 2010. The information that the system tracks includes the progress of funded projects, funding flows to transfer-payment recipients, transfer-payment forecasts, the names of the members of staff/managers who approved a business case or release of funding, and which staff are responsible for monitoring which projects.

Consulting Services

Recommendation 3

To ensure that significant consulting-service contracts are awarded in an open, fair, and transparent manner, OntarioBuys should monitor broader-public-sector compliance with the required procurement policies.

Status

OntarioBuys indicated that, since May 2010, it has required BPS organizations to complete procurement plans for projects identifying all consulting procurements to occur over the 12 months following a BPS agreement with OntarioBuys. The BPS organization must include in its plan a description of the consulting procurement, the estimated procurement value, the procurement method to be used, the proposed approval authority level, and the approximate month and year it expects to commence the procurement process. It must also indicate whether the procurement could involve extensions or future related contracts.

The BPS organization is also to submit regular status reports, called procurement reports, that include the following information: procurement description; vendor name; final contract price; amount paid to date; procurement method applied; effective date of the contract; contract deliverables achieved; the name of the person approving the contract; and any modifications to the contract terms.

OntarioBuys informed us that its staff uses a risk-based approach to carefully review procurement reports, identifying any discrepancies for follow-up and applicable corrective actions, and comparing the reports with their corresponding procurement plans. The reports are also checked for compliance with Management Board of Cabinet's BPS Procurement Directive.

Review and Approval of Expense Claims

Recommendation 4

To ensure that only appropriate expenses are reimbursed, OntarioBuys should provide the management of shared-service organizations and supply-chain-improvement projects with guidelines on the reimbursement of meal, travel, and hospitality expenses, with maximum limits that are reasonable when compared to those for Ontario government employees.

Status

OntarioBuys indicated that, in March 2010, it developed a *Guideline for Transfer Payment Project Expenses for Travel, Meals, and Hospitality* requiring all transfer-payment recipients receiving funds from OntarioBuys to follow the applicable sections of the Management Board of Cabinet Travel, Meal and Hospitality Expenses Directive. The guideline was incorporated into the transfer-payment agreement schedules for organizations receiving funding from OntarioBuys. OntarioBuys also provided training on these expense requirements to transfer-payment recipients in April and May 2010.

Under the authority of the new *Broader Public Sector Accountability Act, 2010*, Management Board of Cabinet developed a Broader Public Sector Expenses Directive, effective April 1, 2011. This directive replaced the OntarioBuys *Guideline for Transfer Payment Project Expenses for Travel, Meals, and Hospitality*, and OntarioBuys requires BPS organizations to make reimbursements in accordance with the new directive.

The directive requires the designated BPS organizations to establish rules for expenses that are reimbursed from public funding and sets out what organizations need to consider when they are establishing their rules for expenses. BPS organizations were trained on the new directive in February and March 2011.

PERFORMANCE MEASUREMENT

BPS Participation in SSOs and Projects

Recommendation 5

To assist Ontario educational institutions to more effectively generate savings from improved supply-chain-management practices, OntarioBuys should more formally assess the impact of the various collaborative purchasing initiatives already in place in the education sector on the effectiveness of the education shared-service organization (SSO) and assess whether any changes are necessary to the education SSO's business model.

Status

OntarioBuys indicated that it had determined through a formal review of the various collaborative purchasing initiatives and the level of participation of educational institutions that a shared-service organization (SSO) for the education sector continued to be a viable option. We were also informed that, after our 2009 audit, the education SSO eliminated the development and implementation of an electronic purchasing system and focused instead on strategic sourcing and collaborative purchasing initiatives. The SSO submitted a new business case reflecting these changes, and OntarioBuys approved it. A new transfer-payment agreement was signed at the end of June 2011.

Reported Savings

Recommendation 6

To ensure that reported performance results are credible, OntarioBuys should:

- *provide guidelines to shared-service organizations (SSOs) and broader-public-sector institutions on how savings are to be defined and how baselines are to be established and applied for the calculation of savings; and*
- *objectively assess and verify SSOs' and projects' reported savings to ensure that they are valid before publicly disclosing them as results achieved.*

Status

OntarioBuys informed us that it had distributed new guidelines to its funded transfer-payment recipients and shared-service organizations in July 2010 to help them calculate and validate forecasted and actual savings for funded projects. OntarioBuys also indicated that it conducts periodic spot checks to assess whether projects' actual savings are defined in a manner that is consistent with the guidelines.

OntarioBuys has not published project savings since our 2009 audit. OntarioBuys indicated that it would ensure that reported savings are verified in accordance with the savings guidelines prior to public disclosure and that appropriate documentation is maintained.

Other Performance Measures

Recommendation 7

To properly measure and report on performance results, OntarioBuys should:

- *use actual purchase information from funded shared-service organizations (SSOs) to determine whether it has achieved the target percentage of having certain supplies purchased through them; and*
- *develop performance measures and collect the information necessary to assess and report on the redirecting of savings generated by funded SSOs and projects to front-line services.*

Status

OntarioBuys informed us that after our 2009 audit it determined that it would be unable to obtain annually comparable information on total spending in each sector to assess whether the target percentage of savings expected from having certain supplies purchased through the SSOs was actually achieved.

At the time of our follow-up, OntarioBuys was exploring the types of data necessary to determine more appropriate measures of results and had developed a new set of draft performance measures that it expected to finalize by September 2011. The timing and development of the related baselines and targets is to depend on the performance measures that OntarioBuys ultimately selects.