

## Chapter 1

### Section 1.13

# Supply Chain Ontario and Procurement Practices

Follow-Up on VFM Section 3.13, 2016 Annual Report

#### RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1	1				
Recommendation 2	1	1				
Recommendation 3	1	1				
Recommendation 4	1	1				
Recommendation 5	1	1				
Recommendation 6	3	1	2			
Recommendation 7	2	1	1			
Recommendation 8	1		1			
Recommendation 9	1	1				
Recommendation 10	2	2				
Recommendation 11	3	1		2		
Recommendation 12	3	1	2			
<b>Total</b>	<b>20</b>	<b>12</b>	<b>6</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>%</b>	<b>100</b>	<b>60</b>	<b>30</b>	<b>10</b>	<b>0</b>	<b>0</b>

## Overall Conclusion

As of June 29, 2018, the Ministry of Government and Consumer Services (Ministry), on behalf of the ministries across the province, and the Treasury Board Secretariat (Secretariat) have fully implemented 60% of the actions we recommended in our 2016 Annual Report. For example, Supply Chain

Ontario reviewed the impact of access fees on businesses for the online procurement systems (one called Ontario Tenders Portal and the other called Registration, Appraisal and Qualification System for the Ministry of Transportation of Ontario) and decided to remove the fees from the online procurement system, effective April 1, 2018, to support small- and medium-sized businesses in bidding on government contracts.

The Ministry and the Secretariat have made progress phasing in 30% of the recommended actions. For instance, they developed scorecards to evaluate suppliers' performance and piloted them at all Information and Information Technology Clusters. They also plan to include performance evaluations as a mandatory requirement when the Ministry renews its master listing of preferred suppliers in 2019.

There has been little or no progress on the remaining 10% of actions. For example, the cost of middleman fees charged by preferred suppliers on IT consultant rates remains unknown. The Secretariat assessed and adjusted the overall IT consultant fee rates to match the market rate, but it did not assess the middleman fees separately. This meant that it could not study and recommend the most cost-effective way for the government to procure IT consulting services. The Secretariat and the Ministry plan to start collecting information on middleman fees from preferred suppliers when it renews its master listing of preferred suppliers in 2019.

The status of actions taken on each of our recommendations is described in the following sections.

## Background

The process of procuring goods and services by the Government of Ontario is intended to be open, fair and transparent. The government spends an average of \$3.5 billion annually on procuring goods and services. (This does not include spending on the construction of capital assets, such as highways and buildings.)

The individual government ministries across the province independently make decisions on what goods and services they require. The Treasury Board Secretariat (Secretariat) is responsible for updating and maintaining the rules and best practices for procurements that are laid out in the Ontario Public Service Procurement Directive (Dir-

ective). The ministries are required to follow these procurement requirements.

According to these requirements, ministries must first source goods and services from arrangements of preferred suppliers. These suppliers are selected through a competitive process by Supply Chain Ontario (SCO) to ensure that the ministries receive the best price for quality goods and services. The ministries select preferred suppliers to bid on their procurement contracts, and the winning supplier(s) provides the goods, services or consultants. For some goods and services, such as office supplies and courier services, SCO selects a single preferred supplier for all the ministries to use in order to get the lowest price through bulk purchasing.

The largest preferred supplier arrangement is IT Consulting Services. This service allocates, based on need, either internal IT staff or external IT consultants to ministries. It is managed by the Secretariat. The ministries make a request to the Secretariat for their IT staffing, which the Secretariat first tries to fill with internal employees. If none are available, it will help ministries find external IT consultants with the required expertise.

Overall in our 2016 audit, we found that ministries were following the procurement requirements and that procurement of goods and services was mostly competitive, fair and cost-effective. However, we did find examples where the procurement requirements were not followed. We also noted that the government was not taking full advantage of bulk buying opportunities. In addition, we noted that a shortage of internal IT staff resulted in an overreliance on more costly external IT consultants. We further noted some weaknesses in how ministries procured IT consultants that left the process vulnerable to fraud.

Some of our specific findings were as follows:

- We found that SCO managed preferred supplier arrangements effectively. The files were complete, awards were justifiable and the process was fair and done competitively according to the procurement requirements.

- SCO lacked information to identify bulk buying opportunities. It did not have ready access to ministries' procurement information because there was no centralized electronic database. For example, it could tell whether a supplier received a payment of \$500,000, but did not know whether the payment was for one contract or 10 contracts, the duration of the contract, or what good or service was purchased.
- A shortage of internal IT staff led to an overreliance on consultants, who cost more annually than a full-time employee. Over the two years prior to our audit in 2016, the ministries' approximately 3,200 requests for IT staff were filled about 90% of the time by external consultants. Part of the extra costs of using consultants was the middleman fee paid by the ministries to the preferred supplier for placing a consultant.
- Consultants were hired without in-person interviews, payments to consultants could be authorized by the same person who hired them, and the Secretariat, which processed these payments, did not perform any additional review to ensure payments were legitimate.
- In 2014, SCO implemented a new online procurement system intended to make the bid process more efficient and paperless. It was designed to conduct tenders online. However, concerns with the system, such as limiting the number of characters in data fields where suppliers input their bids, affected the bidding process. As a result, suppliers continued to submit paper bids that were assessed manually. SCO intended to make the system mandatory by January 2017.
- New system user fees charged to suppliers were two-and-a-half times higher than those charged before the new system was put in place. The increase in fees raised concern that small businesses might be discouraged from bidding on government contracts.

We made 12 recommendations, consisting of 20 action items, to address our audit findings.

We received commitment from the Ministry, on behalf of the ministries, and the Secretariat that they would take action to address our recommendations.

## Status of Actions Taken on Recommendations

We conducted assurance work between April 2, 2018, and June 29, 2018. We obtained written representation from the Ministry of Government and Consumer Services (Ministry), on behalf of the ministries, and Treasury Board Secretariat (Secretariat) that, effective October 31, 2018, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

### Ministries are Mostly Following Procurement Requirements

#### Recommendation 1

*In order to ensure that the correct procurement policy is followed and value for money is obtained on all procurements, ministries should take more care in estimating the costs of their required goods or services to ensure that they use the correct procurement method.*

**Status: Fully implemented.**

#### Details

In our 2016 audit, we found that in over 90% of samples that we reviewed, ministries properly planned their procurements. However, we also found that ministries needed to do a better job at estimating the costs of their required goods and services to ensure that they selected the procurement method that could achieve the most value for money. Failure to properly estimate the value of the procurement can result in the ministry following the wrong procurement method.

Following our audit, the Ministry established the Chief Administrative Officers Reference Group (CAO Group), whose members represented ministries' CAOs from across government. Its mandate is to provide guidance on how to put our recommendations into practice regarding compliance with procurement policy and best practices. The CAO Group concluded that the most effective way to adhere to procurement requirements was through learning and training. Supply Chain Ontario (SCO) provided a training day in February 2017, which more than 250 procurement staff across ministries attended. The agenda included training on estimating procurement value.

In addition, on behalf of the ministries, the Ministry obtained procurement examples from various ministries we selected for the purpose of our follow-up, based on our 2016 findings. The Ministry checked whether the ministries estimated the value of goods prior to requests for bids based on sound cost analysis. It found, for example, in one multi-year procurement, one ministry performed detailed costing analysis based on the expenditure from the previous contract as well as possible changes in demographics and economics, such as the aging population and increasing minimum wage. As a result, the correct procurement method was selected.

### Recommendation 2

*In order to ensure that value for money is obtained on all invitational procurements, the ministries should ensure that the required number of preferred suppliers are given the opportunity to bid on providing the required goods or services.*

**Status: Fully implemented.**

#### Details

During our 2016 audit, we found that in over 95% of samples we reviewed, the ministries followed the procurement requirements and invited the correct number of preferred suppliers, according to the procurement requirement. However, we found examples where the value of the procurement

warranted a more competitive approach. By not opening these procurement opportunities to the appropriate number of suppliers, these ministries limited the competitiveness of these procurements and might not have received value for money.

As mentioned in **Recommendation 1**, SCO organized a government-wide training symposium in February 2017 for government procurement staff to reinforce procurement best practices. The training included ensuring the correct number of suppliers are invited to bid.

In addition, the Ministry obtained procurement examples from select ministries to confirm that the required number of preferred suppliers are given the opportunity to bid. For example, when one ministry procured services with an estimated cost of \$145,000, the ministry invited five preferred suppliers to bid on the contract, which met the minimum requirement of three.

### Recommendation 3

*In order to ensure that the use of non-competitive procurement is defensible if questioned, the reasons for its use should be adequately documented.*

**Status: Fully implemented.**

#### Details

Our 2016 audit found that, overall, non-competitive procurements were well documented and met the allowable conditions. However, we noted some exceptions where the ministries did not justify or document their reasons for using a non-competitive process.

As mentioned in **Recommendation 1**, SCO held a training symposium in February 2017, during which a special session was held on documenting procurement decisions.

In addition, the Ministry obtained procurement examples for this follow-up from select ministries to verify that non-competitive procurements are well documented by the ministries. For example, when one ministry used a non-competitive procurement for consulting services, it documented its rationale properly with appropriate approvals. In this case,

none of the suppliers that responded to the initial open-competitive bidding for the services were qualified. As a result, this ministry used a non-competitive procurement to hire another supplier that met the specific criteria for the services.

#### Recommendation 4

*In order to ensure that the procured goods are received as expected and services are rendered, the payments should only be made in accordance with contract terms, which usually require payments after the goods are received or services rendered.*

**Status: Fully implemented.**

##### Details

In our 2016 audit, we found that in almost all the samples we reviewed, ministries followed the payment terms stated in their contracts. These terms usually require ministries to pay suppliers only after goods are delivered or services rendered. However, we found a few exceptions where payments were made earlier than required and before services were provided.

Again, the Ministry obtained procurement examples from select ministries for our follow-up to verify that the ministries were making payments in accordance with contract terms. For example, the ministries were able to show that they followed the terms in the contracts and paid after the goods were received and/or services were rendered.

#### Recommendation 5

*In order to ensure that there is evidence to defend, if questioned, that contracts are awarded to winning suppliers, ministries should ensure that all documentation related to procurements is completed and retained.*

**Status: Fully implemented.**

##### Details

In our 2016 audit, we found that in over 80% of samples we reviewed, documentation was sufficient for us to determine that the procurement was done according to procurement requirements

and the contract was awarded to the best supplier. However, this was not the case in almost 20% of our samples. Most of these exceptions were procurements of consulting services. Without proper documentation, we were unable to determine whether these contracts were awarded to the best-value consultants.

As mentioned in **Recommendation 1**, SCO held a one-day training symposium in February 2017. The symposium included a series of sessions regarding documenting procurement processes and decisions. SCO developed and presented at the symposium a procurement checklist as an example of available tools ministries can use to ensure proper documentation of every step of the procurement process. However, we noted that the tools are not mandatory and the individual ministries are not required to do spot checks that all documentation is completed and retained.

The Ministry did obtain procurement examples for our follow-up from ministries we selected to ensure that all documentation related to procurements—such as the approval of the business cases for the procurements, submissions from bidders, bids' evaluations and contracts—are complete and retained and that the best-value suppliers were awarded. These examples were complete.

#### Recommendation 6

*In order to ensure that ministries receive highest quality goods and services, ministries should:*

- ensure that performance evaluations are completed for each supplier;
- develop and implement a fair and transparent process for considering past supplier performance when making new procurement decisions;

**Status: In the process of being implemented by October 2019.**

##### Details

Our 2016 audit found that none of the ministries sampled were following the procurement requirements that state that ministries must evaluate and

document a supplier's performance after a contract is completed. A supplier's past performance can provide an indication of potential future performance. Developing a framework and information system to support this is important so that lessons learned can be used to make better future decisions.

Following our audit, the Ministry and the Secretariat developed standardized scorecards for the ministries to evaluate and document suppliers' performance fairly and consistently. The Information and Information Technology Clusters in the province piloted the standardized scorecards to evaluate the performance of their IT consultants on a monthly basis and at the end of the contracts. The pilot project ran from January to December 2017. However, the scorecards from the pilot project to assess a supplier's performance will not be implemented across all ministries until the fall of 2019.

The Ministry and the Secretariat plan to include the standardized performance scorecards as a mandatory requirement when the Ministry renews its master listing of preferred suppliers by October 2019. This will result in standardized mandatory scorecard requirements that will enable the ministries to better monitor their suppliers' performance on a monthly basis and to incorporate past performances of suppliers when making new procurement decisions.

- *assess ways in which this information can be stored centrally in electronic form.*

**Status: Fully implemented.**

#### Details

Subsequent to our 2016 audit, SCO considered adding suppliers' performance information as part of the Ontario Tender Portal system. The portal is an on-line tendering system for all open competitive procurements with a value at or above \$25,000 for goods and at or above \$100,000 for services. The portal's contract with the existing suppliers will expire on October 31, 2020. SCO issued a Request for Information in November 2017 to seek information from potential suppliers for an electronic tendering service after 2020.

SCO assessed ways in which suppliers' performance information can be stored centrally as part of the Request for Information. SCO specified that the new tendering system must include a database to store such information. Most suppliers who responded to SCO by January 2018 indicated that their electronic systems could store suppliers' performance evaluations centrally. The SCO will decide which tendering system to use when it goes through a competitive bidding process for a new supplier prior to the existing one expiring in October 2020.

## Supply Chain Ontario Manages Preferred Supplier Arrangement Appropriately—Opportunity for More Arrangements

### Recommendation 7

*In order for Supply Chain Ontario to explore new bulk buying opportunities that could lead to additional cost savings, it should work together with ministries to:*

- *identify goods or services that ministries currently procure that are suitable for such opportunities;*

**Status: Fully implemented.**

#### Details

In our 2016 audit, we noted that preferred suppliers reported to SCO that ministries bought about \$460 million worth of goods and services from them in 2015/16. That was about 13% of the \$3.5 billion that ministries spent each year on goods and services. Therefore, it was likely that there were opportunities for the government to take advantage of additional bulk buying.

Following our audit, SCO identified that digital services, which enhance a user's experience with the government's services, could be a new bulk buying opportunity. In December 2017, SCO submitted a business case to add digital services to the list of preferred supplier arrangements to the Secretariat.

This additional preferred supplier arrangement will provide ministries with access to a qualified list of vendors specializing in user experience design and related digital services. SCO issued a request for bids on March 1, 2018, and was evaluating the bids at the time of our follow-up.

Also in 2017, SCO hired a third-party consulting firm to analyze government-wide spending and identify new bulk buying opportunities. The consulting firm identified five new opportunities: aircraft leasing, IT maintenance and support, wired telephone services, dispute resolution services, and security surveillance and systems. SCO assessed the opportunities and concluded that it would not proceed with the recommendation. It cited various reasons, such as the limited number of ministries requiring the services and/or the cost of a particular service was so small it did not warrant bulk purchasing.

In 2018, SCO assessed the four new bulk buying opportunities identified by the ministries at the time of our 2016 audit. These opportunities were ergonomics assessment services, first aid or CPR training, translation services other than French, and security installation services. Again, SCO concluded that it would not pursue these opportunities mainly because the cost for each of the services was too small to achieve significant savings through bulk purchasing.

- *identify ways which in the future it can have access to complete and accurate information about what and how ministries procure.*

**Status: In the process of being implemented by the end of 2018.**

In our 2016 audit, we reported that SCO did not have direct access to ministries' procurement information. Ministries did not store information centrally. Rather, information exists at each ministry, sometimes only in paper format, at the different locations where the procurement originated. For example, from the government's financial accounting system, SCO could tell whether a

supplier received payment of \$500,000, but not whether this payment related to one contract or 10 contracts, what specific good was purchased or service provided, the quantity of that good or service, and whether the supplier was a preferred supplier. As a result, SCO had not been able to identify new bulk buying opportunities that might generate additional price discounts for the Province.

As mentioned above, SCO hired a third-party consulting firm in 2017 to analyze government-wide spending. SCO used the analysis to identify new bulk buying opportunities. At the time of our follow-up, SCO was developing a methodology, based on the work done by the consulting firm, to understand what and how ministries procure. SCO also planned to develop processes and tools for staff to analyze how ministries can share complete and accurate procurement information to find bulk buying opportunities. SCO expected to finalize the methodology by the end of 2018.

## New Online Tendering System Not Widely Used

### Recommendation 8

*Supply Chain Ontario should identify and resolve all system issues that prevent any tender from being done in a fair, open and transparent way.*

**Status: In the process of being implemented by the end of 2018.**

### Details

On April 1, 2014, SCO replaced its tendering system by competitively procuring a new system for the Ontario Tenders Portal. At the time of our audit in 2016, SCO stated that it intended to speed up the adoption of the new system. There were, however, concerns that ministries were unable to evaluate suppliers' bids properly on complex tenders because of the system's poor design and that this affected the fairness, openness and transparency of these complex tenders.

Since June 2017, SCO staff has identified, logged and resolved all 16 system issues, such as improper

cancellation of procurement requests and inability to change ministry names following a reorganization, related to the Ontario Tenders Portal.

As well, from October to December 2017, SCO surveyed vendors' experience in using the Ontario Tenders Portal and received more than 400 responses, about 50 of which provided additional comments. SCO reviewed and categorized these comments by areas of concerns such as "navigation," "difficult to respond in requested format," and "unclear submission requirement." Because the intention of this survey was not to identify system issues, SCO did not follow up on each comment and confirm whether any system issues caused any tender to not be done in a fair, open and transparent way, and whether further action is necessary. At the time of our follow-up, we received commitment from SCO that it will follow up on each comment and determine if further actions are necessary to address the system issues identified, by the end of 2018.

### Recommendation 9

*In order to determine the impact of access fees on businesses for the online procurement system, Supply Chain Ontario, together with ministries, should review whether Ontario's fees discourage small businesses from bidding on government contracts. The results of this review should be factored into future decisions.*

**Status: Fully implemented.**

### Details

Our 2016 audit found that the new bid fees charged to suppliers were two-and-a-half times higher for unlimited access to the online procurement system than those charged before the new system was rolled out. We also found that Quebec and the federal government do not charge any fees, and that fees in British Columbia are much lower. Representatives from Quebec and the federal government told us that they do not charge fees because such a practice can discourage small businesses from bidding on government contracts.

As mentioned in **Recommendation 8**, SCO surveyed vendors' experiences in using the Ontario Tenders Portal. The survey results indicated that the bidding fees were a major factor that influenced vendors' decisions to submit bids. Subsequently, SCO decided to remove the fees from the Ontario Tenders Portal as well as the other procurement system called Registration, Appraisal and Qualification System for the Ministry of Transportation of Ontario, effective April 1, 2018, to support small- and medium-sized businesses.

## Shortage of Internal IT Staff Has Led to a Dependency on More Costly External IT Consultants

### Recommendation 10

*In order to ensure that IT consulting services arranged for ministries by the central IT group in the Treasury Board Secretariat (Secretariat) are cost-effective, the Secretariat should:*

- *finalize its review and conclude that it is appropriate to reduce the use of external IT consultants and increase the use of permanent IT employees;*

**Status: Fully implemented.**

### Details

In our 2016 audit, we found that a shortage of internal IT employees had resulted in dependency on the use of IT consultants. A review done by the Secretariat found that during 2013/14, almost 20% of all consultants were doing ongoing, operational-type support activities that could have been done by permanent IT employees. In addition, the Secretariat estimated that a consultant cost an extra \$40,000 annually compared with a permanent IT employee. Based on those findings, we estimated that the Province could save about \$10 million annually if it increased its IT staff complement and reduced its dependency on external IT consultants.

Since our audit, the Secretariat has finalized the review it started in 2013/14. In August 2016, the

Management Board of Cabinet (Cabinet) approved the review submitted by the Secretariat to convert 96 IT consultants to full-time employees with a projected savings of \$4 million annually.

Subsequently, the Secretariat performed another analysis and identified an additional 101 IT consultant positions that could be filled by full-time employees, potentially resulting in another \$4 million in annual savings. The Secretariat sought and obtained the Cabinet's approval in June 2017 to convert these positions to full-time employees.

- *set a target for the number of permanent employees it needs and work toward meeting this target.*

**Status: Fully implemented.**

#### Details

The Secretariat received approval from Cabinet and targeted to convert 197 IT consulting positions (96 approved in August 2016 and 101 approved in July 2017) into full-time employees. At the time of our follow-up, the Secretariat was working with the Information and Information Technology Clusters to recruit and fill the full-time positions. As of January 31, 2018, 97, or 49%, of the 197 positions were filled. The Secretariat and the Information and Information Technology Clusters will continue working to convert the remaining 100 IT consultants into full-time employees.

#### Recommendation 11

*In order to ensure that the Ontario Government's ministries procure IT consulting services in the most economical and cost-effective way, the Treasury Board Secretariat, together with Supply Chain Ontario, should:*

- *determine the impact of middleman fees charged by preferred suppliers on IT consultant rates paid by the government;*
- *use this information together with other information about consultants' market rates to (as part of the internal/external IT consulting*

*review noted in **Recommendation 10**) study and recommend the most economical and cost-effective way for the government to procure IT consulting services;*

**Status: Little or no progress.**

#### Details

Preferred suppliers are, in most cases, agencies that act as middlemen that supply IT consultants to the ministries. Although the Secretariat told us at the time of our 2016 audit that it was working on reducing consultant rates, it was not looking at the fees charged by the middleman agencies. The Secretariat could not tell us how much these agencies charged on top of what consultants were paid by the agencies because it had not asked agencies to explain what they charge, nor did the fees show separately on invoices submitted by the agencies.

In November 2017, the Secretariat engaged a third-party consulting firm to compare the IT consulting rates, which embed middleman fees, paid by the government with the comparable market rates. The report showed that if the market rates had been paid in 2016/17, a potential savings of 7.5% to 15% in consulting fees could have been achieved. As a result, in January 2018, the Secretariat set the maximum per diem rates for IT consulting fees as suggested by the third-party consulting firm.

The consulting firm's report recommended that transactions between the government and the preferred suppliers should be transparent and that the middleman fees should be disclosed. Nevertheless, at the time of our follow-up, the Secretariat had not taken further action on this matter. It was still unable to assess the cost of middleman fees charged by preferred suppliers and use this information, together with information about consultants' market rates, to study and recommend the most economical and cost-effective way for the government to procure IT consulting services. The Secretariat and the Ministry indicated that they plan to start collecting information on middleman fees from preferred suppliers when it renews its master listing of preferred suppliers by October 2019.

- periodically continue to monitor that the government is receiving the most competitive IT consulting rates.

**Status: Fully implemented.**

#### Details

As mentioned above, in November 2017, the Secretariat engaged a third-party consulting firm to compare the IT consulting rates paid by the government to the comparable market rates. In January 2018, the Secretariat set the maximum per diem rates for IT consulting fees as suggested by the third-party consulting firm. The Secretariat also planned to perform an annual review of IT consulting rates to ensure that the rates are competitive.

## Weak Controls and Oversight over Procurement of IT Consultants

### Recommendation 12

*In order to ensure that ministries select the most qualified IT consultants and opportunities of fraud are reduced, the Treasury Board Secretariat should:*

- work together with ministries to ensure that they follow the Secretariat's best practices when hiring IT consultants;

**Status: In the process of being implemented by the end of 2018.**

#### Details

In our 2016 audit, we reported that ministries were not always following best practices, such as conducting interviews by at least two employees, to evaluate and select IT consultants. Because of this, they might not always have been selecting the most qualified candidate. We documented that this also created opportunities for fraud.

Since our audit, in October 2017, the Secretariat used best practices to establish new mandatory requirements in hiring IT consultants. The mandatory requirements are as follows:

- only authorized staff can initiate a new hiring;

- only candidates who receive a score of 70% or higher on their resume assessment may proceed to the interview stage;
- at least two government employees must jointly interview each candidate;
- staff must use standardized scoring criteria to evaluate potential candidates;
- a government employee must be assigned to be responsible for the transfer of the knowledge gained by the IT consultants after the end of the contracts;
- staff must review the past performance evaluation of each candidate before hiring; and
- staff have to document all prior government contracts held by the IT consultants.

At the time of our follow-up, the Ministry was in the process of obtaining procurement examples from select ministries to assess whether they have followed the mandatory requirements for hiring IT consultants. The Ministry plans to complete its review by the end of 2018.

- review all payments to IT consultants for any anomalies;

**Status: Fully implemented.**

#### Details

During our 2016 audit, we found in the majority of files we reviewed that the ministry person who authorized payments to the agency was involved in the hiring of its IT consultant. We found that if only one person is involved in hiring an IT consultant, this person could hire a consultant and approve their timesheets, since no one else checked that the consultant actually did any work. We also found that the Secretariat, which processes payments made to agencies providing the IT consultants, did not review them or question any anomalies, such as a high number of days or hours billed by consultants in a short period of time. The Secretariat assumed approved payments were correct.

Following our audit, in 2016, the Secretariat engaged the Ontario Internal Audit Division (Internal Audit) to review past payments to IT

consultants for any anomalies. The Internal Audit conducted a review of 25 samples of payments to IT consultants as well as their procurement files during the period from April 1, 2015, to December 31, 2016, and did not find any evidence of fraud in these samples.

In addition, on a yearly basis, the Ministry has started to review all timesheets submitted by consultants to identify any anomalies, such as excessive number of days or hours billed. In 2017/18, of the total of about 10,800 monthly timesheets, the Ministry flagged 139 because they billed for more than 30 days in a month. Similarly, the Ministry reviewed 11,410 monthly timesheets from 2016/17 and found that 190 billed for more than 30 days in a month. The Ministry asked its Internal Audit to identify the reasons for the anomalies and recommend ways to prevent this from happening in the future. The Ministry will continue to review all timesheets on an annual basis.

- *verify the existence of IT consultants working for the ministries.*

**Status: In the process of being implemented by the end of 2018.**

#### Details

Our 2016 audit noted a situation where a senior manager at one ministry was aware of internal control weaknesses mentioned above and proceeded to create and hire a phantom consultant. The Secretariat told us that it became aware of this fraud in 2014, sometime after the senior manager left the ministry for another job. However, our review showed that the Secretariat had not addressed control weaknesses that allowed this fraud to take place, nor did it investigate whether any other cases of fraud had occurred.

As mentioned above, since our audit, the Secretariat now requires all ministries to have at least two government employees jointly interview all new IT consultants to mitigate the risk of fraud.

In addition, the Secretariat established a new policy requiring hiring agencies to complete and

submit a form confirming that they verified the identity of the selected IT consultants to be hired by ministries. This form indicates which pieces of identification the agency collected from the consultant and verified.

At the time of our follow-up, the Secretariat was working with Internal Audit to develop data analytic tools to detect various procurement anomalies including the verification of the existence of both IT consulting agencies and IT consultants. The analytic tools will also be able to generate reports that flag any anomalies for follow-up. The Secretariat expects the first report will be generated and tested by the end of 2018.

In October 2017, the Secretariat again engaged the Internal Audit to review the existing controls over the hiring of IT consultants. Subsequently, the Internal Audit issued a report with six recommendations of which three related to verifying consultants' existence:

- Independent authentication of IT consultants by an individual other than the hiring manager. This helps to further segregate the duties of the hiring manager in the hiring of IT consultants.
- Establishment of a process to monitor and enforce requirements for interviews and interview waivers.
- The Secretariat should carry out spot checks during the year to assess procurement compliance, including the selection and hiring of IT consultants.

The report also identified that, for example, a number of IT consultants did not obtain proper security clearance, such as a police check by the Canadian Police Information Centre. The report recommended that the ministries enforce the security clearance requirement. The ministries expect to phase in all the recommendations, including the security clearance requirement, by the end of 2018.