MANAGEMENT BOARD SECRETARIAT

4.12–Movable Assets

(Follow-up to VFM Section 3.12, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

Ministries' movable assets consist primarily of office furniture and equipment, such as photocopiers and fax machines; information technology (IT) equipment, including desktop and notebook computers, printers and other peripherals; audio-visual equipment, such as televisions, VCRs, and cameras; and motor vehicles.

During the 1998/99 fiscal year—the last year for which this information was available—all ministries spent approximately $500 million on movable assets, much of which was spent on IT equipment in preparation for Y2K. However, the total value, type, and quantity of movable assets on hand were not known because ministries did not keep adequate records in that regard.

In 2000, we conducted our audit work at five ministries and issued a detailed report to each deputy minister of the ministries included in our scope. In addition, since Management Board Secretariat (MBS) develops government-wide policies and standards for acquiring and managing movable assets and had entered into a number of government-wide standing agreements for IT equipment acquisitions, we summarized in Section 3.12 of the *Special Report on Accountability and Value for Money* (2000) the more significant issues addressed in the individual ministry reports.

We concluded that although ministries generally followed the process recommended by MBS for acquiring IT equipment and used the MBS standing agreements with various manufacturers for their equipment acquisitions, doing so did not ensure that they received value for money spent because:

- communication between MBS and the ministries regarding the pricing provisions under the MBS standing agreements was insufficient to ensure that ministries were obtaining the best prices;
- there was no requirement for the ministries to demonstrate that the makes and models of equipment acquired were the most appropriate and cost effective for their needs; and
- the cost effectiveness of leasing as the preferred option for most of the equipment acquired was not established, and the terms of the standing lease agreement were not competitively entered into nor was value for money achieved as a result of prepaying or overpaying lessors.

We also concluded in 2000 that movable assets were not adequately managed because:

- accurate and up-to-date listings of all owned and leased movable assets were not maintained;
- the existence and efficient deployment of movable assets were not periodically verified; and
- missing or underutilized assets were not followed up on a timely basis.

We made a number of recommendations for improvement and received commitments from MBS and the ministries that they would take corrective action.

CURRENT STATUS AND RECOMMENDATIONS

MBS had taken or was in the process of taking corrective action on our two published recommendations. Their status as of June 30, 2002 is as detailed in the following sections.

ACQUISITION OF INFORMATION TECHNOLOGY EQUIPMENT

Information Technology Equipment Pricing

Recommendation

To ensure that ministries acquire IT equipment in compliance with Management Board of Cabinet directives, Management Board Secretariat (MBS) should work with ministries to ensure competitive prices are achieved until a new competitive pricing structure is established through implementation of the proposed Total Cost of Ownership concept.

Current Status

We were advised that MBS received Management Board of Cabinet approval in June 2002 for its government-wide desktop equipment and services strategy. A request for proposals to establish the corporate desktop management services and products vendor-of-record arrangement is scheduled to be issued in August 2002. The use of this vendor-of-record (VOR) arrangement will be mandatory for all Information and Information Technology clusters and ministries, with the exception of designated “optional services”, which may also be provided by internal Ontario Public Service staff. Examples of such optional services include: installation and de-installation of desktops; moves, adds, and changes; maintenance and break-fix services; virus eradication; and software control and distribution.

The VOR agreement is designed to ensure that pricing is continuously in line with market conditions to provide best value for money spent. Such pricing is to be validated through regular benchmarking. This initiative is intended to lead to lower support and application costs and an overall lower total cost of ownership.

MBS also established an interim policy in November 2000 that provides direction regarding the use of existing VOR agreements and that, in particular, requires buyers to aggregate their demand in order to achieve volume discounts through a formal second-stage competitive process.

Information Technology Equipment Leasing

Recommendation

To help ensure that IT acquisitions are financed in an economical manner, as required by Management Board of Cabinet directive, MBS should:

- *formally assess the desirability and cost effectiveness of leasing IT equipment in comparison to other forms of financing or purchasing; and*
- *follow a competitive process when renewing its standing agreement for lease-financing services.*

Current Status

In the fall of 2001, MBS financial analysts compared the total cost of ownership of desktop assets under both a lease and purchase scenario using data from two IT clusters. This comparison revealed that, while there was not a material difference between the lease and purchase scenarios over the standard three-year asset life cycle, the leasing scenario did provide a slight cost advantage. In addition, MBS noted a number of other advantages associated with leasing.

With respect to the second part of the recommendation, MBS advised us that it had completed a competitive procurement process to establish a new corporate agreement for lease-financing services for IT equipment. The agreement came into effect on February 1, 2002 and is mandatory for use by all IT clusters and all ministries.

In the agreement, five vendors have been selected to provide financing services to ensure that there is continuous competition among those vendors to provide optimal lease rates. All five vendors have agreed to identical terms and conditions in order to ensure consistency in leasing practices and asset management. All existing contracts are in the process of being replaced by this agreement.