

OntarioBuys Program

Background

OntarioBuys is a government initiative launched in 2004 to achieve savings in the procurement of goods and services in the broader public sector (BPS), especially by hospitals, school boards, colleges, and universities. There is no specific legislation or regulation under which OntarioBuys operates. The BPS Supply Chain Secretariat, part of the Ministry of Finance (Ministry), is responsible for administering and managing OntarioBuys. In March 2009, the government announced in the provincial Budget that it would introduce legislation to expand the program's mandate to include other sectors.

While certain other provinces may provide funding to improve a specific component of the supply chain, Ontario is the only province in Canada with a formal program that provides funding and advice to BPS organizations to help them improve their supply-chain-management practices for the entire supply-chain spectrum. Specifically, OntarioBuys encourages BPS organizations to engage in collaborative ordering, delivery, warehousing, and payment for goods and services. It also funds projects that propose cost-saving improvements in other administrative processes, such as human resources, payroll, and financial management. According to the 2008 Ontario Budget, the goal of OntarioBuys is to reduce the

time and money spent by the BPS on procuring goods, and funnel savings back into front-line services.

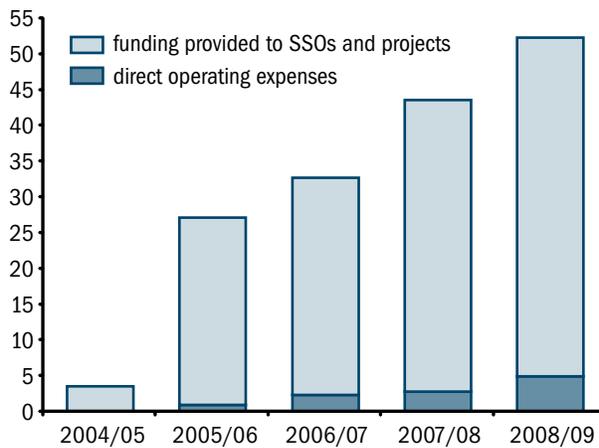
Although OntarioBuys commenced its operations in the 2004/05 fiscal year, its first full year of operation was 2005/06. Since 2004/05, OntarioBuys has provided funding of about \$148 million for two areas. About \$88 million has been paid for the formation and/or expansion of collaborative groups called “shared-service organizations” (SSOs). An SSO is a centralized organization that BPS institutions join as members. The SSO acts on behalf of its members to obtain better prices for goods and services through group purchasing. The SSO may also serve its members by developing more efficient purchasing practices and making other collaborative arrangements, such as establishing centralized warehouses, distribution systems, and information systems. The remaining \$61 million has been used to fund 53 projects aimed at helping BPS institutions become more efficient and effective in their supply-chain and other back-office processes.

The BPS Supply Chain Secretariat has increased its staffing from 17 people in 2007/08 to 31 in 2008/09 and engaged external consultants to assess BPS business-case proposals for funding of projects over \$1 million.

Figure 1 shows OntarioBuys expenditures for the five years ended March 31, 2009.

Figure 1: OntarioBuys Total Expenditures, 2004/05–2008/09 (\$ million)

Source of data: OntarioBuys



Audit Objective and Scope

The objective of our audit was to assess whether OntarioBuys had adequate systems and procedures in place to:

- ensure that projects were approved and delivered in accordance with program objectives, policies, and funding agreements; and
- measure and report on OntarioBuys' contribution to improving the cost-effectiveness of government and BPS services to Ontarians.

The scope of our audit included review and analysis of relevant files and administrative procedures and interviews with appropriate OntarioBuys staff, senior management of three other ministries—Health and Long-Term Care, Education, and Training, Colleges and Universities—as well as senior management at shared-service organizations and at various broader-public-sector institutions such as hospitals, universities, colleges, and school boards. We also met with the Ontario Hospital Association and interviewed senior management of various

local, regional, and national group purchasing organizations. In addition, we reviewed relevant audit reports issued by the Ministry's internal audit services. Wherever possible, we relied on their audit work to reduce the extent of our audit.

Summary

In March 2009, the government announced in its Budget that OntarioBuys had helped broader-public-sector (BPS) entities redirect \$45 million in savings toward front-line services. All \$45 million came from the hospital sector, of which \$20 million was from one shared-service organization (SSO). However, almost all of this \$20 million in savings was kept by the SSO and was not redistributed to the hospitals to provide front-line services. Instead, most of the savings were retained by the SSO for developing information technology for its back-office processes. The balance of the reported savings came from a number of projects; however, OntarioBuys did not verify these savings nor was it able to demonstrate that the reported savings had actually been invested in front-line services. Our review indicated that for a number of projects, the savings figures could not be substantiated.

We acknowledge that OntarioBuys has undertaken significant efforts to promote its collaborative supply-chain initiatives. BPS entities that received OntarioBuys funding advised us that the additional resources provided have enabled them to focus more attention on the supply-chain area. Nevertheless, participation is currently well below the level required for OntarioBuys to achieve its goals, particularly in the education sector. Our specific findings are as follows:

- The province has spent about \$58 million to fund the formation or expansion of nine SSOs in the health sector and \$30 million for one SSO in the education sector. At the time of our audit, 50% of Ontario hospitals with 70% of Ontario's total beds were participating in

health SSOs. There was limited participation in the education SSO, which may be due in part to the fact that various educational institutions had initiated a number of their own purchasing consortia over the years.

- Since 2005, the education SSO has received \$30 million in approved OntarioBuys funding. The SSO had committed to sign up 13 of the province's 116 school boards, colleges, and universities as well as 1,000 suppliers by June 2009 to participate in a new electronic purchasing system called e-Marketplace. However, the e-Marketplace had yet to become operational by June 2009, and no institutions had formally signed up to be members. Subsequent to our audit, OntarioBuys informed us that the e-Marketplace would be operational by October 2009.

We noted three operational areas at OntarioBuys where improvements are required—the review of business cases submitted for funding approval, the monitoring of funded projects for achievement of contract deliverables, and competitive procurement processes:

- OntarioBuys bases its funding approvals for SSOs on business cases prepared by BPS organizations. The business cases are to include estimated costs and potential savings, and OntarioBuys engages consultants to review on its behalf all business cases for projects with funding of over \$1 million. The underlying business case for the education-sector SSO—the largest SSO funded—projected that its collaborative purchasing and e-Marketplace initiatives would yield benefits/savings of \$669 million over five years. This included total savings to group members of \$294 million through their use of the e-Marketplace and \$375 million from group purchasing. However, our review of the business case, file documentation, and external consultants' reports found that the estimated savings were often based on

unreasonable assumptions. We also found no evidence that three-quarters of the project risks identified had been resolved. OntarioBuys' management told us that the issues had been discussed and addressed, but there was no documentation to show how the risks, including a number of high risks, were resolved.

- Similarly, with respect to the \$61 million spent on projects for improving supply-chain and back-office processes, evidence was lacking that projected costs and savings were appropriately assessed. For example, one project's projected savings were based on a hospital's extrapolating the results from its emergency unit to the entire hospital without any evidence to support the reasonableness of such a projection. For another project, the estimated costs submitted for funding were revised three times over a four-month period, from \$455,000 to over \$1 million. The amount of OntarioBuys funding was based on a percentage of estimated costs. However, we found no documentation on file to show that either the cost revisions or the projected savings had been properly assessed. OntarioBuys indicated that these projects were approved prior to April 2007 when it did not have sufficient staff.
- Once projects were approved and funds provided, OntarioBuys did not have program-specific guidelines for consistent and effective monitoring of their progress. There were no program-specific guidelines for conducting site visits, documenting work performed, verifying deliverables prior to the release of final payments, and closing files for completed projects. We noted that some files contained detailed review notes with good supporting documentation to verify the reported project status. However, many others did not. OntarioBuys indicated that it had hired more staff in 2008/09 to strengthen the monitoring processes. As a result of the insufficient

number of staff devoted to monitoring in the earlier years and the lack of program-specific guidelines, projects—especially those approved before 2008—were not consistently and effectively monitored.

- In response to our request for a listing of projects and their related savings that made up the total reported savings of \$45 million announced in the Ontario Budget, OntarioBuys provided a list supporting the project savings up to the end of March 2009. Our review of a sample of projects from this list, which accounted for 75% of the \$45 million, indicated that, other than for one project with savings of \$20 million, the reported savings provided to us were questionable. For example, savings totalling \$7.3 million were reported for two projects for the fiscal years from 2006/07 to 2008/09, yet these two projects were supposed to have been completed by December 2006. In fact, neither project was completed at the time of our audit. Subsequent to our review, OntarioBuys advised us that there were other savings not included on the original list and that, notwithstanding the concerns we raised, the reported total savings of \$45 million constituted a reasonable estimate.
- According to OntarioBuys, the SSOs and BPS organizations involved in the projects have spent about \$45 million of the funding provided to them since the 2004/05 fiscal year to hire some 270 consultants for a variety of reasons. We reviewed a sample of consulting contracts totalling \$15 million from various projects and found that over 40% did not comply with the competitive procurement requirements of the project funding agreements.

OVERALL MINISTRY RESPONSE

The Ministry welcomes the review and findings of the Auditor General. The recommendations

will be used to improve OntarioBuys to ensure it delivers value for money to Ontarians.

Ontario's broader-public-sector (BPS) organizations spend more than \$10 billion annually acquiring the goods and services needed to deliver health care, education, and other vital public services. This substantial and complex expenditure of public money, cumulatively as large as the supply chains of some of Ontario's largest corporations, needs to be efficient and effective for proper support of front line services and for BPS organizations to satisfy their accountability obligations.

As the Auditor General has noted, Ontario is the only province with a formal program to help BPS entities improve their practices for the entire supply chain spectrum. OntarioBuys has undertaken significant efforts to promote integrated supply chain leading practices, predominantly through the introduction of its Supply Chain Guideline.

We appreciate the Auditor General's efforts to help improve OntarioBuys to ensure it delivers value for money to Ontarians. The Ministry will use the recommendations of the Auditor General's report as a basis for moving forward with the OntarioBuys program. The Ministry is already working to improve documentation of the program's internal business processes and reported savings, and to monitor its funded projects more closely. The Ministry recognizes that some areas need to be strengthened, and the recommendations will help us do so.

Detailed Audit Observations

PROMOTION AND COMMUNICATION

As a new initiative, OntarioBuys has made considerable efforts to publicize and promote its program to other government ministries and

the broader public sector. Promotional activities conducted by OntarioBuys designed to increase BPS participation in the program included:

- holding joint seminars and conferences with the Ontario Hospital Association on supply-chain-management practices;
- attending and presenting educational sessions on supply-chain-management practices within the health-care sector;
- meeting with various universities, colleges, and school boards in Ontario to promote the OntarioBuys program;
- consulting with BPS sectors and obtaining feedback on the supply-chain guidelines that it was developing;
- working with other ministries to promote the OntarioBuys program to their respective BPS organizations; and
- informing and educating suppliers on the BPS initiatives funded by OntarioBuys.

Our interviews with senior management at other ministries as well as with staff at various health and education associations showed that they generally supported the OntarioBuys program.

One significant communications component of OntarioBuys is the dissemination of leading practices and the sharing of information to help BPS members spend their money more effectively. In this regard, OntarioBuys has published a supply-chain guideline; a compendium of leading practices in integrated supply-chain management; a report on supply-chain modernization in Ontario health care; sample business-case templates for BPS organizations to use; and performance-measurement-related documents for the hospital sector.

OntarioBuys informed us that, following the recommendations of a 2007 consultant's report, it plans to improve its website to enable increased dissemination of the above-noted documents as well as enhanced communication among OntarioBuys, its projects, and the broader public sector.

As of the time of our audit, OntarioBuys had developed annual communication and promotion

plans to focus on objectives for the coming year, but it had not developed any long-term communication and promotion plans to address the program's overall goals. OntarioBuys informed us that, prior to the March 2009 Budget, it developed only short-term plans because the program was an annual budget initiative that could have been terminated at any time.

The 2007 consultant's report also indicated that communications were not performed to a "desired" level and that existing staffing had limited additional communications capacity. In response to this, the BPS Supply Chain Secretariat in late 2008 established a new unit with designated staff to concentrate on communications activities, including the development of a long-term communications plan.

APPROVAL OF REQUESTS FOR FUNDING

As of March 31, 2009, OntarioBuys had disbursed about \$88 million for the development or expansion of SSOs. The funding enabled these SSOs to provide their members with wide-ranging assistance such as group purchasing, centralized warehousing and distribution, and implementation of management information systems so that their supply chains are better managed. OntarioBuys had also disbursed about \$61 million for the development and implementation of projects focused on improving specific areas of the supply chain for individual institutions. Examples of such projects included electronic cataloguing, warehouse automation, and research-data sharing. According to its guidelines, OntarioBuys can fund up to 100% of the costs that parties applying to become an SSO incur as they put together their SSO proposal, including all the costs of background analysis and preparation, up to 75% of the costs of actually forming the SSO, and up to 85% of the costs of the projects for improving the supply chain of individual institutions. Figure 2 gives an overview of the funding OntarioBuys has approved and funded for these purposes over the last five years.

Figure 2: OntarioBuys Funding, Approved and Paid, 2004/05–2008/09, (\$ million)

Source of data: OntarioBuys

Purpose	Amount Approved	Amount Paid
SSOs		
9 health SSOs ¹	81.9	57.5
1 education SSO ²	41.1	30.1
Total—10 SSOs	123.0	87.6
Supply-chain-improvement Projects		
45 projects—health sector	66.8	57.2
4 projects—education sector	2.7	2.3
4 projects—other sectors	3.6	1.1
Total—53 Projects	73.1	60.6
Total	196.1	148.2

1. with 79 signed-up hospitals

2. with 0 signed-up members

OntarioBuys approves funding requests—whether for SSOs or for supply-chain-improvement projects—on the basis of a review and evaluation of the applicant’s business case. A business case typically includes a description of the proposal’s goals, expected benefits, and estimated costs, as well as an implementation strategy. OntarioBuys may request additional information or support during the course of the review. For proposals requesting more than \$1 million, OntarioBuys engages external consultants to review the business case and to identify significant risks or concerns. The Ministry of Finance’s internal audit staff also conduct a general review of the business cases of proposals requesting more than \$1 million. If the review leads to approval, the applicant must sign a transfer-payment agreement that sets out the terms and conditions for funding.

Our observations with respect to requests for the funding of both SSOs and individual supply-chain-improvement projects are in the following sections.

SSO Requests

Since its inception, OntarioBuys has approved and funded business-case requests for 10 SSOs—nine in

the hospital sector and one in the education sector. These SSOs are expected to be self-sustaining, primarily through savings generated from their members’ obtaining lower prices for their purchases and implementing more efficient supply-chain practices.

To assess the adequacy of the OntarioBuys review-and-approval process for requests for SSO funding, we examined the business cases and project files with the largest projected savings and costs.

Health-sector SSOs

As of March 31, 2009, OntarioBuys had disbursed about \$58 million for the formation of nine health-sector SSOs, as shown in Figure 3. Four of the SSOs existed before the establishment of OntarioBuys. OntarioBuys funding enabled these four organizations to expand and include additional institutions. Prior to the formation of these SSOs, Ontario hospitals and other health-care-sector BPS organizations relied mainly on two national purchasing groups to meet their collaborative purchasing needs.

We reviewed the proposal for the largest SSO, “A”. As Figure 3 indicates, prior to the establishment of OntarioBuys, 18 hospitals from two separate working groups were exploring in 2003 the potential savings from collaborative purchasing and other supply chain functions. Subsequently, these hospitals decided to merge into one group to review these areas for potential savings. When OntarioBuys invited applications for the formation of SSOs, this group of hospitals applied for funding in December 2004 to form an SSO. OntarioBuys approved funding of \$22 million for this SSO in February 2005 and added another \$2 million in funding as a result of changes to the SSO agreement. By March 2006, six of these hospitals had decided to join other SSOs or opted to buy supplies through national purchasing groups. We found that the costs that the proposed SSO stated for its business case and the savings estimates were reasonably supported. The SSO has since generated savings and become self-sustaining.

Figure 3: Funding for Health-sector SSOs

Source of data: OntarioBuys

SSO	Funding (\$ million)	Pre-existing/ New SSO
A	24.2	pre-existing ¹
B	8.1	new
C	7.7	new
D	4.5	pre-existing
E	3.9	new
F	3.8	new
G	3.1	pre-existing
H ²	1.7	new
I	0.5	pre-existing
Total	57.5	

1. Before the OntarioBuys program began, the SSO that became "A" consisted of two working groups that subsequently merged in 2004.
2. "H" was proposed as an SSO for the northwest and northeast areas of the province. The proponent was provided with \$1.7 million to assess the feasibility of the SSO for this region and concluded that it would not be viable. Subsequent to our audit, OntarioBuys informed us that they have recovered \$600,000 from the proponent.

One proposed health SSO covering the northwest and northeast parts of the province—"H" in Figure 3—was found to be not viable after \$1.7 million was provided to this proponent to assess the feasibility of forming such an SSO. Subsequent to our audit, OntarioBuys informed us that \$600,000 of this total has been recovered.

Education-sector SSO

The single SSO proposal from the education sector was the largest OntarioBuys initiative in terms of projected benefits/savings—\$669 million over five years. This included estimated savings to group members of \$294 million on implementation of an electronic e-Marketplace purchasing site and \$375 million from group purchasing. Our review of the business case, file documentation, and external consultants' reports found that OntarioBuys' approval of a total of \$41 million in funding was based on questionable assumptions about savings and the level of participation of suppliers and educational institutions. Specifically, we found the following:

- An external consultant was engaged in 2007 to review and validate the expectations, assumptions, and methodology used in preparing the proposal, including the financial model (operating revenues, expenses, and balance sheet), implementation timetable, resource plan, and the anticipated benefits from e-Marketplace and group purchasing. Although the consultant's report did not address the reasonableness of the specific assumptions used, it did identify over 200 risks relating to this project. For example, one risk was low supplier participation because most suppliers were not e-Marketplace ready and would have to invest heavily in resources to connect with the system. Furthermore, we found that follow-up action was taken for only about 50 of these over 200 project risks. OntarioBuys informed us that it discussed and addressed the remaining 150 risks—but there was no documentation to show how the risks were resolved. A number of them were clearly identified as high or medium risks by an external consultant. For instance, the consultant recommended that supplier readiness be assessed to mitigate against the risk of low supplier participation, but this assessment had still not been performed at the time of our audit.
- In contrast to projected savings to be achieved by the largest health-sector SSO, which were based on participation by only 12 members, the projected savings to be achieved by the education-sector SSO required that 116 educational institutions participate fully both in group purchasing and in e-Marketplace. However, 65% of Ontario's 44 colleges and universities and 80% of Ontario's 72 school boards were already participating in various local purchasing collaborative groups. OntarioBuys had not realistically considered the likelihood that these institutions would not fully participate in both group-purchasing and e-Marketplace services. In fact, no

institutions had even signed up as members of e-Marketplace at the time of our audit.

- The \$375 million in projected savings from group-purchasing activities was determined arbitrarily. On the one hand, the business case extrapolated this amount on the basis of 116 member institutions spending \$4.4 billion on purchases. On the other hand, the minutes of an SSO board of directors meeting indicated that the same \$375-million figure was arrived at on the basis of \$3.3 billion in purchases. It appeared that the business case essentially worked back from the \$375 million of savings to arrive at the necessary expenditures required to generate the projected savings. Subsequent to our audit fieldwork, OntarioBuys provided us with a new group-purchasing-savings estimate of \$113 million over five years, a 70% decrease from the original projection but still more than the amount of funding OntarioBuys originally provided to the SSO.
- The methodology used in the education sector's proposal to calculate the \$294 million in estimated process savings from the use of e-Marketplace was based on extrapolating one university's 2004 electronic procurement savings to 116 institutions. We found no evidence that OntarioBuys staff or its consultants assessed the reasonableness of this methodology or validated the data used. OntarioBuys staff indicated that they also found the savings of \$294 million provided in the SSO business case to be unreasonable, which is why they did not include the \$294 million in their analysis of the business case. However, the analysis itself did not explain why the \$294 million had been excluded.

Project Requests

In addition to reviewing OntarioBuys' approval process for SSO requests for funding, we also

reviewed its approval process for a sample of requests for funding for projects to improve the supply-chain practices of individual institutions. We found inconsistencies in OntarioBuys' evaluations and related documentation, as well as insufficiently documented business-case reviews. It was left up to individual OntarioBuys staff reviewers to follow up and document the information they deemed to be important, but there was no documented evidence of supervisory oversight to ensure that significant concerns were being satisfactorily addressed. The following are some examples:

- One project involved the implementation of an information system to allow educational institutions and students to access research sites. The project revised its estimated costs numerous times, from an initial \$455,000 to a final estimate of over \$1 million. However, our review showed no documentation on file to validate the various cost revisions. Project review staff told us that verbal discussions did occur with the project managers, but we found no documented explanation of the reasonableness of these cost revisions. The same project estimated 40% in cost savings from collective purchasing, or more than \$500,000 annually. However, we found no documentation that OntarioBuys assessed the reasonableness of this estimate when approving its additional investment.
- For another project that received \$1 million in OntarioBuys funding, an external consultant noted that the project's estimates for the cost of implementation were "deliberately conservative" and that implementation would likely cost 30% less. However, we found no documentation of any follow-up to resolve the issue. Because projects are funded on the basis of a percentage of projected costs, overestimating costs could result in OntarioBuys distributing excessive amounts of funding to these projects. We also noted in this regard that OntarioBuys had no program-specific guidelines for recovery of overfunded

amounts. Subsequent to our audit, OntarioBuys advised us that it has initiated recovery actions on three projects and has received funding back from two of them.

- Another project extrapolated the savings achieved from reductions in staff time and inventory in a hospital emergency room to the entire hospital. OntarioBuys did not request the emergency-unit data to verify the results, and we found no documentation to show that OntarioBuys assessed the reasonableness of this extrapolation.

We noted that there was no central tracking of the comments and issues that reviewers identified in their project reviews of each file. This made it much more difficult to determine whether issues had been addressed or whether action was still required.

OntarioBuys acknowledged that supervisory oversight was not well documented in the years prior to 2007/08. According to OntarioBuys, as more staff have been hired, the supervisory-oversight process and related documentation have become more rigorous. It has also developed a centralized summary template tracking reviewers' comments that is to be used for project reviews.

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.

MINISTRY RESPONSE

OntarioBuys will develop guidelines to codify and strengthen current practices with respect to the assessment of savings and costs by January 31, 2010, and will provide mandatory training to staff once these guidelines are developed.

OntarioBuys will develop guidelines on the identification, documentation, and tracking of project risks by November 30, 2009, and will provide mandatory training to staff once these guidelines are developed.

MONITORING OF FUNDED PROJECTS AND EXPENSE CLAIMS

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

The Ontario government requires that OntarioBuys comply with the Transfer Payment Accountability Directive in its transfer payment agreements with the BPS for funded projects. The Directive requires that, once transfer payment agreements are signed, OntarioBuys have the oversight capacity to ensure, through ongoing project monitoring on a timely basis, that projects are providing the services for which the funds were received. Transfer payments must be monitored after disbursement to ensure that all contracted conditions and deliverables are being met. When recipients fail to meet the transfer payment conditions, the unspent funds must be assessed then recorded as an accounts receivable balance, as required by the government's Transfer Payment Recovery Operating Policy.

Although OntarioBuys is required to comply with the above directives, we found that it had not developed program-specific guidelines for consistent and effective monitoring of transfer payments. Specifically, no guidelines existed outlining requirements such as the level and type of documentation needed to support the review conducted; timeliness and extent of the review and monitoring of the project status and required achievements; management of payments; timeliness and frequency of site visits and work required, if any, during the site visits; and procedures to be performed prior to the release of

the final project payments and the closing of files for completed projects.

In general, the level of documented monitoring varied among project files. We did note that some files contained detailed review notes with good supporting documentation to verify the reported project status. However, many others did not. For instance:

- At the time of our audit, OntarioBuys reported cumulative savings of \$4.8 million over three years from an electronic purchasing project that had a completion date of December 31, 2006. Our audit showed that OntarioBuys had committed \$2 million to the project and that the final payment of \$600,000 was made in March 2007. We found no evidence that OntarioBuys verified that the funds were spent in accordance with the project's funding agreement and that the project had actually been completed before the release of the final payment. When we approached the BPS organization's project management to verify the reported savings, they informed us that the project was still not completed. Our discussion with OntarioBuys staff indicated that they learned of the project's incomplete status only when a new project manager informed them in February 2008. Furthermore, OntarioBuys staff informed us that they had verbally approved a project completion extension to September 2008. However, other than reporting the above \$4.8 million in achieved savings, OntarioBuys undertook no formal review of the project's status after granting the verbal extension. When we inquired about that status, OntarioBuys staff visited the project site and found that \$636,000 of its funding was still unspent, with \$94,000 in interest adding to it. When we followed up with project management in May 2009, they informed us that the funds had still not been spent and that the expected project completion date had been revised again to later this year.

Subsequent to our audit, the reported savings of \$4.8 million were revised downward to \$1.1 million.

- OntarioBuys reported cumulative total savings for another project of \$2.5 million (\$820,000 annually) over a three-year period from the 2006/07 fiscal year to 2008/09. This initiative, also related to electronic purchasing, was to have been completed by December 31, 2006. However, when we approached the BPS organization's project management, the manager told us that the project was not completed and that he was unsure how the savings number was arrived at because no baseline had been established against which potential savings could be measured. Approved funding for the project was \$1.7 million, and total payments made up to March 2007 amounted to \$1.3 million. The balance was to have been released later in 2007 when the project was to have been completed. However, at the time of our audit, the project was still ongoing, and we found no documents relating to an extension. After we raised the issue with OntarioBuys, the reported savings of \$2.5 million were revised downward to zero.
- Between 2005 and 2008, OntarioBuys disbursed a total of \$6 million to the education-sector SSO to fund its development of an implementation plan and business case. The funds were paid through three separate agreements and amendments to those agreements. But only for the first agreement did OntarioBuys request an expenditure report for actual spending. OntarioBuys did not request any final actual expenditures for the other two agreements to assess whether there were unspent funds.

Our audit also found that OntarioBuys staff were manually monitoring their assigned projects through tools such as Excel spreadsheets and individual file notations. An information system to help staff track individual project progress, required

deliverables, the achievement of deliverables, outstanding information to be reviewed, and the progress of payments need not be complex nor costly. Ontario Buys informed us that it was in the process of developing an information system to address this concern.

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.

MINISTRY RESPONSE

OntarioBuys will develop guidelines to codify and strengthen its current project-monitoring practices by December 31, 2009, and will provide mandatory training to staff once these guidelines are developed. OntarioBuys is upgrading to an electronic transfer payment tracking system, which it expects to be completed in December 2009.

OntarioBuys will provide mandatory training to staff on the TP Accountability Directive, including modules on the assessment of business cases and project monitoring.

Consulting Services

Funding agreements for all OntarioBuys SSOs and projects include a copy of the OntarioBuys procurement policy guidelines. SSOs and projects

are required to comply with these guidelines when acquiring services, including those of consultants.

The guidelines state that SSOs and projects must use an appropriate level of competition to obtain the best value for funds to be spent on consultants. In particular, if the estimated contract value is \$25,000 or more, but less than \$100,000, SSOs and projects must invite at least three potential vendors to submit written quotes and proposals. If the estimated contract value is greater than \$100,000, an open and transparent public Request for Proposal (RFP) process must be followed. Exceptions to these competitive requirements must be approved in writing by the Ministry.

According to OntarioBuys, the SSOs and the BPS organizations involved in funded projects since 2004/05 have spent about \$45 million for some 270 consultants. However, OntarioBuys did not maintain information on these consultants, such as the purposes for which they were hired, the contract rates and amounts, and the subsequent payments made. Upon our request, OntarioBuys prepared a list of consultants from information gathered from the various SSOs and projects. Using this list, we reviewed a sample of consulting contracts totalling \$15 million from various SSOs and projects and found the following:

- Almost half of the contracts we reviewed did not comply with the guidelines for obtaining competitive quotes. Predominantly, single-sourcing was used to contract for consultant services. According to the guidelines for significant contracts, single-sourcing is allowed only if a consultant has specific knowledge that cannot be provided by any other party, if it is an urgent situation, or if only one vendor can provide the requested services. In addition, approval for single-sourcing must be obtained in writing from the Ministry. In the cases noted above, we found no written approval to allow for single-sourcing.
- For 40% of the completed consulting contracts, the total payments exceeded the

contract ceiling price, and most of these consultants continued to be paid beyond the contract period. We found no evidence of amended contracts to support the final payment amounts or the extension of the payment period.

OntarioBuys staff said that they were also concerned about SSOs and projects not complying with the procurement guidelines, especially given that BPS project managers had all signed certificates indicating compliance. In fact, they noted that one project single-sourced \$1.1 million of \$2.6 million in consultant contracts without prior approval. When this was discovered in late 2007, OntarioBuys requested that this project submit documentation supporting the decisions relating to consultant contracts for a six-month period. OntarioBuys staff indicated, however, that owing to resource constraints, they did not review the contracts for other SSOs and projects to ensure that procurement policies had been complied with. OntarioBuys recognized that this was a high-risk area and requested that the Ministry's internal audit services review this area in 2007/08. In its 2007/08 audit plan, internal audit services included plans to visit BPS institutions to determine whether funding provided was monitored and the terms and conditions of the transfer payment agreements complied with. However, owing to staffing requirements in other areas, including providing assistance to our Office on the annual Public Accounts audit, the work was postponed to 2008/09. As a result of our review of OntarioBuys in 2008/09, internal audit decided to delay this work until 2009/10.

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.

MINISTRY RESPONSE

OntarioBuys will create project procurement monitoring guidelines by November 30, 2009, and will provide mandatory training to staff once these guidelines are developed.

OntarioBuys will inform projects about increased monitoring by November 30, 2009, and will implement the guidelines by February 1, 2010.

Review and Approval of Expense Claims

When conducting project work, project staff and their contracted consultants often incur expenses relating to travel, meals, and hospitality as well as other activities. Claims for these expenses are reimbursed from project funds provided by OntarioBuys. We noted that OntarioBuys did not provide SSOs or the management of supply-chain-improvement projects with a policy or guideline on expense-claim reimbursement. We found cases where, as a result, SSOs reimbursed staff of BPS organizations for expenses that would not be eligible for reimbursement under government policy or, if they were, exceeded the maximum amounts allowed under government policy. For example:

- Several projects reimbursed staff for numerous meal claims for amounts that were considerably more than the maximum amount allowed for Ontario government employees.
- An SSO reimbursed the cost of a dinner to celebrate the signing of an agreement to build an information system.
- The same SSO reimbursed the cost of a second celebration, held in the office, relating to the same agreement.
- An SSO reimbursed the cost of sending flower bouquets to the homes of each of its staff members (including contract staff) in appreciation of work done.

We also noted that OntarioBuys had not developed program-specific guidelines for the

required level of review of these expenditures by its staff.

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.

MINISTRY RESPONSE

OntarioBuys will develop a guideline on project expense claims by November 30, 2009. Once developed, existing projects will be advised that compliance is required and new projects will have the guideline incorporated directly into their TP agreements.

PERFORMANCE MEASUREMENT

BPS Participation in SSOs and Projects

According to its mission statement, OntarioBuys is “to facilitate and accelerate the widespread adoption of integrated supply-chain and other back office leading practices by Ontario’s Broader Public Sector.” After four years of operation, OntarioBuys has not made major headway in facilitating the adoption of integrated supply-chain practices in BPS sectors other than at hospitals. About 50% of Ontario hospitals are members in the eight health SSOs and involved in supply-chain-improvement projects. According to OntarioBuys, these hospitals represent about 70% of Ontario hospital beds.

With respect to the education sector, the one education SSO had not signed up any members for e-Marketplace at the time of our audit, and it had not finalized any group purchasing contracts. The following section relates the performance of OntarioBuys as it involves this SSO.

Education-sector Participation

OntarioBuys has funded one SSO in the education sector, paying out \$30 million since 2005. This SSO was formed to achieve two primary objectives: develop an electronic purchasing site called “e-Marketplace” and facilitate group purchasing for the education sector. Provided that the SSO signed up a sufficient number of member institutions and suppliers, membership fees and supplier and purchaser transaction fees were projected to generate sufficient revenues to enable this SSO to become self-sustaining. According to the original March 27, 2008, agreement with OntarioBuys, the SSO committed to the milestones and scheduled completion dates for e-Marketplace shown in Figure 4.

No institutions had signed up as paying members for e-Marketplace at the time of our audit, and no suppliers could go live on e-Marketplace because it was not yet operational. The agreement with OntarioBuys was amended in March 2009 to delay the milestone dates by about a year. The SSO told us that it was considering waiving the institutional membership fees to encourage participation. As well, the SSO informed us that it was revising its formal business case. Subsequent to our audit, OntarioBuys informed us that it had received a revised draft business case in July 2009 but added that it needed significant revisions. It also indicated that the e-Marketplace would be operational by October 2009.

At the time of our audit, the education SSO management indicated that no group purchasing contracts had yet been finalized, although they were working on potential contracts for photocopying machines, photocopy paper, and other office supplies. The SSO also was in the process of engaging an external consultant to review the various options for group purchasing of natural gas. Subsequent to our audit fieldwork, OntarioBuys informed us that, as of June 30, 2009, 39 educational institutions had expressed interest in participating in the above group purchasing contracts, but no formal arrangements had yet been negotiated.

Figure 4: Education SSO Contract Commitments for e-Marketplace to June 2009

Source of data: OntarioBuys

Milestones	Scheduled Completion Date	Actual Completion
outsourcing service agreement with information systems service provider	June 1, 2008	Aug. 7, 2008
signing up at least six institutions to use e-Marketplace	June 1, 2008	no institutions signed up as of June 2009
seven additional institutions to agree to use e-Marketplace	Sept. 11, 2008	no institutions signed up as of June 2009
50 suppliers to join the supplier network	Dec. 10, 2008	no suppliers signed up as of June 2009
six institutions and 500 suppliers to be “live” (fully active, so that institutions can make their purchases) on e-Marketplace	Feb. 20, 2009	e-Marketplace not operational as of June 2009
13 institutions and 1,000 suppliers live on e-Marketplace, processing \$30 million of purchases	June 4, 2009	e-Marketplace not operational as of June 2009

Our recent audits of Ontario colleges, universities, and school boards indicated that many of these educational institutions were already members of various purchasing groups, partnering with other public-sector entities such as municipalities and other non-profit organizations. For example, our 2006 audit of four colleges showed that each of the colleges already participated in purchasing groups for goods and services such as natural gas, printing and photocopying, cleaning services, and paper products. We also noted instances where colleges used the prices obtained by the purchasing groups of other colleges to get a better price from their own suppliers. We noted similar examples with school-board purchasing consortia that had already been established.

Our review indicated that the recent group-purchasing initiatives of the SSO—such as purchasing photocopying machines, paper products, and natural gas—were mostly already being undertaken by various existing collaborative purchasing groups. The fact that most institutions in the education sector have already been participating in various collaborative purchasing groups might help explain their reluctance to join the SSO. As well, the significant delay in the implementation of the e-Marketplace might also have contributed to their reluctance.

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.

MINISTRY RESPONSE

OntarioBuys will undertake and complete the recommended assessment of various collaborative initiatives and assess their impact on the education SSO’s business model by April 30, 2010.

Reported Savings

In March 2009, the government announced in its Budget that OntarioBuys had helped BPS entities redirect \$45 million in savings toward front-line services and it stated that these annual savings would reach the \$100-million level by the 2011/12 fiscal year. It also announced that a new co-ordinated, integrated approach to procurement

would result in \$200 million in total annual savings within the first three years of operation.

During our audit, OntarioBuys provided us with a list of reported project savings to support the amount announced in the Budget. For our review, we selected four projects with reported savings that accounted for over 75% of the \$45 million. Of this \$45 million, nearly half—\$22 million—came from the largest SSO, providing services to 12 hospitals.

We asked OntarioBuys to provide support for this figure of \$22 million and also asked the SSO for its audited financial statements. Our review of the audited statements showed that, after paying for the fees charged by the SSO, a cumulative saving of \$20 million was available for distribution to members as of March 31, 2009. Our review also showed, however, that practically all of this \$20 million remained with the SSO and was not redistributed to member hospitals to provide front-line services. In fact, only about \$337,000 was distributed to the 12 hospitals in the 2006/07 fiscal year, and nothing was redistributed in 2007/08 and 2008/09. The SSO informed us that the hospitals let it keep the remaining \$19.6 million of the savings in order to fund the next phase of the SSO's implementation plan, which was to improve its information technology for its back-office processes.

The balance of the \$23 million in reported savings came mainly from a number of supply-chain-improvement projects for individual institutions. We reviewed three projects that accounted for about \$12 million of the \$23 million and found the following:

- Our discussions with the management of two health projects with reported cumulative savings of \$2.5 million and \$4.8 million, respectively, indicated that these figures were mainly based on estimates. They said that the accuracy of the savings would be difficult to ascertain because no baselines had been established against which the savings could be determined. As noted in the earlier section on oversight of projects, these two projects were to have been completed in 2006 but

were incomplete at the time of our audit in 2009. We also noted in that section that OntarioBuys' revised list of savings, provided to us after we completed the audit, reduced the reported savings of \$2.5 million to zero and \$4.8 million to \$1.1 million.

- OntarioBuys reported that one project saved one hospital a total of \$4.6 million over three years to March 31, 2009. When we asked OntarioBuys to provide support for this figure, it could support savings of only \$1.1 million. When we visited the hospital in May 2009 to follow up, and hospital management provided us with its latest report, which showed that cumulative savings to June 2008 totalled only \$2.5 million—\$2.1 million less than what OntarioBuys had reported. Hospital management told us that they had not tracked any savings beyond the \$2.5 million. When OntarioBuys gave us its revised list of savings subsequent to our audit, it indicated that the hospital had not included the annualized process savings in the report provided to us and that, with those included, the savings could be as much as \$4.2 million.

After the completion of our fieldwork, OntarioBuys gave us a revised list of cost savings that included savings from other projects that we were unable to confirm, having completed our audit some time earlier. However, the fact that reported savings for various projects changed dramatically after our audit raises questions about the reliability of the reported savings.

For many projects, OntarioBuys reported savings that were determined without using baselines. As well, the definition of what constitutes "savings" varied among similar organizations. Our observations in this regard are the same as those made by numerous consultants to the Ministry and OntarioBuys. One pointed out that "it is simply impossible to prove benefits without baselines." Another mentioned that "the lack of a proper definition of savings and a lack of instruction to the SSOs on how to account for savings" would

“undermine the purpose for reporting savings.” Of even greater concern is that OntarioBuys did not objectively assess the validity of reported savings for most of the funded projects.

Clearly, OntarioBuys must be more diligent in ensuring that its performance results are valid and supportable before reporting them.

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.

MINISTRY RESPONSE

OntarioBuys will be providing guidelines to shared-service organizations and BPS institutions on developing baselines required to calculate savings as part of the Supply Chain Guideline version 2.0 process already underway. These guidelines will be provided by April 30, 2010.

OntarioBuys will ensure that savings are verified prior to public disclosure and, where savings are projected, ensure they are identified as such.

Other Performance Measures

Guidelines

In March 2008, the government directed OntarioBuys to develop a Supply Chain Guideline document to support and improve BPS supply-chain

activities. One year later, OntarioBuys published two principles to guide the BPS sectors: one was a code of ethics for supply-chain management and the other covered standards for procurement policy and procedures. At the time of our audit, OntarioBuys was developing additional principles for possible inclusion in an updated guideline document. After April 1, 2009, any transfer-payment agreement involving more than \$10 million in annual funding from the Ministry of Health and Long-Term Care, the Ministry of Education, or the Ministry of Training, Colleges and Universities is to include the supply chain guidelines.

The Ministry set OntarioBuys a performance target for the 2008/09 fiscal year with respect to the guidelines. OntarioBuys was to obtain endorsements from the Ontario Hospital Association and the Council of Academic Hospitals for its code of ethics and procurement guidelines. This performance target had been achieved.

Purchasing of Health Supplies

A second performance target set by the Ministry for OntarioBuys to achieve in 2008/09 was to have 50% of all medical, surgical, and consumable supplies addressed through SSOs.

OntarioBuys told us that it had achieved this target as well. We questioned this assertion for the following reasons:

- OntarioBuys did not track the actual purchases that flowed through the SSOs to determine whether the target was met. Instead, its reported achievement was based on the total purchases anticipated in the SSOs’ business cases, assuming that all SSOs have fully implemented their project plans.
- The minutes of a meeting of SSO general managers on April 20, 2009, indicated that there was a need to increase the amount of group purchasing at hospitals because the current level was currently less than 25%.

Redirecting of Savings to Front-line Services

In its 2004 Budget, the government stated that OntarioBuys was “an important initiative to reduce the overall costs of broader public sector...procurement and redirect savings to front-line services.” However, we found that OntarioBuys has no way of verifying whether savings are redirected to front-line services. Neither the performance measures of the Ministry’s results-based plan nor the supply-chain guidelines that OntarioBuys is developing require that the redirecting of savings to the front line be tracked.

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.

MINISTRY RESPONSE

OntarioBuys will use actual purchase information to determine whether the SSO participation metric has been achieved and will investigate developing the recommended performance measure(s) and collection of information regarding redirecting savings.