



Office of the Auditor General of Ontario

Value-for-Money Audit:
Liquor Control
Board of Ontario:
Information
Technology
Procurement



November 2022

Liquor Control Board of Ontario: Information Technology Procurement

1.0 Summary

The most significant purchasing expense at the Liquor Control Board of Ontario (LCBO), after alcohol, is information technology (IT). Over the last seven fiscal years, the LCBO has spent a total of about \$624 million on IT expenditures. In 2021/22, annual IT procurement costs reached \$114 million, up from \$53 million in 2015/16.

As one of Ontario's largest Crown agencies, the LCBO operates a network of 680 retail stores, an e-commerce platform and special-order services, as well as wholesaling to 394 authorized independent retailers and 450 grocery stores. It is the highest financial contributor to the Province's consolidated revenue fund, and the largest retailer of alcohol in Canada.

When procuring IT-related goods and services, the LCBO is bound by its own policy, the LCBO administration manual, as well as the Ontario Public Service Procurement Directive (Directive). This Directive is designed to help ministries and government entities acquire goods and services through a fair, open and transparent process, reduce purchasing costs, and ensure consistency in how the procurement process is managed.

Our audit noted that between 2019/20 and 2021/22, the LCBO did not consistently prioritize its IT projects at the enterprise level so as to avoid duplicated or wasted effort and inconsistent decision-making. In addition, IT business units did not prepare

annual procurement planning documents, despite being required by its own policy to do so. The LCBO applied an IT prioritization process for the first time in 2022/23 to support IT expenditure prioritization.

Almost all (24 of 25) of the business cases we reviewed lacked important details around costs and benefits, information required by both LCBO's administration manual and the Directive. Our review of procurement projects showed that expected project costs were determined after the vendor had been chosen. The LCBO believes that it needed to go through a competitive process to estimate project pricing. Costs were presented to the decision-makers for approval when the final contracts were already prepared, instead of obtaining approval before procuring potential vendors.

In the case of non-competitively procured contracts, none of the business cases we sampled provided sufficient information to justify the decision to procure without a competition. For example, there was limited documented evidence that only one supplier met business requirements, as per the LCBO's internal policy.

We learned, further, that the LCBO tended to rely on contract employees to work on and sometimes even lead its IT projects. About 33% of its IT workforce were contract employees between 2019/20 and 2021/22. Contract employees were overall more expensive than permanent staff. For example, the LCBO paid an average of \$93.29 per hour for its contract IT business analysts, while it paid on average \$68.21 per hour for salary and benefits for current permanent employees in

the same position. One contract employee in an IT business analyst position was paid \$155 per hour, while the maximum rate recommended for this role by Treasury Board Secretariat is \$119.31 per hour. Although the LCBO has indicated its intent to reduce its reliance on contract employees, it has not established any target or timeline for this.

We found that two external consulting firms were in a long-term partnership with the LCBO's IT business units. Ten contracts totalling over \$60 million (14% of total IT expenditures) were awarded to them since 2017/18. Even when one of these consulting firms performed poorly and under-delivered, it continued to receive IT and other contracts with the LCBO. In part, this was because the LCBO did not actually incorporate a review of vendors' past performance when assessing new bids. Nonetheless, this firm was rehired in 2020 for another organizational-wide contract relating to human resources, and again in 2021 for an IT security consulting contract.

Furthermore, our audit found that the LCBO did not proactively or regularly report IT procurement progress and expenditures to senior management or the Board of Directors.

Some of our significant audit findings were:

- **Contract employees were recruited without competition; some were not interviewed and some held key decision-making roles.** The LCBO had increasingly used IT contract employees for ongoing operational work such as project management. The LCBO hired contract employees for periods of employment ranging from two months to 28 months, via managed service providers or firms with a roster of IT specialists. The use of contract employees in leadership positions, such as acting vice-presidents of various IT operations, disrupts business continuity, made for a higher likelihood of ever-changing strategic directions and less accountability for IT initiatives. From a sample of five contract hires, including acting Vice-Presidents of IT and Project Managers, we saw that in four cases the LCBO had hired the individual without a competition and could not provide interview

notes. LCBO management told us some of these people may have been interviewed but could not provide sufficient evidence showing interviews had occurred. The LCBO noted that its established process with the firm that provided these contract IT employees allowed it to hire them directly without competition.

- **Documentation to justify that vendor selection was fair and objective did not exist.** We found that the vendor evaluation forms were incomplete in 10 of the 13 files we reviewed. These forms were to support the selection of vendors for important projects such as a major warehouse and an e-commerce platform, and were missing information such as the rationale for scores given and documentation of a final consensus meeting. In one case, the vendor evaluation panel included business unit leaders and their subordinates but only the leaders attended the final consensus meeting to select a vendor. The vendor selected on this occasion did not deliver satisfactory service for the project.
- **Most IT procurement contracts lacked performance targets, and payments were made without verifying the deliverables were accomplished.** Although contracts and their associated statements of work set out deliverables, most of the contracts we examined had no measurable performance indicators to track consultants' and contract employees' progress in achieving those deliverables. We reviewed a sample of 25 procurement projects and noted that only five included performance indicators. Moreover, neither IT business units nor the vendor management office could demonstrate that it had verified that vendors provided satisfactory service and met project milestones before issuing payment.
- **The LCBO relinquished ownership of the planning phase of major IT projects to consulting firms that went on to implement the plans they created.** We found that the LCBO outsourced the design phases of three major IT projects from 2017/18 to 2021/22,

encompassing tasks that included project planning and procurement planning, to consulting firms without first evaluating if its internal staff can conduct the design work. The LCBO in effect relied on external parties to advise it of its business requirements and allowed the same firms that were involved in planning such projects to also conduct work for the build phase of the same projects. In two cases, the firms determined the contract ceiling price, which increased subsequent to the start of their work. Moreover, there was no evidence that work on the design phase had been evaluated prior to entering into the build phase. One of the three projects was unsuccessfully delivered, and another project's build phase cost \$12.7 million, twice the initial estimate of \$6.5 million.

Overall Conclusion

Our audit concluded that the Liquor Control Board of Ontario's (LCBO) IT procurement process did not demonstrate compliance with its internal policy. Our audit work showed that the LCBO could strengthen its process regarding procurement planning, procurement justification, vendor performance evaluations and use of contract employees.

In addition, the LCBO did not have effective systems and processes in place to adequately prioritize IT projects to avoid duplication of effort and inconsistent decision-making, or to monitor procured IT projects to determine whether they were completed on time and/or on budget. Furthermore, the LCBO did not procure two long-term partner consulting firms and did not hire contract employees in a cost-effective manner, which contributed to the LCBO not being able to achieve its business goals in a timely manner.

While the LCBO maintained a mostly fair, open and transparent decision-making process when it came to vendor selection, we found that it did not always keep adequate records of how and why decisions were made.

Lastly, we found that the LCBO had no centralized vendor management function or framework to allow timely and consistent vendor performance

management practices, resulting in a vendor who performed poorly in the past being awarded more LCBO IT and other contracts.

Correcting these weaknesses in its IT procurement practices will help ensure the LCBO consistently obtains the best value for IT goods and services purchased from its vendors. Moreover, if the agency does not maintain rigorous and consistent internal project planning and accountability mechanisms, its ongoing system-wide IT modernization project will be at risk of unexpected cost increases and project delays.

This report contains 10 recommendations, with 26 action items, to address our audit findings.

OVERALL LCBO RESPONSE

The LCBO appreciates the Auditor General's audit of its IT procurement process, as well as the audit on the LCBO's project management process.

The LCBO prides itself on running a fair, open and transparent procurement process and believes strongly in our adherence to the Ontario Public Sector Procurement Directive.

Some findings in this report, i.e., the need for a robust vendor performance management framework, had already been identified internally and are being put in place, and along with the requirement to increase the documentation for justifications for non-competitive procurements, will further strengthen the LCBO's commitment to transparent procurements and IT project governance.

The LCBO has undertaken significant work in the last year and half to establish robust project intake processes and project monitoring processes. Tracking performance on all significant projects has been in place since the start of 2022 with the addition of a Technology Committee of the Board of Directors that meets more than quarterly, and that receives reports on progress, status, and expenditure tracking. Senior management receives monthly reports on all significant projects, including IT projects.

The LCBO acknowledges and agrees with the importance of value-realization for its future IT

modernization project. This commitment is underpinned by already established project governance, with additional accountability mechanisms to be implemented as this important work progresses.

2.0 Background

2.1 About the LCBO

The Liquor Control Board of Ontario (LCBO) is a Crown agency owned and controlled by the government of Ontario. Under the *Liquor Licence and Control Act, 2019* (Act) it has the power to buy, import, distribute and sell alcoholic beverage products in Ontario. The LCBO is governed by a board consisting of no more than 11 members; they are appointed by the Lieutenant Governor in Council. The agency's stated mission is to be a "best-in-class, customer-first, responsible retailer and wholesaler supporting local communities and delivering value to Ontarians."

The LCBO describes itself as the largest alcohol retailer in the Canada. It operates a network of 680 retail stores, an e-commerce platform and special-order services, offering almost 34,000 spirits, wine and beer products to consumers and licensed establishments. The organization also distributes products to 394 LCBO Convenience Outlets (LCBO-authorized independent retailers in remote communities) and 450 grocery stores across Ontario. In the fiscal year 2021/22, the LCBO estimates it sold more than 1.1 billion litres of alcohol products, which generated gross revenue in excess of \$7.3 billion.

The LCBO funds its own operations. Its surplus net income is distributed to the Province through a dividend to the consolidated revenue fund. In 2021/22, that dividend was \$2.55 billion, making the LCBO the highest financial contributor of any Crown agency. By comparison, Ontario Lottery and Gaming Corporation and Hydro One contributed about \$1.77 billion and \$301 million, respectively, to the consolidated revenue fund in 2021/22.

2.2 IT Procurement Planning

2.2.1 Overview of IT Strategic Planning

The LCBO's corporate strategy is built on a rolling three-year cycle that is reviewed and updated annually. The current strategy cycle covers 2022 to 2025. The strategic planning team (strategy team), which reports to the organization's Chief of Staff and Vice-President of Strategy, leads the strategic planning process.

The LCBO's IT senior management told us that IT planning is part of the corporate strategic planning exercise. Annually, the Vice-President of IT Strategy and Management, as well as the Directors and Senior Managers of the IT Division, are to meet with the strategy team to discuss the annual work plan for IT. This plan is to be subsequently incorporated into the LCBO's overall corporate strategy.

During the corporate strategy process, all LCBO's C-suite executives, including the Chief Information Officer and the Chief Financial Officer, have the opportunity to review and adjust their commitments and performance measures and monitor progress against previous targets.

2.2.2 IT Systems

Over time, the LCBO has developed a complex IT architecture, in which a single system typically interfaces with more than 20 other LCBO and third-party systems, including those of suppliers or the Ministry of Finance.

As of August 2022, the LCBO has about 450 different IT systems, all of which support some facet of its operations, including supply chain, retail, warehousing and e-commerce delivery. According to a May 2021 report prepared by the consulting firm Accenture (Consulting Firm B), 70% of the LCBO's IT systems are considered to be legacy systems, that is, systems which are costly to maintain due to reasons such as no longer being supported by the product's vendor and difficulty in finding application expertise.

We conducted benchmarking with liquor control boards similar to the LCBO from other major Canadian

provinces. While the Manitoba Liquor and Lotteries Corporation has a comparable number of IT systems (about 400), its operation includes both liquor and lotteries. The British Columbia Liquor Distribution Branch and the Société des alcools du Québec each have significantly fewer IT systems (approximately 50 and 80, respectively); both organizations' operations include liquor as well as cannabis.

According to the LCBO, the complex nature of its overall IT architecture presents a challenge to change. For example, replacing its end-of-life enterprise supply chain management platform would require at least 78 primary integrations and the need to examine, redesign and integrate at least 156 software systems.

2.2.3 Plan to Modernize IT Architecture Established in 2016

The LCBO considers its aging IT infrastructure to be the root cause of rising IT procurement costs and elevated risks related to business continuity and IT security. In response to these issues, the LCBO engaged a consulting firm, Deloitte (Consulting Firm A) in 2016 to support IT strategic planning for fiscal year 2017/18 and beyond. Consulting Firm A conducted interviews and workshops with key personnel from the LCBO; analyzed the LCBO's business capabilities against its strategic goals to identify gaps; and reviewed IT applications to identify initiatives to close these gaps. In December 2016, the LCBO, using the work performed by Consulting Firm A, established a three-year roadmap of IT initiatives to advance its IT infrastructure. The final roadmap included 22 prioritized IT projects with an estimated capital requirement of \$136 million for the fiscal years 2017/18 through 2019/20. LCBO's senior management approved and implemented 11, or half, of these projects from 2016/17 to 2018/19.

LCBO IT senior management explained to us that changes to IT operations were put on hold because of competing priorities and limited resources in the fiscal years following 2017/18. For instance, in 2018/19, the government sold the land and building of the LCBO headquarters and the Toronto warehouse, which

required the LCBO to dedicate time to relocate staff and operations to the new locations.

The LCBO informed us that as a result of this 2016 project, its IT architecture review board started incorporating the consultant's work to inform its decision-making, beginning in January 2021. Part of this board's responsibility is reviewing proposed IT systems to assess their fit with the existing IT architecture so as to limit additional interface work that may be necessary to integrate all newly procured systems.

2.2.4 Future State Modernization Plan Proposed in 2021

Under new IT leadership, the LCBO began to analyze and assess its IT architecture. In February 2022, the LCBO's Chief Information Officer, who had joined the organization in December 2020, presented an IT plan titled "Future State Modernization" (modernization plan) to the LCBO's Board of Directors. Some key points from the modernization plan are:

- The LCBO views a modernized IT landscape as foundational to helping the organization prepare for marketplace changes and ultimately deliver on its mandate.
- The LCBO has determined its technology landscape has needed attention since 2016. Specifically, it acknowledged that its:
 - technology is aging, and one-third of core applications need to be replaced as soon as possible due to technology obsolescence, security exposure or lack of vendor support;
 - technology is complex and difficult to work with;
 - IT maintenance costs are on the rise—by 2027/28, cumulative legacy maintenance costs and operational costs for critical IT systems will reach an estimated \$389 million (from 2021/22 to 2027/28); and
 - processes are inefficient—for example, it determined that it takes three times longer than industry standards to verify product availability and three days to make price changes across all its retail channels.

A rigid and complex technology landscape has affected the LCBO's ability to change and respond quickly to ever-evolving customer expectations. In fact, the LCBO has estimated that it could be generating \$209 million more of revenue annually if its information technology was up to date.

Based on pre-work done for the modernization plan, the LCBO's 2022–25 Strategic Plan makes it a corporate priority to rebuild and strengthen the foundations of its IT infrastructure, systems, processes and program management.

In May 2021, the LCBO hired Consulting Firm B to develop the pre-work of this modernization plan, leveraging on the work done by Consulting Firm A that developed an IT roadmap for the LCBO in 2016, as discussed in **Section 2.2.3**. Consulting Firm B developed a new IT roadmap. Following the consulting firm's work, in fall 2021, the LCBO prepared a business case for its modernization plan. The Board approved the business case in February 2022, and in early March 2022 it was submitted to the Ministry of Finance and the Ontario Financing Authority as required under the *Liquor Control Board of Ontario Act, 2019*. The Act states that if the LCBO proposes to undertake a major capital expenditure, it shall borrow the necessary funds from the Ontario Financing Authority and obtain approval from the Minister of Finance. According to a regulation under the Act, a major capital expenditure is defined as any capital project with an aggregate amount of the budgeted or actual expenditures that exceed \$10 million.

In April 2022, the Ministry of Finance approved the LCBO's request for financing capital expenditures related to the modernization plan for IT. In May 2022, the LCBO initiated the procurement processes and created a request for proposal to seek a vendor to help with the planning stage of the modernization plan. As of October 2022, the LCBO had not yet established a scope or implementation plan.

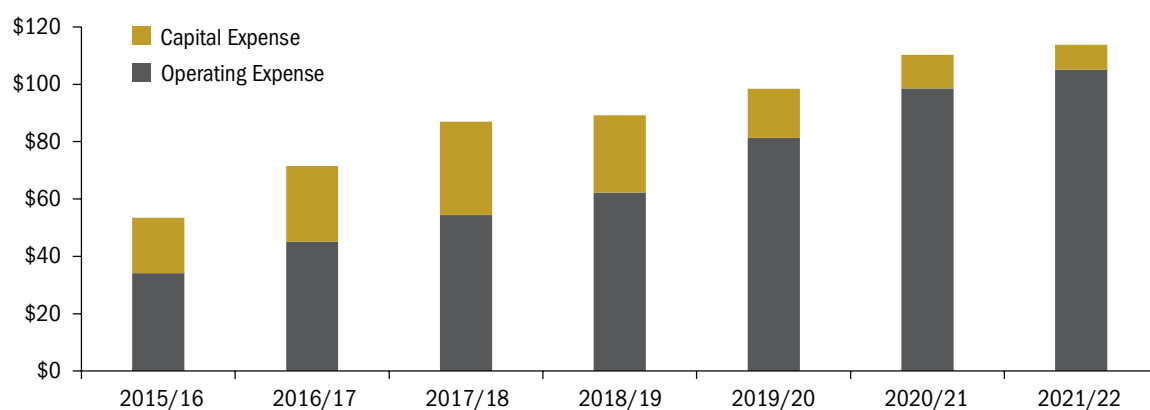
2.3 Overview of IT-Related Goods and Services Purchases

2.3.1 IT Spending

The age and large number of IT systems have contributed to high IT maintenance and integration costs. Each application requires continual lifecycle management that covers upgrades, security patching, support, maintenance, and integration, as well as contract management. Increasingly more of the LCBO's IT budget is consumed by maintenance costs for legacy systems, with an increased reliance on sole-source expertise. As shown in **Figure 1**, the LCBO's annual IT expenditures have risen steadily from \$53 million in 2015/16 to \$114 million in 2021/22, an increase of 112% over these six years. In the business case for its modernization plan (discussed in **Section 2.2.4**), the LCBO expected that it would need to spend \$360 million between 2022/23 and 2027/28, consisting of \$327 million in maintenance costs and \$33 million in operational costs, if it did not update its

Figure 1: LCBO Information Technology Spending, 2015/16–2021/22 (\$ million)

Source of data: Liquor Control Board of Ontario



IT infrastructure. **Figure 2** shows the LCBO's projected expenditures related to critical legacy systems.

As shown in **Figure 3**, between 2019/20 and 2021/22, the LCBO's IT help desk incurred the highest IT expenditures of any LCBO IT business unit, followed by two business units that are responsible for IT projects. Projects are typically created to renew and/or update existing IT systems and can lead to procurement. The other business units are predominantly responsible for operational activities. Prior to 2019/20, the LCBO did not maintain financial records in a way that would allow a breakdown of IT spending.

IT contract expenditures, totalling \$163 million, represented about 50% of total IT expenditures between 2019/20 and 2021/22. **Figure 4** shows that

operating IT contract expenditures were \$133 million in these three years, representing 82% of the total IT contract expenditures.

2.3.2 Procurement Policies and Requirements

Ontario Public Service Procurement Directive

The Ontario Public Service Procurement Directive (Directive), developed by the Management Board of Cabinet in March 2019, outlines the responsibilities of individuals and organizations throughout the procurement process. The goals of the Directive are: to ensure that goods and services are acquired through a fair, open, transparent, accessible and geographically neutral process; to contribute to a reduction in

Figure 2: Projected Expenditures Related to Critical Legacy IT Systems, 2022/23–2027/28 (\$ million)

Source of data: Liquor Control Board of Ontario

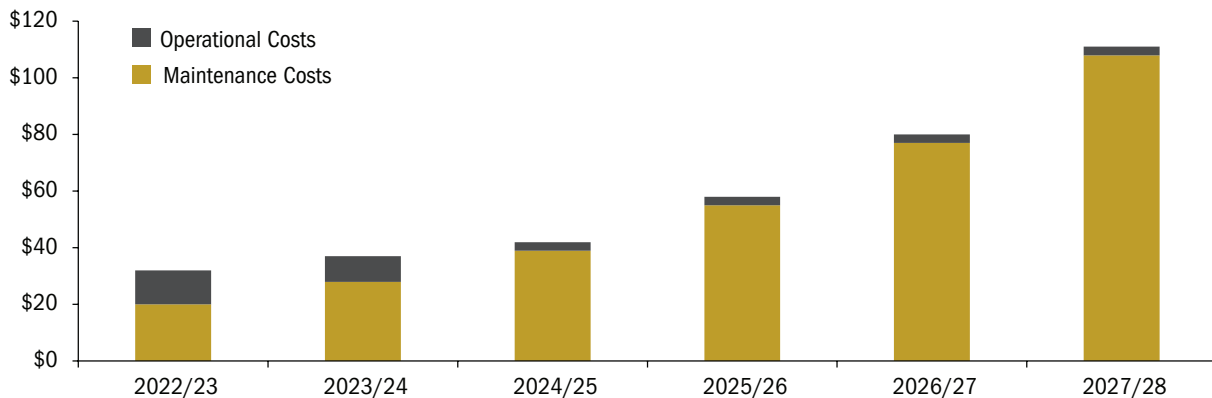


Figure 3: Three-year IT Expenditures by Business Unit, 2019/20–2021/22 (\$ million)

Source of data: Liquor Control Board of Ontario

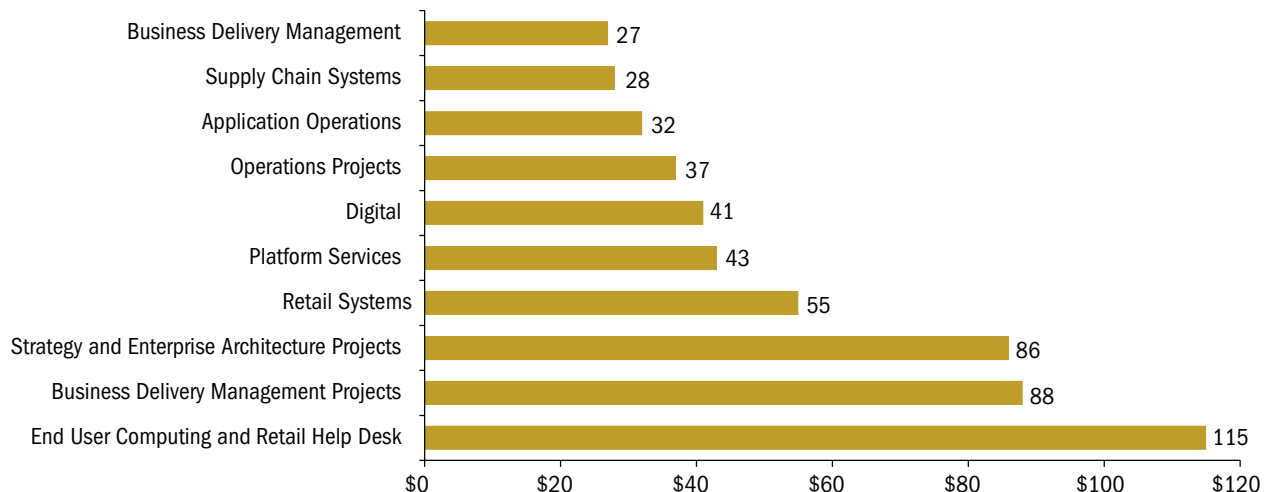
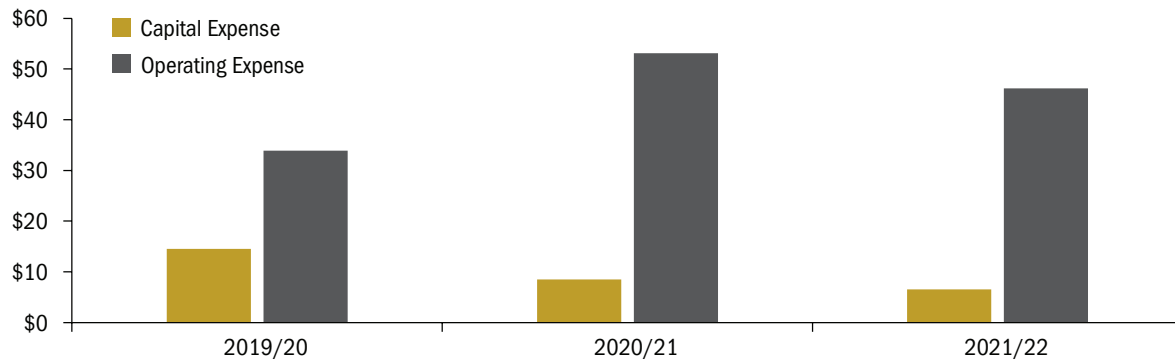


Figure 4: Capital Expenses and Operating Expenses Related to IT Procurement, 2019/20–2021/22 (\$ million)

Source of data: Liquor Control Board of Ontario



purchasing costs; and to ensure consistency in the management of procurement.

According to the Memorandum of Understanding (MOU) between the LCBO and the Minister of Finance, last reviewed and signed in 2021, the LCBO is considered an “Other Included Entity” and must therefore comply with all applicable government policies, guidelines, and directives, such as Sections 3 and 8 of the Directive, regarding procurement. Previous versions of the MOU had similar clauses. **Appendix 1** summarizes Sections 3 and 8 of the Directive, as well as provisions from Sections 4 and 5 to which LCBO is not subject, but that serve as guidance and best practices for procurement.

In September 2020, the Management Board of Cabinet updated the Directive to include interim measures because the government was moving to centralize the purchasing and supply chains in the Ontario Public Service and the broader public sector, including establishing Supply Ontario. These measures, described in **Appendix 2**, are a set of rules designed to support consistency in procurement-related decisions and for the collection of data during the transition to a centralized procurement system. The LCBO is also subject to these interim measures.

LCBO Administration Manual

The LCBO has an administration manual that contains policies and procedures on procurement and contract management of goods and services other than those that relate to alcohol inventory. The manual

outlines the LCBO’s procurement process, as shown in **Appendix 3**, and the type and value of procurements for which the LCBO must use competitive, non-competitive or informal procurement processes, as shown in **Appendix 4**. The manual was last revised in May 2019.

Use of the Vendor of Record

A Vendor of Record (VOR) is a list that has been created through an open competition of qualified suppliers that can provide a particular good or service. Depending on the particular terms of the VOR, there may be a second-stage invitational competition.

The LCBO is required to use the Ministry of Public and Business Service Delivery’s VOR for all procurement over \$250,000, including information technology. This ministry was formerly the Ministry of Government and Consumer Services. The arrangement authorizes one or more vendors to offer specific goods or services to the LCBO for a defined period with terms and conditions and pricing as set out in the particular VOR arrangement. For example, the LCBO uses a VOR to procure its IT security products and services and IT contract employees.

Procurement-Related Reporting Requirements

The LCBO, through the Chair of its Board of Directors, must provide various reports to the Minister of Finance for approval, based on reporting obligations set out by the MOU. A summary of these reporting requirements related to IT procurement is listed in **Figure 5**.

Figure 5: Summary of LCBO's Reporting Requirements to Minister of Finance

Source of data: MOU between Minister of Finance and Chair of the LCBO (June 2021)

Report Document	Description	Frequency
Annual Business Plan	Covers a minimum of three years from the current fiscal year; includes budgets and forecasts of IT expenditures that are used as business rationale for IT procurement.	Annually
Compliance Attestation	Attestation to the Minister of Finance that the organization has complied with all applicable directives, including the Ontario Public Service Procurement Directive (wherein the LCBO is considered an "Other Included Entity" and therefore must comply with sections 3 and 8). The attestation also includes reference to internal control systems. The LCBO engages a consulting company every three years to perform an independent review on the effectiveness of these internal controls.	Annually
Trade Agreement Reporting	When procuring IT goods or services, the LCBO must comply with applicable trade agreements, including the Canadian Free Trade Agreement and the Canada-European Union Comprehensive and Economic Trade Agreement.	As required

2.3.3 How IT Goods and Services Are Procured

A number of departments at the LCBO perform procurement functions, as shown in **Appendix 5**. The LCBO's IT procurement process starts when the IT business unit identifies to the procurement services team the need to purchase goods or services. The procurement services team then guides the IT business unit to plan the procurement project, establish procurement requirements and determine procurement method.

Open Competitive Procurement Process

Based on the submitted procurement requirements, the procurement services team creates a request for proposal that is posted on a Web-based bidding platform. Once bids come in from various vendors, the IT business unit assembles an evaluation team. Guided by the procurement services team, the evaluation team proceeds, through evaluation stages, to select the best vendor. The chosen vendor then negotiates contract terms such as service levels and project timelines with the IT business unit, which is supported by the LCBO's internal legal services team. Upon finalizing the contract agreement, the procurement services team supports the business unit in seeking approval from the required level of internal authority, and notifies unsuccessful bidders that participated in the bidding. After the contract award notices have been sent to the successful vendor, unsuccessful bidders can request

a review meeting with the LCBO to discuss their evaluation.

Non-competitive Procurement Process

When the LCBO directly awards a contract to a vendor, the business unit must create a justification form for the direct award. The business unit then works to obtain the required approval based on the approval requirements shown in **Appendix 6**. If the justification for direct award is approved, the legal services team helps the business unit create and finalize a contract to award to the vendor.

Contract Management

Once the contract commences, the vendor's work is monitored by the IT business unit and the vendor management office, a centralized office for contract management within the IT Division. Upon reaching pre-determined payment milestones, vendors invoice the IT business unit. The unit validates the invoice against delivery of goods or services, and sends it to the accounts payable department for payment.

2.3.4 How the LCBO Reviews Its Procurement Practices and Processes

Since 2015/16, the LCBO's internal audit team has conducted several audits and recommended steps to improve IT procurement practices, the procure-to-pay

process and vendor management practices. As well, in 2021 prior to our audit, the LCBO engaged a consulting firm (PwC) to review its procurement process for both IT and non-IT projects; the consulting firm has issued recommendations, such as creating a central database for monitoring and analyzing all procurement expenditures. The LCBO addressed recommendations that were targeted to be completed in the short term and was in the process of implementing other, longer-term, recommendations at the time we completed our audit. **Appendix 7** summarizes the implementation status of the 2021 recommendations from the consulting firm's review.

3.0 Audit Objective and Scope

Our objective was to assess whether the LCBO has effective systems and processes in place to:

- procure information-technology (IT)-related goods and services based on strategic plans and in a timely, cost-effective, fair, open and transparent manner in compliance with legislation, government directives and applicable procurement policies;
- monitor the performance of IT vendors in a timely and regular manner; and
- evaluate the effectiveness of its own performance in managing IT procurements.

We identified the audit criteria (see **Appendix 8**) we would use to address our objective, based on a review of applicable legislation, policies and procedures; internal and external studies and best practices. Senior management at the LCBO agreed with the suitability of our objective and associated criteria.

Most of our work was focused on procurement and IT planning activities that occurred in the three-year period ending March 31, 2022, and in some cases over the six-year period ending on that date. We obtained written representation from the LCBO senior management that, effective November 18, 2022, they had provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

We conducted the following work between February and August 2022, primarily at the LCBO head office location. We:

- reviewed documents including applicable legislation, reports, directives, policies and Board meeting minutes;
- analyzed IT spending and procurement data over seven years, where possible;
- interviewed relevant staff working in procurement, finance, IT, strategic planning, vendor management and project management;
- examined procurement-related documents such as requests for proposal, vendor selection forms, business cases and contracts related to 25 procurement projects that were active during 2019/20 and 2021/22; these projects were procured using a mix of procurement processes including competitive, invitational competitive, direct award and purchase orders; and
- met with representatives from similar agencies such as the Manitoba Liquor and Lotteries Corporation, the Société des alcools du Québec and the British Columbia Liquor Distribution Branch to understand their procurement processes to identify different practices used.

We conducted our work and reported on the results of our examination in accordance with the applicable Canadian Standards on Assurance Engagements—Direct Engagements issued by the Auditing and Assurance Standards Board of the Chartered Professional Accountants of Canada. This included obtaining a reasonable level of assurance.

The Office of the Auditor General of Ontario applies the Canadian Standards of Quality Control and, as a result, maintains a comprehensive quality control system that includes documented policies and procedures with respect to compliance with rules of professional conduct, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

4.0 Detailed Audit Observations

4.1 Better IT Expenditure Planning and Monitoring Needed

4.1.1 IT Procurement Not Planned or Prioritized

IT Projects Not Consistently Prioritized Prior to Entering Procurement Between 2019/20 and 2021/22

The LCBO incurred significant IT procurement expenditures between 2019/20 and 2021/22. As shown in **Figure 3**, two business units that are responsible for IT projects at the LCBO incurred the second and third highest IT expenditures in the three-year period ending 2021/22, with combined expenditures of \$174 million. These expenditures exceeded day-to-day operational expenditures incurred by the IT help desk by \$59 million.

IT projects are typically created to renew and/or update existing IT systems and can lead to procurement. The LCBO's IT project management office informed us that, as of April 1, 2022, there were 63 IT projects that required funding for the fiscal year 2022/2023. At this volume, it is important for IT procurements, whether for projects or for everyday operations, to be assessed and prioritized at the enterprise level, so as to avoid duplicated or wasted effort, and inconsistent decision-making.

As noted in **Section 2.3.2**, the Memorandum of Understanding (MOU) between the LCBO and the Minister of Finance does not subject the LCBO to Section 4 of the Ontario Public Service Procurement Directive (Directive), though that section provides guidance and best practices regarding procurement practices. Section 4 of the Directive notes that procurement planning for large projects must align with the key business objectives of the project and provide sufficient detail of all required procurements to successfully meet the key business objectives.

The LCBO had developed a process to govern the status of its IT projects as early as May 2019, and that process evolved to also include project prioritization in September 2021. By April 2022, the LCBO had applied

the IT prioritization process for the first time to support IT expenditure prioritization for the full fiscal year.

In April 2022, the LCBO began reviewing its IT projects. Senior corporate executives looked at all IT-related projects for the fiscal year 2022/23 and prioritized certain ones. As well, this new project list was still incomplete as it excluded six “keep-the-lights-on” projects, namely, (1) the e-commerce business-as-usual project, (2) the IT service certificate management project, (3) the merchandise annual hierarchy update project, (4) the retail cheque automation report project, (5) the retail point-of-sales enhancement project, and (6) the supply chain order management system project. Management told us that these “keep-the-lights-on” projects were essential to LCBO's IT infrastructures and therefore did not need to be included in prioritization planning and would enter the procurement process directly. However, it would still be prudent for the LCBO to include these projects to ensure the completeness of the LCBO's assessment of its IT capital needs.

IT Procurement Planning Not Performed at the LCBO

The LCBO's administration manual requires each business unit to complete an “annual procurement calendar” that identifies any procurement needs for the upcoming year. According to the manual, the business unit's procurement planning process should take into consideration estimated cost and time required for each project, evaluation plan, pricing structure, funding source and procurement method. Furthermore, Section 4 of the Directive states that procurement planning considerations should include identification of business needs, justification for the acquisition and clear definition of specifications. For IT-specific procurements, the Directive requires the assessment of delivery, testing and acceptance requirements, applicable technical architecture and design and interface requirements.

The LCBO could not provide any evidence to support the completion of IT procurement plans for any of the years reviewed. The LCBO's IT procurement services team also told us that IT business units did not prepare annual procurement calendars, despite

the requirement to do so in the LCBO's administration manual and the best practices noted in the Directive.

RECOMMENDATION 1

To improve the completeness and effectiveness of its IT strategic and expenditure planning process, we recommend that the LCBO:

- develop a process to monitor that all IT projects, including associated planned expenditures, are considered in its periodic prioritization exercise; and
- require IT business units to prepare annual IT procurement plans and provide the plans to IT procurement service team, as per LCBO's internal policy.

LCBO RESPONSE

The LCBO accepts the Auditor General's observation. The LCBO began prioritizing IT projects in 2022/23 and will develop a process that includes all IT projects.

The LCBO will reinforce with the IT business units the requirement to prepare annual IT procurement plans and calendars. The plans and calendars are a tool to support resource planning within the Procurement Services Department. As part of its continuous improvement to IT project governance, the LCBO has integrated its Procurement Services team into the existing project intake process to participate in the review and planning of proposed and approved IT projects.

4.1.2 Cost and Benefit Details Missing from All Approved Business Cases Sampled

Based on a sample of projects, we found that the LCBO properly approves procurements according to the Ontario Public Service Procurement Directive (Directive) and its own administration manual. However, 24 of 25 business cases for procurement projects we sampled lacked important details around costs and benefits that were required by both the LCBO's administration manual and Section 8 of the Directive. In

addition, for all 24 business cases, expected project costs were determined only after the vendor had been chosen, and were presented to decision-makers after the final contracts had been prepared instead of earlier, to obtain approval to proceed with procurement.

The LCBO's administration manual requires business units to determine the total procurement cost by considering all costs associated with the procurement project, including but not limited to acquisition, installation, training delivery, maintenance, and options to renew. Section 8 of the Directive requires similar cost information to be gathered upfront to determine the appropriate procurement approval authority and procurement method. In addition, it requires consideration of benefits associated with entering a contractual relationship with a third party, and the proactive analysis and comparison of alternative or in-house options based on their costs and benefits to the organization.

Our audit found that, in 24 of the 25 procurement projects reviewed, the IT business units used the pricing information provided by the chosen vendor's bid as their cost estimate rather than independently conducting research to determine an estimate of reasonable cost prior to bid process. In addition, these contracts, including their costs, received approval from senior management and the Board of Directors only at the contract awarding stage rather than earlier, during the project approval stage. The LCBO believes that it needed to go through a competitive process to estimate project pricing.

In October 2021, the LCBO's project management office implemented a revised intake process—a process that precedes the procurement process—which requires those who initiate IT procurement projects to submit a business case with a cost/benefit analysis, a feasibility assessment and a risk assessment. These business cases were to be presented to senior management for approval before the project can proceed to procurement stage. The LCBO informed us that 25 new IT project requests for the 2022/23 fiscal year had gone through the business case phase of this augmented project review process as of August 2022.

However, when reviewing the March 2022 business case prepared to obtain the Ministry of Finance's

approval for funding for the LCBO's Future State Modernization Plan (discussed in **Section 2.2.4**), we found that the business case stated that the cost estimate was an assumption and a detailed cost breakdown was not available. This indicates that the LCBO still had not fully implemented its revised intake process. The business case stated that: "a competitive procurement process must be initiated to select the vendor(s) and solutions; depending on the solution, costs will be determined and allocated as capital or operating expenses."

The LCBO did not have a process to monitor that all Directive requirements are followed.

RECOMMENDATION 2

So that procurement needs are appropriately assessed and documented prior to contracting to procure IT goods and services, we recommend that the LCBO:

- require business cases to be presented to the appropriate approval body, as per the LCBO's internal policies, prior to commencing the procurement process; and
- require the procurement services team to review these business cases prior to presenting them to senior management to ensure that appropriate procurement planning and strategy have been considered.

LCBO RESPONSE

The LCBO agrees with the Auditor General that it is important that business cases have sufficiently detailed cost and benefit details. As part of its continuous improvement to IT project governance, the LCBO has integrated its Procurement Services team into the existing project intake process to participate in the review and planning of proposed and approved IT projects.

For all procurements related to IT projects that require approval of its Board of Directors, the LCBO will explore whether there is an opportunity to revise its governance framework to include

approval of the business case for proposed procurement projects prior to issuance to market.

4.1.3 Weak Governance and Oversight of IT Procurement by Senior Management and Board of Directors

Our audit found no evidence that the LCBO had a process to support proactive and regular IT procurement reporting to senior management or the Board of Directors (Board). Although the LCBO's administration manual requires all vendor contracts over \$3 million to be approved by its Board, this policy does not stipulate who needs to evaluate and approve procurement projects before the procurement process begins. Our audit found that in our sample of 25 procurements, senior management and the Board approved business cases at the same time as they approved the final vendor contracts. We found no documented evidence that any business cases had been presented to senior management and/or the Board prior to seeking approval of the final vendor contract agreement.

In addition, the LCBO informed us that it did not have a process to collect data and assemble monitoring reports that track vendor contract expenditures, progress and major issues with IT procurement projects. In 2019, the LCBO established a Strategic Project Oversight Council to periodically review the status of its IT projects. However, when reviewing meeting minutes, we could find status updates related to only nine of the 25 vendor contracts we reviewed. The LCBO noted that some contracts did not require status updates because they supported day-to-day operational needs, but we found that at least five contracts not presented to the Council were IT projects. The work of this Council was discontinued in 2021. This impaired senior management and the Board's ability to assess the progress of ongoing IT projects and their outcomes, and to hold IT business units who requested the procurement accountable for their decisions.

As well, the LCBO's Chief Information Officer did not have a mandate to regularly report IT expenditures or major projects' progress to the Board prior

to December 2021. As a result, the Board could not see how major IT expenditures were likely to impact the ongoing operations or overall expenditures of the LCBO. In January 2022, the Board formed an Information Technology Sub-committee. However, neither the Board nor this Sub-committee had requested regular reporting from management to demonstrate transparency and accountability for IT procurement spending. The Chief Information Officer reports to this Sub-committee according to the governance structure.

We also examined the proposed governance structure for the Future State Modernization Plan (see **Sections 2.2.4 and 4.1.2**) as noted in its business case. We found that the LCBO established a program governance office in September 2022 to steer program delivery for this project; however, the LCBO had not yet established an accountability mechanism that would allow senior management, the Board of Directors or the Ministry of Finance to hold the LCBO's IT Division accountable to regularly report on the project progress. Given the significant scope—to rebuild and strengthen the foundations of LCBO's IT infrastructure, sound project governance is critical for the project's success. When this was not in place, as in the earlier 2016 IT roadmap, the LCBO allowed itself to depart from that plan.

RECOMMENDATION 3

To improve governance and oversight of IT expenditures and procurement, we recommend that the LCBO:

- develop information reports that provide key insights on IT procurement and expenditures, such as an overview of planned and in-progress IT procurement projects, project progress, and actual versus budgeted project expenditure; and
- establish a process to present these reports to LCBO senior management and its Information Technology Sub-committee of the Board of Directors at least quarterly.

LCBO RESPONSE

The LCBO agrees and is committed to ensuring that governance and oversight of IT procurement is strong. The LCBO has already taken steps over the last several years to strengthen procurement governance and oversight. Project oversight has benefitted from the enhanced IT project intake process. The LCBO continues to track estimates and expenditures related to its proposed and approved IT projects throughout the project lifecycle and will provide better reporting to the LCBO senior management and the Technology Committee of the Board of Directors. The LCBO has recently established accountability mechanisms to formulate reporting relationship and frequency among senior management, the IT Sub-committee, the Board and the Ministry of Finance.

RECOMMENDATION 4

To better realize the value from expenditures for the preparation of its IT Future State Modernization Plan, we recommend that the LCBO:

- examine the estimated costs for the Future State Modernization Plan;
- establish a step-by-step project plan that specifies the deliverables and milestones and a project accountability mechanism with corresponding ownership; and
- report project progress and expenditures to the Information Technology Sub-committee of the Board of Directors and the Ministry of Finance at least quarterly.

LCBO RESPONSE

The LCBO acknowledges the importance of realizing value from the implementation of its Future State Modernization project. The LCBO continues to update the detailed project plan, including deliverables, milestones and costs. As the project

progressed, the Technology Committee of the Board of Directors began receiving more regular updates on the project, including progress, spend to date, and progress on value realization at each of its meetings. Subsequent to the completion of the audit, the LCBO's senior management has provided updates to the Ministry of Finance on a more regular basis about the Future State Modernization project.

4.2 Non-competitive Procurements Not Sufficiently Justified

The LCBO's procurement policy sets a threshold of \$25,000 for goods and \$100,000 for services, above which the contracts awarded must go through a public and competitive procurement process, including a request for proposal. Using a competitive procurement process helps to achieve value for money because it can give an organization a range of options when choosing a supplier to provide the highest quality goods or services at the lowest price. Like other Crown agencies, the LCBO has an obligation to ensure that taxpayers receive good value from its purchasing decisions, which is stipulated by Section 3 of the Ontario Public Service Procurement Directive (Directive).

The LCBO can also use non-competitive procurement methods, direct awards, for contracts above these dollar thresholds if there is sufficient reason to do so, such as urgency, or if only one supplier could deliver services. The LCBO's administration manual is aligned with Section 4 of the Directive, which requires non-competitive procurement to be supported by a business

case that identifies business requirements, the proposed non-competitive procurement process, as well as the rationale for using a non-competitive procurement process including the circumstances that prevent the use of a competitive procurement process. **Appendix 1** provides a complete list of allowable exceptions. One allowable exception occurs when only one vendor can meet the business requirements, and documentary evidence must be included to show this is the case. As mentioned in **Section 2.3.2**, the LCBO is not subject to Section 4 of the Directive but the section serves as best practices to guide procurement practices in the public sector.

Our data analysis showed that from 2019/20–2020/21 the LCBO directly awarded 65 out of 104 IT contracts above the threshold of \$25,000, as shown in **Figure 6**. These 65 contracts totalled \$108 million, representing 42% of the total value of all IT contracts over these three years, as shown in **Figure 7**. The LCBO explained that non-competitive contracts were more common for IT procurement due to existing legacy systems and because of proprietary rights in software.

We reviewed a sample of 12 of the 65 directly awarded contracts and found that all 12 had approved business cases attached to them. However, none of these business cases provided sufficient information to justify an exception to the competitive procurement process. Specifically, we found there was limited documented evidence to support the idea that only one vendor met the business requirements. There was also no documentation to demonstrate that the LCBO had considered alternatives to non-competitive procurement.

Figure 6: Breakdown of Number of IT Contracts by Procurement Methods Used, 2019/20–2021/22

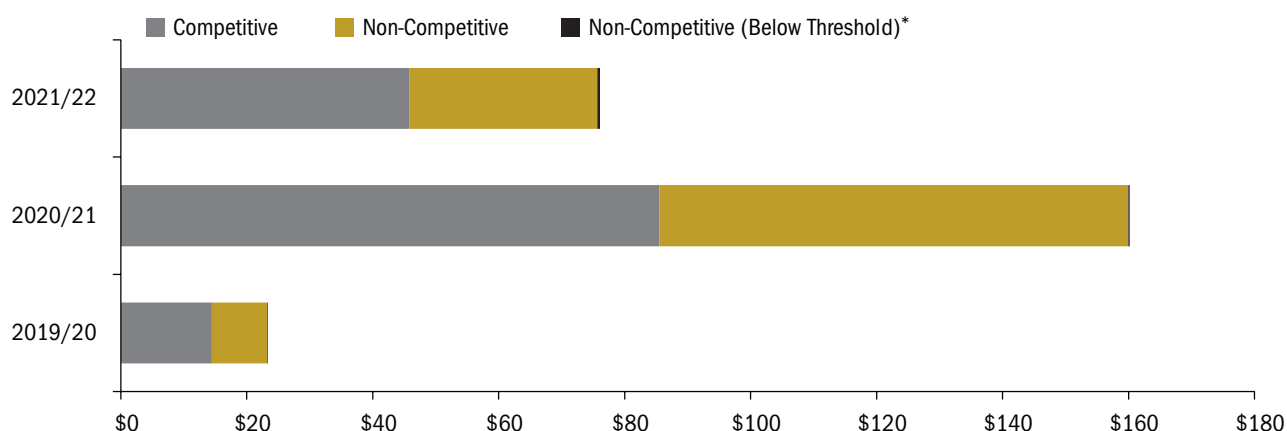
Source of data: Liquor Control Board of Ontario

Fiscal Year	Competitive	Non-Competitive	Non-Competitive (Below Thresholds)*	Total
2019/20	12	8	1	21
2020/21	9	29	3	41
2021/22	18	28	5	51
Total	39	65	9	113

* Contracts with values below the dollar thresholds outlined in LCBO's internal procurement policies can be directly awarded without competition. Over the last three years, 104 contracts were above the \$25,000 threshold.

Figure 7: Breakdown of Procurement Methods Used in IT Contracts, 2019/20–2021/22 (\$ million)

Source of data: Liquor Control Board of Ontario



* Contracts with values below the dollar thresholds as outlined in LCBO's internal procurement policies can be directly awarded without competition. Over the last three years, on average, contracts with dollar values totaling \$245,000 per year were directly awarded in this manner.

RECOMMENDATION 5

To better comply with the Ontario Public Service Procurement Directive requirement to conduct procurements in a fair and transparent manner, we recommend that the LCBO thoroughly document the reason for each non-competitive procurement.

LCBO RESPONSE

The LCBO agrees with the Auditor General's recommendation and will revise its Administration Manual and instructions for completing its direct award approval form to require more details from business units on each business case to use the direct award approval method.

4.3 Continuous Reliance on Consultants and Contract Employees

The LCBO engaged consulting firms and IT consultants to work on IT projects. It also hired individual contract employees to provide technical expertise and labour to supplement its IT workforce.

We found that two consulting firms were in a long-term partnership with the LCBO's IT business units; between 2017/18 and 2021/22, the LCBO engaged

these firms for 10 different contracts totalling over \$60 million, which represents 12% of total IT expenditures over these years. All of these 10 contracts were for multi-phased IT projects where the consulting firms were engaged to perform a design phase plus one or more build phases in order to complete the project and/or the contract.

As well, increasingly up to 2021, the LCBO had been using contract employees to work on day-to-day IT operations on a full-time basis, similar to full-time employees. These contract employees were recruited via managed service providers that were preferred vendors on the Vendor of Record list, as explained in **Section 2.3.2**. We found that the length of their contracts ranged from two months to 28 months, and their positions ranged from IT business analysts to acting vice-president of IT operations. Management attributed the increased use of IT contract employees to major projects, such as those regarding its data centre migration, and diminishing internal expertise to serve its aged IT systems itself, partly caused by salary being too low, which caused staff turnover. They also indicated that contract employees helped provide specialized skills to meet business demands during this period due to a surge in work required and insufficient internal staff levels. Both of these contract IT vice-presidents subsequently became full-time employees.

Beginning in 2021/22, the LCBO began relying less on IT contract employees and began increasing its staffing complement, by enhancing its employee engagement and retention strategy. The LCBO informed us that it had reduced its use of IT contract employees from over 100 in March 2021 to about 27 by November 2022.

4.3.1 The LCBO Relinquished Ownership of IT Projects to Consulting Firms

Consulting Firm Led Procurement Planning and Business Case Development for Major IT Projects

We reviewed all 10 contracts with the two consulting firms that had formed a long-term partnership with the LCBO in the past six years. We found that six of the 10 contracts were related to three major IT projects between 2017/18 and 2021/22, as shown in **Figure 8**, totalling over \$43 million in estimated costs. For all three projects, the same firms performed both the design and build phases of the project. These firms won the respective design contracts competitively, and either won the competition or were directly awarded the contract for the build phase.

For all three major IT projects, the LCBO's IT business units outsourced the design phases of the projects, encompassing tasks for both project planning and procurement planning, to the two consulting firms without first evaluating if the design can be performed by internal staff. These early-stage tasks included evaluating the LCBO's needs and business requirements, conducting market research, and selecting the best possible solution for the LCBO's IT operation. Once the solutions were recommended by the consulting firms, the LCBO followed the recommendations and awarded build phase contracts to the same consulting firms

to implement their own recommendations. LCBO's IT senior management explained that the consulting firms needed to conduct their own detailed planning to establish the scope and size of a project and they were best positioned to understand the resource costs prior to beginning any work to build, which are often the largest part of an IT project. The LCBO also believes that having interconnected design and build phases is common in IT projects, and it is best to have the consulting firms themselves assess the scope of the build phase.

This issue was also present in the LCBO's Future State Modernization Plan, which we discussed in **Section 2.2.4**. One of the two long-term partner consulting firms was involved in providing recommendations to the LCBO. We compared the consultant's work and the LCBO's final business case, which the LCBO said was internally developed. However, we found that parts of the business case, including project benefits, business requirement assessments, cost estimations, project timelines and project governance, were identical to the consultant's work. In effect, the consultant's work once again formed the foundation of the LCBO's business case, particularly in the area of the cost estimates. Given the significant scope and cost estimate of this project, leading the project and internally planning the procurement are critical for the project's success.

Commencement of Build Phases Occurred Without Confirming Consultants Provided Satisfactory Services in Design Phases

The LCBO's administration manual is silent on procurement requirements of multi-phased projects. Section 4 of the Ontario Public Service Procurement Directive (Directive), however, provides specific guidance on the

Figure 8: Multi-phase IT Projects with Contract Costs at the Design Phase and Build Phase, 2017/18–2021/22

Source of data: Liquor Control Board of Ontario

Vendor	Total Contract Costs of Design Phase (\$)	Total Contract Costs of Build Phase (\$)	Cost of All Contracts (\$)
Project A (Consulting Firm A)	1,100,000	5,868,341	6,968,341
Project B (Consulting Firm A)	1,250,000	18,647,000	19,897,000
Project C (Consulting Firm B)	1,420,000	14,900,108	16,320,108

separation of design and build phases. The Directive states that design and build phases can be procured through separate procurement processes or one procurement process. However, the satisfactory completion of the design phase must be validated before proceeding with the build phase, and the criteria by which satisfactory completion will be measured must be clearly outlined in the contract agreements.

In all three projects with two consulting firms we examined, there was no evidence that the LCBO conducted any evaluation on the consulting firms' work during the design phase or prior to engaging them for the build phase.

In one project, to create an order management system, an assessment of the work performed during the design phase could have prevented a significant problem that occurred. In this case, Consulting Firm A was not able to properly interface the new system it had selected for the LCBO with the LCBO's existing systems. A compatibility assessment that should have been conducted during the design phase had not been performed. The systems' incompatibility resulted in major issues during their implementation in 2019.

In another major project in 2019, Consulting Firm B determined that the cost for the project needed to be doubled, from \$6.5 million to \$12.7 million, after completing the design phase. The LCBO has directly awarded the follow-up contract with the increased cost to build without a reasonability assessment.

Overall, we found the LCBO did not have a "stop and assess" mechanism in place to evaluate the consulting firm's design work, including but not limited to the adequacy of the scope of work, the compatibility of the proposed solution for build, and the cost for the build phase prior to its commencement. While allowing the same consulting firm to complete both design and build phases would promote continuity, doing so without first evaluating the quality of work in the design phase prior to engaging the same consulting firm for the build phase can expose the LCBO to several risks, including diminished bargaining power with the service provider for the build phase and potential unsatisfactory deliverables that will result in project delays.

4.3.2 Consulting Firms, Not the LCBO, Established Contract Ceiling Price

Section 4.1 of the Ontario Public Service Procurement Directive (Directive) states that a ceiling price for both initial and follow-on agreements for consulting services should be established prior to the final contract agreement, and that increases of ceiling price should be avoided through appropriate procurement planning.

We reviewed 10 contracts between the LCBO and two consulting firms in a longstanding relationship with the agency, as described in **Section 4.3.1**. In all 10 cases, the consulting firms rather than the LCBO came up with the ceiling price. As well, in two of the 10 cases, the ceiling price was increased either during the course of the contract or in effect added as part of a follow-up contract. There was no documented evidence of the assessment of the reasonableness of the proposed increases by the LCBO.

For these two projects combined, final project costs totalled \$29 million, which was 64% more than the original total ceiling price of \$18 million. The LCBO's position is that the resource costs were unknown to the consulting firms until detailed planning was conducted during the design phase.

For the other eight cases, we saw no evidence that the LCBO had performed an independent analysis or market research to arrive at a contract ceiling price. The LCBO did not have any policy about the ceiling price of contracts.

Whatever the rationale, when the design and build phases are not procured for separately, there is a risk that vendors underbid on requests for proposals, knowing that there will not be another competition to procure for the build phase, and subsequently increase the scope of the work and request a higher contract price. When the scope of work or the contract price changes, other potential vendors may become interested to bid, or would have bid differently on the design phase had they known the enhanced scope to the build phase at the outset.

In these cases, the LCBO could not demonstrate that its procurement practices are consistent with the

principles set out by Section 3 of the Directive, which requires goods and services to be procured considering value for money, fairness and transparency.

4.3.3 Variable Pricing Structure Used for Consulting Contracts Transferred Financial Risk to the LCBO

All 10 consulting contracts that we examined used a “time and materials” pricing structure, which means the LCBO guaranteed payment for the consultant’s project costs plus pays a percentage mark-up. Unlike in a traditional fixed-cost structure, in time-and-materials pricing, payment is not associated with the percentage of tasks completed or pre-determined milestones. This type of contract does not motivate consultants to meet milestones efficiently because the LCBO bears the risks associated with cost overrun and project delays; the consultant is paid for their work regardless of their efficiency. Indeed, contracts with a time-and-materials pricing structure can incentivize consulting firms to increase the scope and workload, for as the volume of work on a project grows, the consultant’s profit increases.

We found that, although a ceiling price was in place for all 10 contracts we examined, the LCBO relied fully on the consulting firms’ pricing estimates for the cost estimates of the build phase. However, these estimates were unreliable, as discussed in **Section 4.3.2**. The consulting firms were given the flexibility to change the ceiling prices for build while they were performing the design phase, and the LCBO did not go to market again on these renewed, higher project costs.

We recognize the need for flexibility in IT development projects. However, the use of time-and-materials contracts combined with a flexible ceiling price significantly increases the LCBO’s risk of unfavourable and rising costs.

Further, without the LCBO establishing for itself a clearly defined project scope prior to the build phase, the ultimate cost of a project will be unpredictable. The Manitoba Liquor and Lotteries Corporation (Corporation) informed us that it has limited the use of time-and-materials contracts to mostly design phase

work but would use fixed-price contracts for implementation work. Corporation representatives also emphasized the importance of internal IT executives taking an active role in prioritizing and scoping IT projects. According to the Corporation, relinquishing control to consultants during the project discovery phase effectively transfers the decision-making power from the organization to its consultants.

RECOMMENDATION 6

To retain a stronger control over IT projects and to mitigate the risks of inefficient spending and project delays, we recommend that the LCBO:

- use qualified internal staff to lead the planning and design phase of IT projects, with defined scope prior to outsourcing to an implementation partner;
- employ separate procurement processes for design and build, if external expertise is required for the design phase;
- establish contract ceiling prices through independent market research and analysis; and
- supplement all time-and-materials contract pricing with a fixed-cost ceiling price as well as milestones and deliverables.

LCBO RESPONSE

The LCBO acknowledges the importance of retaining control over IT projects, both from a planning, design, and cost perspective. The LCBO’s internal employees are responsible for the planning and design phase of IT projects. In some situations, LCBO engages contractors to support these phases; however, internal stakeholders are involved in a variety of roles to guide these projects to completion. The use of external contractors is a result of the specific technical insights and expertise, and niche skills, they may have, as well as the flexible project model it enables whereby you can flex resources up to support delivery and then flex down when the work is complete which ensures the LCBO is not overstaffed. Finally, IT skills are in high demand and government compensation structure

is not competitive for attracting full-time talent for specific roles, in which case engaging contractors is the only option. The LCBO will, going forward, use internal staff where possible, employ separate procurement processes for discovery and for design and build, establish contract ceiling prices through independent market research and analysis, and supplement all time-and-materials contract pricing with fixed-cost ceiling prices as well as milestones and deliverables.

4.3.4 Expensive Contract Employees Were Recruited without Consistently Conducting Interviews and Some Held Key Decision-making Roles in the LCBO

We examined a sample of contracts for external IT contract employees and found that the LCBO selected them from managed service providers (firms that have a roster of IT contract employees). These firms were part of a list of vendors of record prepared by the Ministry of Public and Business Service Delivery. **Appendix 9** shows a complete list of managed service providers used by the LCBO. We identified several problems with the manner and the prevalence of external consultant hiring at the LCBO, as discussed below.

Using Contract Employees Generally Cost More than Using Permanent Employees

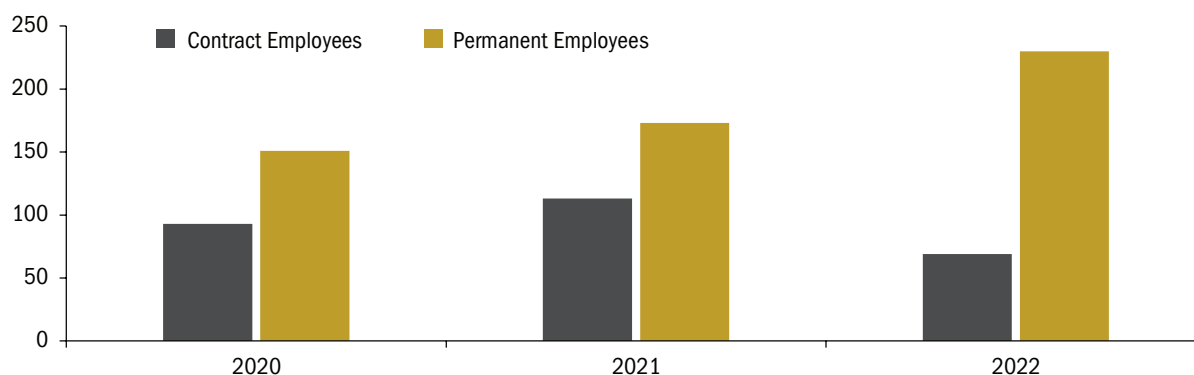
Between 2019/20 and 2020/21 (the LCBO started tracking the number of contract employees it employed in 2019), the agency increased its use of IT contract employees. As shown in **Figure 9**, from 2019/20–21/22, approximately 275 of the IT staff were contract employees, representing 33% of all IT employees over these years. In April 2022, LCBO management indicated that it was actively working on reducing the number of contract employees; however, it had not yet set a target for the optimal temporary-to-permanent-staff ratio. As of May 2022, the LCBO's IT Division had total of 299 employees, 23% of whom were employed on contract, down from 40% in the year prior.

The LCBO spent on average \$24 million annually from 2019/20–21/22 for IT contract employees, and approximately \$194,000 per position per annum. These expenditures are shown in **Figure 10**.

Hiring IT contract employees generally costs more than paying permanent employees a salary for the same job. In 2016, the Treasury Board Secretariat compared the cost of IT contract employees to similar full-time staff. It determined that contract employees cost \$40,000 more per year, or about 30% more, than similar full-time staff, after benefits were factored in.

Figure 9: Number of Contract and Permanent Employees in the LCBO's IT Division as of March 31, 2020–2022

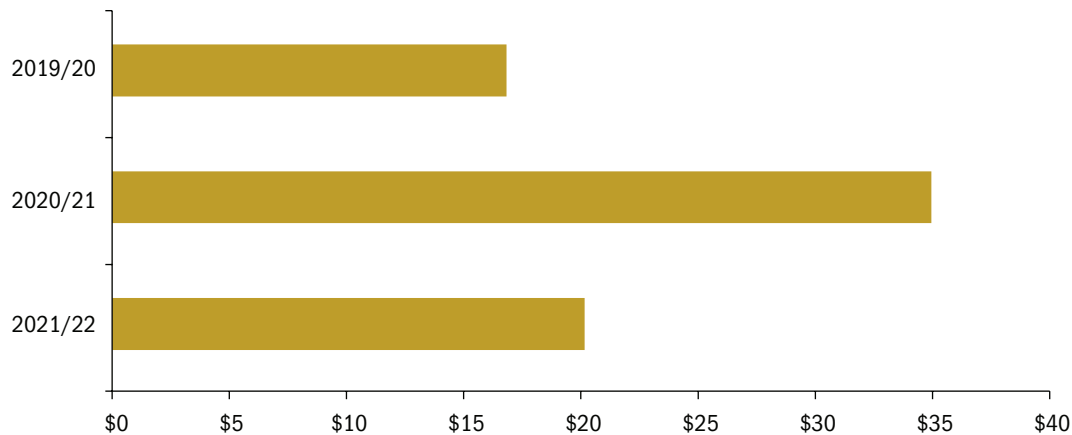
Source of data: Liquor Control Board of Ontario



Note: 2019/20 was the first year the LCBO started tracking the number of contract employees it hired in IT. Numbers shown represent head count, not full-time equivalents.

Figure 10: Annual Expenditures (\$ million) on Contract Employees, 2019/20–2021/22

Source of data: Liquor Control Board of Ontario



We examined the payroll records for five sample IT positions at the LCBO and found that the cost of hiring external IT contract employees was more expensive than hiring permanent employees. For example, for the position of IT business analyst, the LCBO paid contract employees an average of \$93.29 per hour since 2019/20, while it paid on average \$68.21 per hour for salary and benefits for all permanent employees in the same position. One contract employee in an IT business analyst position was paid \$155 per hour, while the maximum pay rate recommended for this position by Treasury Board Secretariat is \$119.31 per hour between 2019/20 and 2021/22. **Figure 11** compares the hourly pay rate for several positions depending on whether an employee is hired as permanent versus contract staff.

We delved deeper in the work history of the contract employee who was paid \$155 per hour and found that:

- the contract employee was employed in another company between 2000 and 2005 with a former LCBO IT Vice-President; the former Vice-President began working at the LCBO in July 2016, about a year before this consultant began providing consulting services at the LCBO; and the contract employee reported to this Vice-President since their first contract with the LCBO until the time this Vice-President departed in 2019;

- the contract employee had provided consulting services at the LCBO between November 2017 and November 2019 as an independent contract employee, billing the LCBO a total of about \$389,000, at an hourly rate of \$150; and
- the contract employee's firm became a sub-contractor of a vendor of record managed service provider (Quantum) between November 2019 and March 2022, and had billed the LCBO \$150 to \$155 per hour.

All of the IT contract employee positions were in regular operating positions, with lengths of service ranging from two to 28 months. The LCBO explained that some contract employees had unique experience and capabilities that commanded a higher hourly rate. The human resource needs were continuous, which supports the hiring of permanent rather than temporary staff.

External IT Contract Employees Not Always Selected Through Competition

We examined a sample of five IT contract employees who were hired, including two acting vice-presidents of IT and two project managers, and found that there was no documented evidence that the LCBO selected any of the individuals through competitions. LCBO management indicated that some of these individuals may have been interviewed, and provided a record of interview notes for one consultant; however, they could

Figure 11: LCBO Contract Employee and Permanent Staff Pay Rates Compared to Treasury Board Secretariat (TBS) Recommended Rates, Cost per Hour (\$) for Five Selected IT Positions

Source of data: Liquor Control Board of Ontario

Positions	LCBO Employee Avg Payband for Position ¹	TBS Recommended Rate Range ²	LCBO Contract Employee Avg	LCBO Contract Employee Maximum	Length of Contract Position (Months) Avg	Length of Contract Position (Months) Maximum
Business Analyst	68.21	89.66–119.31	93.29	155.00	15	28
Director, Business Delivery Management	121.15	n/a	155.00	155.00	2	2
Project Manager	87.46	86.21–135.59	115.64	140.00	13	27
System Analyst	72.23	80.00–108.83	78.75	95.00	4	8
Vice-President, IT Operations (Acting)	148.67	n/a	200.00	250.00	7	13

1. Includes 22% for employee benefits costs, such as employer portion of CPP, EI and health benefits, in addition to base salary. Estimated percentage of employee benefits is calculated based on an average of the LCBO's financial statements for fiscal years 2019/20–2021/22.

2. As per Treasury Board Secretariat Recommended Fee-for-Services Rates, effective April 1, 2021.

not provide any notes for the remaining four sampled contract employees.

A review of one managed service provider's (Flex-track Inc.) user manual for the LCBO indicates that LCBO IT management can choose to hire competitively or non-competitively. The competitive process involves LCBO IT management interviewing potential candidates shortlisted by the managed service provider. The non-competitive process gives LCBO IT management the ability to directly award a contract to a candidate from the provider-sourced candidate pool, based simply on review of resumé.

During our 2022 value-for-money audit, COVID-19 Contracts and Procurement, we learned that the Ministry of Health uses this same managed service provider (Flextrack Inc.) to find temporary IT employees. The Ministry of Health's general selection guideline for contract employees requires the use of a competitive approach unless otherwise approved. A panel of two to three full-time employees reviews and scores resumé shortlisted by the provider, and those candidates with a resumé scoring over 70% must be interviewed. The winning candidate is selected based on a combination of interview scores (70%) and cost (30%). Non-competitive hiring is reserved for urgent situations.

While it may be beneficial to use contract employees for distinct projects or in exceptional situations where

full-time talent is difficult to find, regularly relying on IT contract employees without a proper selection process could adversely impact the LCBO's operational effectiveness. Besides creating questions about transparency, the LCBO's IT Division could potentially be hiring candidates who are not the best available candidates for the work required.

IT Contract Employees Placed in Key Decision-Making Roles

Our review of the five sample contract employee files revealed that two of the five roles had key decision-making authority; they worked as acting Vice-Presidents in IT. Audit inquiries showed that the two vice-presidents were involved in supervising consulting firms, other contract employees and full-time staff, as well as hiring other contract employees. Similarly, one of the project managers in our sample was involved in overseeing other contract employees for contract deliverables.

These individuals in management positions we reviewed made critical decisions about hiring other consulting firms or contract employees, deciding on procurement requests, assessing consultant performance and reviewing contract milestones. These key decision-making roles are more suitable for permanent employees as they have a vested interest in the

organization, can maintain business continuity and can be held accountable for the major decisions they make.

Section 4 of the Ontario Public Service Procurement Directive (Directive) recognizes that contract employees should not perform functions normally assumed by management, including supervising and hiring staff and other contract employees. As discussed in **Section 2.3.2**, although the LCBO is not required to adhere to Section 4 of the Directive, the Directive provides best practices for public sector organizations to follow for procurement.

RECOMMENDATION 7

To improve the cost-effectiveness of IT resources and to enhance business continuity, we recommend that the LCBO:

- develop and implement a plan with timelines to increase the proportion of permanent staff versus contract employees working in IT, focusing on reducing the use of long-term contract employees for positions that are more suitably held by permanent employees;
- establish a consistent process for competitively selecting IT contract employees; and
- require those positions that are accountable for key project outcomes in major projects, such as project managers, be LCBO permanent staff.

LCBO RESPONSE

The LCBO accepts the Auditor General's recommendation and will develop a plan with corresponding timelines to support the continued reduction and, where applicable, conversion of contractors. Contractor usage is primarily driven by (1) the need to leverage specialized capabilities that in many cases cannot be hired for given the limitations imposed by the LCBO's below market pay-bands for specific roles—consequently challenging our ability to attract FTEs; and (2) responding to and delivering on a surge in work. Despite these limiting factors, the IT Division has successfully decreased the number of contractors by 42% in the past year, including contractor conversions. As can be seen

in **Figure 9**, the use of contractors has been reduced significantly in 2022. The LCBO IT uses contractors as required and while we do have a target maximum of between 20% and 25%, the factors can temporarily affect this balance. LCBO's priority remains delivering value for Ontario taxpayers first and foremost.

The LCBO's IT Division's contract with Flextrack, a Managed Service Provider of contingent labour, leverages the Ministry of Public and Business Service Delivery's Vendor of Records. Flextrack's workforce management solution enables the LCBO to competitively source resources while reducing our total cost of ownership and maximizing the return to the people of Ontario. The LCBO's IT management can choose to hire an IT contractor directly or through a multi-candidate selection process, as noted by the Auditor General. The LCBO will establish a consistent process to select IT contractors competitively.

As of October 2022, contract project managers represented 25% of the total project manager headcount, with one additional contractor who is backfilling for a resource on leave. In some instances, a specialized project manager is required given the technical nature, scope and unique requirements of a project, and given talent shortages, the contractor pool is tapped.

4.4 Vendor Selection Mostly Defendable but Does Not Consider Past Experience

4.4.1 Conflicts of Interest Declared but Evaluation Process Not Always Objective

The LCBO's administration manual requires the evaluation process to be fair, defensible and transparent. Any individuals participating in the evaluation or negotiation of bids are required to declare all actual, potential or perceived conflicts of interest by completing the LCBO procurement evaluation process acknowledgment and declaration form prior to participating in the evaluation or negotiation of a procurement project.

Out of the 25 sampled contracts we selected for this audit, 13 were procured using either an open competitive or an invitational competitive method, which requires the LCBO to evaluate multiple bidders. We reviewed the documentation for all 13 evaluation processes, and found that all LCBO personnel who participated in these evaluation processes had completed and submitted their declaration forms to the procurement services team noting no actual, potential or perceived conflicts of interest.

In addition to the declaration forms, LCBO staff who work in IT procurement informed us that it was very important for each member of the evaluation panel to complete their evaluation independently to ensure the panel was free from bias and subjectivity, and to preserve the fairness and transparency of LCBO's procurement process as required by the LCBO administrative manual. A procurement lead who worked in the LCBO's procurement services team supported each evaluation panel and instructs panel members to not influence each other.

We examined all 13 evaluation processes for their decision-making process, and found that 12 followed the instructions for independent scoring. The evaluation panel of the remaining project (Order Management System Implementation Services), however, had been split into three sub-groups based on participants' current role and subject matter expertise. Each sub-group was assigned to evaluate at least one of the following areas separately: technical criteria, rated criteria and presentation and reference checks. The sub-groups contained those in management positions and below and only one score was reached per each sub-group on consensus. Yet only those in management positions attended the final consensus meeting in which the final scores were determined. The LCBO could not provide further information or documentation to demonstrate whether the sub-groups reached the consensus scores independently, as the people who led this evaluation were no longer with the organization when we started this audit. This project began in 2017; the majority of the remaining 12 projects that we examined were more recent and had followed evaluation processes.

We noted this particular contract was for the build phase of the order management system project discussed in **Section 4.3.1**. The winning vendor turned out to be the same consulting firm that performed the design phase of the same project, and the firm was unable to integrate the project with existing LCBO systems. The vendor was subsequently terminated. More generally, this anomaly indicates that the LCBO IT business units were not always following the IT procurement services team's advice. Departures like this from the evaluation process can compromise the fairness and defensibility of the selection decision.

4.4.2 Past Performance of Vendors Never Considered Before Hiring Them

Staff in the LCBO IT procurement services team informed us that the LCBO did not consider vendors' prior performance when evaluating and selecting a candidate for a project. Bidders may provide references and cite past performance on similar projects with other organizations, which the LCBO took into consideration in the evaluation process. However, the LCBO did not specifically consider the vendor's performance on past LCBO contracts.

As per the LCBO's administration manual, business units can recommend that a vendor be disqualified from participating in future procurement opportunities for a period of up to three years. The manual requires the decision to disqualify to be supported by evidence. Staff in the LCBO's IT procurement services team informed us that recommending disqualification is the only way that a vendor's past performance can be taken into consideration during the evaluation process.

We attempted to examine the disqualification process, and found that the LCBO had no record of any disqualified vendor for IT goods and services. Moreover, as discussed in **Section 4.5.1**, LCBO's IT business units did not document any vendor performance issues. Therefore, even if there were repeated performance issues, they would likely not be taken into consideration during subsequent vendor evaluation and selection. Our audit reviewed 13 contracts for vendor evaluation, and found that none considered

vendors' past performance issues. However, discussions with both the IT procurement services team and management at IT business units revealed that several of these vendors with multiple contracts at the LCBO had performed below expectations in the past and were rehired. Some were repeatedly not providing the level of service they had agreed to, per the contract, and some were late on deliverables. Vendors that provided unsatisfactory services to the LCBO or increased contract costs had gone on to be rewarded with new contracts as long as they won the request for proposal. For example, Consulting Firm A failed to deliver on the order management system build phase in 2019 (discussed in **Section 4.3.1**) but was subsequently awarded two executive coaching contracts in 2020, valued at \$400,000 in total, and one IT security consulting service contract in 2021, valued at \$198,000. Similarly, Consulting Firm B increased the contract cost from the initial bid of \$6.5 million to \$12.7 million in 2018, but this had no bearing on the evaluation of this firm's bids on subsequent IT projects.

4.4.3 Evaluation Processes Missing Documentation

Section 5 of the Ontario Public Service Procurement Directive (Directive) requires all procurement decisions and decision-making processes to be recorded so as to account for and support the reconstruction of facts related to a procurement. The LCBO requires each evaluation panel member to complete an individual evaluation sheet during the evaluation process.

We examined the vendor selection process for 13 contracts. In 10 of the 13 cases, we found that the vendor evaluation forms were incomplete. The following were the kinds of items missing:

- the rationale for scores given, on at least one panel member's sheet for each of the three projects;
- documentation to support the evaluation given of the technical requirements, in one contract; and

- documentation of a final consensus meeting for one project.

The missing information was critical evidence supporting the rationale that led to the selection of the successful vendor. Without such supporting documents the LCBO is less able to defend its vendor selection decisions, should any unsuccessful bidders request a review of the evaluation process.

RECOMMENDATION 8

To clearly justify and document the selection of vendors and improve transparency in doing so, we recommend that the LCBO:

- develop and implement a process that promotes independent and transparent scoring by all panel members when evaluating IT projects;
- update vendor evaluation scoring sheets to incorporate a bidders' past performance with the LCBO; and
- make it mandatory for important information, such as rationale for scores given and meeting minutes for final consensus meetings, to be included in all vendor selection documentation packages.

LCBO RESPONSE

The LCBO acknowledges the importance of a robust vendor selection process. The LCBO is implementing an enterprise-wide vendor management framework to ensure that there is a consistent approach to managing vendor performance across the organization. The framework includes consideration of past performance in subsequent procurement processes as well as ensuring that each evaluation package contains all required details to support the selection of a vendor.

The LCBO has made significant improvements its procurement operations since 2017 and will continue to ensure that its existing procurement practices are objective and transparent and are applied consistently to all IT projects.

4.5 Performance of IT Vendors Not Centrally Monitored

4.5.1 Contracts Not Managed Centrally by the Established Vendor Management Office

The LCBO's administration manual, last revised in 2019, requires IT business units to manage their own IT contracts. IT business units handle day-to-day communications with the IT vendors, which include IT contract employees and/or consulting firms, to oversee their performance. According to the LCBO's administration manual, business units must monitor and maintain written records of all instances of poor vendor performance to help ensure that performance problems are addressed quickly and effectively.

In practice, because business units were led by operational managers responsible for a particular area of the LCBO business, these managers often did not have special expertise in contract management. The LCBO's administration manual does not provide guidance for business units to help them review and assess the performance of IT vendors. Although the LCBO has a vendor management office that was established in May 2019, whose role is to oversee third-party IT vendors of goods and services and manage IT vendor relationships, this office's role was not recognized in LCBO's administration manual.

We found that the vendor management office did not establish a process to manage vendor relationships centrally, in order to proactively and systematically address vendor issues or gather best practices for future procurements. For instance, despite being required by its own administration manual, the LCBO did not maintain a list of vendors who performed poorly in the past. Poor performers such as Consulting Firm A continued to receive more contracts from the LCBO, as discussed in **Section 4.4.2**.

Vendor management office staff informed us they were made aware of issues by the business units on an ad-hoc basis, but that to date no business units have raised issues relating to goods or services provided by IT vendors who were hired as consultants.

The LCBO internal audit function conducted an audit on contract management across the organization

in 2022 and issued its final audit report in August 2022. This internal audit also recognized the lack of an operational, centralized contract management function, and recommended that the procurement services team create and implement a contract management framework, vendor performance management framework and a central repository for all contracts at the LCBO.

4.5.2 Vendor Progress Not Measured or Monitored, Even with Large Multi-phase Contracts

According to the LCBO's administration manual, IT business units are required to monitor all suppliers' performance in accordance with contract terms, including deliverables, timelines and other performance standards. Similarly, Section 4 of the Ontario Public Service Procurement Directive (Directive) requires the establishment of performance standards when planning a procurement project; Section 5 of the Directive requires the documentation and retention of information regarding how vendors' performance was monitored and managed. As discussed in **Section 2.3.2**, although the LCBO is not subject to these sections of the Directive, they do serve as best procurement practices.

Our audit found that the LCBO did not establish performance measures and targets to measure IT vendors' progress on projects and/or IT vendors' performance. Although project contracts and their associated statements of work set out a list of deliverables, 20 of the 25 contract agreements we examined had no measurable performance standards to enable the monitoring of IT vendors when completing and meeting the deliverables.

The lack of milestone indicators was especially prevalent in multi-phased contracts, described in **Section 4.3.1**, which exist between the LCBO and two long-term partner consulting firms (Consulting Firms A and B) that were engaged to design and build various IT solutions. For these contracts, we found that although the LCBO's request for proposal identified the required functionality of the system once completed,

the LCBO did not specify incremental, measurable performance indicators to hold these consulting firms accountable, or otherwise measure their effectiveness and efficiency in completing the projects. As a result, the LCBO could not easily monitor whether these consulting firms were on time and on budget for the project, or if the work done by the consulting firms satisfied LCBO business requirements.

To illustrate, in the order management system example discussed in **Section 4.3**, the LCBO's IT business units did not determine the satisfactory completion of the design phase prior to implementation phase, which meant the poor compatibility of the systems went unnoticed at first. Ultimately, the LCBO terminated the order management system contract with the consulting firm in 2019 and hired 10 additional full-time staff to successfully complete the order management system project in-house. The consulting firm was paid over \$12 million at the time of termination, which is more than 60% of the \$19 million contract price. However, the consulting firm completed only the design phase before termination, which had a contract price of only \$2.5 million (12%).

4.5.3 Vendors Are Paid Without Sufficient Verification of Delivery of Goods and Services

Before paying vendors for project work, the LCBO could not consistently demonstrate that vendors had provided deliverables and met milestones for payments set out in the contracts. For all 25 contracts reviewed, the LCBO could not provide any documentation demonstrating that either the vendor management office or the business units confirmed that goods and services received by the LCBO were up to agreed specifications. Confirmation of goods or services received prior to releasing payment can significantly reduce the risk of unauthorized payment to vendors.

As well, subsequent to IT managers recording the invoices in the LCBO's financial information system, payments were approved and released by the LCBO's finance department without a review of the actual invoices, as the business units were not required to provide copies of invoices to the finance department

when requesting payments to be processed. The LCBO explained that it had other system controls and therefore considered the risk of incorrect payments relatively low.

In four of the 25 sample contracts we examined, we found no evidence that either the IT business unit or the finance department verified invoice amounts from vendors against contract terms prior to releasing payments. Without performing such verification, the LCBO is at risk of paying vendors for work that did not meet contract terms, or paying invoices for goods or services not rendered. The overall lack of verification jeopardized the LCBO's and taxpayers' financial interest, as payments made to vendors in error would not be easily detected.

RECOMMENDATION 9

To better hold IT vendors, including all IT contract employees, consulting firms and IT hardware or software suppliers accountable for their performance and to protect the financial interest of the LCBO, we recommend that the LCBO:

- require invoices and an indication that goods and services have been delivered to be included in the payment system prior to payment processing;
- verify vendor progress and/or performance documentation as part of the approval for contract payments;
- create centralized contract management and vendor management functions;
- update its internal policy to recognize the vendor management office's role in monitoring and managing vendor performance and clearly define the office's roles vis-à-vis the IT business units' roles in contract management; and
- develop processes to consistently establish contractual performance measures, assess vendor performance and record vendor issues.

LCBO RESPONSE

The LCBO agrees with the recommendation and is in the process of implementing a centralized

contract management vendor management framework. The implementation of the framework includes defining roles and responsibilities and updating related policies and procedures. The framework includes standard performance measurements and related tracking to be used with all third-party vendors that support LCBO's operations.

Within the existing payment process, controls are in place to protect the taxpayer's best interest by aligning payments with goods and services provided and within contract limits. As part of the Future State Modernization project, the LCBO will explore further opportunities to strengthen its procure-to-pay process, including adding invoices to the payment system.

4.6 LCBO's Administration Manual Does Not Fully Reflect Ontario Public Service Procurement Directive Requirements

We compared the LCBO's administration manual to the Ontario Public Service Procurement Directive, including the interim measures discussed in **Section 2.3.2**. We found that the manual was not updated to reflect the interim measures, which came into effect in September 2020. The Ministry of Public and Business Service Delivery's website states the new interim measures were to support opportunities for collaborative purchasing, while protecting continuity of business and services during the building of a centralized procurement system for the Ontario public sector. The measures also support the collection of data that is necessary for building the centralized procurement system. These measures include, for example, not having contract terms exceeding two years for any new contract and providing a cost for each deliverable in any consulting service contract.

LCBO RESPONSE

The LCBO recognizes that continued compliance with the Ontario Public Sector Directives requires that internal policies are updated to reflect any changes in said Directives. The LCBO has processes in place to ensure practices and processes are adapted when changes are made in a Directive.

The LCBO will ensure that its existing practices with respect to compliance with the Interim Measures are reflected in an updated version of its administration manual.

RECOMMENDATION 10

To properly guide its internal procurement practices, we recommend that the LCBO include any new measures introduced in the Ontario Public Service Procurement Directive in its administration manual.

Appendix 1: Excerpts of Sections of the Ontario Public Service Procurement Directive

Source of data: Ontario Public Service Procurement Directive, March 2019

SECTION 3—PRINCIPLES*

The Ministries and Other Included Entities must acquire goods and services through a procurement process that conforms to four principles:

- **Value-for-money:** Goods and services must be procured only after consideration of entity business requirements, alternatives, timing, supply strategy and procurement method.
- **Vendor access, transparency and fairness:** Access for qualified vendors to compete for government business must be open and the procurement process must be conducted in a fair and transparent manner, providing equal treatment to vendors. Conflicts of interest must be avoided during the procurement process and the ensuing contract. Relationships that result in continuous reliance on a particular vendor for a particular kind of work must not be created.
- **Responsible management:** The procurement of goods and services must be responsibly and effectively managed through appropriate organizational structures, systems, policies, processes and procedures.
- **Geographic neutrality and reciprocal non-discrimination:** Ministries and Other Included Entities that are subject to Ontario's Trade Agreements must also ensure that access for vendors to compete for government business is geographically neutral with respect to other jurisdictions that practice reciprocal non-discrimination with Ontario.

SECTION 4—PROCUREMENT PLANNING AND APPROVALS

4.1 Procurement Planning

- Ministries are encouraged to develop an annual procurement plan, as appropriate, that lists all known procurements to be conducted to support current, ongoing, and future business requirements, including goods and services being procured under existing contracts. An annual procurement plan may help Ministries identify opportunities to aggregate procurement spending in their Ministry as well as streamline the procurement process.
- Ministries must assess the following planning considerations when making procurement-related decisions:
 - a) early identification of business needs;
 - b) justification for the acquisition taking into consideration supply source requirements;
 - c) clear definition of specifications and evaluation requirements;
 - d) compatibility of procurement needs with policy, program, and/or legislative and regulatory requirements;
 - e) adequate timelines for procurement approval, tender period and evaluation;
 - f) vendor capacity to deliver requirements in the proposed timelines;
 - g) accessibility requirements;
 - h) roles and responsibilities of the successful vendor(s) and any other public sector participants;

- i) privacy, security and confidentiality requirements;
 - j) business continuity requirements;
 - k) performance standards and service levels; and
 - l) performance management including remedies for non-performance.
- For information technology (IT) procurements, Ministries must also consider, as appropriate:
 - a) delivery, testing and acceptance requirements;
 - b) any applicable technical architecture;
 - c) design requirements and standards; and
 - d) interface requirements.

4.1.1 Procurement Planning for Consulting Services

4.1.1.3 Ceiling Price Increases

- For consulting services agreements, a ceiling price must be established in the agreement with a successful vendor(s). The agreement ceiling price must reflect the total value of the agreement, including potential follow-on agreements. The agreement ceiling price cannot exceed the procurement value identified in the procurement approval. Once established, Ministries are not permitted to make changes to the agreement ceiling price unless allowed by contractual provisions.
- While agreement ceiling price increases may be required over the term of an agreement, Ministries are encouraged to avoid such increases through appropriate procurement planning.
- Where Ministries have established that an agreement ceiling price increase is required, they must seek prior written approval from the appropriate delegated authority.
- In seeking written approval, Ministries must identify the framework used to confirm that the increased vendor costs are justified and that the government continues to obtain value for money. Prior to implementing a ceiling price increase, Ministries must determine whether the increase causes the total procurement value to exceed the original procurement approval. If so, changes to the agreement ceiling price must not be made until the Ministry has sought new procurement approval authority as appropriate.

4.1.2 Procurement Planning for Large Projects

- The procurement plan for large projects must be appropriate to, and aligned with, the key business objectives of the project and provide sufficient detail about all required procurements to successfully meet the key business objectives.

4.1.3 Separation of Design and Build in Procurement Process

- For procurements that involve design and build phases, Ministries must separate these phases in the procurement process. This can be accomplished by conducting a single procurement with the build phase being subject to the successful completion of the design phase, or by conducting separate procurements.
- Where Ministries determine it is appropriate to conduct a single procurement, whereby the same vendor would provide both design and build services, Ministries must validate the satisfactory completion of the design phase before proceeding with the build phase. Ministries must also ensure that the procurement documents, especially the agreement, clearly outline the criteria by which satisfactory completion will be measured. Ministries must consult with, and provide direction to, ministry legal counsel regarding the appropriate completion and approval criteria for the procurement.

4.4.4 Non-Competitive Procurements

- Certain allowable exceptions exist whereby Ministries, subject to appropriate procurement approval authority, can use a non-competitive procurement process. These allowable exceptions are:
 - a) Where an unforeseen situation of urgency exists and the goods, consulting services, services or construction cannot be obtained by means of a competitive procurement process.
 - b) Where goods, consulting or non-consulting services regarding matters of a confidential or privileged nature are to be purchased and the disclosure of those matters through a competitive procurement process could reasonably be expected to compromise government confidentiality, cause economic disruption or otherwise be contrary to the public interest.
 - c) Where a competitive process could interfere with the government's ability to maintain security or order or to protect human, animal or plant life or health.
 - d) Where there is an absence of any qualified bids in response to a competitive procurement process that has been conducted in compliance with this Directive.
 - e) Where the procurement is in support of Aboriginal peoples.
 - f) Where the procurement is with a public body.
 - g) Where only one supplier is able to meet the requirements of a procurement in the following circumstances:
 - i. To ensure compatibility with existing products and services. Compatibility with existing products or services may not be allowable if the reason for compatibility is the result of one or more previous non-competitive procurements.
 - ii. To recognize exclusive rights, such as exclusive licenses, copyright and patent rights, or to maintain specialized products that must be maintained by the manufacturer or its representatives.
 - iii. For the procurement of goods and services the supply of which is controlled by a supplier that has a statutory monopoly.

4.4.5 Non-Competitive Procurement Business Case Requirements

- Except for unforeseen situations of urgency that cannot wait for appropriate procurement approvals, Ministries must develop a business case and secure the appropriate procurement approvals, in writing and prior to conducting a non-competitive procurement. Ministries must identify whether the non-competitive procurement is an allowable exception or an exemption.
 - a) A description of the business requirements.
 - b) A description of the proposed non-competitive procurement process including the approximate value and the estimated agreement start and end dates.
 - c) The allowable exception which has been identified to support the non-competitive procurement. For allowable exceptions where only one vendor is able to meet the requirements, Ministries must include documentary evidence supporting this exception.
 - d) The results of the Advance Contract Award Notice (ACAN) process where applicable.
 - e) Where no allowable exception exists, it must be noted in the business case that the procurement is an exemption from the Directive and the business case must identify the requirement(s) from which it seeks to be exempted.
 - f) The rationale for using a non-competitive procurement process including the circumstances that prevent the use of a competitive procurement process. The rationale must support the allowable exception or exemption being requested.

- g) Identifying if the selected vendor has previously been awarded a contract with the Ministry within the past five years for the same or closely related requirements, and the type of procurement process(es) used.
- h) A description of the potential pool of vendors that might have responded to a competitive procurement, where appropriate, and an assessment of all potential vendor complaints and how the Ministry would respond and manage these complaints.
- i) A description of how the Ministry will ensure it will comply with the principles of this Directive, particularly value for money.
- j) Any alternatives considered.
- k) The impact on the business requirements if the non-competitive procurement is not approved.

SECTION 5—PROCUREMENT PROCESS

5.6 Evaluation Process

- Ministries must evaluate the bid responses received consistently and in accordance with the evaluation criteria, rating and methodology set out in the procurement document.
- Ministries must require individuals participating in the evaluation of bid responses to immediately declare any potential conflict of interest and immediately address any declarations.

5.11 Documentation and Record Retention

- Ministries must ensure that all procurement decisions and decision-making processes are recorded to account for and support the reconstruction of facts related to a procurement.
- Procurement process documentation includes, but is not limited to, the following:
 - a copy of the procurement justification or business case;
 - information regarding all vendor consultations, including any requests for information, undertaken in the development of the procurement business case and/or procurement documents;
 - copies of all procurement documents used to qualify and select the vendor; and
 - information regarding the management of the vendor, including how the vendor's performance was monitored and managed and, where applicable, mechanisms used to transfer knowledge from the vendor to staff.

SECTION 8—OTHER INCLUDED ENTITIES*

- Other Included Entities must establish and follow their own procurement procedures, processes and policies provided that they do not conflict with the mandatory sections. This must include a procurement approval authority framework and conflict of interest.
- Bid responses must be evaluated in accordance with the evaluation criteria, rating and methodology set out in the procurement document.
- Individuals who are participating in the evaluation of bid responses must declare any potential conflict of interest.

- Other Included Entities are encouraged to use at least the minimum bid response times recommended for Ministries. For example, Ministries must allow at least 15 calendar days for a procurement value of \$100,000 up to \$548,699.
- Other Included Entities must determine the procurement value by considering all costs and benefits of a contract to determine appropriate procurement approval authority and procurement method. They must also comply with the terms of use concerning vendor of record (VOR) arrangements prior to using them.
- Other Included Entities are encouraged to adopt the information requirements for procurement documents. Procurement documents must be in writing and include sufficient details about submission requirements to ensure fair vendor submissions.
- A sole source or direct award procurement requires approval of the Procurement Services department and may only be employed where the value of the purchase is low-cost (under \$25,000 except for consulting services), or where specific or unforeseen situations of these procedures exist. For urgent situations that cannot wait appropriate procurement approvals, Other Included Entities must develop a business case and secure the appropriate procurement approvals prior to conducting the procurement.

* The LCBO is subject to these two sections according to the Memorandum of Understanding between the LCBO Board Chair and the Minister of Finance.

Appendix 2: Interim Measures, Ontario Public Service Procurement Directive, September 2020

Source of data: Ontario Public Service Procurement Directive

Measure Area	Rule
Vendor of record (VOR) arrangements	Government entities must use existing VOR arrangements whenever possible and appropriate, regardless of the value of the procurement.
Contract term	Any new contract, including any extensions, must not exceed two years.
Operational flexibility	If government entities find it not possible or appropriate to comply with the two requirements (using VOR and/or restricting to contract duration to two years), then the government entities must complete a Procurement Rationale Report and submit it to the Ministry of Public and Business Service Delivery (Ministry) at least 45 calendar days before the procurement is released to the vendor community.
Regular reporting	<p>Government entities must prepare and submit reports to the Ministry. For reports from provincial agencies and either Ontario Power Generation or Independent Electricity System Operator, the ministries are not required to review the information submitted by the organizations for which they are responsible.</p> <p>Required reporting includes:</p> <ul style="list-style-type: none"> • Planned Procurement Report: planned procurements for 2019–2021 to the extent that this information is available. • Activity Update Report: procurement activity over the past six months, highlighting any variance from the planned procurement report; include a rationale for any variances. Submit every six months following the initial submission of the planned procurement report. • Procurement Rationale Report: submit at least 45 days before the procurement is released to the vendor community; can proceed with procurement once the report is submitted.
Procurement-related data	When requested by the Ministry, government entities must provide procurement data and other information including any current and past procurement, with spend and contract information; and/or resources currently assigned to procurement-related work.
Consulting services	<p>The Interim Measures, Ontario Public Service Procurement Directive must be followed for all consulting services regardless of contract value.</p> <p>Government entities must provide a cost for each deliverable in any consulting service contract.</p>
Exemptions	Limited exemptions can be made for emergency procurements.

Appendix 3: Overview of LCBO Procurement Process, Derived from the LCBO Administration Manual

Source of data: Liquor Control Board of Ontario

Key Steps	Details
1. Identifying purchase needs	Business unit determines what goods or services are needed to be purchased.
2. Procurement planning	Business unit completes the procurement planning calendar, which lists the planned procurement projects, considering general principles such as vendor of record arrangements and appropriate procurement methods.
3. Establishing procurement requirements	Procurement services team defines and establishes requirements and/or specifications, such as procurement value, time required to complete projects, where to get goods or services, and funding sources/approvals. Procurement services team issues Request for Proposal on Biddingo.com.
4. Receiving bids	Procurement services team receives bids centrally and returns bids ineligible for consideration to the bidder unopened.
5. Evaluating and selecting vendor	Business unit works with procurement services team to evaluate bids, based on pre-established selection criteria.
6. Negotiations	Business unit contacts procurement services team if negotiation is required.
7. Finalizing contract agreement	Business unit works with procurement services team to complete the "Award Recommendation and Procurement Approval" form and submits it, along with the finalized contract, for approval.
8. Award notification	Procurement services team engages legal services to finalize contractual agreement with the vendor. Procurement services team posts the notice of award on Biddingo.com.
9. Debriefing	Unsuccessful bidders may request a debriefing. A representative from the procurement services team should attend all debriefings and keep detailed records.
10. Contract management and monitoring	Business unit ensures contract is finalized and signed prior to commencement of delivery of goods or services; documentation related to the procurement is recorded and contract is properly managed.
11. Payments	Business unit reviews and approves supplier invoices and ensures payments are made in accordance with the contract and follows the procure-to-pay process.
12. Contract amendment/disputes	Legal services reviews any substantial changes to a contract and/or potential disputes.
13. Assessing vendor performance	Business units monitor and record vendor performance, including performance issues, and maintain related written records.
14. Terminating contracts	A contract or purchase order can only be terminated prior to its expiry date with legal services' involvement.

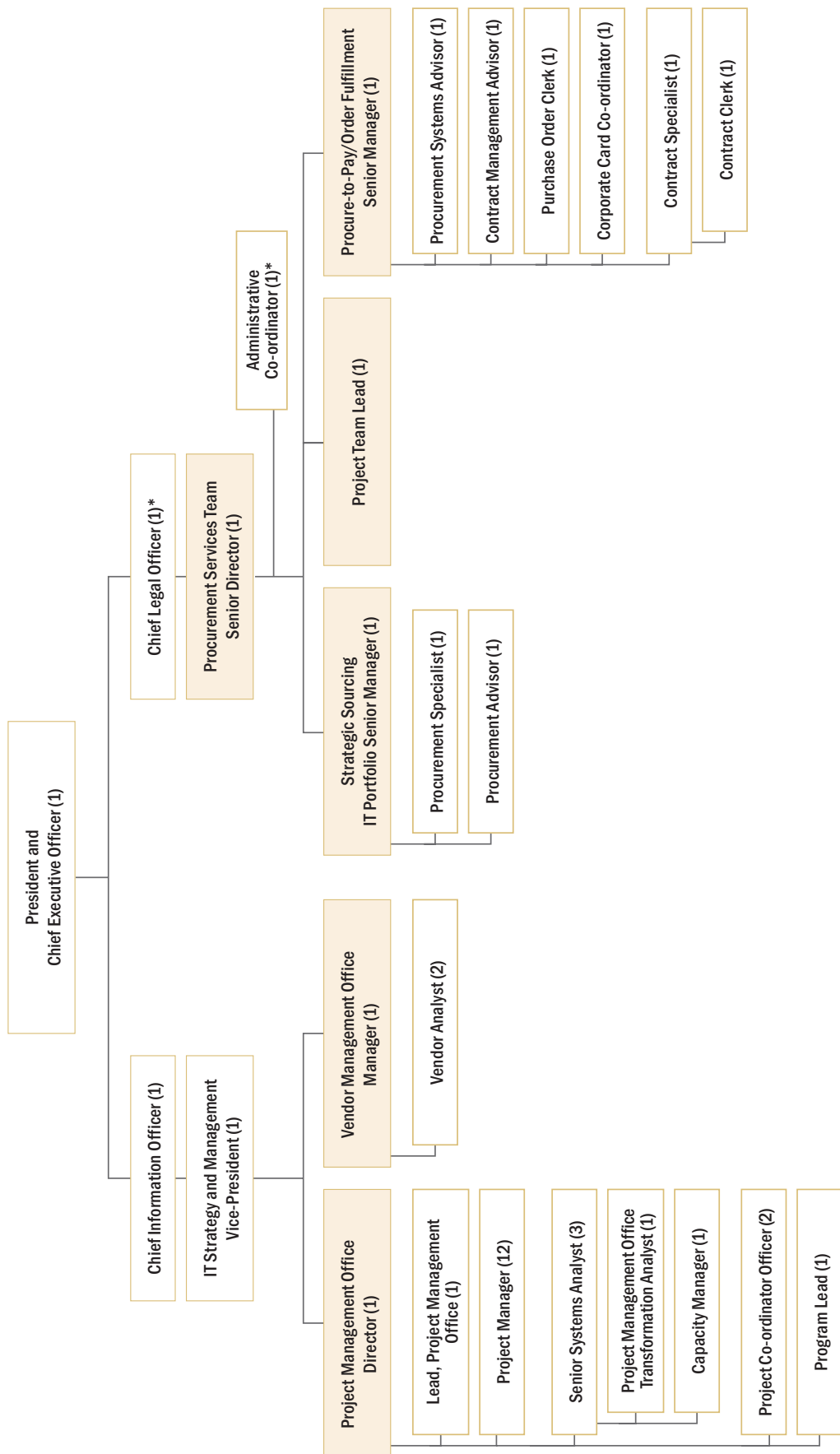
Appendix 4: Criteria to Use Different Procurement Processes at the LCBO

Source of data: Liquor Control Board of Ontario

Procurement Process	Situation Where Procurement Process is Appropriate
Competitive	
Procurement planning	<ul style="list-style-type: none"> • Non-consulting services valued between \$25,000 and \$100,000. • Request a minimum of three qualified vendors to submit a written proposal in response to LCBO's requirements.
Establishing procurement requirements	<ul style="list-style-type: none"> • All goods over \$25,000 and all services over \$100,000.
Non-competitive	
Low cost procurement	<ul style="list-style-type: none"> • Goods and non-consulting services of less than \$25,000. • Although a non-competitive selection process may be used, business units are encouraged to seek three informal quotes for these procurement opportunities.
Direct award (single or sole source)	<ul style="list-style-type: none"> • Specific circumstances such as when procurements need to be done urgently or related to public safety issues or confidential matters. • Except for situations of urgency that cannot wait for appropriate procurement approvals, a business case must be developed and the appropriate approvals must be secured prior to conducting a non-competitive procurement. • May acquire goods or services from a specific supplier using single-source direct award or sole-source direct award: <ul style="list-style-type: none"> • Single-source: even though there may be more than one supplier capable of delivering the same goods or services. • Sole-source: because there are no other suppliers available or able to provide the required goods or services.

Appendix 5: Key Procurement, Vendor and Project Management Teams for IT-Related Goods and Services at the LCBO, August 2022*

Source of data: Liquor Control Board of Ontario



Key departments that support procurement of IT goods and services

* Prior to July 2022, the department reported into the Chief Financial Officer.

Appendix 6: Incremental Approval Required for Procurement Projects¹

Source of data: Liquor Control Board of Ontario

Procurement Value (\$)	
Open/Invitational Competitions	
<= 25,000	Manager or delegate ²
25,001 to 50,000	Director or delegate ²
50,001 to 100,000	Director/Vice-President ³
100,001 to 250,000	Senior/Executive Vice-President
250,001 to 2,999,999	President and CEO or Board Chair; Senior Vice-President, Finance and Administration
>=3,000,000	Board of directors
Direct Award—Non-consulting Services	
<= 25,000	Manager or delegate ²
25,001 to 50,000	Director or delegate ² and Director, Procurement Services
50,001 to 100,000	Executive Director/Vice-President ³ , Procurement Services and Senior Vice-President, Finance and Administration
100,001 to 250,000	Senior/Executive Vice-President, Procurement Services
250,001 to 2,999,999	President & CEO or Board Chair
>=3,000,000	Board of directors
Direct Award⁴ (Single/Sole Source)—Consulting Services	
<= 100,000	Senior/Executive Vice-President, Director, Procurement Services and Senior Vice-President, Finance and Administration Division
100,001 to 999,999	President & CEO and Deputy/Minister of Finance
>=1,000,000	President & CEO and Minister of Finance Treasury Board & Management Board of Cabinet Approval ⁵

1. Positions listed for each range of contract values are in addition to the positions listed above.

2. A delegate must be a permanent full-time employee, acting in the role of Manager or Director, Executive Director/Vice-President, Senior/Executive Vice-President or President and CEO. Formal notice of delegation is required.

3. If no Divisional Executive Director/Vice-President, proceed to the next level of approval authority.

4. All approved direct awards >\$25,000 are tracked and presented to the Board's Audit Committee.

5. Submission approval must be received from Deputy Head/Minister.

Appendix 7: LCBO's Implementation Status on the 2021 PwC Procurement Review Recommendations as of March 2022

Source of data: Liquor Control Board of Ontario

Stage	Recommendation	Status
1. Spend Assessment	1.1 Data Collection and Validation	Completed
	1.2 Develop Category Taxonomy Structure (L1-L3)	Completed
	1.3 Build Spend Dashboard/Cube	Completed
	1.4 Develop High-Level Category Opportunity/Prioritization	Completed
	1.5 Continuous Development of Category Savings Strategies and Benefits	Ongoing
	1.6 Continuous Dashboard Maintenance/Development/Spend Updates	Ongoing
2. Policy Review	2.1 Current Policy Assessment and Identification of Risk Tolerances	Completed
	2.2 Benchmark with Comparable Organizations to Identify Alternatives and Gaps	Completed
	2.3 Develop Risk Framework and Workload Assessment (Impact of Updates)	Completed
	2.4 Communication and Executing Change Management Plan	Not Started
	2.5 Update Procurement Policy 1: Approval Authority Requirements	Not Started
	2.6 Update Procurement Policy 2: Competitive Requirements by Value Threshold	Not Started
	2.7 Update Procurement Policy 3: Risk-Based Approach to Decision Making	Not Started
	2.8 Update Procurement Policy 4: Contract Management and Vendor Management	Not Started
	2.9 Update Procurement Policy 5: Inclusion of Environmental, Social and Governance Criteria in Procurements	Not Started
3. Process Redesign	3.1 Identify Current Process Gaps/Assessment Across Four Priority Areas	Completed
	3.2 Redesign and Propose Future State Process for Four Priority Areas	Completed
	3.3 High-Level Identification of Technology Enhancements	Completed
	3.4 Implementation of Future State Process 1: Demand Planning and Intake Triaging	Not Started
	3.5 Implementation of Future State Process 2: Category Set Up (Strategic Sourcing)	Not Started
	3.6 Implementation of Future State Process 3: Transactional Requests (Procure-to-Pay or P2P)	Not Started
	3.7 Implementation of Future State Process 4: Contract Management	Not Started
4. Organization Design	4.1 Develop Future State Organization Chart	Completed
	4.2 Develop Reporting Structures and Job Descriptions	Completed
	4.3 Implementation Plan and Transition Approach	Completed
	4.4 Discussion, Classification and Finalization with Human Resources	Not Started
	4.5 Initial Mobilization, Socialization and Realignment	Not Started
	4.6 Establishing Purchasing and Enablement Term (including Buyers)	Not Started
	4.7 Pilot Category Initiative Opportunities	Not Started
	4.8 Iterative Category Transition based on Wave Plans	Not Started
	4.9 Change Management and Stakeholder Engagement, Communication, Sustainment	Not Started

Appendix 8: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1. Procurement of IT goods and services is properly planned and justified, and the justification is documented.
2. Procurement decision-making aligns with LCBO strategic goals and is properly governed.
3. IT goods and services needed are competitively procured in an open, fair and transparent procurement process; exceptions to the process meet specifically established criteria and are properly approved.
4. Vendors are chosen based on a sound assessment of well-defined qualification and business requirements.
5. Increases to contract ceiling prices, scopes and durations are made and authorized after consideration of relevant information on vendor progress and results.
6. Contracts have provisions that comply with government requirements and allow for evaluation of vendor performance.
7. Processes are in place to monitor vendor performance and make payments only upon receipt of satisfactory goods or services as specified in contract terms.
8. Appropriate and reasonable performance measures and targets are established, monitored and compared against actual results to evaluate whether IT goods and services were procured efficiently and effectively. Corrective actions are taken on a timely basis when issues are identified.

Appendix 9: Managed Service Providers for Contract Employees Used by the LCB0, 2017/18–2021/22

Source of data: Liquor Control Board of Ontario

Vendor Name	Contract Effective Date	Contract End Date	Maximum Contract Price (\$000)	Contract Payments as of March 31, 2022 (\$000)
Altis Human Resources	2017	2023	3,632	1,615
Bevertec Cst Inc.	2017	2023	909	427
CM Inc.	2017	2023	1,810	1,129
Computacenter Teramach Inc.	• 2017	• 2023	• 850	• 0
Drake International	2017	2023	2,724	1,129
Eagle Professional Resources Inc.	2017	2023	3,632	1,544
Flextrack Inc.	2020	2025	75,000	11,051
Fuuze Inc.	2017	2019	330	280
Green Light Consulting Solutions Inc.	2017	2023	9,100	3,733
GSI International Consulting Group	2018	2018	46	44
Pacific First Systems Inc.	2017	2018	240	229
PrecisionERP Incorporated	2017	2023	2,724	1,439
Proex Inc.	2017	2018	330	280
Quantum Technology Recruiting Inc.	2017	2023	6,350	2,208
Randstad Interim Inc.	2018	2018	47	43
Teramach Technologies Inc.	2017	2023	1,816	857
Wilson Contingent Talent Solutions Inc.	2017	2023	6,350	2,898
Total			115,890	28,906



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