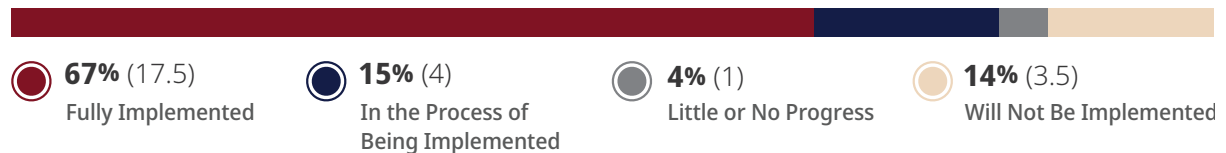**Follow-Up on the 2022 Performance Audit:**

Liquor Control Board of Ontario
Information Technology Procurement

// Overall Conclusion

26 Recommended Actions

● **67%** (17.5) Fully Implemented	● **15%** (4) In the Process of Being Implemented	● **4%** (1) Little or No Progress	● **14%** (3.5) Will Not Be Implemented

The Liquor Control Board of Ontario (LCBO), as of September 13, 2024, has fully implemented 67% of actions, was in the process of implementing 15% of actions, and made little or no progress on 4% of actions we recommended in our 2022 audit **Liquor Control Board of Ontario: Information Technology Procurement**.

The LCBO has fully implemented recommendations such as reporting on the progress and expenditures of the Future State Modernization project to the Information Technology Sub-committee of the Board of Directors and the Ministry of Finance at least quarterly, and establishing a consistent process for competitively selecting information technology (IT) contract employees.

The LCBO was in the process of implementing recommendations such as creating centralized functions for both contract management and vendor management, and developing processes to consistently establish contractual performance measures, assessing vendor performance and recording vendor issues.

The LCBO has made little or no progress in updating vendor evaluation scoring sheets to incorporate a bidder's past performance with the LCBO.

The LCBO has determined that it will not implement 14% of the recommended actions such as requiring business cases to be presented to the appropriate approval body prior to commencing the procurement process, and making it mandatory to include the minutes from final consensus

meetings in all vendor selection documentation packages. Our Office continues to support the implementation of these recommendations.

The status of actions taken on each of our recommendations is described in this report (see **Appendix** for more details).

// Status of Actions Taken on Recommendations

We conducted assurance work between April 2024 and July 2024. We obtained written representation from the Liquor Control Board of Ontario (LCBO) that effective September 13, 2024, it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

1. Better IT Expenditure Planning and Monitoring Needed

In our original audit, IT business units did not prepare annual procurement planning documents as required by the LCBO's own procurement policy. The LCBO did not have a process to support proactive and regular IT procurement reporting to senior management or the Board of Directors.

Almost all of the business cases we reviewed lacked important details around costs and benefits, information required by the LCBO's own procurement policy. Estimated project costs were based on vendor estimates after the vendor had been chosen; internal estimates were not generated before a procurement project was initiated. Senior management and the Board of Directors at the LCBO approved contracts, including their costs, only at the contract awarding stage rather than earlier, during the project approval stage.

Recommendation 1: Action Item 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;

Status: ● **Fully implemented.**

Details

We found that since March 2023, the LCBO has held its portfolio planning workshop annually to identify and prioritize IT projects for the upcoming year. Following the workshop, the LCBO's Project Management Office maintains details of projects planned for the fiscal year, including their estimated overall costs; holds weekly calls with project owners to monitor the status of projects; and provides updates for all projects to senior management, including all of LCBO's C-suite executives, on a monthly basis.

Recommendation 1: Action Item 2

- 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.

Status: ⬤ **Fully implemented.**

Details

We found that the LCBO does not require business units to submit annual procurement plans to the IT procurement service team. Instead, it has integrated its procurement services team into its existing project intake process so that the team can participate in the review and planning of proposed and approved IT projects.

In May 2023, the LCBO's Vendor Management Office (VMO) ran a procurement planning workshop with internal staff to review IT contracts expiring in 2023/24 and identify potential agreements that would be needed for 2023/24 projects. This planning could result in new agreements for services or licences, or extensions or amendments to existing agreements.

In October 2023, VMO leadership communicated updated processes and provided supporting documents to internal staff, including those from IT, legal and procurement services. The updated processes support a timelier review of projects that require the VMO's input. For example, new IT procurement and legal request trackers indicate in advance when contracts are to expire, and outline when each department needs to act on the project. The VMO maintains these trackers in partnership with the procurement services team, the legal team and all business units affected by the contract.

Since the May 2023 session, the LCBO has implemented weekly meetings involving VMO and the procurement and legal departments to review and prioritize contracts, procurement documentation and purchase orders. As well, the LCBO has instituted monthly review sessions that also include additional participants such as senior leadership from IT and legal. These processes replaced the need for an annual planning workshop.

Recommendation 2: Action Item 1

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;

Status: 🔘 **Will not be implemented.**

The Office of the Auditor General of Ontario continues to support the implementation of this recommendation.

Details

We found that the LCBO does not plan to implement this recommendation because it believes it is not always feasible to present a full business case with cost estimates to the appropriate approval body prior to commencing the procurement process. For example, some contracts and request for proposal terms can be complex, making it challenging for staff to independently estimate the costs involved. In such cases, staff relies on the bidding process itself to help determine potential costs.

The LCBO has integrated its procurement services team into its existing project intake process so that the team can participate in the review and planning of proposed and approved IT projects.

The LCBO chose to strengthen its Board approval process at the point of contract award. In March 2023, the LCBO's Board approved an updated process and document, called a Contract Approval Resolution, to address the increasingly complex nature of the commercial contracts required to support the LCBO's operations. This document clarifies how IT-related contracts, including software contracts, are approved at the Board level.

Recommendation 2: Action Item 2

- 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.

Status: 🔴 **Fully implemented.**

Details

We found that the LCBO has integrated the procurement services team into its existing project intake process. During this process, the procurement services team reviews a project's business case, which includes preliminary decisions on whether a competitive process will be followed,

a list of vendors involved, an estimate of the vendor costs, the contractual process required and an anticipated start date for the vendors. The procurement services team then makes recommendations on appropriate procurement planning and strategy prior to commencing the procurement process, and documents its recommendations in the project's intake assessment form. This form also documents the recommendations and decisions of the legal and finance teams reviewing the business case.

Recommendation 3: Action Item 1

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;

Status: ⬤ **Fully implemented.**

Details

We found that the LCBO developed two information reports aimed at providing insights on IT procurement and expenditures, and submits these reports to the senior management team on a regular basis.

The first report is a quarterly update of budgeted versus actual expenditures for the LCBO's IT project portfolio. This provides senior management with a transparent view of the portfolio and individual projects' progress and financial information, including forecasts, enabling them to make informed decisions and address challenges or opportunities.

The second report is a monthly update on the status of all IT projects in the LCBO's portfolio. This report provides an overview of projects by department and the number of projects in the various stages (such as initiation, planning and execution), and identifies projects that are on track versus those that are at risk and require attention. It also provides detailed dashboards for each significant IT project, showing information such as the percentage completed so far and the actual cost so far versus budget.

Recommendation 3: Action Item 2

- 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.

Status: ⬤ **Will not be implemented.**

Details

We found that the LCBO does present these reports to senior management, as detailed in **Recommendation 3: Action Item 1**. However, it does not plan to present them to its Information Technology Sub-committee of the Board of Directors because it is not part of the sub-committee's mandate. According to the sub-committee's charter, which was updated in December 2023, its mandate is to assist the Board in fulfilling its oversight responsibilities with respect to major (not all) technology investments and cybersecurity. For example, the LCBO's senior management had provided regular updates, such as in October 2023 and December 2023, to the Board and its IT Sub-committee for the LCBO's most significant IT project—the Future State Modernization project, a multi-year project aimed at improving the organization's IT systems and processes.

Recommendation 4: Action Item 1

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;

Status: ⬤ **Fully implemented.**

Details

We found that the LCBO has estimated that the Future State Modernization Plan will cost $220 million over four years between 2022/23 and 2025/26. The LCBO signed an agreement with a fixed ceiling price with a professional services company as its "business transformation partner" in December 2023. As well, as of May 1, 2024, the LCBO has signed agreements with four of 10 IT solution vendors as "technology partners" to provide integration and technology platform supports and services.

Recommendation 4: Action Item 2

- establish a step-by-step project plan that specifies the deliverables and milestones and a project accountability mechanism with corresponding ownership;

Status: ⬤ **In the process of being implemented by February 2027.**

Details

We found that the LCBO established a project plan for the first stage of the Future State Modernization project, which spanned the period from January 2024 to June 2024. The project plan includes key tasks and task owners, and shows the percentage of completion for each task and indicates whether the task is complete, on schedule or late.

The project has six additional stages for a total of seven stages, each with anticipated start and end dates. The LCBO expects to have all required capability by October 1, 2025, new capability by January 1, 2026, and warehouse capability by the end of 2026. The LCBO expects the entire project to be completed by February 2027 and indicated that it will establish detailed project plans for these stages before each stage begins.

Recommendation 4: Action Item 3

- report project progress and expenditures to the Information Technology Sub-committee of the Board of Directors and the Ministry of Finance at least quarterly.

Status: ⬤ **Fully implemented.**

Details

We found that the LCBO's IT Sub-committee of the Board met eight times between March 2023 and May 2024 to discuss the Future State Modernization project's progress and expenditures. Also, the LCBO presented the project's actual and planned spending in 2023/24 to the Ministry of Finance in May 2024. The LCBO indicated that its Chief Executive Officer has provided verbal updates on the status of the project to the Ministry of Finance at their regular meetings; they met six times between January 2023 and May 2024.

2. Non-competitive Procurements Not Sufficiently Justified

In our original audit, we found that none of the business cases we sampled provided sufficient information to justify the decision to procure without a competition. There was limited documented evidence that only one supplier met business requirements, as per the LCBO's internal policy.

Recommendation 5: Action Item 1

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.

Status: ● **Fully implemented.**

Details

We found that in May 2023, the LCBO updated its procurement policy and procedures for direct award procurement projects. A business unit that uses the direct award method needs to complete a Direct Award (Sole/Single Source) Business Case & Approval Form to provide the details and justification explaining why only one vendor met the business requirements.

3. Continuous Reliance on Consultants and Contract Employees

In our original audit, from 2019/20 to 2021/22, about 33% of the LCBO's IT workforce were consultants. IT contract employees were overall more expensive than IT permanent staff. For example, one contract employee in a business analyst position was paid $155 per hour, compared to about $68 per hour for a similar permanent position at the LCBO. External consulting firms sometimes led procurement planning and business case development work on major IT projects, resulting in the LCBO relinquishing control over ceiling price and design quality.

Recommendation 6: Action Item 1

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;

Status: ● **Fully implemented.**

Details

We found that as of February 2024, the LCBO's IT leadership group—made up of managers, directors, vice-presidents and the senior vice-president—consisted of mostly internal staff, with the exception of a program director who was a contractor.

The LCBO indicated that it uses internal staff to execute, manage and guide the completion of its IT work. For example, for an IT project related to the LCBO's corporate gifting program that was active in summer 2023, internal staff were responsible for championing, managing and leading the project, and for reporting testing activities and writing test cases.

The LCBO indicated that some projects require specific technical expertise or niche skills that are only available through contractors, and that it may need to hire contractors during part or all of a project for these skills, but not need the contractors after the project is completed. The LCBO indicated that it uses a flexible project model that allows it to flex resources up and down to ensure it is neither understaffed nor overstaffed. As well, it may need to engage contractors as the only option because IT skills are in high demand and the government compensation structure is not competitive for attracting full-time talent for specific roles.

Recommendation 6: Action Item 2

- employ separate procurement processes for design and build, if external expertise is required for the design phase;

Status: ● **Fully implemented.**

Details

We found that in February 2024, the LCBO updated its procurement policy and procedures to state that "where possible, for IT related procurements, employ separate procurement processes for discovery and for the design and build phases." The LCBO communicated this update to procurement staff in December 2023. The LCBO indicated that it has not had an appropriate project on which to implement this new process as of June 2024.

Recommendation 6: Action Item 3

- establish contract ceiling prices through independent market research and analysis;

Status: ● **Fully implemented.**

Details

We found that in May 2023, the LCBO updated its procurement policy and procedures to state that "where necessary, market research should be conducted with a view to ensuring that input from a wide variety of suppliers is considered. Input from suppliers obtained through market research must not unduly influence the development of the specifications and requirements.... Business Units must ensure that once the development of the RFP [request for proposal] is underway, all vendor communications related to the RFP cease."

We noted one IT project for which the LCBO established a ceiling price in a contract with a vendor in October 2023 after identifying typical unit pricing through its market research.

Recommendation 6: Action Item 4

- supplement all time-and-materials contract pricing with a fixed-cost ceiling price as well as milestones and deliverables.

Status: ⬤ **Fully implemented.**

Details

We found that in February 2024, the LCBO updated its procurement policy and procedures to state that "pricing structures should also consider price increase formulas, extension options and ceiling price, where applicable. Business Units should confer with the Procurement Services department for recommendations and advice on developing appropriate pricing structures."

We noted one IT project for which the LCBO established a ceiling price in a contract with a vendor in June 2023 that supplemented a per-hour rate with the vendor.

Recommendation 7: Action Item 1

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;

Status: ⬤ **Fully implemented.**

Details

According to the LCBO, it reduced its use of contractors from 16% in April 2022 to 9% in May 2024, compared to its target of 25%.

In August 2023, a vice-president in the LCBO's IT Division communicated to other leaders within the group to remind managers to thoroughly assess the necessity of hiring contractors for upcoming work by evaluating existing resources and consulting with relevant teams, while considering project scopes and time frames, in order to control costs and optimize workforces.

The LCBO indicated that some projects require specific technical expertise or niche skills that are only available through contractors, and that it may need to hire contractors if it requires these skills during part or all of a project, but not after the project is completed. As well, it may need to engage contractors as the only option because IT skills are in high demand and the government compensation structure is not competitive for attracting full-time talent for specific roles.

The LCBO noted that it will aim to keep the number of contractors as a percentage of the overall IT Division headcount below the industry average and include the status of internal versus external IT resources in the monthly IT operations dashboard.

Recommendation 7: Action Item 2

- establish a consistent process for competitively selecting IT contract employees;

Status: ⬤ **Fully implemented.**

Details

We found that in August 2023, the LCBO shared with IT leaders a template consisting of standard interview questions for IT contract employees; it subsequently saved this information on the intranet for ease of access. In the LCBO's documented process for hiring contractors, internal staff are instructed to use this template to record the responses provided by potential candidates and to keep this in the interview file for future reference or audit.

Recommendation 7: Action Item 3

- require those positions that are accountable for key project outcomes in major projects, such as project managers, be LCBO permanent staff.

Status: ◯ **Will not be implemented.**

Details

The LCBO indicated it will not implement this recommendation. It noted that its use of contractors in positions that are accountable for key project outcomes, such as project managers, is primarily driven by two factors:

- the need for professionals with specialized capabilities that in many cases cannot be hired because the LCBO's below-market pay-bands for specific roles make it difficult to attract qualified staff; and

- the need to deliver on a temporary surge in work that would not justify the hiring of a permanent employee.

4. Vendor Selection Mostly Defendable but Does Not Consider Past Experience

In our original audit, vendor evaluation forms were incomplete in 10 of the 13 files we reviewed. They were missing information such as rationale for scores given and documentation of a final consensus meeting. One consulting firm under-delivered on a previous contract in 2019 but still won multiple contracts in 2020 and 2021, due in part to the LCBO not incorporating a review of its vendors' past performance when assessing new bids.

Recommendation 8: Action Item 1

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;

Status: ⬤ **Fully implemented.**

Details

We found that in May 2023, the LCBO updated its procurement policy and procedures to state "...an evaluation plan will be developed to promote independent and transparent scoring by all evaluation team members. Vendor evaluations may incorporate a bidder's past performance with the LCBO. It will also be mandatory for important information such as rationale for scores given, to be included for final consensus meetings and vendor selection documentation."

The LCBO subsequently updated the tool that stores its vendor evaluation information such that each evaluator who assigns their score on vendor-submitted information does so independently through their own unique log-in. The LCBO also made it mandatory to fill out certain fields, such as the primary reason for scores and evaluator comments.

Recommendation 8: Action Item 2

- update vendor evaluation scoring sheets to incorporate a bidder's past performance with the LCBO;

Status: ◉ **Little or no progress.**

Details

We found that the LCBO includes the following clause in its request-for-proposal templates: "In the evaluation process, the LCBO may consider the proponent's past performance or conduct on previous contracts with the LCBO or other institutions." However, at the time of our follow-up, it did not observe this practice when evaluating IT projects. The LCBO indicated that by March 2025, it plans to implement and leverage a module that tracks and reports on vendor performance for strategic IT vendors against key metrics, and will look to include aspects of past performance in its evaluation criteria and score sheets for IT projects.

Recommendation 8: Action Item 3

- 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.

Status: ◉ **Rationale for scores – Fully implemented.**

◉ **Meeting minutes – Will not be implemented.**

The Office of the Auditor General of Ontario continues to support the implementation of the recommendation to include the minutes for final consensus meetings in all vendor selection documentation packages.

Details

We found that, as evidenced by a review of a sample of IT projects that underwent a competitive process subsequent to the policy update in May 2023, the LCBO has documented the rationale for scores given in the vendor selection process to help facilitate consensus meetings. The LCBO indicated that the documented rationale forms the basis of the conversation in subsequent

consensus meetings. However, the LCBO noted that formal meeting minutes are not captured during these consensus meetings.

5. Performance of IT Vendors Not Centrally Monitored

In our original audit, performance indicators and targets were not established for consultants in 20 of the 25 contracts we examined to allow the LCBO to track consultants' progress in completing their projects. Neither the IT business units nor the LCBO's vendor management office verified if vendors had completed satisfactory deliverables and met milestones prior to making payments as set out in the contracts.

Recommendation 9: Action Items 1 and 2

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;

Status: ⬤ **Fully implemented.**

Details

We found that in December 2022, the LCBO updated its DocuSign process such that its staff would need to sign a statement validating services or deliverables that have been or will be received outlined in the invoice. The statement reads "I...confirm payment can be released to the vendor for the attached invoice(s) and the goods/services in the attached invoice(s) meet one of the following conditions: goods and/or services have been received or completed, or goods and/or services will be received and there is a contractual obligation to pay for services upfront." Following this, the LCBO would process the receipt in its financial information system, update actual and forecast expenditures and remit payment.

Recommendation 9: Action Items 3, 4 and 5

- 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 role vis-à-vis the IT business units' roles in contract management;

- develop processes to consistently establish contractual performance measures, assess vendor performance and record vendor issues.

Status: ● **In the process of being implemented by December 2025.**

Details

Regarding contract management, we found that in October 2023, the LCBO received advice from a consulting firm to centralize contract management. The consulting firm quantified the potential savings, outlined the benefits and proposed the resources needed to support this new central function. At the time of the follow-up, the LCBO was reviewing this advice and was updating its procurement tools to implement a contract management application as part of the Future State Modernization project, which is expected to go live by the end of December 2025.

Regarding vendor management, we found that the LCBO was putting in place a vendor management framework to ensure that staff follow a consistent approach to manage vendor performance across the IT Division. This framework will include standard performance measurements and related tracking that will be used for all third-party vendors that support the LCBO's operations. At the time of our follow-up, the LCBO was in the process of defining roles and responsibilities and updating related policies and procedures. It expects these to be completed by December 2025.

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

In our original audit, the LCBO's administration manual was not updated to reflect the Ontario Public Service Procurement Directive's interim measures.

Recommendation 10: Action Item 1

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.

Status: ⬤ **Fully implemented.**

Details

We found that in May 2023, the LCBO updated its procurement policies and procedures to include:

1) detailed instructions for completing direct award approval forms; and

2) requirements to document evidence that only one vendor met the business requirements and that staff considered alternatives to non-competitive procurement.

The policy further states: "Effective September 2020 the Ministry of Public and Business Service Delivery (MPBSD) has introduced new interim measures to support opportunities for collaborative purchasing. These measures include not having contract terms exceeding two years for the fixed term for any new contract and providing a cost for each deliverable in any consulting service contract. It also requires the submission of a Procurement Rationale Report to MPBSD before the procurement is released to the vendor community." Although the interim measures also included a requirement to submit planned procurement reports to the MPBSD, the LCBO obtained confirmation from MPBSD in November 2022 that this reporting requirement was never implemented.

// Appendix

Recommendation Status Overview

	# of Action Items	Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	2	2				
Recommendation 2	2	1			1	
Recommendation 3	2	1			1	
Recommendation 4	3	2	1			
Recommendation 5	1	1				
Recommendation 6	4	4				
Recommendation 7	3	2			1	
Recommendation 8	3	1.5		1	0.5	
Recommendation 9	5	2	3			
Recommendation 10	1	1				
Total	**26**	**17.5**	**4**	**1**	**3.5**	**0**
%	**100**	**67**	**15**	**4**	**14**	**0**