

Business Transformation Project/Common Purpose Procurement

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Historically, the Ministry of Community and Social Services has provided social assistance to needy individuals under one of two programs:

- The Provincial Allowances and Benefits program (commonly referred to as Family Benefits) provided financial assistance for prolonged periods of time primarily to individuals in need and considered permanently unemployable as a result of a physical or mental disability, or sole support parents with dependent children. In the 1997/98 fiscal year, the Ministry's Family Benefits program provided benefits totalling \$2.9 billion to approximately 314,000 recipients. The program was delivered by approximately 850 caseworkers and additional support staff working out of 93 local offices that report to 12 area offices.
- The Municipal Allowances and Benefits program (commonly referred to as General Welfare Assistance) provided short-term financial assistance to allow for a basic standard of living for individuals unable to provide for themselves. In the 1997/98 fiscal year, the program provided benefits having a total value of \$1.9 billion to about 270,000 recipients. The program was delivered by 350 municipalities and First Nations and is approximately 80% funded by the Ministry.

The Ministry has replaced these programs with the Ontario Works program and the Ontario Disability Support Program, which operate under new legislation. Ontario Works integrates employment and financial assistance for all employable recipients, including single parents. The current provincial/municipal delivery system will be replaced with a single-tier, streamlined system at the municipal level for Ontario Works recipients.

The Ontario Disability Support Program replaces Family Benefits payments with an income and employment support plan that better meets the needs of people with disabilities. The administration of this program will remain with the Ministry.

The Family Benefits and General Welfare Assistance programs were supported by two large, centralized computer systems, the Comprehensive Income Maintenance System (CIMS) and the Municipal Assistance Information Network (MAIN), which maintain recipient information and process payments. These systems are operated by the Ministry and are updated daily with batches of information entered in the local offices.

Both computer systems were developed in the late 1970s and early 1980s to facilitate payment processing and, consequently, are limited in their flexibility and the functions they can perform. In addition, the systems have reached their practical capacity and are unable to accommodate many of the changes necessary to improve program delivery or administrative effectiveness.

In 1994, the Ministry initiated work on Caseworker Technology, which was expected to be a two-phase project, initially to automate the collection and file maintenance of recipient information for both ministry and municipal social assistance offices and, ultimately, to replace CIMS and MAIN. The project had a total budget of \$171 million and was to be completed over the next four years. Much of the work necessary to implement the first phase of Caseworker Technology—the automation of data collection and file maintenance—was awarded to a private sector contractor through a competitive selection process.

The first phase of the Caseworker Technology project was amended to include a component known as Ontario Works Technology for monitoring and reporting on the employment initiatives of individual social assistance recipients. This part of the project commenced in 1996 and is to be fully implemented in 1998/99. By early 1998, Ontario Works Technology had been implemented in 162 ministry offices and municipal sites.

As of March 31, 1998, phase one of Caseworker Technology had been implemented in 64 provincial offices and 136 municipal sites, and approximately \$145 million in project expenditures had been incurred.

In 1995/96, the Ministry initiated another project called the Business Transformation Project. The main objective of the Business Transformation Project is to develop new business processes and technologies to support the transformation of the Family Benefit and General Welfare Assistance programs into the Ontario Works program and Ontario Disability Support Program. The Business Transformation Project is intended to provide technologies for single-tier delivery of the new social assistance and employment initiatives and to replace the interim computer systems of Caseworker Technology and Ontario Works Technology, as well as the outdated CIMS and MAIN computer systems.

On January 27, 1997, the Ministry entered into a Common Purpose Procurement (CPP) agreement with Andersen Consulting for the development and implementation of the business processes and technologies inherent in the new social assistance system that is to be put in place through the Business Transformation Project. The agreement between the Ministry and Andersen Consulting was the first large Government of Ontario project to use CPP principles. Under CPP, a private sector vendor is selected to work closely with the Ministry to identify, design, develop and implement new ways of delivering services and, in so doing, share the investment in and risks and rewards of the project.

In November 1995, the Management Board of Cabinet issued a directive and accompanying guidelines for CPP. In contrast to the traditional procurement process, in which vendor selection is based primarily on price or lowest evaluated cost, the CPP process bases vendor selection on qualitative factors such as proven experience, expertise, project approach and management strength, as well as other factors such as financial stability and capacity, and financial and partnership arrangements for sharing risks, investments and benefits.

The Provincial Auditor's previous value for money audit reports on the Family Benefits and General Welfare Assistance programs have consistently identified significant deficiencies in the administration of these programs. The Ministry has also recognized for some time that

improvements are needed in the business processes and technologies used to administer its social assistance programs. The Ministry's current, ambitious Business Transformation Project initiative, the primary objective of which is to design and implement a new way of administering social assistance, is intended to result in many of these needed improvements.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether:

- the Ministry had clearly established the appropriateness of the CPP process for its Business Transformation Project and had followed a reasonable and fair competitive selection process in awarding the agreement to Andersen Consulting; and
- the Ministry had demonstrated due regard for economy and efficiency in the contract terms agreed to and in the administration of the work performed to the end of our audit field work in February 1998.

The scope of our audit included discussions with selected ministry and Andersen Consulting staff as well as a review of all relevant and available information and documentation provided to us by the end of our field work in March 1998. To the extent considered necessary, we also held discussions with, and obtained information from, staff of other provinces and the federal government which had entered into similar agreements with Andersen Consulting and other consulting firms.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We did not rely on the work of the Ministry's Comprehensive Audit and Investigations Branch to reduce the extent of our audit work because the Branch had not reviewed or issued a report on either the Business Transformation Project or Common Purpose Procurement.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry had not clearly established the appropriateness of the CPP process for the Business Transformation Project for the following reasons:

- The Ministry had not sufficiently defined or established the project's scope and desired business results during the project's research and planning phase.
- The Ministry could not demonstrate that it had adequately considered either other contracting arrangements or maximizing the use of its own internal resources for any aspects of this project.
- Since the Ministry had not adequately established the desired business results, it could not ensure that such results would be sufficiently measurable to decisively determine or agree on progress toward achieving them.

We concluded that the Ministry had followed CPP principles in selecting Andersen Consulting as the successful vendor; however, in doing so, it could not demonstrate that it had selected the most cost-effective proposal or that the accepted proposal would result in value for money spent because:

- unlike the traditional procurement process which would be appropriate in most instances, the Management Board of Cabinet Directive and guidelines for CPP do not require that selections chiefly be based on price or lowest evaluated cost, or that bidders as part of the selection process propose specific changes to existing business processes and technologies or describe the nature and extent of the work to be performed; and
- the Ministry did not demonstrate the cost/benefit implications and overall value to itself of each proposal.

We concluded that the Ministry had not demonstrated due regard for economy and efficiency in the contract terms agreed to or in the administration of the work performed to February 1998 for the following reasons:

- It could not provide the basis for its agreement to pay Andersen Consulting a fee of up to \$180 million out of future savings. We noted that the \$180 million significantly exceeded the vendor's preliminary cost estimate provided during the competitive selection process. The vendor indicated that the preliminary cost estimate of \$50 million to \$70 million would be affected by variables such as complexity and the extent of the transformation. Also, the \$180 million maximum may be increased under certain specific conditions, subject to ministry approval.

In addition, the Ministry agreed to reimburse Andersen Consulting from project savings for certain project costs which will be in addition to Andersen Consulting's maximum fee of \$180 million. Thus, if payments to Andersen for its fees ultimately do reach \$180 million, this provision will have the effect of increasing the maximum payment by the amount of these costs. However, although these project costs may be substantial, the Ministry had not estimated their total amount or defined the circumstances under which some of them may be incurred.

- Andersen Consulting shares in savings at a disproportionately high rate to the disadvantage of the Ministry because:
 - the CPP agreement allows Andersen Consulting to charge standard published billing rates for this project, which were, on average, almost six times higher than the rates charged by the Ministry for comparable staff.

Also, when Andersen Consulting increases its standard published billing rates, it can unilaterally charge the higher rates to the project without ministry approval. We noted that, at the time of our audit, Andersen Consulting's rates exceeded the rates quoted in its response to the Ministry's December 1995 request for proposal by an average of 63%.

- The Ministry did not charge all of its eligible costs to project expenditures for future recovery from savings.

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- The Ministry did not ensure that Andersen Consulting provided the required receipts for the majority of its \$1.4 million out-of-pocket expenses. We noted that Andersen Consulting charges for out-of-pocket expenses averaged approximately \$26,000 for each full-time-equivalent position assigned to the project during the first year.
- The Ministry, without sufficiently evaluating alternatives, included in the CPP agreement an early opportunities initiative for changes to the existing social assistance systems and processes that resulted in payments of \$10.3 million to Andersen Consulting to December 31, 1997 (\$15.5 million to March 31, 1998); these payments were based, in part, on savings which were not clearly attributable to Andersen Consulting and resulted in Andersen Consulting being paid \$13.1 million more than its costs to March 31, 1998 for this initiative at its standard published billing rates.
- At the time of our audit, the project had fallen significantly behind the agreement's original, preliminary timetable (referred to in the agreement as "high level critical path") and the revised timetable agreed to in July 1997.

OTHER MATTER

A Quality Council was established to provide independent oversight to the project. We found that this Council had no representation from the Ministry but did have an Andersen Consulting partner as a member which, in our view, could be perceived as a conflict of interest.

Overall Ministry Response

The need for reform in Ontario's vast and highly complex social assistance system has been highlighted by various external and internal audit reports. The first steps in the reform of social assistance included the proclamation of the Ontario Works and Ontario Disability Support Program legislation and the integration of the sole support parent caseload with municipal service deliverers. Further reforms to the social assistance system require changes in business processes and technology.

In 1995, the Ministry was chosen to be a pilot for Common Purpose Procurement (CPP), an innovative approach to public/private sector partnership. As the Provincial Auditor has indicated, CPP is unlike the traditional procurement process.

The development of a new social assistance delivery system, which included 7,000 staff in approximately 200 sites across the province, during a period of time when additional financial and staffing resources were not available, required an innovative approach. In order to make the necessary business process and technology changes, the Ministry needed a private sector partner to complement and add to the skills and knowledge of the Ministry and work jointly with the Ministry to define, develop and implement the changes required. The Ministry also needed a partner that would invest its own human and financial resources to cover the costs of the work.

The key difference between CPP and traditional fixed price arrangements is that, under CPP, the Ministry and private sector partners share the risks and rewards of the work by investing their own human and financial resources and only recovering their costs from the benefits that are generated by the work they do together.

By contrast, payments to a vendor in a traditional fixed price arrangement are not directly tied to the achievement of results, and the private sector does not assume the same level of risk.

In negotiating its agreement with the selected vendor, the Ministry implemented the concept of CPP consistent with the Management Board guidelines, and also included controls such as a cap on payments and provisions related to warranties, liability, service levels, and breach and termination that, taken as a whole, are without precedent.

Additionally, specific pieces of work which are critical to the replacement of the current systems, CIMS and MAIN, have been defined in the agreement as critical to the success of the Project. A key feature of the agreement is that the technology to replace CIMS and MAIN and the business processes for Ontario Works and the Ontario Disability Support Program must be developed, even if savings are not achieved to cover the costs of the Project. These obligations under the agreement reduce risk to the Ministry and ensure the development of a high-quality product.

This undertaking not only provided a solution for the Ministry but also provided the government with an opportunity to learn from the Ministry's experience piloting CPP. Management Board is developing revised CPP guidelines. Management Board worked closely with the Ministry to ensure that the revised guidelines will reflect the experiences of the Ministry as it pilots the CPP process.

DETAILED AUDIT OBSERVATIONS

Management Board of Cabinet's Directive and guidelines for CPP state that it is intended to be an open, competitive process for selecting a private sector partner to work closely with ministries on appropriately qualified projects to jointly identify, design, develop and implement new ways of delivering services. Ministries and their partners are to share the risks, investment and rewards of the project.

A ministry may be expected to require private sector expertise and resources and to use CPP for large multi-stage design, build and operate projects for which it is unlikely to have the right mix of time, skills and money to identify, design and develop its own solutions. To the extent that a ministry needs private sector investment and is unable to pay its partner until the project succeeds in providing savings, the potential partner must be capable of sharing project risks and financing its costs until project savings are realized.

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The CPP process described in the Management Board of Cabinet's Directive is a two-stage evaluation process for selecting a vendor. In the first stage, vendors are to submit brief written proposals in response to a brief request for proposal from the ministry. The ministry is then to evaluate each proposal based on the vendor's demonstrated experience, expertise, approach, and willingness to share the risks, investments and rewards of the project. The highest ranked vendors are then chosen for a short list to be further evaluated in the second stage.

In the second stage, each short-listed vendor makes an oral presentation in which the vendor must:

- provide details on how it will work with the ministry and what it will do on the project, for example, its partnership, financial management and technical approach to the project, including the sharing of risks, investments and rewards;
- demonstrate why it should be selected; and
- demonstrate why it wants to be selected.

CHOOSING COMMON PURPOSE PROCUREMENT

The decision to use the CPP process for the acquisition of consulting services is the responsibility of a ministry's management.

Although much of the Ministry's research and planning process for this project preceded the 1995 issuance of the Management Board Directive and guidelines, we understand that draft directives and guidelines were available to the Ministry, and that ministry staff worked closely with staff from the Management Board Secretariat during the research and planning phase of this project. As a result, it is reasonable to expect that ministry staff were aware of Management Board of Cabinet's intentions in this area and, therefore, that they would have complied with those intentions.

Management Board of Cabinet's Directive and guidelines state that CPP is appropriate in a limited number of circumstances that meet certain prescribed conditions. These conditions include having:

- opportunities for sharing the risks, investments and benefits with the partner, with the benefits flowing from the deliverables;
- a well-defined business vision or opportunity, project scope and set of desired business results;
- desired business results that are sufficiently measurable to decisively determine and agree on progress toward achieving those results; and
- an established need to have the same private sector vendor as a partner for all stages of the project.

Our discussions with ministry staff and review of documentation prepared during the research and planning phase of the project indicated that the conditions under which CPP would be the preferred option had not been clearly established. We found that the project's scope and desired business results had not been adequately defined or documented at the time the CPP option was selected. In addition, we found no evidence that the Ministry had assessed whether the

desired business results would be sufficiently attributable to the vendor-partner or sufficiently measurable to decisively determine and agree on the project's contribution toward achieving them.

In addition, the Ministry could not demonstrate that it had adequately considered using other contracting arrangements or maximizing the use of its own internal resources for at least some aspects of the Business Transformation Project or that it had considered whether having the same vendor for all stages of the project was necessary or desirable.

Recommendation

For future Common Purpose Procurement projects, the Ministry should adequately document its research and planning to clearly demonstrate whether or not the project meets the Management Board of Cabinet's requirements for such projects.

In addition, the Ministry should consider both other contracting arrangements and maximizing the use of its own internal resources. In cases where the Ministry selects neither of those arrangements, it should document the reasons for its decision.

Ministry Response

The Ministry recognized that Common Purpose Procurement (CPP) should only be used in special circumstances, and these led Management Board to approve the Business Transformation Project as a pilot.

The revised CPP guidelines that are being developed by Management Board recommend that ministries undertake a readiness assessment which includes a business case, a review of the options available to the ministry and a risk assessment. Upon completion of the preparatory work, approval from Management Board of Cabinet is required to proceed with the use of CPP.

Subsequent to signing this CPP agreement, the Ministry implemented stringent document management processes which will ensure that decision making is documented and that the documentation is maintained.

COMPETITIVE SELECTION PROCESS

The Ministry selected the successful vendor through the two-stage CPP process established by the Management Board of Cabinet. Evaluation criteria and score-sheets were established for each stage of the selection process and written evaluations were prepared on each vendor by every member of the evaluation team.

On October 20, 1995, for the first stage of the competition, the Ministry advertised its requirements and requested written proposals from interested vendors. Submissions were received from seven respondents by the deadline of December 4, 1995. Of these, the three that scored the highest were selected for stage two, which was an oral presentation to senior

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ministry management and their advisors on January 31, 1996. The successful vendor was notified in April 1996 and was invited to negotiate a definitive agreement with the Ministry.

Our review of the completed score sheets and rating summaries indicated that the selection criteria were, to a great extent, subjective and difficult to conclusively assess or review given the lack of project-specific information available at this early stage. For example, the criteria for selecting the successful vendor from the oral presentations and their relative ratings were as follows:

- 30% for demonstrating an understanding and acceptance of the desired business arrangement, associated risks and critical success factors;
- 15% for appropriateness of proposed sources of savings, reasonableness of forecast of cost to completion, ability to finance the project and demonstrated overall value to the Ministry; and
- 55% for capabilities and project management including commitment, comprehension, culture and team chemistry.

Andersen Consulting was awarded the agreement largely on the strength of its senior management, experience and commitment to the project as well as its understanding of the risks involved, which accounted for 85% of the overall mark for the oral presentation. However, of the eleven senior staff members Andersen Consulting proposed for this project, six, including the project director and assistant project director, were replaced on the project after the agreement was signed, which is a risk associated with the CPP selection criteria. We were advised that these senior management changes were approved by the Ministry.

In our view, determining whether the most cost-effective proposal was accepted was not possible because under the CPP process:

- bidders are not required to propose business process revisions or technologies or to describe the nature and extent of the work to be performed; and
- cost is not a factor in the short listing of CPP proposals or the selection of the successful vendor.

In addition, the Ministry informed us that it was unable to locate documentation prepared at the time of its reference checks for the short-listed vendors. Such reference checks are normally an integral part of the selection process and ought to be retained.

Recommendation

To help ensure that the most cost-effective proposal is selected for all future Common Purpose Procurement projects, the Ministry should enhance the selection process by:

- **demonstrating the risk/reward implications and overall value to the Ministry of each proposal; and**
- **retaining documentation on completed reference checks.**

Ministry Response

Consistent with the initial guidelines, the Ministry established the overall value, to the Ministry, of each proposal by including overall value as one of the evaluation criteria. At that time, overall value was based on a limitation to the amount of costs and risk to be assumed by the Ministry.

The revised Common Purpose Procurement (CPP) guidelines being developed by Management Board recommend a revalidation of a ministry's business case with the short-listed vendors during the selection process. This will further assist ministries and vendors with validating the financial and business model with respect to the sharing of risks and rewards at an earlier stage.

Subsequent to signing this CPP agreement, the Ministry implemented stringent document management processes which will now ensure that decision making is documented and that the documentation is maintained.

AGREEMENT BETWEEN THE MINISTRY AND ANDERSEN CONSULTING

Once the Ministry had selected Andersen Consulting as the successful vendor, it proceeded to negotiate the agreement, which was signed on January 27, 1997.

The agreement included the following significant terms.

- The term of the agreement is for four years from the date of signing plus the possibility of one additional year, subject to mutual agreement. The decision regarding the one-year extension must be made by the end of the second year of the agreement.
- Payments to Andersen Consulting are not to exceed \$180 million, excluding expenditures for hardware, third party software, production support and help desk services, annual application maintenance exceeding \$3 million per system release and any applicable taxes. The parties may mutually agree to adjust project outcomes, level of effort, or the parties' responsibilities for specific tasks to remain within this maximum amount. In addition, the \$180 million maximum payment may be reviewed in conjunction with the review of the term of the agreement by the end of the second year if specific conditions are met.
- Specific project deliverables are to be set out in task orders which both parties must agree to. All task orders for deliverables that both parties determine to be critical for the success of the project will be designated critical task orders and must be completed. Failure to fulfil the obligations of a critical task order may be considered grounds for breach of the agreement.
- Each task order must include a description of a number of requirements such as expectations, business objectives, deliverables to be provided, estimated costs and benefits, metrics, personnel and infrastructure requirements, acceptance criteria, warranties, a schedule for completion and the accountabilities of the Ministry and Andersen Consulting.

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- Andersen Consulting and ministry costs associated with approved task orders will be charged to a cost pool at amounts and rates specified in the agreement. In addition, each party is to charge interest to the cost pool on all non-reimbursed costs thirty days after such costs are added to the cost pool.
- Financial savings associated with approved task orders will be calculated according to the specifications of the respective task orders and will be added to a benefit pool. The balance in the benefit pool will be carried forward from year to year.
- Each party is entitled to recoup its costs and associated interest charges from the benefit pool in proportion to the costs and interest it has charged to the cost pool.
- Unless otherwise agreed to, no distribution of savings is to occur until total amounts in the benefit pool exceed the total amounts in the cost pool. At such time, distributions to the parties will occur on a monthly basis.
- Andersen Consulting may be entitled to incentive payments based on a formula specified in the agreement.

At the conclusion of our fieldwork in February 1998, seven task orders had been approved. The main objectives of these task orders were: to establish a project management office and develop administrative procedures; to develop a comprehensive social assistance delivery model (blueprint) for the revised social assistance system; and to implement early opportunities for enhancements to existing social assistance systems and processes.

Costs incurred to March 31, 1998 totalled approximately \$39 million, of which \$34 million related to Andersen Consulting and \$5 million related to the Ministry. The balance in the benefit pool was approximately \$17.7 million, all of which related to the implementation of an early opportunities initiative which involved making changes to the existing social assistance systems and processes.

Our review of the agreement between the Ministry and Andersen Consulting and related records for work completed to date raised a number of significant concerns as the following sections demonstrate.

MAXIMUM CONTRACT PAYMENTS

Although not required by the then-current CPP directive, specifying an appropriate maximum contract price for a CPP agreement is important because it limits the Ministry's overall liability and should ensure that the maximum payments agreed to are reasonable and commensurate with the value of the work to be performed. Also, a maximum price acts as a safeguard for the Ministry, since payments are to be made from accumulated savings that, in some instances, will be inherently difficult to measure or attribute to the CPP initiative.

We were advised that the maximum payment of \$180 million was arrived at through a process of negotiation. The Ministry was unable to demonstrate how it assessed the appropriateness of the maximum \$180 million fee agreed to. Although project costs were considered difficult to estimate, we noted that the \$180 million significantly exceeded the vendor's preliminary cost estimate provided during the competitive selection process. The vendor indicated that the preliminary cost estimate of \$50 million to \$70 million would be affected by variables such as complexity and the extent of the transformation.

We also noted that the Ministry had not prepared any cost estimates for the work necessary under the Business Transformation Project. As a result, it was unable to assess or compare the reasonableness of the maximum payment agreed to in relation to estimates of costs for work that could be reasonably expected to be performed.

The Ministry estimated that its Business Transformation Project, initiated in 1995/96, could result in annual ministry savings of \$190 million, based on a 50% program cost-sharing arrangement with municipalities (the cost-sharing arrangement is now 80% provincial–20% municipal). This amount consisted of estimated savings from program administration and reductions in program expenditures.

However, after reviewing these savings estimates, we had several concerns, which are detailed below:

- The estimate of potential administrative savings was based on the experiences of a similar business transformation project undertaken in another smaller jurisdiction. Since the circumstances of that jurisdiction’s social assistance program were significantly different from Ontario’s, and since revised business processes and technologies for Ontario have yet to be defined, the reasonableness of the estimated administrative savings is questionable.
- Estimated savings in program expenditures included a number of factors which were not attributable directly to the Business Transformation Project, such as the effect of new policy directions and better compliance with existing policies and procedures. As a result, attributing all of the expected program benefits to the agreement with Andersen Consulting would likely over-estimate the agreement’s effect on program savings.

In addition, the Ministry may review the agreement’s \$180 million maximum payment for fees by the end of the second year. At that time, the Ministry may agree to revise the maximum amount or negotiate an adjustment to the project’s outcomes to stay within the existing fee maximum if the following conditions are met:

- both parties have agreed to extend the four-year term of the agreement to five years;
- either the scope of the work has materially altered or additional effort is required to respond to the complexity and business changes resulting from the reforms to the delivery of social assistance in the context of the emerging vision for social and community health services; and
- the combination of the first two factors results in a material increase in the work required to be performed.

However, neither the method for determining whether additional efforts are required due to increased complexity and business changes nor the method for determining revisions to the maximum contract price had been defined.

Recommendation

To help ensure that maximum payments under future Common Purpose Procurement agreements are reasonable and commensurate with the value of the work to be performed, the Ministry should:

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- assess and compare the reasonableness of the maximum contract payment agreed to with the estimated cost of the work that may be reasonably expected to be performed; and
- clearly identify and segregate expected benefits directly attributable to the work to be performed under the agreements.

Also, if the Ministry anticipates that changes to a project's scope or the amount of work required for its completion may require changes to a contract, it should clearly state the criteria to be used for determining when such changes have occurred and for deciding how the maximum contract fee will subsequently be altered.

Ministry Response

Under Common Purpose Procurement (CPP), the parties jointly define the solution to an identified problem. Accordingly, the cap on payments negotiated by the Ministry after the successful vendor was selected is based on an understanding of the scope of the work contemplated in the original request for proposals. The cap on payments is not a guaranteed payment to the vendor; it is a maximum investment commitment. An adjustment to scope does not necessarily result in an increase to the cap on payments.

One of the premises of the CPP agreement is that savings can only be attributed to the Business Transformation Project if the Project contributed to the achievement of those savings. This contribution can include the development of tools and processes required to support the implementation of ministry policies. It is through the development and implementation of metrics (performance measures) that savings directly attributable to project work are measured.

In future CPP agreements, the Ministry will include additional criteria and processes for determining potential changes to project scope.

EXCLUDED COSTS

It is important that the costs of all necessary goods and services to be acquired for the project be included under the maximum payment agreed to in order to allow the Ministry to effectively estimate and control its overall project costs. In instances where it is deemed necessary to reimburse the consultant in addition to the maximum payment agreed to, the circumstances under which such reimbursements are to be made ought to be clearly defined. In addition, the likely cost of the items to be reimbursed needs to be reasonably estimated to maintain overall cost control for the project.

In our review of the agreement between the Ministry and Andersen Consulting, we noted that in addition to the maximum fee of \$180 million, Andersen Consulting is to be reimbursed out of savings for certain project costs. Reimbursable items include computer hardware, purchases of third party software, production support, help desk services, annual application maintenance costs in excess of \$3 million per system release and any applicable taxes. However, we found

that the circumstances under which costs for some of these items ought to be incurred had not been clearly defined. In addition, the costs of the excluded items had not been estimated even though they may be substantial.

Recommendation

In order to more effectively estimate and control overall ministry payments for future Common Purpose Procurement projects, the Ministry should minimize the number of items excluded from maximum payment amounts. When items are excluded from maximum payment amounts, the items and the circumstances under which costs for them ought to be incurred should be clearly defined and estimated.

Ministry Response

The Ministry agrees that it is important to minimize the number of items to be excluded from a cap on payments. The Common Purpose Procurement (CPP) agreement identifies the items that are excluded from the cap on payments. These items include hardware, third party software, production support, help desk services and application maintenance. The costs associated with these items will be confirmed at the lowest possible end user cost using the government procurement process.

In future CPP arrangements, the Ministry will more clearly define excluded items and will consider including an estimate of costs for those items.

COST POOL

The agreement between the Ministry and Andersen Consulting specifies the rates and amounts that both parties may charge to the cost pool as follows.

ANDERSEN CONSULTING

- Fees for Andersen Consulting will be charged for actual hours at their standard published billing rates, as established unilaterally by Andersen Consulting from time to time.
- Out-of-pocket expenses incurred by Andersen Consulting personnel and subcontractors will be charged at actual cost, subject to Government of Ontario policy and guidelines, and are to be supported by receipts.
- Subcontractor costs will be charged at the value of subcontractor invoices.
- Licence fees for Andersen Consulting Class A software will be charged at Andersen Consulting's standard published rates.
- All third party software will be procured through Andersen Consulting's Business Integration Providers program provided that prices are equal to or better than existing government purchase arrangements.

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- Most, if not all, hardware will be leased. Hardware that is leased or purchased for the project will be procured through Andersen Consulting's Business Integration Providers program provided that prices are equal to or better than existing government purchase arrangements.
 - Interest at rates reflecting Andersen Consulting's borrowing capacity and credit rating will be charged to the cost pool on all non-reimbursed costs 30 days after costs are added to the cost pool.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

- Ministry personnel costs will be charged for actual hours to the cost pool at a rate that accounts for salary, benefits and 15% of salary costs for other direct operating expenditures.
- Out-of-pocket expenses incurred by ministry personnel will be charged at actual costs, subject to Government of Ontario policy and guidelines, and are to be supported by receipts.
- Interest at rates reflecting the Government of Ontario's borrowing capacity and credit rating will be charged to the cost pool on all non-reimbursed costs 30 days after costs are added to the cost pool.
- Ministry costs for incremental office space and equipment directly attributable to the project will be charged at demonstrably competitive rates for the locations involved.

In addition to the costs outlined above, other costs such as legal fees, costs associated with dispute resolution, consultants, and so on, may be added to the cost pool as appropriate, based on prior mutual agreement of the parties.

As of December 31, 1997, total accumulated costs were approximately \$31 million (\$39 million as of March 31, 1998). Of the \$31 million, \$28.3 million, or 91%, related to Andersen Consulting fees and charges for ministry staff time. Most of the remainder related to out-of-pocket expenses and interest charged on non-reimbursed costs.

BENEFIT DISTRIBUTION—CHARGEABLE RATES

Our review of charges for staff time indicated that the standard published billing rates charged to the project for Andersen Consulting staff time were significantly higher than the rates for ministry staff time for comparable work as indicated in Table I. This situation contributed to Andersen Consulting obtaining a disproportionate amount of the benefit pool in relation to its work effort. For example, we found that as of December 31, 1997, Andersen Consulting had been allocated and paid 90% of the amount in the benefit pool but had contributed only 63% of the total hours spent on the project.

In addition, we noted that the rates Andersen Consulting was charging for staff time exceeded the rates quoted at the time of its response to the Ministry's December 1995 request for proposal by an average of 63% as indicated in Table II. As previously stated, Andersen Consulting may at any time increase its standard published billing rates and charge the higher rates to the project without the approval of the Ministry.

Table I
Comparison of Rates for Andersen Consulting Staff
with Rates for Ministry Staff, as Used for Determining Benefit Distributions

	Andersen Consulting Per Hour (\$)	Ministry Per Hour (\$)
Project Director	575	70
Task Order Manager	430-560	59-63
Quality, Risk and Knowledge Coordinators	425	59
Finance Manager	170	51
Financial Analyst/Clerical Support	85-115	28-32
<i>Overall Average Rate: Charged to the Cost Pool</i>	283	51

Source: Ministry of Community and Social Services data

Table II
**Comparison of Andersen Consulting's 1995 Proposed Rates with Actual Rates at
December 31, 1997**

	Proposed Rates Per Hour (\$)	Actual Rates Charged Per Hour (\$)
Project Director	300-400	575
Technical/System Architect	200-300	450
Design Specialists	200-300	335-472
System Designer	150-250	230-325
Application Developer	70-140	105-250

Source: Ministry of Community and Social Services data

Recommendation

Future Common Purpose Procurement agreements should ensure that project savings are distributed equitably, based on the relative contributions of ministry and consulting staff, which will not necessarily correlate with the relative salary levels of ministry staff or the billing rates of consulting staff.

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Ministry Response

The revised Common Purpose Procurement (CPP) guidelines being developed by Management Board recommend that an equitable distribution of benefits be established. In future CPP arrangements, the Ministry will look at alternatives to the distribution of benefits, in accordance with the guidelines being developed.

OUT-OF-POCKET EXPENSES

As of December 31, 1997, out-of-pocket expenses for accommodation, travel and meals totalled \$1.55 million; \$1.4 million of that amount was for expenses incurred by Andersen Consulting staff. We noted that the Andersen Consulting charges for out-of-pocket expenses averaged approximately \$26,000 for each full-time-equivalent position assigned to the project during the first year.

The project's agreed-upon expense policy guidelines indicated that, to facilitate audit and accounting reconciliation, copies of all Andersen Consulting's expense claims for out-of-pocket expenses and supporting receipts were to be submitted to the project management office. To ensure that the expenses submitted were in compliance with the project's agreed-upon expense policies, they were to be reviewed on a bi-weekly basis.

However, we found that, for a majority of Andersen Consulting staff claims for out-of-pocket expenses we reviewed, copies of the required receipts had not been submitted to the project management office. As a result, the review necessary to establish whether these claims were reasonable and appropriate could not be completed by the Ministry or by us.

Recommendation

The Ministry should ensure that all necessary receipts for out-of-pocket expenses to be charged to the Business Transformation Project are received and reviewed by the project management office so that they can be checked for reasonableness and compliance with relevant expense policies.

Ministry Response

The Ministry is committed to accountability and is pleased that the Provincial Auditor brought this issue to our attention. Upon being notified of the issue, the Ministry obtained and reviewed the appropriate receipts, and they are now kept on site. All receipts will be kept on site in the future.

INCOMPLETE MINISTRY COSTS

We reviewed ministry costs included in the cost pool for the early opportunities initiative to December 31, 1997 (see section on Benefit Pool) and found them to be incomplete.

- The Ministry's costs for programming changes to CIMS, including other consultants' services, totalled approximately \$280,000 but were not included.

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- The Ministry's costs for manually reviewing files in ministry offices and assessing recipients' eligibility were not included. Although it is difficult to estimate the total costs involved, we believe they are likely to be substantial.

As a result, the Ministry's contribution to the cost pool was understated, which resulted in fewer benefits being allocated to the Ministry for the early opportunities initiative than should have been the case.

Recommendation

To ensure that the benefits of the Ministry's Business Transformation Project are fairly distributed, the Ministry should include all of its costs related to that project in the project cost pool.

Ministry Response

The Ministry has now added the costs associated with Change Reporting systems changes to the cost pool. In general, costs for implementing new processes will be added to the cost pool.

INTEREST CHARGES

Interest charged on non-reimbursed costs to December 31, 1997 totalled approximately \$600,000, of which \$560,000 was attributed to Andersen Consulting and \$40,000 to the Ministry. The average interest rates charged by Andersen Consulting and the Ministry were 5.5% and 4.1% respectively.

However, the basis on which interest charges were calculated, particularly for Andersen Consulting, was to the Ministry's disadvantage. We noted that, in accordance with the Agreement, Andersen Consulting's interest was calculated based on its full published rates, which included a significant mark-up, and not on cash outflows or actual interest expenses incurred, which we believe would be a more appropriate basis.

In addition, in light of the early opportunity payments already made to Andersen Consulting, it was unclear how much of Andersen Consulting's cash costs had already been reimbursed by the Ministry at any point in time, which made the calculation of interest on non-reimbursed costs uncertain.

Recommendation

If interest is charged on non-reimbursed costs for future Common Purpose Procurement projects, the Ministry should ensure that amounts paid are based on actual interest expenses incurred.

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Ministry Response

All Project costs are eligible and reimbursable. Interest has been applied to the complete amount outstanding as per the standard billing approach. In future Common Purpose Procurement agreements, the Ministry will review alternative approaches to charging interest.

BENEFIT POOL

Up to December 31, 1997, the balance in the benefit pool was \$11.5 million (\$17.7 million as of March 31, 1998). All of that amount was attributed to Early Opportunities Change Reporting Task Orders which were part of the early opportunities initiative. The task orders primarily entailed a manual review of case files at ministry offices, improvements in the monthly income reporting and entitlement calculation process for the Family Benefit program, and related programming changes in CIMS.

Work with Andersen Consulting on this initiative began in January 1997, and the first two phases of change reporting were completed by November 1997.

Comparison of Benefits and Recorded Work Effort for Early Opportunities Task Orders as at December 31, 1997

	Andersen Consulting	Ministry	Total
Benefit Allocation	\$10.3 million (90%)	\$1.2 million (10%)	\$11.5 Million (100%)
Time Spent	1,046 days (69%)	460 days (31%)	1,506 days (100%)
Costs Charged	\$2.3 million (88%)	\$.3 million (12%)	\$2.6 million (100%)

Source: Ministry of Community and Social Services data

All of the above benefits allocated to Andersen Consulting as of December 31, 1997 had been paid by January 31, 1998. According to the Ministry, benefits allocated and paid to Andersen Consulting to March 31, 1998 were \$15.5 million while costs charged by the firm to that date totalled \$2.4 million for the Early Opportunities Change Reporting Task Orders.

However, we believe that it was not necessary to include the Early Opportunities Change Reporting Task Orders in the CPP agreement, which resulted in unnecessary payments to Andersen Consulting, for the following reasons:

- Alternative ways of proceeding with this work had not been identified or assessed at the time the decision was made to incorporate this work into the CPP.
- Ministry staff were well aware of the needed changes. In fact, a number of previous audit reports by the Provincial Auditor as well as a report by the Standing Committee on Public Accounts had made significant recommendations for improvements in these areas.

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- A Ministry report dated November 1995 indicated that work in this area had already been planned and started in 1994. Although we understand that this work was temporarily suspended at that time due to other priorities, work on programming changes to CIMS proceeded again in the summer of 1996.
 - A substantial portion of the work was conducted by ministry staff. For example, manual file reviews were conducted by ministry staff and all of the programming changes to CIMS were undertaken by ministry staff together with other consultants retained and paid for by the Ministry, even though, as previously noted, most of these costs were not charged to the cost pool.
 - Since early opportunity savings significantly exceeded costs, it would have been more economical for the Ministry to proceed with this work outside of the CPP agreement, for example, proceeding on a fee-for-service basis.

We were advised that the Early Opportunities Task Orders were intended to rapidly generate benefits which could be used in the early days of the project to demonstrate project successes and enable the project's self-funding strategy. As a result, there was no evidence that the Ministry had assessed the various alternative ways of proceeding or the benefits of proceeding with this work outside of the CPP agreement. This raises the question of whether proceeding with these task orders under the CPP was or was not providing the Ministry with the most value for money spent.

Recommendation

The Ministry should ensure that if additional work is to be incorporated into the current or future Common Purpose Procurement projects, the benefits of that work as compared with the benefits of other alternatives are clearly established.

Ministry Response

The Ministry agrees that it is important to evaluate benefits compared with other alternatives. When additional work is to be included in a Common Purpose Procurement (CPP), the Ministry will assess the various ways of proceeding and select the alternative which represents the most value for the Ministry and is consistent with existing contractual arrangements and the need for integration into a comprehensive solution that supports the reform of social assistance.

CPP is a risk-based arrangement in which the vendor invests its own human and financial resources with no guarantee of payment. All of the work does not generate benefits. Many components of the work will improve administration without generating benefits. Some tasks do generate financial benefits and assist with balancing costs and benefits. To date, costs charged to the cost pool have been significantly higher than benefits.

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BENEFIT MEASUREMENT

In order to determine the extent to which task orders have met their objectives and contributed to the financial savings of the project, detailed performance measures referred to as “metrics” are developed. The metrics attempt to quantify the financial savings achieved by task orders by comparing the performance of revised systems or processes with a baseline derived from the performance of existing systems or processes prior to revision. We were advised that as part of the metrics development process, periodic reviews are to be undertaken.

As of December 31, 1997, five different metrics were used to determine the financial savings attributable to the Early Opportunities Change Reporting Task Orders. Two of these, metrics for determining savings from automatic case cancellations and for determining savings from manual file reviews, accounted for \$9.7 million, or 84%, of the total savings reported.

Our review of automatic case cancellation and manual file review metrics indicated that, in some cases, the identified savings had been overstated or unnecessarily attributed to the Early Opportunities Change Reporting Task Orders, which resulted in excessive payments to Andersen Consulting as demonstrated in the following two sections.

AUTOMATIC CASE CANCELLATIONS

The metric for automatic case cancellations was to measure savings resulting from programming CIMS to automatically cancel the benefits of recipients who do not report required income information for two consecutive months. Savings totalling \$7.1 million for all offices were estimated using this metric. These savings were determined by comparing the number of automatic benefit cancellations by CIMS after reprogramming to the number of similar, manual cancellations that took place during the base period without verification of the CIMS data.

Our review of the calculation of these benefits resulted in the following concerns.

- For one of the five pilot offices whose automatic benefit cancellation data we reviewed, the benefits were calculated based on 61 automatic benefit terminations for non-reporting of income information even though that office indicated to us that only 36 such cancellations had occurred. We estimated that this discrepancy resulted in a savings overstatement of \$117,000 as of December 31, 1997, which will increase to over \$200,000 during the one-year accumulation period for such savings.
- Province-wide savings were calculated using a baseline of 32 benefit cancellations for non-reporting of income information per month. However, this baseline failed to consider the approximately 2,000 recipients per month whose benefits were on manual hold and, therefore, were also not paid. Based on ministry data and assumptions, we estimated that this oversight had resulted in a savings overstatement of approximately \$960,000 as of December 31, 1997.

MANUAL FILE REVIEWS

The metric for manual file reviews measured savings based on benefit terminations for recipients who had not reported income for a long time and were manually terminated as a result of files being brought up to date in preparation for automatic benefit cancellation. Savings totalling \$2.6 million were attributed to this metric. In our view, these savings were attributed to

this project and subsequently paid to Andersen Consulting unnecessarily for the following reasons.

- Ministry staff were well aware of the need to obtain recipients' income information to establish their eligibility for benefits. In fact, the Provincial Auditor's *Annual Reports* for 1992 and 1996 commented on the need for improved administration to ensure that all information necessary to establish recipient eligibility was received.
- All of the work undertaken was already a requirement under the Ministry's current policies and procedures for the Family Benefits program and, in fact, ministry staff performed all of the work.

Recommendation

To ensure that task order metrics fairly account for the relative contribution of savings by each partner in the Business Transformation Project, the Ministry should ensure that:

- **amounts included in the benefit pool are accurately determined; and**
- **financial savings attributable to ministry staff adhering to previously established policies and procedures are not included in the project's benefit pool.**

Ministry Response

The Ministry is committed to ensuring that the amounts included in the benefit pool are accurately determined. As part of the ongoing metrics development process, a periodic review process had been established during the audit which reviews the assumptions and information related to performance measures. The Ministry is continuously reviewing the assumptions and information related to performance measures and, subsequent to the audit, has already adjusted both the baseline used to establish certain metrics and the resultant savings included in the benefit pool.

CURRENT PROJECT STATUS

The agreement between the Ministry and Andersen Consulting included a list of critical functions and a preliminary timetable for their expected completion. These critical functions included:

- preparation of a comprehensive social assistance delivery model (blueprint) for the revised social assistance system;
- re-engineering design, build and rollout of release 1—an application providing for the replacement of CIMS and MAIN technologies and basic functionality required to deliver Income Support and Ontario Works programs; and

- re-engineering design, build and rollout of release 2—an application to provide additional functionality in order to improve system service delivery and achieve additional cost savings.

The original preliminary timetable (high level critical path) for completion of the above deliverables was revised in July 1997, as illustrated in the following table:

**Original and Revised Timetables
for Implementation of Release 1**

Project Stages	1997				1998				1999				2000		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Blueprint															
Revised – Blueprint*															
Technology Infrastructure															
Re-engineering/Design R1															
Revised - Re-engineering/Design R1**															
Release 1 Build															
Revised - Release 1 Build**															
Release 1 Rollout															
Revised - Release 1 Rollout															
Release 1 Maintenance & Support															
Revised - Release 1 Maintenance & Support															

* status as of March 31, 1998: completed

** status as of March 31, 1998: not yet started

Source: Ministry of Community and Social Services

We noted that, at the completion of our fieldwork in February 1998, a comprehensive social assistance delivery model (blueprint) for the revised social assistance system had been prepared. However, the next stages of the release strategy, the design and build phases of release 1, had not commenced, which put the project significantly behind both the original preliminary schedule and the revised schedule for completion of these phases.

Recommendation

The Ministry should take the steps necessary to ensure that the work under the agreement with Andersen Consulting supports the delivery of the Ontario Works program and the Ontario Disability Support Program with the revised business processes and technology solutions at the earliest opportunity.

Ministry Response

The Ministry is committed to ensuring that the necessary business processes and technology are in place as quickly as possible to support the delivery of Ontario Works and the Ontario Disability Support Program.

The Business Transformation Project has already successfully supported the implementation of several new business processes.

OTHER MATTERS

ADDITIONAL CONSULTING ASSISTANCE ACQUIRED

The Ministry retained the services of a consultant to help with the development of the request for proposal for the Business Transformation Project and the subsequent evaluation of proposals received and to assist during the contract negotiation phase.

A request for proposal for those services was issued on June 7, 1995. Three proposals were received from consulting firms by the June 14, 1995 deadline for submissions. Management Board of Cabinet's Consulting Services Directive specifies that ministries must select the consultant with the lowest evaluated cost from among the consultants capable of completing the assignment.

Our review of the three proposals found that proposed fees ranged from \$90,000 to \$119,000. We noted that the proposal for \$90,000 was from a major consulting firm and included the services of at least three individuals with expertise in information technology, finance and government privatization projects. The proposal for \$119,000 was also from a major consulting firm but included the services of only one individual, who had expertise in information technology and large service contracts.

Each of the three respondents was interviewed on June 16, 1995, and the contract was awarded to the highest bidder on June 19, 1995. We found no support for the choice of the successful bidder, because the Ministry was unable to provide rating sheets or other adequate documentation in support of its selection of the successful vendor.

The contract with the successful vendor was signed on June 21, 1995 for a fee not to exceed \$165,700. The contract was revised several times to accommodate the amount of \$285,500 actually paid. We found insufficient supporting evidence to assess the reasonableness of the contract revisions or the amounts paid. We noted that the consultant was not required to prepare a report for this assignment, and the Ministry could not provide adequate documentation to support the hours spent by the consultant.

According to the Ministry's own policies, when an assignment's original terms of reference have been well defined, service contracts should require extension only under limited

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circumstances. We noted that the Ministry had not determined the type of consulting expertise required for this assignment. For example, we understand that some of the cost increases under this agreement were attributable, in part, to the need for additional expertise in areas such as finance, which had been included in the rejected, lowest cost proposal.

Recommendation

In future, the Ministry should fully establish the type of consulting expertise it requires prior to the competitive selection stage to help ensure that selected proposals offer all the needed services.

To be able to demonstrate the basis on which a successful vendor was selected and that the selection process was fair, the Ministry should prepare and retain rating sheets or other documentation for every proposal received and evaluated.

In instances where it is deemed necessary to sign or revise an agreement for more than the proposed fee, the Ministry should clearly establish and document the reasonableness of the revision and the basis for its approval.

Ministry Response

The Ministry agrees that the need for consulting services, initially and for any revisions, should be clearly defined and that the documentation regarding the resulting process is retained.

Subsequent to signing this consulting agreement, the Ministry implemented stringent document management processes which now ensure that decision making is documented and that the documentation is maintained.

QUALITY COUNCIL

Under terms of the agreement between the Ministry and Andersen Consulting, a Quality Council was established to provide independent oversight and a proactive approach to quality issues. The role of the Council includes:

- ensuring that the project stays focused on the needs and expectations of stakeholders;
- validating that current and future commitments made by the project are achievable; and
- providing the project directors with coaching and independent arm's length advice.

The Quality Council is to meet at least twice a year, and, at the time of our audit, had met the required two times.

We noted that the Council had a membership of nine members, eight of whom were from the private sector or other levels of government. The ninth member was a partner of Andersen Consulting, even though the Ministry did not have a member on the Council. In our view, the presence of an Andersen Consulting partner as a member of the Quality Council could be

perceived as a conflict of interest, since it may affect the independence and objectivity of the Quality Council's deliberations.

Recommendation

To protect the independence and objectivity of the Quality Council's work, all members of the Quality Council should be free of any actual or perceived conflicts of interest.

Ministry Response

The Ministry will ensure that there is no real or perceived conflict of interest on the Quality Council.