



Liquor Control Board of Ontario: Information Technology Procurement

2022 Value-for-Money Audit

Why we did this audit

- The Liquor Control Board of Ontario (LCBO) is the highest financial contributor Crown corporation to the Province's consolidated revenue fund and the largest retailer of alcohol in Canada.
- After the purchase of alcohol, the most significant purchase at the LCBO is information technology. Over the last seven fiscal years, the LCBO has spent a total of \$624 million on IT expenditures.

Why it matters

- Proper monitoring of IT expenditures and procurement projects can help ensure that the LCBO is receiving expected performance and outputs from its IT vendors so that its operational needs, and in turn, its consumers' needs, are appropriately met.

What we found

Strategic IT Expenditure Planning and Reporting was Lacking

- 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.

RECOMMENDATION 1, 3, 4

Business Cases for IT Procurement Projects Lacked Cost Estimates

- 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 2

Non-competitive Procurements Lack Sufficient Justification

- The LCBO awarded 10 contracts totalling over \$60 million, or 14% of total IT expenditures, to two consulting firms between 2017/18 and 2021/22. The firms worked on the first phase and the second phase of a project for a total of six contracts totalling over \$43 million. For some contracts, the firms were extended to work on the second phase without having to go through a competitive procurement process.

RECOMMENDATION 5

Extensive Reliance on IT Consultants and Contract Employees

- From 2019/20 to 2021/22, about 33% of the LCBO's IT workforce were consultants.
- IT contract employees were paid significantly more 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, 7

Vendor Selection Not Clearly Justified

- 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

Performance of IT Vendors Not Centrally Monitored

- 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, 10

Conclusions

- The LCBO's IT procurement process did not comply with its internal policy. Improvements are needed in procurement planning, procurement justification, vendor performance evaluations and the use of IT contract employees.
- The LCBO did not consistently lead IT projects using internal resources and instead relied on external IT consultants to advise it of its business requirements, plan projects, and establish the scope and costs of the projects. The LCBO also did not competitively hire IT contract employees in a consistent manner.
- While the LCBO had mostly maintained a fair, open and transparent decision-making process for vendor evaluation, it did not always keep adequate records of how and why decisions were made.
- Because the LCBO did not manage vendors centrally, vendor performance was not managed in a timely and consistent way. One vendor who performed poorly in the past was subsequently awarded more IT and other contracts.

Read the report at www.auditor.on.ca