
CHAPTER ONE

Overview

BETTER INFORMATION FOR DECISION-MAKING

As I have emphasized in previous Annual Reports, having appropriate, reliable, and timely information enables decision-makers to accurately assess the economy, efficiency, and effectiveness of government programs and activities. Such information is essential for decision-makers to decide whether to continue, discontinue, or change government programs and activities, including decisions on the use of alternative service delivery. Good administration of public funds depends on good decisions based on good information.

In this Annual Report I would like to highlight four of the more significant instances where we found that information for decision-making was insufficient:

- In our audit of the Community Reinvestment Fund (CRF), which was established with the objective of ensuring that the Local Services Realignment (LSR) initiative is and remains revenue neutral, we found that the determination of provincially imposed savings targets on municipalities' spending lacked empirical or analytical support. The use of these savings targets in the CRF funding formula, as well as the manner in which the formula was applied, resulted in some municipalities having windfall gains and others not receiving the funding required to achieve revenue neutrality. Although CRF payments to eligible municipalities have totalled \$1.8 billion since 1998, the LSR initiative cannot be considered to be revenue neutral.
- In our audit of the Ministry of Transportation's Road User Safety Program, we found that the Safety and Regulations Division (Division) hired 280 additional staff for driver testing in the 16 months ended January 2001 at a cost of \$10.3 million and then opted to outsource driver testing without a completed business case to justify the outsourcing. The same Division also planned to spend \$101 million on computer systems without a sufficient strategic plan and without a proper business case.
- In our audit of the Integrated Justice Project (Project), which was instituted in 1996 to improve information flow in the justice system by providing new, compatible computer systems and technologies, we found that the original business case for the Project had an aggressive schedule, was based on a best-case scenario, and did not adequately take into account the magnitude of the changes the Project would bring about—the Project will affect 22,000 employees in three ministries at 825 locations across Canada.

In addition, we noted that inadequate research was done in the preparation of the Project's March 1998 business case. The March 1998 cost estimate to complete the Project was \$180 million; by March 2001, the cost estimate had risen to \$359 million. Over the same period, the estimate of expected benefits from the Project was reduced from \$326 million to

\$238 million. Moreover, we found that the \$238 million in expected benefits was still overstated by \$57 million. As well, for \$172 million of the benefits that were expected from the courts, no agreement had been reached between project management and senior management of the courts as to their realization.

- In our audit of the Ministry of Education’s Special Education Grants to School Boards, we found that the Ministry and school boards did not have the information and processes to determine whether special education services were delivered effectively, efficiently, and in compliance with requirements. For instance, the information available on school-board spending by activity or program was insufficient for management at school boards to manage costs effectively. As a result, the Ministry, trustees, Special Education Advisory Committees, and parents could not assess how effectively management had spent special education funds.

ACCESS TO INFORMATION

Section 10 of the *Audit Act* states that the Provincial Auditor shall be given access to all information belonging to or in use by every ministry, agency of the Crown, or Crown-controlled corporation that is necessary to the performance of the duties of the Provincial Auditor under the Act. Subsection 12(2)(a) of the *Audit Act* requires that I report on whether in carrying out our audits we received all the information and explanations required.

For the first time since being appointed Provincial Auditor, I have to report an instance where my Office did not receive all the information and explanations we required. During our value-for-money audit of the Ministry of Transportation’s Road User Safety Program (see Chapter Three, Section 3.11), contrary to Section 10 of the *Audit Act*, the then-senior management of the Ministry hindered the audit process by not giving my staff full access to pertinent files, not providing all information requested, and deleting parts of pertinent documents they provided. As well, certain restrictions were placed on ministry staff such that they may have been inhibited from speaking freely with my staff.

Following the completion of our audit fieldwork, we raised these matters with the newly appointed Minister and Deputy Minister of Transportation, who immediately took steps to avoid any recurrence of access-to-information problems in future. Most noteworthy is the fact that they implemented a ministry Code of Conduct for dealing with my Office that is designed to avoid such occurrences in future.

Based on the information we had received by the end of our audit fieldwork, we were able to reach the conclusions outlined in Section 3.11 of Chapter Three.

ACCOUNTING FOR MULTI-YEAR FUNDING

Over the last few years I have become increasingly concerned about the payment of significant funds to organizations well in advance of the actual need for these funds by the organizations. Specifically:

- \$750 million was paid to the Ontario Innovation Trust over the 1998/99 (\$250 million) and 1999/2000 (\$500 million) fiscal years. However, by the end of the 2000/01 fiscal year (March 31, 2001), the Ontario Innovation Trust had spent only \$119 million on innovation grants and held \$670 million as short-term investments without an accountability requirement to the Legislative Assembly.
- \$1.14 billion in multi-year capital grant funding has been provided to hospitals over the last two years to accelerate capital projects planned for the next three to four years. Although the actual spending of these funds by the hospitals to provide health-care services will extend well into the future, the funding advances were recorded as health-care expenditures by the government in the 1999/2000 and 2000/01 fiscal years.

From the accounting perspective, by recording in the financial statements of the current year an expenditure that relates to future-year activities, government financial reporting is distorted—in both the current and future years.

Given that accounting standards for government financial reporting in this area allow some latitude and that these types of expenditures were not significant enough to affect the overall fair presentation of the province's 2000/01 financial statements, I have not included a reservation in my opinion on these statements. However, the practice of recording multi-year funding as current year's expenditures must cease. Advances that relate to future years should be recorded as assets and drawn down and recorded as expenditures in the years to which they relate. On this matter, I am encouraged by the Canadian Institute of Chartered Accountants' recent decision to review the accounting standards relating to multi-year funding, and I look forward to the recommendations arising from their review.

I am also concerned that the government's approach to expenditure accounting in the case of health-care expenditures is inconsistent with its approach to accounting for its health-care revenues received from the federal government. In the latter approach, supplemental Canada Health and Social Transfer (CHST) grants that the province receives are being deferred and recognized as provincial income in the fiscal years to which they relate. In my view, the province's multi-year health-care expenditures should also be recognized in the fiscal years to which they relate.

In addition, from a value-for-money perspective, I question the economic rationale for disbursing money to external parties long before the grant recipients actually require the funds.

These issues are discussed in more detail in Chapters Two and Five of this report.

TOWARDS BETTER ACCOUNTABILITY

Specific issues of governance and accountability in government are addressed in Chapter Two of this report. This year I again raise two issues that I believe warrant discussion and relate to improving accountability to the Legislature for the prudent use of public funds: the need for public accountability for the Ontario Innovation Trust and legislative proposals to improve public accountability, including proposed amendments to the *Audit Act*.

With respect to the Ontario Innovation Trust, I continue to believe there is a significant impairment of accountability to the Legislature—and therefore to the taxpayers—for the \$750 million in public funds that has been flowed to the Trust. As at March 31, 2001, the Trust had only disbursed over the two years of its existence \$119 million for eligible projects, while it

held \$670 million of taxpayers' funds without an accountability requirement to the Legislative Assembly.

With respect to legislative proposals to improve public accountability, I am pleased to note that the government announced in its Speech from the Throne on April 19, 2001, that it would be making sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario.

Included in the planned reforms to improve public-sector accountability was the government's commitment to proceed on my Office's long-standing proposals to amend the *Audit Act* to permit my Office to perform full-scope value-for-money audits of organizations receiving transfer payments from Ontario. As well, the *Ontario Budget 2001* included a proposal for a new Public Sector Accountability Act that would establish an accountability framework for all major public-sector organizations that receive taxpayers' dollars from the government.

I believe that these government initiatives will help achieve long-lasting improvements to the public accountability and performance of public-sector organizations, and I look forward to the passage of the amended *Audit Act* and to applying its expanded scope to the new accountability framework envisioned in the proposed Public Sector Accountability Act.

VALUE-FOR-MONEY AUDITS

THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, my Office selects the audits it conducts in a cycle, so that all major programs are considered for coverage every five years. The audits covered by this Annual Report were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislative Assembly, public sensitivity and safety, and past audit reports.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants.

Before beginning an audit, my staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. Following the audit, staff conclude their on-site work, after which a draft report is prepared, reviewed internally, and discussed with the auditee. Management responses to our recommendations are incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and to finalize the responses. Those responses are provided in the report sections that comprise Chapter Three of this Annual Report.

Immediately prior to the tabling of our reports in the Legislative Assembly, separate and simultaneous lockups are arranged for members of the Legislative Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer questions from media representatives.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's report for review and calls upon representatives of the audited ministries and agencies to attend as witnesses.

Since 1993, it has been our practice to make specific recommendations for corrective action by ministries and agencies in our value-for-money audits and reviews and, two years after the publication of the recommendations in our report, to follow up on the status of actions taken. Chapter Four of this report contains our comments on the current status of actions taken on the recommendations made in our *1999 Annual Report*.

VALUE-FOR-MONEY AUDIT REPORT SUMMARIES

The following are summaries of the 11 value-for-money audits and reviews contained in Chapter Three of this Annual Report. The auditees' responses in Chapter Three indicate that action to implement many of our recommendations has been planned or has already been taken.

3.01 Ministry of Agriculture, Food and Rural Affairs Food Industry Program

The objective of the Food Industry Program of the Ministry of Agriculture, Food and Rural Affairs is to manage food safety risk in Ontario's food industry to protect consumers and enhance market access and industry competitiveness. In 2000, Ontario's food industry included over 60,000 farms that produced \$7.8 billion worth of agricultural production and food processors that shipped products to market valued at \$25 billion.

To maintain the safety and quality of the province's food supply, the Ministry, in co-ordination with other provincial ministries as well as the federal and municipal governments, licenses and inspects food processing plants and tests selected products for evidence of contamination. To support the program, for the 2000/01 fiscal year, the Food Industry Division spent a total of \$20 million, employed 110 staff, and engaged 140 inspectors on a contract basis.

For over the past two years, the Ministry has directed extensive consultations with the Ministry of Health and Long-Term Care and the Ministry of Natural Resources to consolidate provincial food safety responsibilities into one proposed piece of legislation. Although this initiative may address many of the concerns we noted during this audit, we concluded that the Ministry needed to improve its efforts to ensure compliance with legislation, policies, and procedures by addressing weaknesses in its licensing and inspection processes. Specifically, we noted the following:

- Food safety deficiencies that were defined as critical by the Ministry and that can pose risks to human health were noted during annual licensing audits of abattoirs (slaughterhouses) but were not corrected in a timely manner.
- Procedures were not in place to randomly test meat from abattoirs for evidence of bacterial, chemical, and other more recently recognized hazards to health that are not readily detected by traditional meat inspection methods.
- The Ministry had not assessed the activities of the Dairy Farmers of Ontario (DFO) since the DFO had assumed responsibility for the raw cows' milk program in 1998. Consequently, we reviewed the activities of the DFO and found that adequate inspection processes for raw (unpasteurized) cows' milk had been established.

- One-third of the goat dairy farm inspection reports we reviewed were given a conditional rating because of non-compliance with minimum standards, and 90% of the goats' milk samples tested on behalf of the Ministry did not meet legislated bacterial standards.
- In 2000, the Ministry tested almost 800 fruit and vegetable samples and found 28 cases where chemicals exceeded acceptable limits by as much as 80 times the limit. As of March 2001, the Ministry had yet to formally notify growers and retailers of the test results.
- Penalties imposed for non-compliance with food safety legislation were not sufficient to have a deterrent effect. During the 2000/01 fiscal year, the average penalty was \$320 for infractions such as illegally slaughtering poultry and illegally processing cheese.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

3.02 Ministry of the Attorney General Legal Aid Ontario

The purpose of Legal Aid Ontario is to promote access to justice throughout Ontario for eligible low-income individuals. Its primary method of serving clients' legal needs is through the use of legal aid certificates, which allow clients to receive legal representation from their choice of private-sector lawyers for a variety of legal problems. During the 2000/01 fiscal year, over 107,000 legal aid certificates were issued, and about 5,000 private-sector lawyers provided services to legal aid clients.

In addition to providing legal aid certificates, Legal Aid Ontario also delivers legal aid services through:

- community legal clinics—about 70 independent clinics specializing in addressing the needs of low-income individuals who need legal help in such areas as income maintenance, housing, and access to basic social services; and
- a duty counsel program—a combination of private-sector and staff lawyers providing assistance to clients who do not have a lawyer to represent them in the courtroom.

For the 2000/01 fiscal year, Legal Aid Ontario had operating expenditures of over \$247.3 million and received funding of \$249.5 million.

We concluded that certain procedures and systems were not in place to ensure that legal aid services and programs were provided with due regard for economy and efficiency and in accordance with legislative requirements. Our major observations were as follows:

- To meet the legal needs of low-income individuals cost effectively and to comply with the *Legal Aid Services Act, 1998*, a proper assessment of how those legal needs can best be met is required. However, such an assessment had not yet been done.
- The legal aid system had not been effective in controlling the costs of its certificates. Annual levels of funding for the four fiscal years from 1996/97 to 1999/2000 were similar to the level of funding for the 1991/92 fiscal year. However, two to three times more people were provided with legal aid certificates in 1991/92 when compared to the number of people served in each of the past four years.
- Efforts to collect over \$100 million of accounts receivable required improvements.

We made a number of recommendations for improvement and received commitments from Legal Aid Ontario that it would take corrective action.

3.03 Ministries of the Attorney General, Correctional Services, and the Solicitor General Integrated Justice Project

The Integrated Justice Project is a joint initiative of the ministries of the Attorney General, Correctional Services, and the Solicitor General (Ministries) that was instituted in 1996. The objective of the Project was to improve the information flow in the justice system by streamlining existing processes and replacing older computer systems and paper-based information exchanges with new, compatible systems and technologies. In addition, a Common Inquiry System was to be created to allow authorized persons in one justice area to access and thus link to files held in other areas on cases, victims, witnesses, suspects, the accused, and convicted offenders. The Project will affect approximately 22,000 employees in the Ministries at 825 different locations across Ontario, as well as municipal police forces, judges, private lawyers, and the general public.

The Project was implemented using the Common Purpose Procurement process, under which the government and private-sector partners jointly provide necessary human and financial resources and share in resulting risks and rewards.

The Integrated Justice Project has experienced significant cost increases and delays. While the March 1998 cost estimate to complete the Project was \$180 million, the March 2001 estimate had risen to \$359 million. Over the same period, expected benefits were reduced from \$326 million to \$238 million. In addition, not all systems were expected to be fully implemented by the contractual deadline of August 2002. We had several concerns with respect to these costs increases and delays.

We concluded that the requirement of Common Purpose Procurement policy that due diligence be performed to support the projections of costs and benefits in a business case was not adequately followed in the Integrated Justice Project. We found the following weaknesses in the original business case, on which project approval was based, and in subsequent business cases used to monitor project progress:

- The original business case had an aggressive schedule that was based on a best-case scenario. It did not adequately take into account the magnitude of change introduced by the Project, the complexity of justice administration—particularly that of the courts—or the ability of vendors to deliver the Project’s computer systems in the required time frames.
- The estimate of benefits, already reduced to \$238 million in the most recent business case, was still overstated by approximately \$57 million.

In addition, we noted that no agreement had yet been reached between project management and senior management of the courts as to whether all of the expected courts benefits, totalling \$172 million and representing over 70% of the Project’s total benefits, would be realizable.

We also concluded that aspects of the contractual arrangements with the vendor resulted in the Project not being administered with due regard for economy. For example, negotiated rates for consortium staff were at a premium compared to rates charged by the same vendor to other ministries for similar work, increasing total project costs by up to \$25 million. In addition, the

billing rates of consortium staff working on the Project were approximately three times higher than those of the Ministries' staff for similar work.

As well, we had concerns about the security measures for the systems already in use by police and the system to be established for corrections. The confidential information contained in these systems—including data on suspects, victims, witnesses, the accused, and convicted offenders—was vulnerable to unauthorized access and manipulation.

We made a number of recommendations for improvement and received commitments from the Ministries involved that they would take corrective action and include our recommendations within their participation in the Management Board Secretariat's review of the Common Purpose Procurement guidelines.

3.04 Ministry of Community and Social Services Support to Community Living Programs

The Ministry's Support to Community Living programs provide funding for a wide range of community-based support services and prevention strategies for adults and children who are disadvantaged or living in poverty. The main objectives of these services are to assist such vulnerable individuals to live as independently as possible in their communities and to reduce the need for more intrusive and costly institutional care. For the 2000/01 fiscal year, ministry expenditures for these programs totalled \$155.6 million.

We concluded that the Ministry's administrative policies and procedures were not adequate to ensure that transfer payments were reasonably linked to the quality and level of services provided and that the funds were prudently spent for the purposes intended. We also concluded that the Ministry did not monitor and assess the services provided by transfer-payment recipients to ensure that they were meeting its expectations. In particular, we found that:

- Ministry payments for both emergency and domiciliary hostel placements exceeded the agreed-upon per diem rates. For instance, over the past three years, the Ministry paid one municipality \$16.5 million more than it was required to pay for emergency hostel stays.
- Funding for services paid for on a non-per diem basis was not based on a critical assessment of funding needs to ensure that the amounts provided were reasonable and commensurate with the level and quality of services provided.
- The Ministry had not implemented the governance and accountability framework it developed for all of its transfer-payment agencies in 1999. This framework is necessary to hold transfer-payment recipients accountable for the prudent use of ministry funds.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take the necessary corrective action.

3.05 Ministry of Community and Social Services Violence Against Women Program

The Ministry's Violence Against Women program funds transfer-payment agencies that provide safe shelter and other support services to women who have experienced violence or abuse as well as their children.

For the 2000/01 fiscal year, ministry spending on this program totalled approximately \$82 million. Of that amount, the Ministry provided approximately \$64 million to nearly 100 community-based

non-profit agencies that operated shelters providing temporary accommodation and security to approximately 15,000 women and 13,000 children during the year. The Ministry also provided approximately \$18 million during that year to over 100 other community-based non-profit agencies that did not operate a shelter but provided other support services like counselling, violence prevention, and public education programs.

We concluded that the Ministry's monitoring and assessment practices did not ensure that the services provided by the transfer-payment agencies we reviewed were of an acceptable and consistent quality standard or that they represented value for money spent. We also concluded that the Ministry's policies and procedures were not adequate to ensure that transfer payments to agencies providing services were in all cases reasonable and sufficiently controlled. In particular, we found that:

- In some cases, women and children were turned away from shelters, and waiting times for other services were lengthy.
- The amount of funding provided to transfer-payment agencies was not based on an assessment of what costs would be reasonable for the services to be provided. As a result, the cost of similar services varied significantly among agencies.
- The Ministry's annual process for reconciling an agency's actual expenditures against funds provided was in many cases deficient in identifying inappropriate or ineligible expenditures as well as funding surpluses that should have been recovered.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take the necessary corrective action.

3.06 Ministry of Education Special Education Grants to School Boards

In the fall of 2000, approximately 260,000 of the nearly 2 million students attending Ontario's publicly funded schools were receiving special education programs and services. The strengths and needs of students with special needs vary widely, from gifted at one extreme to those requiring very intensive supports at the other.

For the year ended August 31, 2001, the Ministry of Education provided special education grants to school boards in the amount of \$1.36 billion. These grants are intended to cover only the incremental costs of educating students with special needs. The common basic costs of educating all students, including students with special needs, are covered by other grants.

We examined the Ministry's administration and oversight of special education grants and services and visited selected school boards to review and discuss their special education expenditures and service-delivery practices. We concluded that neither the school boards we visited nor the Ministry, which was in the process of implementing a multi-year plan to strengthen accountability for special education grants and services, had the information and processes in place to determine whether special education services are delivered effectively, efficiently, and in compliance with requirements. Our observations included the following:

- Individual Education Plans that we reviewed did not meet either regulatory requirements or ministry expectations. Individual Education Plans are a critical component of effective service delivery.

- Neither the Ministry nor the boards had established quality-assurance processes to ensure that suitable programs and services were delivered to students with special needs.
- School boards do not collect and report sufficient, appropriate information on their special education expenditures and service delivery to support decision-making by management and to enable effective oversight by the Ministry, trustees, and parents.
- Many educators expressed concerns about insufficient numbers of teacher assistants and special education resource teachers to help them meet the needs of their students.

We also reviewed the status of the 15 recommendations made in 1994 by the Standing Committee on Public Accounts as a result of our last audit of special education programs and services. The Ministry had implemented four, was making progress on implementing six, and had not addressed five.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

3.07 Ministry of Finance Community Reinvestment Fund

Effective January 1, 1998, in an initiative that became known as Local Services Realignment (LSR), costs and responsibilities relating to 16 government programs and some \$3 billion in program costs were realigned between the province and Ontario's municipalities. The programs included Municipal Transit, Public Housing, Social Assistance, Public Health, Policing, and Land Ambulance services. To help municipalities pay for the programs transferred to them, the province took over funding of approximately \$2.5 billion in education costs that previously had been raised by municipalities from local property taxes. This created what is referred to as "tax room" for municipalities.

The Community Reinvestment Fund (CRF) was established in 1998 with the objective of ensuring that the LSR initiative was and remains revenue neutral by annually providing payments making up the difference between net LSR costs transferred and municipal tax room. Since 1998, CRF payments to eligible municipalities have totalled approximately \$1.8 billion, with \$500 million being paid in the 2000/01 fiscal year.

We concluded that the Ministry did not have adequate procedures to measure and report on whether the CRF was meeting its revenue neutrality objective. In addition, we found that the CRF did not ensure the ongoing revenue neutrality of the LSR initiative, either as a whole or for individual municipalities, and that this problem has been growing over time. The divergence from revenue neutrality was in both directions, with some municipalities clearly gaining from the LSR and others losing. We also noted that ensuring that all municipalities are treated equitably is not an objective of the CRF or the funding formula established by the Ministry to allocate the CRF. Specifically:

- Eligible LSR costs for fully transferred programs were frozen at the amounts existing at the time of program transfer. Accordingly, actual costs incurred by municipalities in subsequently delivering these programs were not being taken into account in determining CRF entitlements.
- The CRF allocation formula takes into account only those LSR costs that remained after the deduction of approximately \$500 million annually to reflect a provincially imposed savings

target. That target is a percentage of total municipal spending that varies according to the size of a municipality, and the Ministry had insufficient empirical or analytical support for this approach. Furthermore, since \$1.3 billion in LSR programs were still administered by the province, the savings target presented municipalities with the challenge of finding savings in programs that they did not control.

- Because of the intricacies of the CRF funding formula, savings targets have had no effect on some 72 municipalities that experience annual windfall gains from the LSR initiative. Other municipalities experience a significant, negative fiscal impact.
- The Ministry did not update the residential education tax-room component of the CRF payment formula to reflect recent changes in assessment data, including changes arising from the latest province-wide current value assessment. Updating the tax-room component of the CRF funding formula would have increased the CRF entitlement of some municipalities and decreased the entitlement of others.

With respect to program administration, while we concluded that overall system controls and procedures were adequate to ensure that CRF payments were properly authorized and processed, we recommended that the Ministry improve its monitoring of municipal use of CRF funds, implement procedures to recover or minimize CRF overpayments, and improve the timeliness of providing CRF information to municipalities.

The Ministry responded to our recommendations with commitments to either take corrective action or to consider our recommendations in its current review of the CRF program.

3.08 Ministry of Finance Gasoline, Fuel, and Tobacco Taxes

For the 2000/01 fiscal year, the Ministry collected taxes on gasoline, fuel, and tobacco that totalled \$3.25 billion, which represented approximately 6.7 % of the province's total taxation revenue from all sources.

We concluded that the Ministry's policies, procedures, and technology systems did not provide the information necessary to ensure that all gasoline, fuel, and tobacco taxes due were being declared and paid in accordance with statutory requirements.

With respect to the collection of gasoline and fuel taxes, we found that the Ministry did not:

- obtain information on the amounts of gasoline and diesel fuel produced in Ontario and reconcile those amounts to reported sales to ensure that tax was being paid on all gasoline and fuel production except for legitimate tax-exempt sales;
- regularly compare the billions of dollars of reported tax-exempt sales and purchases between collectors to ensure that large discrepancies were adequately resolved or assessed for tax; and
- verify the completeness and accuracy of reported imports and exports by comparing them to independent information provided by inter-jurisdictional transporters, including pipelines.

With respect to the collection of tobacco taxes, we found that:

- information on the quantity of cigarettes produced in Ontario was not obtained and compared to the quantity of reported sales to ensure that tax was being paid on all cigarette production except for legitimate tax-exempt sales;

- a more effective system for marking tax-paid cigarettes needed to be implemented;
- the completeness and accuracy of reported tobacco imports and exports was not verified with independent information such as that provided by inter-jurisdictional transporters of tobacco products;
- there was no assurance that the tax on tobacco imports by unregistered importers was being declared and paid; and
- the Ministry needed to consider the need for developing an allocation system for the sale of tax-exempt cigars on native reserves similar to the one in place for cigarettes.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take the necessary corrective action.

3.09 Ministry of Health and Long-Term Care Drug Programs Activity

The Drug Programs Branch of the Ministry of Health and Long-Term Care is responsible for administering transfer payments provided by the Ontario Drug Programs Activity for the Ontario Drug Benefit Program, the Trillium Drug Program, and the Special Drugs Program. Legislative authority for the Ontario drug programs transfer payments are established under the *Ontario Drug Benefit Act*, the *Drug Interchangeability and Dispensing Fee Act*, and the *Health Insurance Act*.

For the 2000/01 fiscal year, the programs had total expenditures of \$1.98 billion, of which \$413 million was recovered from the Ministry of Community and Social Services for drug benefits paid for social-assistance recipients.

Although we noted that the Ministry had introduced a number of initiatives to manage drug expenditures, we found that the Ministry had not given sufficient consideration to the prices it was paying for drugs. Specifically, we found that:

- Delays in adding approved generic drugs to the Ontario Drug Benefit Formulary and in implementing manufacturers' price reductions resulted in lost savings totalling \$17 million over a two-year period.
- For a sample of generic products, the Ministry would have saved approximately \$54 million annually had it paid the same prices as Saskatchewan for these products.
- Another jurisdiction was able to obtain prices for certain drugs that were, on average, 60% lower than those obtained by Ontario. Annual potential savings to the Ministry could have been as much as \$140 million if it had been able to obtain the same prices for these drugs.

The Ministry generally had adequate procedures in place to ensure compliance with legislation, and claims were properly approved, processed, and paid. However, we noted that:

- The Ministry had not substantiated whether as many as 180,000 of the recipients who were granted temporary eligibility for the Ontario Drug Benefit Program in 1999/2000 were in fact entitled to benefits.
- The Ministry had not recovered from pharmacies \$1.5 million resulting from a 1997 verification of claims for limited-use drugs.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

3.10 Ministry of Health and Long-Term Care Assistive Devices and Home Oxygen Programs

The Assistive Devices Program and the Home Oxygen Program are administered by the Operational Support Branch of the Ministry of Health and Long-Term Care. According to the Ministry, the objective of both programs is to “financially assist Ontario residents with long-term disabilities to obtain basic, competitively priced, personalized assistive devices appropriate for the individual’s needs and essential for independent living.” Both programs are funded under the *Ministry of Health Act*.

During the 2000/01 fiscal year, the Ministry provided financial assistance totalling approximately \$184 million to 176,000 individuals. The Ministry also provided approximately \$8 million to transfer-payment agencies for services relating to assistive devices.

We found that the Ministry did not have adequate procedures to ensure that it was paying the best prices. Specifically, we noted that:

- Ministry-initiated independent research indicated that 41% of approved renewals for home oxygen met no criteria for home oxygen. Reducing this number by one-half could save the Home Oxygen Program over \$5 million annually.
- Despite a 10% reduction in the price the Ministry pays for home oxygen, the Ministry could save in the order of \$3 to \$5 million annually if home oxygen vendors were paid the same price as vendors were paid in Alberta.
- For three commonly purchased wheelchairs, the Ministry could have saved approximately \$1.9 million annually if it paid the same price as Quebec.

The Ministry generally had adequate procedures in place to ensure that claims were properly approved, processed, and paid.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

3.11 Ministry of Transportation Road User Safety Program

The Ministry’s goal is to foster improved road user safety and well-planned highway expansion and preservation to bolster provincial growth and development. The Ministry’s Safety and Regulation Division administers the Road User Safety Program by setting safety standards, enforcing compliance with those standards, testing and licensing drivers and vehicles, and educating road users about safe driving behaviour.

To carry out these responsibilities, the Ministry operates 48 driver examination centres and has contracted with 280 private issuing offices to provide driver and vehicle licence renewal and related services. During the 2000/01 fiscal year, the Ministry administered 611,000 road tests and processed over 18 million over-the-counter transactions. In the same year, the Program spent \$101 million, and its licensing and registration activities generated approximately \$894 million in revenue.

During the course of our audit of the Road User Safety Program, the Ministry did not provide us with all the information and explanations needed to complete the audit. We subsequently received a commitment from both the new Minister and Deputy Minister of Transportation and

saw evidence that corrective action would be taken to ensure that the access-to-information problems we encountered would not re-occur in the future.

The information we did audit allowed us to conclude that in managing resources for its Road User Safety Program, the Ministry was deficient in ensuring due regard for economy and efficiency, it did not ensure compliance with programs designed to enhance road safety, and its procedures to measure and report on program effectiveness were not satisfactory. Our major concerns included:

- A significant number of applicants waited over six months to take a road test to obtain a driver's licence.
- Extreme variations in driver examiner pass rates were allowed to persist for over 10 years without corrective action being taken.
- Road user safety was impaired because drivers' road tests had been shortened below the minimum standard time for properly evaluating necessary driving skills.
- The Ministry hired 280 additional staff for driver testing in the 16 months ended January 2001 at a cost of \$10.3 million and then opted for outsourcing driver testing without a completed business case to justify this outsourcing.
- The Ministry's plan to spend \$101 million on computer systems work was not supported by a sufficient strategic plan and a proper business case.
- Millions of dollars' worth of consultants' work was mismanaged as consultants were often selected without a competitive tendering process or engaged without a written contract in place.
- Certain driver's licence suspensions for impaired driving were rescinded due to procedural deficiencies.
- A backlog of 30,000 reports from medical practitioners had accumulated, some dating back as far as 1997, allowing drivers to operate vehicles even though they were reported to have conditions that could make it dangerous for them to do so.
- The Ministry did not meet its annual reporting requirement on road user safety to the Legislature. At the time of our audit, the last report tabled was for 1997 and did not contain recommendations for the prevention of motor vehicle accidents as required by the *Highway Traffic Act*.
- Customer service needed improving given that 49% of people responding to ministry comment cards were dissatisfied, mainly because of lengthy wait times, service not being prompt and efficient, and staff not being courteous and helpful.

We made a number of recommendations to overcome these deficiencies and received commitments from the Ministry that it would take corrective action.