
CHAPTER ONE

Overview and Value-for-money Audit Summaries

OVERVIEW

GOOD DECISIONS REQUIRE GOOD INFORMATION

This is my second report to the Legislative Assembly as the Acting Provincial Auditor. Based on the findings in these two reports as well as those in the reports from the three previous years, when I was Assistant Provincial Auditor, one thing has become increasingly clear to me: you can't effectively manage what you can't measure. That is, unless legislators, Ministers, and senior public servants and their staff have relevant, accurate, complete, and timely information, they can't make the right decisions to ensure that the public is getting the best service possible, delivered in the most cost-effective manner.

Making the best decision depends on having the right information at the right time. For far too many programs—programs that account for billions of dollars in annual expenditures—decision-makers often do not have this information. Specifically, our audit work has revealed that information on what services are being delivered and to whom, at what cost, and with what results is frequently not available. While right decisions may still be made based on experienced judgment, the risk of making wrong choices is significantly increased when good information is lacking.

One area in particular where the importance of good information must not be overlooked is the services being delivered through the broader public sector. Over 50% of the government's annual expenditures are spent by organizations in this sector, such as hospitals, school boards, universities, and thousands of other community-based organizations. Ensuring that maximum value is being received for the services being funded and delivered by these parties requires effective oversight and accountability arrangements, which in turn depend fundamentally on good information.

Lack of Good Information Noted This Year

Many of the management information systems supporting the program areas that we audited this year could not provide the information that management and program staff needed. For instance:

- The Ministry of Community and Social Services had a new information technology system that supports both the Ontario Disability Support Program, which we audited, and Ontario Works. As well as lacking key internal controls, the system did not meet the information needs of its users and continued to generate errors and omit information, often for reasons that could not be explained.
- The Ministry of the Environment is responsible for protecting and managing the sustainability of the province's groundwater resources. However, the Ministry does not have adequate information on the depth and boundaries of Ontario's groundwater aquifers, nor on the extent to which contaminants and other threats are affecting the sustainability of groundwater resources.
- The Ministry of Finance received approximately \$1 billion in land transfer taxes. Teranet, a private-sector company, collects 77% of these taxes. At the time of our audit, the Ministry had neither sufficient access to Teranet data nor adequate information of its own to ensure all taxes owing were being collected and all taxes collected were being remitted to the Ministry.
- The Ministry of Health and Long-Term Care gave \$1.6 billion in grants to community-based organizations to provide health care, homemaking, and other support services to people—primarily seniors—to enable them to continue to live in their own homes. The information needed to effectively monitor and manage these services was not yet available, even though the development of an information system to provide client service and cost data had been identified as a high priority in 1998.
- The Ministry of Health and Long-Term Care provided almost \$275 million to independent health facilities across the province to perform various health-related diagnostic, therapeutic, and surgical services. However, the Ministry did not have adequate information to assess the reasonableness of facility fees, determine service demand, and compile waiting lists for services.
- The Ministry of Labour is responsible for enforcing employment rights, including those relating to hours of work and overtime, minimum wages, pregnancy and parental leave, statutory holidays, and vacation pay. When we last audited employee rights in 1991, we indicated that improvements in information technology were needed to support enforcement officers and to provide better service to the public. In our current audit, we found that the information enforcement officers needed was still not easily accessible because the Ministry relied on a mix of paper and computer systems that were not integrated.

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- Management Board Secretariat (MBS) is responsible for selecting and monitoring the government's travel service providers—the corporate-travel charge card provider and the corporate travel agency—to ensure that travel costs are managed cost-effectively. However, we found that MBS was not obtaining all the information needed to assist it in managing these expenditures on a government-wide basis.
 - The Ministry of Transportation is required by legislation to inspect all provincially owned bridges in Ontario every two years, and it engages private-sector contractors for almost all highway maintenance work across the province. The Ministry's various information systems did not allow the Ministry to ensure that all bridges were being inspected as required and that inspections of the work of maintenance contractors were adequate. Information about the Ministry's effectiveness in maintaining the province's highways was also lacking, although efforts to improve such information systems were underway.

RECURRING CONCERNS AND PROGRESS MADE SINCE PREVIOUS AUDITS

In last year's Annual Report I expressed the concern that many problems noted during past audits had not been rectified and were being noted once again. In this year's audits, we again noted that, at a number of ministries, concerns raised in prior audits had not yet been satisfactorily addressed:

- *Ministry of the Environment:* In our 1996 audit, we indicated that many air pollution standards required substantial revision. This problem continues to exist, as does the issue of outdated certificates of approval that allow contaminants to be discharged into the air at levels that may exceed current pollution limits. In addition, while the Ministry had recognized the need for a groundwater management strategy in 1996, minimal progress on the strategy had been made when we conducted this year's audit.
- *Ministry of Health and Long-Term Care:* A number of our recommendations in this year's audit of community-based support service agencies mirrored recommendations made in our 1998 audit, such as the need for service-level standards, a standard assessment tool to encourage consistent levels of service across the province, and a mechanism to allocate funds based on needs.
- *Ministry of Labour:* Many of the concerns identified in our 1991 audit of the enforcement procedures designed to protect workers' employment rights and responsibilities remained. For instance, few proactive inspections were being conducted, inspections were seldom extended to determine whether violations detected had occurred for other employees with the same employer, and prosecutions were not being used as a deterrent.

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- *Ministry of Transportation:* Our 1999 audit of the Ministry's procedures for outsourcing highway maintenance activities concluded that these procedures were not sufficient. On this year's audit, we concluded that systems and procedures were still not adequate to ensure the province's highway assets were being maintained cost effectively.

On the other hand, I am pleased to report that we found good progress had been made at several ministries in addressing concerns raised by us in previous years. For example:

- *Office of the Public Guardian and Trustee:* Although we had concerns with respect to the management of investments of \$1 billion in client assets, we observed that a number of improvements to client services had been made since our last audit.
- *Ministry of Health and Long-Term Care:* For the most part, since our last audit of independent health facilities, the Ministry had established adequate procedures to monitor compliance with legislation and the licensing and funding of diagnostic, surgical, and therapeutic facilities.
- *Ministry of Labour:* While we raised concerns this year similar to those from our last audit of employment rights enforcement, we concluded in our audit of occupational health and safety that the Ministry's systems and procedures for reducing workplace injuries and illnesses had improved since our last audit.
- *Ministry of Transportation:* Although we continued to have concerns with respect to the oversight of contractors, we noted that the Ministry had improved its procedures to ensure that contractors bidding on routine maintenance and minor capital projects were qualified and that services were being acquired competitively.

As well, our first-time audits of some programs revealed that sound management practices were being applied. For instance, although we had not previously audited the government's purchasing card program nor recently done an extensive audit of travel expenditures, our work in these areas indicated that the vast majority of transactions complied with the requirements of directives and guidelines. In addition, our audit of a relatively new program—Media Tax Credits—indicated that a number of constructive steps had been taken in the last few years to mitigate the risk of tax credits being inappropriately paid out due to fraud or abuse.

AMENDMENTS TO THE AUDIT ACT

As further discussed in Chapter Two of this report, we are very encouraged by the tabling of Bill 18, entitled An Act respecting the Provincial Auditor, on December 9, 2003. For years we have been seeking amendments to the *Audit Act* that we believe would allow us to better serve our client—the Legislative Assembly.

The most significant amendment sought is the expansion of our value-for-money audit mandate to include the broader public sector—that is, organizations receiving

substantial government funding, such as school boards, universities, colleges, hospitals, children's aid societies, and thousands of other smaller organizations. With over 50% of provincial expenditures going to these organizations, we believe that without an expanded mandate, our ability to assist the Legislature in ensuring that value for money is being received for all government expenditures is severely hindered.

As the Minister of Finance stated when Bill 18 was tabled, the amendments “will allow the public watchdog to shine a light on more of those organizations that spend taxpayer dollars as a key means of ensuring that Ontarians are getting value for the money they invest in their public services.”

We are hopeful that this bill will receive the support of all three political parties in the Legislative Assembly.

THE PROVINCE'S FINANCIAL STATEMENTS

Auditor's Report

I am pleased to report that my Auditor's Report on the province's financial statements is clear of any qualifications or reservations. Furthermore, the financial statements are in compliance with the accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Chapter Five of this report discusses in some detail a number of issues relating to this year's audit of the province's financial statements, which form part of the Public Accounts of the province. Also discussed are several related issues affecting future years, such as the inclusion of the assets, liabilities, revenues, and expenditures of school boards, colleges, and hospitals in the province's financial statements starting in the 2005/06 fiscal year.

VALUE-FOR-MONEY AUDIT SUMMARIES

The following are summaries of the 14 value-for-money audits reported on in Chapter Three of this Annual Report. For all audits reported on in Chapter Three we made a number of recommendations for improvement and received commitments from the relevant ministries that they would take action to address our concerns.

3.01 Attorney General Office of the Public Guardian and Trustee

The Office of the Public Guardian and Trustee's (Office) primary responsibilities include: acting as the guardian of property and/or personal care for mentally incompetent individuals and administering the estates of persons who die in Ontario without a will and without known relatives. The Office also has a general supervisory role over charities and charitable properties to protect the public's interest. As well, since 1997, its duties have expanded to include those of the Accountant of the Superior Court of Justice, which is the depository for all monies, mortgages, and securities paid into, or lodged with, the court.

For the 2003/04 fiscal year, the Office had approximately 300 staff and operating expenditures of \$27 million. During the same period, it was responsible for the investment and management of approximately \$1 billion in assets as trustee for its incapable clients and other clients from various programs.

We concluded that while certain improvements were still required, the systems and procedures in place for fulfilling the Office's mandate of providing services to incapable clients had generally improved since our last audit in 1999. However, our audit identified the following concerns with respect to the management of the \$1 billion in assets entrusted to the Office for investment under its various programs:

- In selecting fund managers, the Office selected one candidate as its top choice to manage both diversified and Canadian money market funds—of \$50 million and \$300 million, respectively—despite the fact that this candidate had consistently underperformed when compared to most of the other candidates and to market benchmarks for the 10-year period preceding the candidate's selection. We were also concerned that, after being awarded the contract for the Canadian money market fund, the successful candidate was granted substantially higher management fees than the fees in its original quote, even though this candidate had been awarded the contract primarily because of its low fee quote.
- The Office did not adequately take into account the health and age of incapable and minor clients before investing a significant portion of the clients' funds in higher-risk stock markets through its diversified equities fund.
- Insufficient attention was paid to ensuring appropriate diversity of client investment portfolios. This resulted in some clients incurring significant losses. For instance, 80% of one elderly client's assets were in a single stock whose value subsequently decreased significantly; this resulted in a decline in the value of the client's portfolio of more than 80% over a three-and-a-half-year period.

3.02 Centre for Leadership and Human Resource Management Human Resource Renewal

Over the past decade, a number of government restructuring and service realignment initiatives have reduced the size of the Ontario Public Service (OPS) by over 20%. As at March 31, 2003, the OPS had about 63,600 full-time equivalent employees who delivered public services through thirty government ministries and offices. Wages and benefits relating to these employees for the 2003/04 fiscal year amounted to almost \$4.4 billion.

In 1999, Management Board Secretariat, which at the time of our audit was responsible for human resource management in the OPS, developed an HR Strategy to reaffirm the value of public service, build on its strengths, and ensure future workforce capacity. We reviewed the progress made since that time and found that the government has not sufficiently implemented the necessary renewal and revitalization strategies to address the issues identified in its HR Strategy. Downsizing, hiring restrictions, and weak efforts to promote the OPS as an employer of choice have resulted in a workforce considerably older than that found in other Ontario workplaces. Our major concerns included:

- Other than an internship program aimed at recruiting university and college graduates, there was no initiative in place to address specific skills shortages. There was also little assurance that current employees were receiving the training and development they needed.
- The average age of public-service employees has continued to rise. While 41% of staff in the senior management group will be entitled to retire within the next 10 years, only one-third of the ministries had reported completing a succession planning process. We also noted that 249 retirees, representing 18% of total 2002/03 retirements, were rehired back into the OPS in 2002/03.
- In 2002/03, 89% of new staff were hired into unclassified (contract or temporary) positions rather than classified (permanent) positions. Unclassified staff, who are more difficult to retain, now comprise almost 17.7% of the OPS workforce, almost double the rate of a decade ago.
- The HR strategic planning and reporting process was weakened by a lack of ministry accountability, the absence of benchmarks for assessing progress on outcomes and related performance measures, and a lack of consolidated reporting.
- The amount of paid overtime worked by government employees has more than doubled over the last five years. As well, an estimated 12 days annually per employee were lost last year due to absenteeism, and a government program directed at working with employees with significant absences could be improved.

3.03 Ministry of Community and Social Services Ontario Disability Support Program

The Ministry of Community and Social Services provides financial assistance to people with eligible disabilities and to people aged 65 years and over who are not eligible for federal Old Age Security. Ontario Disability Support Program (ODSP) financial assistance is intended to provide for basic living expenses such as food, shelter, clothing, and personal-needs items.

To be eligible for ODSP financial assistance:

- all applicants must demonstrate a financial need for assistance by providing evidence that their liquid assets and income levels do not exceed specified amounts; and
- most applicants must also be assessed to determine if their disability meets the eligibility threshold established by the Ministry.

For the 2003/04 fiscal year, the Ministry's ODSP expenditures totalled approximately \$2.5 billion, of which approximately \$176 million represented administration costs.

We concluded that, although ODSP management has instituted some improvements to the program since its inception, the Ministry's procedures were still not adequate to ensure that only eligible individuals receive disability support payments in the amounts they are entitled to. Some of our more significant observations were that the Ministry:

- did not complete the initial disability assessment for many applicants on a timely basis, which often adversely affected the benefits the applicants received;
- did not formally investigate why the Social Benefits Tribunal overturned about 80% of the appeals of initial ministry eligibility decisions that it heard;
- for three-quarters of the files we reviewed, did not adequately document recipients' financial eligibility for the benefits they received;
- did not have adequate procedures in place to collect over \$480 million in outstanding benefit overpayments; and
- in many cases, did not follow up on important new information that could have affected a recipient's eligibility for benefits.

We also noted that the Ministry's new Service Delivery Model information system, which was developed in partnership with Accenture, continued to lack key internal controls, still did not meet certain key information needs, and continued to generate errors and omit information for reasons that could not be explained.

3.04 Ministry of the Environment Air Quality Program

The Ministry of the Environment's mandate in respect of cleaner air is to protect, restore, and enhance the environment to ensure public health, environmental protection, and economic vitality. The Ontario Medical Association estimated that air pollution in the year 2000 could lead to 1,900 premature deaths and 9,800 hospitalizations and that the annual cost of air pollution to Ontario, in terms of health care and lost productivity, is \$10 billion. In the 2002/03 fiscal year, the Ministry spent approximately \$28 million for programs and activities that relate directly to air quality.

Since our audit of the Ministry's Environmental Sciences and Standards Division in 1996, the Ministry has implemented several key regulatory and operational initiatives directed at reducing air contaminants. Notwithstanding those initiatives, we found that further action needs to be taken because, according to ministry projections, over the next 10 years, the province will not be able to meet its national and international commitments to achieve cleaner air in Ontario. Some of our more significant observations include the following:

- Since our 1996 audit of the Ministry's Environmental Standards and Sciences Division, standards for air pollutants have been developed, updated, or reaffirmed for only 18 of 76 air pollutants that have been categorized as high priority for air standards development.
- Since there are no periodic renewal requirements for Certificates of Approval issued to companies specifying maximum limits for discharging contaminants into the air, many certificates reflect outdated pollution limits in effect at the time the certificate was originally issued.
- The Medical Officer of Health for Toronto reported that the Ministry's Air Quality Index misrepresents the health risks associated with air pollution in that it does not consider the combined effects of all measured pollutants and estimated that 92% of the premature deaths and hospitalizations that are attributable to air pollution occur when air quality is classified as good or very good.
- For the Drive Clean program, we identified 3,200 uniquely numbered emissions certificates that were presented for licence plate renewal more than five times each. One uniquely numbered certificate had been presented more than 400 times for different vehicles. Such duplicate certificates were accepted for licence plate renewals. These obvious improprieties undermine this program's integrity.
- The Ministry's SWAT inspection activities have been successful in identifying numerous non-compliant facilities. However, the Ministry's follow-up procedures to ensure that identified problems are corrected require improvement.

3.05 Ministry of the Environment Groundwater Program

The Ministry of the Environment's specific responsibilities relating to groundwater are to manage and protect the resource as well as to promote the sustainable use of groundwater. The Ministry is also responsible for acting on the recommendations made by Justice O'Connor from the Walkerton Inquiry. This inquiry reported in 2002 and was prompted by the deaths and illnesses that resulted in May 2000 from the town of Walkerton's contaminated water supply. The Ministry estimated that, for the 2003/04 fiscal year, it spent approximately \$18 million on groundwater-related activities.

While some information had been accumulated, the Ministry lacked an overall understanding of the state of groundwater resources in the province. As a result, the Ministry could not determine its success in achieving the protection and long-term sustainability of Ontario's groundwater resources. Overall, the Ministry did not have adequate procedures in place to restore, protect, and enhance groundwater resources. Some of our more significant observations were as follows:

- While the Ministry has been carrying out watershed studies since the 1940s, it did not yet have watershed management plans to ensure groundwater resources are protected. The Ministry estimated that its latest attempt to have conservation authorities develop watershed-based source protection plans will result in six of 36 plans being put in place by the 2007/08 fiscal year.
- In May 2000, rains washed animal waste from a nearby farm into a municipal drinking-water well in Walkerton, claiming seven lives and causing thousands of water-related illnesses. The farmers of Ontario's 1,200 largest farms are now required to have plans in place for dealing with agricultural waste by July 1, 2005. For an additional 28,500 farms that produce enough waste to pose a potential problem, a process is to be developed by 2008 to phase in nutrient management planning.
- The Ministry has issued over 2,800 permits to take water for a total potential withdrawal of 9 billion litres of groundwater a day. The Ministry's assessment and evaluation of applications for groundwater-taking permits were inadequate. In addition, the Ministry did not have sufficient information to evaluate the cumulative impact of water takings on the sustainability of groundwater.

3.06 Ministry of Finance Land Transfer Tax

The *Land Transfer Tax Act* requires that purchasers pay a tax when an interest in ownership of land is transferred in Ontario. The tax is based on the taxable “value of consideration”—usually the amount paid by the purchaser and declared in a Land Transfer Tax Affidavit prepared by the purchaser’s lawyer. Currently, up to the first \$2,000 in land transfer tax may be waived or refunded for first-time homebuyers of newly constructed homes who meet prescribed conditions.

For the 2003/04 fiscal year, approximately 470,000 transfers in interest in land were reported to the Municipal Property Assessment Corporation for property assessment purposes. Over the past three years, total land transfer taxes collected have increased substantially from \$600 million in the 2000/01 fiscal year to \$1 billion in 2003/04.

Given that 97% of land transfer tax is not collected directly by the Ministry of Finance but rather by Teranet—a private-sector company—and land registry offices (LROs) that are operated by another ministry, the Ministry of Finance must rely heavily on others to ensure it collects all land transfer tax owing. Such reliance is warranted only if the Ministry has adequate oversight and audit processes in place, particularly in the case of Teranet. However, we concluded that these processes required significant strengthening because:

- While some progress had been made, the Ministry had not yet established adequate procedures to effectively oversee the collection and submission of land transfer taxes by Teranet. In that regard, internal auditors from both the Ministry of Finance and the Ministry of Consumer and Business Services also expressed the opinion that there was a financial risk unless full access to Teranet data was obtained.
- LROs were not required to receive all the information from taxpayers that they would need to ensure that the appropriate amount of tax, based on the taxable value of consideration, was remitted.
- The Ministry did not ensure the LROs were referring higher-risk transactions to the Ministry for potential review and audit follow-up, as required.
- The focus of the Ministry’s audit activity has increasingly been on lower-risk transactions. This is likely one of the reasons why the dollar value of audit assessments has declined by 75% over the past few years.

3.07 Ministry of Health and Long-Term Care Community-based Services

The Ministry of Health and Long-Term Care (Ministry) provides transfer payments to 42 Community Care Access Centres (CCACs) and to approximately 850 community support service (CSS) agencies that provide professional, homemaking, and personal support services at home for people who would otherwise need to go to, or stay longer in, hospitals or long-term-care facilities, and to assist frail elderly people and people with disabilities to live as independently as possible in their own homes. In the 2003/04 fiscal year, the Ministry provided approximately \$1.6 billion in funding.

While the Ministry was in the process of implementing a number of initiatives to better ensure that CCACs and CSS agencies were meeting the Ministry's expectations in a cost-effective manner, we noted a number of concerns that mirrored concerns we had previously raised in our *1998 Annual Report*. These include the need for a funding formula that more fully allocates funds based on assessed needs, measures to demonstrate clients are in fact receiving quality care, and an information system to collect client-level service and costing data. In particular, we found that:

- The formula used by the Ministry to determine the level of funding to be provided to CCACs and CSS agencies still does not assess the need for services or ensure equitable province-wide access to services.
- From 2001/02 to 2002/03, when funding provided to CCACs was frozen at 2000/01 levels, the number of nursing visits decreased by 22% and the number of homemaking hours decreased by 30%. The Ministry had not assessed the impact of such a significant decrease on recipients or on other parts of the health care system.
- The Ministry had not yet developed service standards to determine whether community-based services were being provided at expected levels and in a consistent, equitable, and cost-effective manner across the province.
- The Ministry needed to expand its efforts to assess the quality of the care being provided to service recipients and to determine whether legislation and ministry standards were being complied with.
- The Ministry acknowledged in 1998 that the development of a new information system was a high priority. While progress had been made, the information needed to effectively monitor and manage community-based services was not yet available.

3.08 Ministry of Health and Long-Term Care Independent Health Facilities

The Ministry of Health and Long-Term Care licenses and regulates approximately 1,000 independent health facilities (facilities) in Ontario. Most facilities are “diagnostic,” meaning that they perform services—such as x-rays, ultrasounds, nuclear medicine, pulmonary function studies, and sleep studies—that can be helpful in diagnosing various medical conditions. At the time of our audit there were also 24 facilities that provided surgical and therapeutic services, such as dialysis, abortions, and cataract, vascular, and plastic surgeries.

The technical fees, also known as “facility fees,” paid to facilities cover the costs of providing services, such as the cost of medical equipment and administrative and occupancy costs. For the 2003/04 fiscal year, technical fee payments to diagnostic facilities totalled approximately \$257 million and fees paid to facilities providing surgical and therapeutic services totalled approximately \$16 million.

We concluded that, for the most part, the Ministry had adequate procedures in place to ensure compliance with applicable legislation and policies for the licensing, funding, and monitoring of facilities. However, for the program to cost-effectively fulfill its mandate, action was still required to address the following issues, a number of which we had identified in our last audit in 1996:

- The Ministry had still not assessed the relationship between the volume of services provided by individual facilities and the cost of providing such services to determine whether the facility fees paid to independent health facilities were reasonable.
- The Ministry had not determined the levels of service that would be required and should be available to meet needs.
- The Ministry had not adequately analyzed the impact nor developed strategies to address the significant regional variations in service levels.
- Although funding to develop a waiting list management system commenced in 2000, the program still did not have waiting list information for diagnostic or surgical/therapeutic services.
- The Ministry did not have a process for determining which services should be provided by independent health facilities rather than by hospitals.
- The Ministry had not yet implemented a process to determine which other services provided outside of hospitals and licensed independent health facilities, such as echocardiograms, should be covered by the *Independent Health Facilities Act* to ensure that these services are subject to an appropriate quality assurance process.

3.09 Ministry of Labour Employment Rights and Responsibilities Program

The *Employment Standards Act, 2000* sets out employment rights and standards covering a wide range of areas, including minimum wage, working conditions, hours of work and overtime, pregnancy and parental leave, public holidays, vacation pay, termination notices, and severance pay. The Act is enforced by the Ministry's Employment Rights and Responsibilities Program (Program).

During the 2003/04 fiscal year, the Ministry investigated over 15,000 complaints from employees and carried out approximately 150 proactive inspections of payroll records and workplace practices. For the 2003/04 fiscal year, the Ministry's expenditures for the Program totalled approximately \$22.4 million, of which about 75% was spent on salaries and benefits for about 220 staff members.

We noted that the Ministry was focusing its efforts almost entirely on investigating complaints from individuals against their former employers. As a result, the Ministry's inspection activities relating to protecting the rights of currently employed workers were inadequate. Many of the concerns identified during this audit were also reported on in our 1991 audit of the then-Employment Standards Program. Our specific concerns included the following:

- Despite finding violations in 70% of complaints investigated, the Ministry did not generally extend those investigations to determine whether similar violations had occurred in cases of other employees of the same employer. Given that 90% of employees who filed claims did so only after leaving their place of employment, expanding the scope of investigations to cover workers currently employed by the same employer could help ensure that the rights of these workers are being protected.
- Efforts to resolve complaints have left officers little time for proactive inspections of employers. The need for such inspections is evidenced by the fact that, in past proactive inspections, violations were uncovered in 40% to 90% of cases, depending on the business sector being inspected.
- The Ministry seldom initiated prosecutions or issued fines. We found instances where employers were neither fined nor required to pay administrative fees even when their violations involved large amounts owed to employees. Such a lack of punitive action—whether consisting of a fine or prosecution—could encourage some employers to ignore their legal obligations to employees.
- We found weaknesses in the Ministry's efforts to collect the amounts that employers owed to employee claimants. The Ministry had forecasted a success rate of 35% for collection agencies contracted to collect the defaulted amounts, but the actual collection rate achieved was much lower, at about 15%.

3.10 Ministry of Labour Occupational Health and Safety Program

The Ministry's Occupational Health and Safety Program (Program) sets, communicates, and enforces laws to reduce or eliminate workplace fatality, injury, and illness. The *Occupational Health and Safety Act* and related regulations set out the rights and duties of all parties in the workplace and provides for enforcement of the law where compliance has not been voluntarily achieved. The Ministry estimated that about 300,000 workplaces and 4.6 million workers were covered by the Act.

In the 2003/04 fiscal year, expenditures for the Program totalled approximately \$52 million, of which 75% was for salaries and benefits. The Ministry has a Memorandum of Understanding with the Workplace Safety and Insurance Board (WSIB) that calls for the WSIB to assume the costs associated with administering the Act. For the 2003/04 fiscal year, the amount reimbursed by WSIB totalled approximately \$43 million.

We concluded that the Ministry's systems and procedures for enforcing occupational health and safety legislation had improved in some areas since our last audit in 1996. However, we identified a number of areas where improvements were required for the Ministry to be fully effective in fulfilling its key mandate of reducing workplace injuries and illnesses. For instance:

- The Ministry's inventory of workplaces that are potential candidates for inspection was incomplete. For example, in December 2003 a 45-day inspection blitz of construction projects in the greater Toronto area identified more than 90 large projects that did not show up on the Ministry's database of inspection candidates.
- The number of compliance orders that inspectors issued for contraventions observed during an inspection ranged from fewer than 100 to more than 500 per inspector per year. The Ministry had not investigated the reasons for such large variances to ensure that inspections and the issuing of orders were being done consistently throughout the province.
- Although the Ministry's information system indicated that corrective action had been taken for more than 90% of safety contravention orders issued, we found that 30% of the related files had no evidence of remedial action being taken or of any reinspection being conducted.
- We noted many cases where prosecutions were not used to deter repeat violators or those with serious safety violations. In this regard, using a zero-tolerance approach that required inspectors to prosecute employers for high-risk safety violations, inspectors issued nearly 50% more tickets and summonses during a 45-day blitz of construction projects in the greater Toronto area than they had issued during the entire previous year for all construction projects across Ontario.

3.11 Management Board Secretariat Purchasing Cards

The government of Ontario first implemented purchasing cards (PCards) for its employees in 1996 to reduce the administrative cost of acquiring and paying for low-dollar-value purchases of goods and services. The PCard (which is a MasterCard) is not to be used for travel and travel-related expenses, payment of salary and wages, or personal purposes. Management Board of Cabinet's Procurement Directive for Goods and Services sets out the operating procedures for using PCards. While each PCard is issued in the name of an employee, the government is liable for all PCard expenditures. During the 2003/04 fiscal year, an average of 14,600 PCards were held by government employees and approximately 720,000 transactions, totalling \$144 million, were processed. The four ministries we audited accounted for about 60% of this amount.

We found that the vast majority of PCard transactions we audited were in compliance with relevant government directives, policies, and procedures. Nevertheless, we did note a number of exceptions at each of the ministries we audited, including numerous instances where supporting documents for expenditures were either lacking or were inadequate. We believe that many of the exceptions we found could have been prevented or appropriately addressed if there had been adequate managerial review and approval of the monthly PCard billing statements. Without this key control, a significant risk exists that any inappropriate PCard transactions would not be detected.

The exceptions noted during our audit include the following:

- Monthly statements were not always being reconciled with supporting receipts in a timely manner, resulting in instances where the government was not able to recover payments for purchases that were improperly charged to a card.
- A number of purchases lacked supporting receipts, making it impossible to determine what was purchased and whether the purchases were made for government purposes.
- Some purchases were supported only by faxed or photocopied receipts, increasing the risk of alterations and duplicate payments being made.
- Supporting receipts for some purchases would have raised questions if they had been properly reviewed by supervisors or managers. For example, we noted numerous purchases of a personal nature and travel-related expenditures.
- Some purchases that exceeded the maximum permitted dollar limit for a transaction were split into two or more transactions.

With respect to the selection of the current PCard provider, we found that MBS followed a fair, transparent, and competitive process.

3.12 Management Board Secretariat Travel and Other Related Expenditures

Management Board Secretariat (MBS) is responsible for developing corporate policies on travel and other related expenditures. It is also responsible for negotiating and managing corporate contracts for travel agency and charge card services, as well as providing assistance to ministries in developing and administering employee expense procedures and practices. Information provided by ministries indicates that for the 2002/03 fiscal year, the government processed about 400,000 travel and other related claims and directly billed invoices and expended about \$117 million on travel and other related expenditures. The four ministries we audited accounted for over 50% of this amount.

We found that the vast majority of travel and other related transactions audited were in accordance with established policies and procedures. However, we did note a number of exceptions in all the ministries we audited, including numerous instances where claims submitted by employees were approved and paid even though these claims had either no support or inadequate support. For instance, a number of examples of excessive expenditures were claimed and paid for, often with little or no support. We found instances of extravagant meals and luxury car rentals and accommodations. As a result, we concluded that there is a need for more diligent and consistent processes for verifying and approving claims: otherwise, any transgressions in claims submitted by employees would likely not be detected.

We also noted instances where employees used the government corporate-travel charge card for expenses not related to government business travel and used their personal charge card for business expenses. These practices are discouraged in the government's travel management and general expenses policies as they increase the risk of delinquency and make it difficult to track government travel and other related expenditures. As well, minimal action was taken to identify and address cardholders who used their travel card for personal expenses or who were seriously delinquent with their travel card payments.

Finally, we also noted that MBS did not obtain all information needed from travel service providers—such as the corporate-travel charge card provider and the corporate travel agency—to assist it in better managing travel and other related expenditures government-wide. In addition, the terms for earning rebates from the corporate-travel charge card provider were not realistically achievable.

3.13 Ontario Media Development Corporation and Ministries of Culture and Finance Media Tax Credits

The province of Ontario offers six different types of Media Tax Credits covering film and television, sound recording, book publishing, computer animation and special effects, and interactive digital media. The six tax credits are “refundable credits,” which means they are used by qualifying corporations to reduce the amount of any Ontario taxes payable, with any remaining balance paid to the taxpayer. The Ontario Media Development Corporation (OMDC), the Ministry of Finance, and the Ministry of Culture share the administrative responsibilities for the Media Tax Credits. Since the introduction of the first credit in 1996, over \$372 million in credits have been issued to qualifying corporations for eligible expenditures. While the six media tax credits were each designed to meet different policy objectives, they share general objectives that are economically and culturally based.

We concluded that a number of constructive steps had been taken in recent years to mitigate the potential risk of Media Tax Credits being incorrectly determined as a result of fraud or abuse. However, we noted that improvements could be made in the timeliness of processing the Media Tax Credits and in measuring and reporting on their effectiveness in achieving their economic and cultural objectives. More specifically we observed the following:

- Due to an increasing volume of applications, limited staff resources, and incomplete applications, about one-quarter of the eligibility applications we reviewed were approved by OMDC more than 12 months after receipt. The delays of OMDC in determining eligibility were compounded by processing delays at the Ministry of Finance. In some cases companies waited more than a year after filing their tax return to get their full refund.
- While the three parties responsible for the Media Tax Credits had developed some general high-level performance measures, the establishment of more specific indicators of economic and cultural performance would better measure the effectiveness of the Media Tax Credits in achieving their objectives. Also, each party’s responsibilities with respect to performance measurement needed to be more clearly defined.

3.14 Ministry of Transportation Maintenance of the Provincial Highway System

The Ministry of Transportation is responsible for maintaining the province's highways and bridges, which the Ministry estimates have a current value of approximately \$39 billion. In the 2003/04 fiscal year, the Ministry spent \$241 million on routine maintenance, such as snow removal and de-icing, and \$62 million on minor capital projects, such as filling and sealing pavement cracks. Most highway system maintenance activities are performed by private-sector contractors hired by the Ministry.

We found that while the Ministry's systems and procedures ensured that contractors bidding on routine maintenance and minor capital projects were qualified and that the services were acquired competitively, they were not sufficient to ensure that the province's highway assets were being maintained cost effectively. In particular, we noted that the Ministry's systems and procedures:

- did not ensure effective oversight and evaluation of the performance of contractors engaged to maintain provincial highways and that appropriate corrective action was taken when required;
- did not adequately prioritize the Ministry's capital projects to ensure that those with the highest benefit-cost ratio were performed first; in addition, although the Ministry was aware that the long-term financial impact of deferring preventive and preservation maintenance projects could be significant, only about half of prevention and preservation projects that ministry engineers had identified for immediate attention were able to be done each year;
- did not adequately ensure that all bridges, both provincially and municipally owned, were inspected at least once every two years as legislation requires; and
- were not sufficient to measure and report on the Ministry's performance in managing the province's highway assets efficiently and effectively—although we noted that the Ministry expected to complete, by 2007, the implementation of an Asset Management Business Framework that will address most of the gaps in performance information and measurement.

We also noted that ministry measures of bridge and pavement condition indicated that about 32% of provincial bridges and about 45% of highway pavements would require major rehabilitation or replacement within the next five years. Historical funding levels for rehabilitation and reconstruction—averaging about \$445 million per year over the last five years—will not be sufficient to address these needs.

In a recent report on the management of major highway construction projects, the Ministry's Internal Audit Services Branch made a number of significant observations on the Ministry's processes for controlling the quality and cost of construction work.