

Child Care Activity

Background

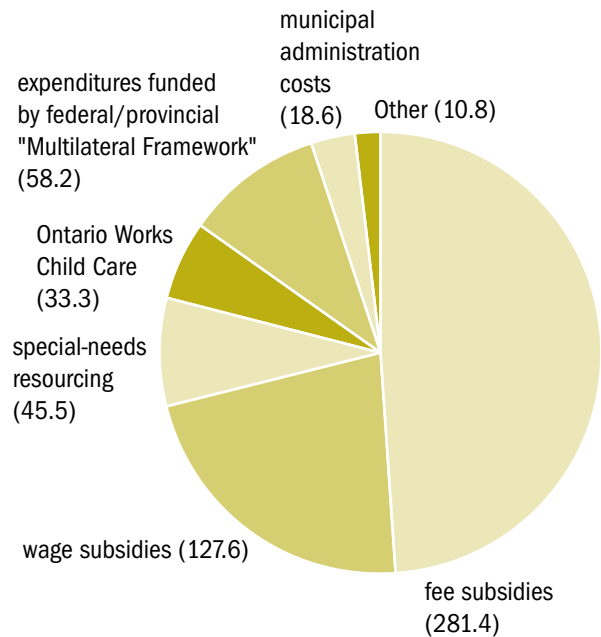
The Ministry of Children and Youth Services administers the Child Care Activity (Activity) under the authority of the *Day Nurseries Act*. The Ministry develops policies and procedures for licensed child care and subsidizes the cost of a portion of that child care to enhance the availability of affordable, high-quality care for children up to the age of 12 years. This care is intended to allow parents to work or to undertake training or education leading to employment. Access to subsidized child-care spaces is not an entitlement and is therefore limited by the availability of subsidized child-care spaces, which is determined by available funding.

The following are some of the Activity's main responsibilities:

- inspecting, licensing, and monitoring child-care operators that care for more than five children to promote quality child-care services and ensure the health and safety of the children in care;
- subsidizing child-care costs for children of parents in need, either directly to parents through fee subsidies or indirectly through wage subsidies provided to child-care agencies that are intended to enhance caregiver wages and benefits;
- providing additional financial support to purchase the services of resource teachers for the care of children with special needs; and

Figure 1: Child-care Activity Expenditures, 2004/05 (\$ million)

Source of data: Ministry of Children and Youth Services



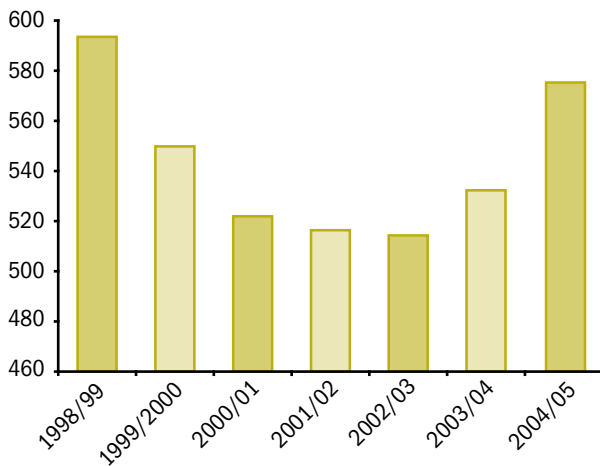
- providing funding for community-based resource centres that provide such things as parent education, drop-in, and playground programs and toy and equipment lending libraries.

The most recent information available from the Ministry indicates Ontario has approximately 3,900 licensed child-care centres serving about 200,000 children.

For the 2004/05 fiscal year, ministry child-care expenditures totalled \$575.4 million, which was allocated as shown in Figure 1.

Figure 2: Child-care Activity Expenditures, 1998/99–2004/05 (\$ million)

Source of data: Ministry of Children and Youth Services



Since the time of our last audit, which was conducted in 1999, the Ministry's expenditures for the Activity have decreased (see Figure 2), but this decrease is mostly attributable to a change in funding made in 2000, wherein a greater share of the costs were assumed by municipalities. Prior to 2000, the Ministry's regional offices directly entered into annual service contracts and funding agreements with 186 fee-subsidy managers (primarily municipalities or designated non-profit corporations) to administer the delivery of child-care services. The Ministry funded 100% of all the child-care program costs, with the exception of the fee subsidy (discussed later), which was cost shared 80:20 between the Ministry and fee-subsidy managers, respectively.

In 2000, this funding process was changed and most of the Child Care Activity began to be administered by 47 consolidated municipal service managers (CMSMs). CMSMs were established to help deliver provincially funded social services—like child care—and consist of either a designated municipality (commonly in southern Ontario) or a district social services board (more commonly in parts of northern Ontario or rural areas with no municipal government). These CMSMs manage and co-ordinate funding and programs in their respect-

ive jurisdictions. The CMSMs are required to submit service plans for approval to one of the nine ministry regional offices and are accountable to the Ministry for the use of ministry funds. CMSMs are also expected to work with local service providers to establish local practices within the ministry policy framework.

The total Activity costs for child-care (rather than just the fee-subsidy portion) are now cost shared 80:20 between the Ministry and CMSMs. Administration costs continue to be shared 50:50 between the Ministry and CMSMs.

Other developments since our last audit of this Activity include the two new funding agreements entered into with the federal government to meet its commitment to a national child-care program. The first, signed in March 2003, is known as the "Multilateral Framework," and the second, a bilateral agreement in principle signed in May 2005, is referred to as an agreement for "Moving Forward on Early Learning and Child Care." The total funding commitments made under these agreements, to be paid by the federal government for child-care expenditures in Ontario over the next five years, are outlined in Figure 3.

These new funding initiatives are geared to children under the age of six and are to be guided by the federal government's "QUAD" principles for child care (QUAD stands for quality, universal inclusiveness, accessibility, and development).

Audit Objective and Scope

Our audit objective was to assess whether the Ministry's policies and procedures were adequate to ensure that:

- quality child-care services are provided in compliance with legislative requirements and with the Ministry's goal of fostering early learning and childhood development; and

Figure 3: Projected Federal Funding for Child Care in Ontario, 2005/06–2009/10

Source of data: Federal–provincial agreements “Multilateral Framework” and “Moving Forward on Early Learning and Child Care”

	2005/06	2006/07	2007/08	2008/09	2009/10
	(\$ million)				
new funding commitment under 2003 Multilateral Framework	87.4	116.8	136.6	136.9	137.2
new funding commitment under 2005 bilateral agreement	271.9	253.2	448.9	449.8	450.8
Total	359.3	370.0	585.5	586.7	588.0

- transfer payments to CMSMs are reasonable and adequately controlled.

With respect to the second part of our objective, the focus of our audit was on fee- and wage-subsidy expenditures, as they represented almost 80% of total activity costs.

The scope of our audit included a review of a sample of relevant ministry files and of the administrative policies and procedures in place. We conducted work at the Ministry’s corporate office and in three of its nine regional offices. The three regional offices we visited represent almost 60% of total activity expenditures. As the Activity is now almost entirely administered by CMSMs, we visited a number of CMSMs and child-care centres to gain a better understanding of their operations. We also obtained information from the CMSMs we did not visit through a questionnaire we sent them.

We also engaged two child-care academic experts to assist us in our assessment of the operations of the Activity.

Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objective. These were reviewed and agreed to by senior ministry management.

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

We did not rely on the Ministry’s Comprehensive Audit and Investigation Branch to reduce the extent of our work because they had not conducted any recent work in the areas our audit focused on.

Summary

If the Ministry is to ensure that licensed child-care centres are providing children with adequate early opportunities for learning and for physical and social development, it needs to better define and communicate program expectations to the centres and systematically monitor and assess their implementation. This will be all the more essential if the Ministry is to reap the benefits of the substantial new funding commitments recently announced by the federal government. Some of our observations included:

- A 2004 report by the Organisation for Economic Co-operation and Development (OECD) concluded that most Canadian provinces lacked the child-care curriculum frameworks needed to support quality programs and the kinds of experiences that enhance children’s social, language, and cognitive development. In this regard, Ontario has not yet developed adequate guidance to help child-care centres deliver consistent and comprehensive developmental programs.
- The *Day Nurseries Act* and ministry-developed information materials, such as the *Day Nurseries*

Manual that is distributed to all child-care operators, provide little specific direction to those individuals providing child care. What direction is provided is generally vague, subject to broad interpretation, and sometimes missing critical updates on important matters.

- Our review of the tools used by ministry staff to assess program delivery identified a number of areas where these staff are required to exercise a significant degree of discretion and interpretation. If all ministry staff responsible for licensing and monitoring program delivery had an early childhood education background or equivalent experience, this approach might be suitable. However, many licensing staff do not have this background and would benefit from additional guidance.
- The Ministry uses a detailed licensing checklist during its annual inspections of child-care facilities to help assess a facility's compliance with program requirements as well as the quality of care provided to the children. While we found that the licensing checklists we reviewed did address health and safety issues, they did not adequately assess the quality of care or developmental opportunities provided. Finally, very little documentation exists from these inspections to indicate what work was performed and the basis on which conclusions were reached for the various areas covered in the licensing checklist. Notwithstanding, we noted an improvement in the timeliness of licensing inspections since our 1999 audit.

Other issues noted with respect to services included funding inequities that contributed to comparatively low salaries in some centres, difficulties in staff recruitment and retention, and high caregiver turnover. Since the quality of child-care programs is largely determined by the interaction between individual children and their caregivers, this further raises the risk that child-care services

provided are not of a consistently high quality across the province.

We also concluded with respect to funding that the Ministry's policies and procedures did not ensure that transfer payments to CMSMs were reasonable and adequately controlled. Many of our audit observations and recommendations on funding issues in this report are similar to those reported in 1999 and 1995. Although the Ministry agreed to take action in previous years to implement our recommendations to correct observed deficiencies, sufficient action has not been taken. As a result we again found that:

- Fee-subsidy funding provided to CMSMs was not based on an appropriate assessment of sufficiently detailed financial and operational information to support the significant variations in the cost of care for similar services, reflected in fee-subsidy purchase-of-service agreements between programs and CMSMs. For example, the cost of caring for a preschool child (30 months to 5 years) ranged from a low of \$17.50 to a high of \$75 per day.
- Applications for child-care fee subsidies were not appropriately and consistently reviewed to ensure that only eligible families receive subsidized child care and that the subsidy is in the correct amount. Furthermore, the Ministry had no information on waiting lists for subsidized child-care spaces, so it was not aware of the number of children waiting for a space. Information provided by CMSMs suggests that many children are waiting, and we were told the wait times can range from six months to two years.
- Wage subsidies were not equitably distributed to all child-care centres, and the wage subsidies provided to staff did not meet all of the Ministry's funding requirements. For instance, in one case, a child-care employee received \$18,000 in wage subsidies during 2003, almost double the allowable maximum of \$9,533.

- Significant variances between expected and actual services provided and costs incurred were often not assessed, and, where necessary, followed up on a timely basis to determine their possible impact on future funding requirements.
- The Ministry did not require sufficiently detailed audited statements to allow for the identification of child-care-related expenditures and for the identification and recovery of all ministry-funded surpluses.

Detailed Audit Observations

PROGRAM QUALITY

Extensive research since the 1960s has demonstrated the importance of young children having access to systematic programs that foster their development in all areas—physical, social-emotional, and cognitive—so that they make steady progress and achieve appropriate developmental outcomes in preparation for the school system and formal learning, which begins in Grade 1. Consistent with this research, in 2004, the Ministry recognized the need to move beyond the foundation established in the *Day Nurseries Act* and initiated Best Start to strengthen early development, learning, and care services to help Ontario’s children arrive in Grade 1 ready to learn and excel. Best Start is a long-term strategy that the Ministry expects will take at least 10 years to fully implement. The Ministry’s new funding framework with the federal government also commits it to work towards a high-quality, universally inclusive, accessible child-care system that supports healthy development and early learning for young children.

Curriculum Development

We noted that there was very little direction on programming and no specific requirements for a curricu-

lum framework to ensure that children’s development is consistently and comprehensively promoted among child-care centres.

In this regard, a 2004 report by the Organisation for Economic Co-operation and Development (OECD) concluded that most Canadian provinces lacked the child-care curriculum frameworks necessary to support quality programs and the kinds of experiences that enhance children’s social, language, and cognitive development. We noted that other jurisdictions have developed curriculum direction or a framework for their child-care programs. For example, Quebec’s child-care standards include requirements for an educational program that is considered a key element in quality child care. This framework includes goals for children’s development and principles to guide implementation. As well, in Finland, child-care centres use a national curriculum framework developed by its research agency. The curriculum guides the organization and content of that country’s child-care programs.

In the absence of a more detailed curriculum component, the risk is that child-care centres may not have the skills, time, or resources to individually develop and deliver quality programs specifically designed to equip young children with the skills needed for formal schooling.

Direction to Caregivers

The Ministry communicates its goals for child care by providing direction to CMSMs and child-care centres through the *Day Nurseries Act* and related regulations, as well as through a ministry-developed *Day Nurseries Manual*, which is distributed to all child-care operators. The Ministry also has Internal Directives and Guidelines to help its licensing staff assess child-care centres’ compliance with the Act and regulations.

Our review of these items indicated that they provide guidance on many structural and

operational aspects, such as the indoor and outdoor physical environment, safety requirements, health and nutrition standards, group size, child-to-staff ratios, and staff qualifications. However, we found that in many areas, the information contained in the regulations, the manual, and the internal guidelines required that individuals exercise a relatively high degree of discretion with little or no guidance on how to exercise that discretion. Following are some examples of the direction contained in these documents:

- Every operator of a child-care centre shall ensure that there are written policies and procedures with respect to staff training and development for employees.
- Play equipment and furnishings, in the opinion of the ministry program advisor, are to be of a type suitable for the program and the ages and developmental levels of the children enrolled.
- Play equipment should be, in the opinion of the ministry program advisor, sufficient in numbers to allow for rotation.
- There should be a program of activities that is varied and flexible and that includes activities appropriate for the developmental levels of the children enrolled, including group and individual activities, activities for gross and fine motor skills, language and cognitive activities, social and emotional development, and active and quiet play.

All of the above descriptors are open to a broad range of interpretations. Therefore they do not facilitate the implementation of a program that is consistent with the Ministry's stated philosophy and goals for child care. In this regard, we noted that one of the three regional offices we visited provided more specific guidance on how to meet ministry requirements.

We believe that child-care centres would benefit from more detailed guidance, particularly in the area of learning programs. If the Ministry were to develop easy-to-use and pedagogically sound pro-

grams, staff at the centres would be more likely to ensure a consistently high level of service for the children in their care.

We also noted that both the *Day Nurseries Manual* distributed to child-care operators and the Ministry's Internal Directives and Guidelines have not been updated since 2000. As a result, neither new program requirements nor information requirements arising from the federal government's Health Alerts issued since 2000 have been incorporated into either document. Examples of critical information that is missing include:

- a regulation under the Ministry of the Environment's *Safe Drinking Water Act, 2002* requiring that child-care centres flush their plumbing systems weekly (this is intended to rid water and supply pipes of possible harmful lead deposits); and
- a Canada Health Alert issued in August 2003 warning that infants and young children should never sleep on mattresses not specifically designed for them.

RECOMMENDATION

To encourage consistent quality in the delivery of child care in Ontario and to meet the Ministry's objectives of providing children with the best possible start in life, the Ministry should develop a child-care curriculum framework and implement more detailed and helpful guidance to assist child-care staff in providing consistently high quality developmental learning opportunities.

MINISTRY RESPONSE

Child-care licensing requirements under the *Day Nurseries Act*, including program and staffing requirements, provide a basic foundation that supports healthy child development. The Best Start initiative begun in 2004 will build on this foundation to establish a high-quality, accessible

child-care system that will enhance the likelihood of success for children once they reach school.

An Expert Panel on Early Learning established in May 2005 will develop an integrated early learning framework and recommend an early learning program for all preschoolers by March 2006. It will also recommend a single integrated learning program for children between two and a half and five years old by December 2006. These recommendations will form the basis of guidance to operators and will help facilitate the provision of high-quality developmental opportunities for children.

Child-care Staff Qualifications and Training

The quality of child-care services delivered is largely determined by the qualifications and experience of child-care staff. In that regard, research studies have consistently reported a significant correlation between caregiver staff with higher education levels and the delivery of higher-quality programs and better outcomes for children.

In Ontario, each child-care centre's supervisor and at least one caregiver per age group of children in care must have a recognized early childhood education (ECE) qualification—normally a two-year community-college-level diploma—or equivalent academic qualifications and, in the case of supervisors, two years' experience working in a child-care centre. Other Canadian jurisdictions, such as Quebec, require two-thirds of all staff in licensed centres to have an ECE college diploma or ECE university degree.

The Director at each ministry regional office is required to assess and approve the qualifications of each centre's supervisor in writing, and a copy of that letter is to be placed in the licensing file for that centre. In our review of a sample of licensing

files, we found that about 10% did not contain the required letter.

Furthermore, although the Ministry requires that each centre have written policies and procedures for staff training and development, it has not established any minimum requirements for the training and development that is to be provided. We noted that British Columbia, Prince Edward Island, and Newfoundland have professional development requirements for ECE staff working in licensed child-care centres.

We also noted other factors affecting the quality of caregiver staff, namely funding inequities (discussed in more detail under Fee Subsidy and Wage Subsidy) that contributed to comparatively low salaries in some centres, difficulties in staff recruitment and retention, and high caregiver turnover. In this regard, it was noted by one CMSM that the replacement of trained early childhood educators by untrained staff was on the increase.

RECOMMENDATION

To help ensure that child-care services provided in Ontario are of high quality, the Ministry should:

- assess, approve, and appropriately document that all child-care centre supervisors have the prerequisite early childhood education qualifications and work experience;
- consider the advisability of establishing minimum educational requirements and/or work experience for any other caregiver staff without early childhood education or equivalent qualifications; and
- develop guidance for the ongoing professional development of child-care centre staff.

MINISTRY RESPONSE

We agree that the quality of child care is key if we are to achieve a system of early learning and child care that gives children the best chance at

future success. The existing *Day Nurseries Act* requires that each group of children have one staff member with a recognized early childhood education qualification or equivalent. This means a minimum of almost half of the staff in a centre would be qualified.

The Ministry's regional offices have been directed to review their procedures for the Director's approval of centre supervisors and to address those situations where appropriate documentation has not been placed on file. As well, this requirement will be added to the licensing checklist.

The Best Start initiative is addressing issues surrounding staff qualifications and professional development for child-care staff through the Expert Panel on Quality and Human Resources established in May 2005.

In addition, the Ministry is moving forward on establishing a College of Early Childhood Educators to set high professional standards and support quality care.

Licensing and Inspections

The *Day Nurseries Act* requires that the Ministry license all child-care centres and private-home child-care agencies caring for more than five children under the age of 10 years. The licence must be issued before operations begin and annually thereafter. Prior to issuing or renewing a licence, the Ministry conducts a formal licensing inspection. The inspection essentially consists of a site visit and the completion of a ministry-developed checklist that requires a review of, for example, the physical premises, staff-to-child ratios, nutrition practices, and centre policies and procedures. We were advised that the Ministry also uses this checklist to assess the quality of services provided.

Our review of the annual licensing process and of completed licensing checklists indicated that the

process did not effectively assess the quality of the services provided. Specifically:

- Although the 39-page checklist included 116 items to be verified for compliance, we noted that it took, on average, only 4.5 hours to complete the entire licensing inspection, which includes filling out the checklist.
- In many cases the only information noted on the checklist consisted of a checkmark in one of three columns: yes, no, or n/a. No criteria or guidance was provided for assessing each item on the checklist. In most cases, we were unable to determine what, if any, work was performed in arriving at that decision. We also noted that in some cases, items in the checklist were either not completed or the documentation was contradictory, with more than one column being checked with no explanation. At one regional office, we found no documented evidence of supervisory staff having reviewed and approved the completed checklists.
- While we noted an improvement in the timeliness of licensing inspections, we also noted that most inspections were conducted within a few weeks of, either before or after, the expiry date of the previous year's licence. As a result, the timing of the inspections was predictable and therefore the conditions at the time of the inspection may not have been indicative of program delivery throughout the year.
- Ministry staff responsible for the licensing function are not required to have, and in many cases do not have, formal early childhood education (ECE) qualifications. As a result, we question whether they have the technical knowledge to conduct licensing inspections, especially given the lack of ministry criteria or guidance, as noted earlier. We noted that some other Canadian provinces/territories, such as New Brunswick, the Northwest Territories, and the Yukon, require licensing staff to have an ECE degree or diploma. In addition, all of the licensing staff we

talked to expressed the need for corporate training on current issues and best practices in child care.

- The current licensing checklist had not been updated since April 2000, so new requirements had not been incorporated, as mentioned earlier.

RECOMMENDATION

To improve the effectiveness of the annual licensing inspection and help assess the quality of the services provided by licensed child-care centres, the Ministry should ensure that:

- the timing of annual licensing inspections is less predictable;
- the nature and extent of the work conducted during the annual licensing inspections is sufficient to assess the quality of services, and this work is adequately documented; and
- the annual licensing inspections are conducted by qualified staff possessing either a formal early childhood education degree or diploma or equivalent qualifications and experience.

MINISTRY RESPONSE

Action to be taken to support licensing includes:

- updating the licensing checklist to include further assessment details; and
- updating the licensing manuals to support the checklist and provide additional direction on compliance assessment and documentation requirements.

Assessment of quality in child-care programs, beyond the basic elements already included in licensing, will be addressed through the Best Start initiative. Recommendations from the Best Start panels are expected by December 2006.

Training on best practices for licensing staff was provided in January 2004. Further training related to the implementation of the Best Start

initiative will be conducted shortly. The Ministry supports a generic approach to licensing-staff qualifications that identifies core skill requirements for the position. Regions provide opportunities for mentoring and ongoing support. Informal mechanisms are also in place across the province to share best practices for site inspections and documentation of results.

Serious Occurrences

The *Day Nurseries Act* requires that all licensed child-care providers report to the Ministry, within 24 hours, any serious occurrences. Serious occurrences include the injury or abuse of children in care, such as cuts and bruising, the restraining of a child, and emotional and verbal abuse. A written follow-up report detailing the corrective action to be taken must also be sent to and reviewed by the Ministry within seven working days.

Our review of serious-occurrence files at the regional offices we visited found the following:

- One-third of the serious-occurrence incidents were reported after the 24-hour reporting deadline following an incident. On average, incidents were reported about seven days after the reporting deadline.
- For almost half of the files reviewed, the serious-occurrence follow-up reports were submitted after the required seven-working-days deadline. On average, the reports were submitted 88 days after the incident occurred. In the case of one regional office, about 30% of the reports were submitted 200 or more days after the incident. As a result, there is no assurance that the necessary corrective action is taken on a timely basis.

RECOMMENDATION

In accordance with its own policy, the Ministry should ensure that:

- all serious occurrences at child-care centres are reported within the required 24-hour deadline; and
- serious-occurrence follow-up reports are received and reviewed and, where applicable, the corrective action to be taken is approved on a timely basis.

MINISTRY RESPONSE

Operators have the primary responsibility for initially reporting serious occurrences to the Ministry and for providing follow-up reports. The Ministry will continue to work closely with operators to meet the requirements of its serious-occurrence policy.

Regional offices have been directed to review their present practices to improve their ability to identify and track serious-occurrence files not meeting ministry-established timelines and to monitor follow-up activity. They are to report back in fall 2005 on the areas they are addressing and steps being taken for improvement. Regional offices have also been directed to initiate spot checks with operators to monitor operator consistency in reporting serious occurrences to the Ministry.

The Ministry, in partnership with operators, is also piloting an automated approach to serious-occurrence reporting that would provide accurate and timely data on the status of all serious occurrences.

FUNDING

Fee Subsidy

Fee subsidies are provided primarily for the care of children whose parents are in need. A parent in need is defined as:

- a person eligible for income support under the Ontario Disability Support Program, the *Family Benefits Act*, or the *Ontario Works Act*; or
- a person who, for reasons of financial hardship, inability to obtain regular employment, or lack of a principal family provider, illness, disability or old age, does not have the financial resources to provide child-care services or private-home child care to their child or children, as determined in accordance with ministry guidelines.

Once a parent is deemed to be eligible for the fee subsidy, the parent may choose to place their children) in any centre in their area that has an available subsidized space (the availability of spaces is discussed in more detail later under Waiting Lists).

Eligibility for subsidized child care is based on an applicant's family composition, monthly income, budgetary needs, and liquid assets, as described in the Ministry's Guideline for the Determination of Available Income. When applying this guideline, CMSMs are allowed to exercise discretion in establishing maximum allowable limits for deductible expenditures that are affected by local conditions. For example, a CMSM may set a higher deductible for rental costs because rental costs in its region may be higher than elsewhere.

In our three previous audits of the Child Care Activity (see Annual Reports from 1989, 1995, and 1999), we noted a number of concerns with the exercise of discretion in determining allowable expenditure limits when assessing fee-subsidy eligibility. Although the Ministry generally agreed with our previous findings and recommendations and stated that it would take the necessary corrective action to ensure greater consistency across the province, we still found significant differences

in discretionary expenditure limits that we do not believe are justified by local conditions. Examples from our current review of eligibility files and our survey results included the following:

- Maximum allowable monthly deductions for debt repayment ranged from \$100 to \$750.
- Maximum allowable monthly deductions for diapers ranged from a low of \$40 to a high of \$150.
- Maximum allowable deductions for actual drug costs incurred if no drug plan was available ranged from a low of \$125 to a high of \$250.
- Additional miscellaneous deductions, which are applied in the majority of cases, ranged from 10% to 25% of net income, with maximum limits ranging from \$300 to \$800, and, in a few cases, 25% of net income with no maximum dollar limit.

Allowing significant differences in deductible expenses means that parents in similar circumstances will be treated differently depending on where in Ontario they live.

We also found that information with respect to income and liquid assets was in some cases not correctly assessed, with the result that the fee subsidy provided was higher than it should have been. Although the amounts were small individually, collectively they could add up to a significant amount.

Subsequent to our 1999 audit of the Child Care Activity, the Ministry adopted a policy in 2000 that required ministry regional offices to annually review 5% of the eligibility files at their CMSMs. The reviews are intended to ensure that only eligible applicants receive the fee subsidy and that the fee subsidy has been correctly calculated. Despite this policy, we found that the regional offices we visited had not conducted the required file reviews for the majority of their CMSMs in the most recent two years. One regional office had not conducted any file reviews since the inception of the policy in 2000.

RECOMMENDATION

To promote greater consistency and fairness in the determination of eligibility for the province's child-care fee subsidy, the Ministry should:

- ensure that any variances in allowable expenditure limits for applicants being assessed are reasonable and clearly attributable to local conditions; and
- conduct the required annual fee-subsidy-file reviews in accordance with the Ministry's policy to ensure that only eligible applicants are being subsidized and that the subsidy has been correctly calculated.

MINISTRY RESPONSE

The Ministry is developing a new model for determining eligibility for fee subsidies that is based on income rather than a needs test. Assessment of eligibility for the fee subsidy under the income test will be fair, transparent, equitable, and consistent across the province, and it should significantly reduce disparities.

In the interim, regional offices have been directed to review the policies of consolidated municipal service managers by early fall to confirm that variances in expenditure limits are within established ministry guidelines.

Regional offices have also been directed to include a minimum of 5% of the fee-subsidy files in their program review for 2006.

Waiting Lists

Children whose parents are assessed as eligible for a fee-subsidized child-care space, but for whom a subsidized space is not available at the time of assessment, may be placed on a waiting list. Some waiting lists are maintained by and for individual child-care centres, and others are maintained collectively by the CMSM for all the centres in its jurisdiction.

There is no standard approach to maintaining waiting lists, and no waiting-list information is provided to the Ministry's regional offices. Therefore, the Ministry is not aware of the number of children waiting for a subsidized child-care space, or how many are waiting in each area.

Our review of waiting-list information at the CMSMs indicated that a large number of children were waiting for a subsidized child-care space. For example, in two of the largest CMSMs that we visited, 4,400 and 4,000 children were waiting for a subsidized child-care space, which represented 43% and 12% of all children who were in licensed child care in those areas at that time. CMSM staff indicated to us that it was not uncommon to experience wait times of between six months and two years before getting a subsidized space.

In our review of one regional office's files, we also noted that one CMSM received \$2.24 million in new funding in 2004/05, \$541,000 of which was designated to create 230 new subsidized spaces even though that jurisdiction had no waiting list for spaces. The funding allocation was reviewed and approved by the regional office.

We believe waiting-list information, once collected and analyzed, would be useful additional information to help the Ministry identify where the need is greatest and assist it in more effectively distributing not only existing ministry funding but also the substantial new funding to be received from the federal government.

RECOMMENDATION

The Ministry should collect information on the number of children waiting for subsidized child-care spaces in each jurisdiction in order to more effectively assess service pressures and to help it more fairly distribute both ministry funding and the significant additional funding expected from the federal government.

MINISTRY RESPONSE

Under the *Day Nurseries Act*, consolidated municipal service managers (CMSMs) are designated as child-care delivery agents responsible for local planning and managing within allocated resources, which includes developing strategies to meet the local need for child care. Local need is determined through a variety of approaches, including waiting lists and demographics. As CMSMs increase their expertise, the local planning process is becoming more and more sophisticated.

Prior to 2004, the ministry allocation process was largely historically based, with initial allocations determined by a variety of factors, including municipal willingness to cost share, local capacity to support service expansion, and local waiting lists.

Factors such as the number of low-income families, the child population, a low level of parental education, the number of families for whom English is a second language, the population density, and the rate of population growth are more effective indicators than waiting lists, and the Ministry has allocated all new child-care funds on this basis since 2003/04.

Wage Subsidy

The wage-subsidy program was introduced in 1987 to improve the salaries and benefits of child-care workers and to make licensed care more affordable for all parents. The program provides funding to service providers to enhance caregiver wages and benefits, which in turn enhances staff stability.

Allocation of Funding

Funding for wage-subsidy grants consists of three distinct components introduced between 1987 and 1992, as follows:

- *Direct Operating Grants (since 1987)*: When introduced, these grants were based on an agency's licensed capacity and the age of the children it served. Non-profit agencies were eligible to receive 100% of the calculated grant, while for-profit agencies were eligible to receive 50% of the amount calculated.
- *Wage Enhancement Grants (since 1991)*: When introduced, these grants were determined based on the number of permanent full- and part-time agency employees and were available only to non-profit agencies.
- *Home Provider Enhancement Grants (since 1992)*: These grants were introduced to provide additional compensation to home-based child-care providers working through non-profit agencies.

During the 1993/94 fiscal year, the government capped its funding for wage-subsidy grants, and since that time it has based its distribution of these grants on the funding allocated at that time. So, for the most part, agencies that were receiving grants at that time continue to receive them now, and agencies that were not receiving them at that time do not receive them now.

Agencies that do receive a wage-subsidy grant must ensure that each employee receives a reasonable portion of the total grant. Since February 2000, distributions must not exceed \$9,533 for each full-time-equivalent position. Agencies are required to annually submit to their CMSM a Wage Subsidy Utilization Statement that compares total wage-subsidy allocations against actual expenditures. Where grants provided are greater than \$20,000, the agency must also provide a Special Purpose Report and audited financial statement to the CMSM to verify that the grant was used for the purposes intended. Failure to comply with any of the funding conditions may result in a claim for recovery of the grant and ineligibility to receive future wage-subsidy grants.

In our *1999 Annual Report*, we identified a number of concerns with respect to wage-subsidy

grants, and despite the Ministry's commitments to act on our recommendations at that time, during this audit we found similar issues to those noted in 1999. Specifically, we noted that the wage-subsidy program continued to be highly inequitable because agencies that received wage-subsidy funding in 1993/94, when the subsidy was capped, continued to receive the same amount of funding without any assessment of their need for it. At the same time, agencies that either did not exist or did not receive wage-subsidy funding in 1993/94 were denied any funding to subsidize the wages of their child-care workers. As a result, older centres that do receive wage-subsidy grants are able to offer higher wages and therefore attract more qualified staff.

We also found that two of the three large CMSMs we visited did not annually receive and review the wage-subsidy-grant calculations that agencies are required to submit. Instead, these CMSMs continued to pay each agency the same grant amount every year. This can result in funding that is further unrelated to need. For instance, some agencies are likely to be caring for children in age groups that are different from the groups they cared for in 1993/94. Others may have downsized their programs in terms of licensed capacity or full-time-equivalent positions. In such cases, agencies should have their grants recalculated and, where warranted, have their grants reduced, while others that have expanded their programs may be deserving of an increase in their grant.

RECOMMENDATION

To help ensure the equitable distribution of wage-subsidy funding among child-care providers in Ontario, the Ministry should review the objectives and design of the wage-subsidy program so that funding allocations are based on assessed needs rather than on historical allocations.

MINISTRY RESPONSE

The following steps have been taken to address the Auditor General's findings:

- communication to consolidated municipal service managers (CMSMs) outlining the Ministry's monitoring expectations, including yearly calculations of wage-subsidy amounts by centre and reallocation as appropriate and the maintenance of a list of wage-subsidy pressures; and
- revision of the child-care service program requirements to highlight these expectations for CMSMs.

The Ministry recognizes that improving wages in the child-care sector is a critical factor in maintaining a quality system. The Best Start initiative will continue to address this issue by providing additional funding for wage subsidies that can result in increased wages for child-care workers in the system.

Monitoring of Subsidy Funding

In our *1999 Annual Report*, we had concerns with respect to the monitoring of wage-subsidy funding. At that time, the Ministry indicated that CMSMs would be required to have child-care service providers reconcile wage-subsidy allocations against actual expenditures and obtain independent confirmation of the information provided. They also indicated that CMSMs would be required to conduct random-sample reviews at least annually of the use of funds. During the current audit, we found that this control process was not operating satisfactorily. Specifically:

- Although grant recipients must submit an annual Wage Subsidy Utilization Statement to their CMSM, the statements we reviewed lacked sufficient detail to assess whether the grants were spent in accordance with the Ministry's conditions for funding.

- Although agencies that receive more than \$20,000 are required to submit an audited Special Purpose Report indicating how the wage-subsidy grants were spent, in practice, in most cases these reports either were not received by the CMSM or were not audited.
- Although CMSMs are required to submit a report to the ministry regional office certifying that all required agency Special Purpose Reports were received, in practice, this was not being done.

Our own review of wage-subsidy files found a number of instances of non-compliance with the funding requirements. Specifically:

- In one case, a child-care centre employee received \$18,000 in wage subsidy during 2003—almost double the allowed maximum of \$9,533.
- In another case, an employee making a base salary of \$49,678 received a wage subsidy of \$4,278, while another employee in the same centre who worked the same number of hours and had a base salary of \$18,818 did not receive any wage subsidy.

In the absence of more detailed information, reviews of wage-subsidy allocations, and audited Special Purpose Reports, there is no assurance that funding conditions for wage subsidies are being complied with, including the requirements that each employee receive a reasonable portion of the wage-subsidy grant and that no employee receive more than the maximum allowable grant of \$9,533 per year.

RECOMMENDATION

To assess that wage-subsidy funds for child-care workers are spent in accordance with program requirements, the Ministry should implement adequate oversight procedures.

MINISTRY RESPONSE

The following steps have been taken to address the Auditor General's findings:

- communication to consolidated municipal service managers (CMSMs) regarding the Ministry's accountability expectations, including Special Purpose Reports from agencies, a list of the number of full-day-equivalent children by age group as part of the annual wage-subsidy recalculation, and systematic file reviews by the CMSM;
- revisions to the child-care service program requirements to highlight these expectations for CMSMs; and
- direction to ministry regional offices to include a minimum of 5% of the wage-subsidy files in their program review for 2006.

Submission and Approval of Budgets

The Ministry's corporate office provides an annual funding allocation for child-care program expenditures to each of the nine regional offices. We were advised that the allocations were generally determined based on prior years' expenditures in each region.

Regional offices in turn enter into annual service contracts with their respective CMSMs based on a budget submission package that each CMSM must submit to its regional office by March 31. This submission package pertains to the January-to-December period of the same year and should be reviewed and approved by June 30 of that year.

The CMSMs, in turn, negotiate and enter into purchase-of-service agreements with the child-care centres that provide services or directly provide some of the child-care services themselves.

Our review of these processes indicated that the Ministry did not have the information it needed to assess whether the amounts ultimately approved

and paid to each CMSM and then to individual agencies providing child-care services were based on need. Our concerns included the following:

- The Ministry is not party to the negotiations between CMSMs and child-care providers, or to the resultant agreements, nor does it receive any information with respect to the amounts paid to and the services provided by individual agencies.
- Budget requests from CMSMs to ministry regional offices lacked the information needed to make informed funding decisions. For example, while requests generally provided information on the total number of children to be served, they did not provide information on the age groupings, the number of low-income or ESL families, or the number of children on waiting lists. Such information can have a significant impact on costs.

In fact, our review of detailed cost and service information at the CMSMs that we visited, as well as other information obtained by means of a questionnaire sent to other CMSMs, confirmed that child-care costs not only varied significantly between age groupings but also varied significantly between different child-care centres for the same age grouping (see Figure 4).

- There was no evidence that the Ministry assessed budget submissions from CMSMs to determine whether the funding requested was reasonable and commensurate with the value of the services to be provided.

Figure 4: Range of Child-care Costs by Age Category

Source of data: Selected consolidated municipal service managers

Age Category	Lowest per-diem Cost (\$)	Highest per-diem Cost (\$)
infant (0–18 months)	24	63
toddler (18–30 months)	20	75
preschool (30 months to 5 years)	17.5	75
school age (6+ years)	8	60

- In many of the cases we reviewed, the CMSM budgets submitted were not reviewed and approved by the regional office until long after the June 30 deadline and, in some cases, after the calendar year-end. In these cases, CMSMs could be allocating funding to child-care agencies without confirmation of their own budgets and funding allocations; and where a change in allocation might occur, the CMSM would have little or no time to adjust for the increase or decrease in funding.

RECOMMENDATION

To ensure that agencies providing child-care services receive funding based on the relative need for subsidized child care in each municipality, the Ministry should:

- require that consolidated municipal service managers (CMSMs) report information that is sufficiently detailed and relevant to the Ministry's funding decisions;
- critically assess CMSMs' budget requests to ensure that approved funding amounts are commensurate with the value of the services to be provided by the delivery agencies; and
- review and approve budget requests on a more timely basis.

MINISTRY RESPONSE

The Ministry has formed an advisory group that includes consolidated municipal service managers (CMSMs) to review the child-care service data elements requested by the Ministry by the middle of October 2005 to make sure that they continue to remain relevant and useful to both the Ministry and the CMSMs. Strategies will also be established to enhance the expertise of both municipal and ministry staff to analyze and make more effective use of the data requested in service planning and resource allocation.

Revised child-care service management requirements will be distributed to the Ministry's regional offices and to CMSMs beginning in the summer of 2005.

Consistent with the designation of CMSMs as delivery agents under the *Day Nurseries Act*, the Ministry believes that the combination of the child-care service plan and the budget submission prepared by the CMSMs provides information at an appropriate level of detail for the Ministry to approve budgets at the system level.

The Ministry recognizes that the fee-subsidy system is very dynamic and the mix of children, fee-subsidy costs, and the location of fee subsidies can fluctuate significantly from quarter to quarter. This often requires that a CMSM adjust the planning targets that were initially established. This must be done within approved funding levels.

The Ministry establishes time frames within the government business cycle. These ministry time frames will be revised to better accommodate the government business cycle and the funding approval processes for CMSMs. All service contracts allow funding to continue beyond the contract dates and require service levels to be maintained until a new service contract has been signed.

Quarterly Reporting

To monitor in-year performance against agreed-upon targets, CMSMs are required to submit quarterly year-to-date reports that include budgeted versus actual expenditures and service data, such as the number of families and children served. The first three quarterly reports are due 50 days after the end of the relevant quarter, and the fourth quarterly report is due 65 days after year-end. As part of the quarterly reporting process, the Ministry requires the CMSMs to highlight, fully explain,

and describe an appropriate course of action for all budget-to-actual variances greater than 10% or \$10,000 for financial data, and 5% for service data.

For about half of the quarterly reports we reviewed, we found that the CMSMs submitted them past the due dates, with the delay ranging from about one month to five and a half months after the due date. In addition, we found a number of reports where variances between actual and budgeted amounts were greater than 10% or \$10,000 for financial data, and 5% for service data, with no explanation for the variances or with explanations that were insufficiently detailed. For example, in one CMSM's quarterly report, a year-to-date cumulative total of \$619,100 for "child-care informal care" appeared; but the following quarterly report showed the same line item with a cumulative total of \$347,804, a decrease of 44% from the original total. No documented explanation was provided, nor was there any evidence of a review or follow-up by the Ministry for this decrease in the cumulative total.

Finally, our review of files at ministry regional offices found that descriptions of the action to be taken to address identified variances were usually very general statements that did not provide details as to exactly what action would be taken. For instance, some files indicated the following: "continue to monitor" and "will continue to exceed provincial funding level." These, in our view, do not constitute adequate descriptions of action to be taken to address budget-to-actual variances.

RECOMMENDATION

To facilitate the assessment of performance against agreed-upon targets for funding provided to consolidated municipal service managers (CMSMs) for the provision of child-care services, the Ministry should ensure that:

- quarterly reports by CMSMs are received and reviewed by the required due date; and

- all significant variances between what was budgeted and what was spent have been satisfactorily explained and any required corrective action identified.

MINISTRY RESPONSE

Regions have been directed to apply the existing sanctions policy where consolidated municipal service managers (CMSMs) are late in submitting documentation such as quarterly reports. The sanctions policy outlines an incremental process that regional offices will use to acquire overdue documentation from CMSMs.

The Ministry recognizes the need for a more consistent use of existing tools for identifying, analyzing, and following up on variances in the quarterly reports prepared by regional offices. Therefore, for 2005/06, the Ministry's business practices package includes a standardized electronic format requiring an analysis of the variance and creation of an action plan to address the variance. Budget training on the new package began in March 2005.

The Ministry's governance and accountability framework includes a transfer-payment business cycle checklist of the activities to be completed to establish service system management expectations and priorities, set budgets, negotiate service contracts, and monitor performance.

Annual Program Expenditure Reconciliation

All CMSMs must prepare and submit to the Ministry an Annual Program Expenditure Reconciliation (APER), together with an audited financial statement, no later than four months after the fiscal year-end. The APER should reconcile a recipient's approved budget with actual expenditures and identify ministry-funded program surpluses or deficits. As per ministry policy, recovery of

identified surplus funding should be underway no later than 12 months after the calendar year-end in which it arose and must be completed within 24 months.

Our review of a sample of APERs found that almost two-thirds were submitted past the due date, with the lateness ranging from one month to over seven months after the due date. In addition, we identified concerns that were similar to those we identified in 1999, specifically with respect to the limited effectiveness of the process. For instance, for almost all of the APERs we reviewed during the current audit, the accompanying audited consolidated financial statements lacked either sufficient detail or the note disclosure necessary to identify inappropriate or ineligible expenditures and to permit the reconciliation of the audited financial statements with the APER-reported actual expenditures.

RECOMMENDATION

To more effectively identify funding surpluses and inappropriate or ineligible expenditures, the Ministry should ensure that the audited financial statements accompanying the Annual Program Expenditure Reconciliations (APERs) are sufficiently detailed to permit the identification of specific child-care-related expenditures and the reconciliation of the financial statement to the APER-reported actual expenditures.

MINISTRY RESPONSE

The Ministry will take the audit recommendation under consideration in reviewing the existing APER requirements to determine whether the APERs and audited financial statements are sufficiently detailed. Regional offices will continue to work with consolidated municipal service managers to meet established deadlines as well as the requirements for independent verification of expenditures.

MANAGEMENT INFORMATION SYSTEM

All child-care expenditure and service information is maintained in the Ministry's Service Management Information System (SMIS). On a quarterly basis, regional office staff enter information received from CMSMs into the SMIS. Regional office Directors must confirm in writing to the Ministry's corporate office that the information entered into the system is complete and accurate.

The information available in the SMIS is only in total-summary form—for instance, the total number of full-day-equivalent fee-subsidy children served; the total costs for these services; and the total wage subsidies paid. Such summary totals do not reflect the age category of children served or the related service costs for those categories, or even the number of centres receiving wage-subsidy funding. The Ministry does not collect such detailed data. Information on the number of children cared for with the related per-diem costs per age category and on the amount of wage-subsidy funding provided to each agency would enable the Ministry to make more informed funding decisions, to assess identified variances between the actual and budgeted services or costs, and to assess CMSMs' performance.

RECOMMENDATION

The Ministry should ensure that the information captured in its Service Management Information System (SMIS) for child-care services is sufficiently detailed to enable it to make informed funding decisions and to subsequently identify significant actual-to-budget variances.

MINISTRY RESPONSE

The Service Management Information System allows for year-to-year comparisons on a system basis to identify trends and support planning provincially and regionally, rather than support

in-year management of funds, which primarily occurs at the regional level based on quarterly reports and variance explanations submitted by the consolidated municipal service manager (CMSM).

CMSMs use the Ontario Child Care Management System (OCCMS) to manage the child-care system at the individual-CMSM level. The OCCMS contains detailed information on fee subsidies, wage subsidies, and other elements of the service system. In partnership with the Ministry, upgrades to the OCCMS occur on a regular basis. Work is underway on an OCCMS upgrade that will link each CMSM with the Ministry, enabling the Ministry to directly access child-care system data. This linkage will be in place by June 2006.