



2006 Annual Report



Office of the
Auditor General
of Ontario



Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

In my capacity as the Auditor General, I am pleased to transmit the 2006 Annual Report of the Office of the Auditor General of Ontario for submission to the Assembly in accordance with the provisions of section 12 of the *Auditor General Act*.

Jim McCarter, CA
Auditor General

Fall 2006

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Overview and Value-for-money Audit Summaries

Overview

In this introduction to my fourth Annual Report to the Legislative Assembly, I want to highlight the results of our first audits of organizations in the broader public sector and of Crown-controlled corporations—and then turn to our ministry and Crown-agency value-for-money work and our follow-up work on audits from prior years. I also discuss my Office’s review of government advertising, a responsibility my Office was mandated to take on in late 2005. Following this discussion, I provide a brief overview of the results of our annual audit of the province’s consolidated financial statements.

AUDITS IN THE BROADER PUBLIC SECTOR AND OF CROWN-CONTROLLED CORPORATIONS

On November 30, 2004, the Legislature unanimously approved amendments to the *Audit Act*, the most significant of which was the extension of our value-for-money audit mandate to include organizations in the broader public sector such as hospitals, school boards, universities, and colleges, as well as hundreds of other organizations and Crown-controlled corporations. The Office had been seeking this mandate for many years, prin-

cipally because over one-half of the government’s total annual expenditures are in the form of transfer payments to these organizations. We felt that legislators would be better able to oversee the prudent use of these funds by the broader public sector if my Office had unrestricted audit access to these organizations.

We conducted our first audits of these organizations this year, selecting organizations from a number of different sectors as well as two Crown-controlled corporations, specifically:

- Children’s Aid Societies;
- hospitals (two separate audits);
- school boards;
- community colleges;
- Hydro One Inc.; and
- Ontario Power Generation.

The following is a brief summary of the results of our audit work at these organizations:

- In certain areas, better oversight was needed to ensure that children in the care of Children’s Aid Societies received the appropriate level of service and protection. Also, Children’s Aid Societies need to tighten their general purchasing practices, especially when it comes to expenditures for professional services and costs charged to corporate credit cards, such as travel-related expenses.
- Hospitals were adequately managing and using Magnetic Resonance Imaging (MRI)

and computed tomography (CT) equipment in some areas. However, improvements could be made in other areas, for example, in limiting the exposure of doctors and patients—especially child patients—to radiation.

- Hospitals were administering some areas of medical equipment acquisition satisfactorily, but other areas, such as long-term planning and competitive purchasing, required improvement. We also noted that medical equipment was not always being maintained in accordance with established standards.
- Community colleges and school boards generally had good purchasing practices in place. As well, colleges and boards were using purchasing consortia to obtain certain goods and services at better prices than otherwise. However, we had concerns with one school board's travel-related and meal expenditures.
- While both Hydro One Inc. and Ontario Power Generation had established sound purchasing policies, they lacked adequate systems and procedures to ensure that their policies were being complied with—particularly with respect to competitive purchasing and employee-related expenses.

MINISTRY AND CROWN AGENCY AUDITS

Although we focused heavily on the broader public sector and Crown-controlled corporations in our selection of audits this year, we did conduct a number of ministry and Crown-agency audits as well, and some of our more significant observations included the following:

- In addition to auditing Children's Aid Societies, we audited the Ministry of Children and Youth Services' Child Welfare Services Program, which is responsible for funding and overseeing the province's 53 Children's Aid Societies. We noted that, although program expenditures doubled over the past five

years, related service volumes increased by only about one-third. This, combined with the fact that there were widespread variations in the level of expenditure increases at the individual Societies, led us to conclude that more effective ministry oversight was necessary.

As well, better monitoring of child protection services by the Societies is needed if the Ministry is to be assured that children in need are receiving the appropriate level of service and protection.

- The Ministry of Health and Long-Term Care is not doing enough to ensure that only those people who are eligible for OHIP services receive them and that health-care providers are paid for only those billings that are appropriate. For example, we found that there are significantly more health cards than people in Ontario, and we noted cases of unlicensed and even deceased doctors being paid for OHIP claims.
- The Ministry of Natural Resources' forest fire management program had a good track record of effectively suppressing forest fires once they were detected. However, the Ministry needs to enhance its procedures for detecting forest fires and for assessing its effectiveness in this area. Also, more proactive planning is needed to ensure public safety with respect to potentially hazardous dams and abandoned natural-gas and crude-oil wells.
- The Ontario Realty Corporation had recently made some much-needed improvements to its leasing activities and its management of external property service providers. However, its management information systems do not provide adequate information to enable an informed assessment of space utilization, and the Corporation is facing significant capital-renewal needs given the advanced age of many of the properties it manages.

PROGRESS IN THE IMPLEMENTATION OF PRIOR YEARS' RECOMMENDATIONS

As further discussed in Chapter 2, one of the two major concerns I identified in my first Annual Report, tabled in 2003, was the lack of substantive action being taken on our previous recommendations, many of which had been made five, six, or even 10 years earlier. I am pleased to report that this is one area where I have seen a significant improvement over the last three years. Ministries are now taking significantly more action to address our recommendations, as well as those of the Standing Committee on Public Accounts, which is resulting in improvements in the cost-effectiveness of government programs and the level of service being provided to the public.

REVIEW OF GOVERNMENT ADVERTISING

With the initial proclamation of the *Government Advertising Act, 2004* on November 21, 2005, I became responsible for reviewing proposed government advertising for television, radio, newspapers, magazines, and billboards, as well as advertising to be distributed to households by bulk mail delivery. The purpose of our review is to ensure that any proposed advertisement meets the legislated standards set out in the Act—most importantly, that the advertisement does not have as a primary objective the promotion of the partisan political interests of the governing party. The Act stipulates those advertisements that must be reviewed and prohibits government offices from running any reviewable advertisement that has not received the Auditor General's approval.

My Office engaged two experts—one with decades of experience in the advertising industry and the other a leading academic specializing in political advertising and Canadian politics—to assist in fulfilling our responsibility. As well, we consulted with and received valuable advice from Advertising Standards Canada. In preparing to take on our

new responsibility, we developed a *Guideline on the Review of Government Advertising* and held workshops for government communications practitioners and their creative agency personnel.

The Office has taken a constructive approach in working with government offices to ensure that proposed advertising meets legislative requirements. For example, we have agreed to conduct preliminary reviews of proposed advertisements at what is called the “storyboard” or pre-production stage. This pre-review provides government offices with some initial feedback before they incur significant production expenses. After an advertisement is formally submitted, we keep the submitting office informed of any concerns we have, to give it the opportunity to make revisions.

Our experience has been that about 80% of proposed advertisements are relatively straightforward and can be approved fairly quickly, another 15% require some modification by the submitting office before being approved, and about 5% require a significant time commitment from my Office and our external advisors. One of the most difficult issues we face relates to how information is presented in an advertisement. We recognize the need for advertisements to employ creative, provocative, humorous, and/or “catchy” elements to capture and maintain audience attention—especially when they invite people to obtain more information from a website or 1-800 number. However, we are concerned when such techniques are used in such a way that the advertisement may be perceived as primarily fostering a positive impression of the governing party and its achievements. We have found it challenging at times to balance the standards that an advertisement must meet against the government's legitimate need to produce effective advertising.

Chapter 6 of this report provides detailed information on our review responsibilities, the results of reviews conducted, and the total cost of advertising formally submitted for review.

THE PROVINCE'S FINANCIAL STATEMENTS

Each year, the Auditor General is required to audit the province's consolidated financial statements to determine whether, in the Auditor's professional opinion, they are fairly presented. As has been the case for over a decade now, the Auditor's report on these financial statements is clear of any reservations or qualifications and states that the financial statements are fairly presented in accordance with generally accepted accounting principles recommended by the Canadian Institute of Chartered Accountants.

Chapter 5 of this report discusses a number of issues relating to this year's audit of the province's consolidated financial statements, such as:

- the impact of including, for the first time, hospitals, school boards, and community colleges in the statements;
- the first significant reduction in the stranded debt that the province took on since the electricity sector was restructured more than five years ago; and
- the continuing concerns we have had since 2000 with respect to government accountability when the government dispenses multi-year grants just before the end of the fiscal year.

Value-for-money Audit Summaries

The following are summaries of the value-for-money audits reported in Chapter 3 of this Annual Report. For all audits reported on in Chapter 3, we made a number of recommendations and received commitments from the relevant ministries, organizations in the broader public sector, and Crown corporations that they would take action to address our concerns.

3.01 CHILD WELFARE SERVICES PROGRAM

The Ministry of Children and Youth Services (Ministry) administers the Child Welfare Services Program (Program) under the authority of the *Child and Family Services Act* and Regulations. Under this Program, the Ministry contracts with 53 local not-for-profit Children's Aid Societies (Societies) for delivery of legislated child-welfare services in their respective municipal jurisdictions, and it provides 100% of the required funding for these services. For 2004/05, program expenditures reported by all Societies totalled \$1.218 billion.

The Societies are responsible for investigating allegations and evidence to determine whether children may be in need of protection, and supplying services necessary to provide that protection. Under the legislation, Societies must provide all of the mandatory services to all identified eligible children. Each Society operates at arm's length from the Ministry, and each is governed by an independent volunteer board of directors.

Our more significant observations from our audit of this Program were:

- Although total program expenditures almost doubled between 1999/2000 and 2004/05, key service volumes such as the number of open cases where children were under Society protection increased by only 32%, while the number of residential days of care rose just 38% over the same period.
- The Ministry's funding practices, along with minimal oversight, contributed to significantly different rates of funding and caseload growth among Societies, and to significantly higher program costs. For example, we noted that the eight Societies with the biggest percentage increase in transfer payments from the Ministry got an average 181% more in funding between 1999/2000 and 2004/05, while the eight Societies with the smallest increase

received an average of only 25% more over the same period.

- The Ministry's process for review of caseload data used for funding purposes is inadequate to ensure that the Ministry receives complete and accurate data. This review process was, in fact, suspended in 2005/06.
- Although the Ministry introduced a new block-funding model in 2005/06 for the Societies, a number of limitations were identified. For instance, the new model perpetuates previous funding inequities by defining a Society's 2005/06 base core funding as being equal to actual expenditures incurred for 2003/04 plus 3%. Thus, any Societies that may previously have been over-funded relative to their caseload volumes are allowed to retain this higher ongoing base-funding level.
- Our research indicated that many other jurisdictions use a more balanced means of risk assessment to identify children in need of protection. Such models highlight strengths a Society can draw upon from the immediate and extended family and from the community, and often result in less formal and costly intervention.
- In most cases, the Ministry approved *per diem* rates for residential-care facilities with little or no supporting documentation on file. No written agreements with the facilities exist to detail the specific services to be provided in return for the approved *per diem* rates. In addition, the Ministry does not regularly monitor facilities to ensure that negotiated services are actually provided.
- Staff responsible for licensing children's residences and foster homes did not comply with ministry policies for doing so. In addition, in many cases the Ministry did not ensure that the necessary corrective actions were taken to address instances of non-compliance identified during licensing inspections. At one

regional office, 24 non-compliance issues were identified in a file, with half of these repeated for two consecutive years. Also, about 70% of the licensing staff we interviewed indicated that they would benefit from formal training in licensing procedures and interviewing techniques.

3.02 CHILDREN'S AID SOCIETIES

The Ministry of Children and Youth Services (Ministry) contracts with 53 local not-for-profit Children's Aid Societies for delivery of legislated Child Welfare Services in their respective jurisdictions. The Ministry provides 100% of the required funding for these services. Each Society operates at arm's length from the Ministry and is governed by an independent volunteer Board of Directors. Unlike most other ministry programs, where provision of services is subject to availability of funding, the Child Welfare Services Program requires each Society to provide mandatory services to all eligible children. In other words, there is no such thing as a waiting list for Child Welfare Services.

Societies are required to investigate allegations that children under the age of 16 may be in need of protection and, where necessary, provide the required assistance, care, and supervision in either residential or non-residential settings (services will continue until age 18 unless the child opts out); work with families to provide guidance, counselling, and other services where children have suffered from abuse or neglect, or are otherwise at risk; and place children for adoption.

Based on our audit work at four Societies (Thunder Bay, Peel, Toronto, and York), and in light of the fact that expenditures by Children's Aid Societies have increased at a substantially higher rate than the underlying service volumes over the past six years, Societies need to be more vigilant to ensure that they receive—and can demonstrate that they receive—value for money spent. As well, stricter

adherence to child-welfare legislation and policy requirements is needed to ensure that children in their care receive the appropriate services and protection.

Some of the issues we identified were as follows:

- Societies need to formally establish and follow prudent purchasing policies and procedures for the acquisition of goods and services. In addition, controls over certain expenditures, such as professional services, travel, and other costs charged to corporate credit cards, should also be strengthened to ensure that they are for business purposes only and are reasonable in the circumstances.
- Societies should tighten controls on reimbursements to staff for use of personal vehicles. As well, vehicles should only be acquired when economically justified. For instance, one Society operated a fleet of 50 vehicles but logged fewer than 10,000 kilometres a year on half of them, which suggests that such a large fleet was unnecessary.
- With just over half of the total \$1.24 billion in ministry transfer payments to Societies in the 2005/06 fiscal year going towards residential foster care and group residential care, Societies need to do more to obtain and document information about residential care services provided by outside institutions and to document the factors considered to ensure that children are appropriately and economically placed in residential care.
- Only when necessary should Societies enter into Special Rate Agreements, which require payments to private residential care providers over and above those prescribed by the Ministry, and they should ensure that services contracted for are reasonably priced and actually received.
- Requirements for completing the required Intake/Investigation Process following referrals should be met in a more timely manner;

in some cases, these requirements were not met at all.

- Initial plans of service or care for children receiving protection services, along with the required assessments and plan updates, should be completed in a more timely manner.

3.03 COMMUNITY COLLEGES— ACQUISITION OF GOODS AND SERVICES

Ontario's 24 community colleges offer students a comprehensive program of career-oriented post-secondary education and training. Enrolment data from the Ministry of Training, Colleges and Universities indicate that there were 215,000 full- and part-time students enrolled in community colleges in 2005. According to the Association of Colleges of Applied Arts and Technology of Ontario, colleges employ 17,000 academic staff and 16,800 other employees. Colleges spent a total of \$2.3 billion in 2005, of which \$751 million was spent in areas covered by this audit. (Our audit focused on a broad range of expenditures but did not include employee compensation, student assistance, ancillary operations, or the costs of acquiring college facilities.)

We found that the purchasing policies at the four colleges we audited (Conestoga, Confederation, George Brown, and Mohawk) were adequate to ensure that goods and services were acquired economically and were generally being followed. In addition, all of the colleges we audited were participating in purchasing consortia in order to reduce costs. However, areas where procedures could be strengthened included the following:

- Some major contracts with suppliers had not been re-tendered for a number of years. Therefore, other suppliers did not have an opportunity to bid on these public-sector contracts, and colleges might not know whether the goods or services could be obtained at a better price.

- Where non-purchasing personnel managed the purchasing process, policies and procedures were not always followed, increasing the risk that the goods or services purchased did not represent the best value.
- Before making major purchases, colleges did not always clearly define their needs and objectives and therefore could not ensure that the purchases met their needs in the most cost-effective manner.
- For large purchases, the colleges normally established committees to evaluate competing bids. However, they had not developed procedures for committee members to follow. As a result, colleges could not be assured that all committee members ranked bids in the same manner.
- Policies governing gifts, donations, meals, and hospitality were neither clear nor consistently enforced. While the individual amounts claimed were not significant, we noted several examples of gifts purchased for staff, including, at one college, five gift cards worth \$500 each.

3.04 FOREST FIRE MANAGEMENT

The primary responsibility of the Public Safety and Emergency Response Program of the Ministry of Natural Resources (Ministry) is to detect and suppress forest fires on 90 million hectares of Crown land in Ontario and manage the government's air fleet used for forest fire fighting, natural resource management, and passenger transportation for all government ministries. The Ministry is also responsible for managing provincial obligations relating to six other types of hazards: floods; drought/low water; dam failures; erosion; soil and bedrock instability; and emergencies related to crude oil and natural gas production/storage and salt-solution mining.

Program expenditures for the 2005/06 fiscal year totalled \$103.4 million. Program fixed costs, for full-time staff and infrastructure expenditures, amounted to \$36.6 million. Extra costs, such as additional staffing and contracted services that are incurred to deal with year-to-year fluctuations in the number and intensity of fires, amounted to \$66.8 million.

Our audit found that once forest fires were detected, the Ministry had a good track record of effectively suppressing them. However, the Ministry did not have measures for assessing the effectiveness of its procedures for detecting forest fires and, consequently, could not demonstrate that its fire-detection performance was adequate. In addition, although the Ministry had implemented a number of good initiatives to help prevent forest fires, a comprehensive strategy for fire prevention would help focus efforts in this area. Our more significant observations were as follows:

- In the last five years, the Ministry reported that once a fire was detected, it substantially achieved a 96% success rate in suppressing the fire by noon the next day or limiting its extent. However, fire-suppression costs were still significant when fires were not detected early. We noted two other Canadian jurisdictions that detected two-thirds of fires early through planned methods, in contrast to Ontario, which detected only one-third of all fires through its proactive efforts.
- In 2005, one region noted a significant number of fires caused by railways, and regional staff had directly observed railway workers failing to comply with required practices for fire prevention. We noted that one railroad company had submitted neither its required five-year plan nor an adequate annual work plan. This company caused 36 fires in the 2005 calendar year that cost the Ministry over \$1 million for fire suppression.

- Based on an innovative simulation modelling exercise, the Ministry implemented a program, beginning in 1999, to reduce fire-fighting costs by better utilizing its resources and optimizing the number of seasonal fire-fighters and contracted helicopters. Since that time, the Ministry estimates that this program has achieved savings of \$23 million. A recent external review also concluded that the Ministry's aviation fleet was well suited to its requirements.
- The Ministry had negotiated a favourable price for aviation fuel purchases from two suppliers at various locations throughout the province. However, we found that the Ministry had often paid more than the negotiated price for aviation fuel and was unable to verify whether the \$4.7 million it paid for aviation fuel in the 2005/06 fiscal year was billed correctly.
- The Ministry was assigned responsibility for developing a plan for emergency management of a number of potential hazards, including failed dams and abandoned oil and natural gas wells. The Ministry found that over 300 dams were high-risk and, if breached, could cause extensive damage. It also estimated that there could be as many as 50,000 abandoned natural gas and crude oil wells in the province, many of which pose a range of threats including the build-up of explosive gas or groundwater contamination. Plans for dealing with these threats were being developed but more comprehensive planning was required.

3.05 HOSPITALS—ADMINISTRATION OF MEDICAL EQUIPMENT

Ontario has 155 public hospital corporations, each responsible for determining its own priorities to address patient needs in the communities it serves. In the 2005/06 fiscal year, total operating costs of

the hospitals in Ontario were about \$17.5 billion, with provincial funding accounting for about 85% of total hospital funding. These figures exclude the cost of most physician services provided to hospital patients, because the Ministry of Health and Long-Term Care pays for these services through the Ontario Health Insurance Plan.

These hospitals operate a large variety of medical equipment required to meet patient needs—everything from relatively inexpensive vital-signs monitors to complex magnetic resonance imaging (MRI) machines costing millions of dollars. The acquisition, maintenance, and repair of such equipment is essential to provide quality patient care in hospitals. While overall expenditures by Ontario hospitals on medical equipment were not readily available, the three hospitals in which we conducted work (Grand River, Mount Sinai, and Thunder Bay Regional Health Sciences Centre) spent a total of \$20 million to acquire such devices in the 2005 calendar year.

We found that, while some areas were being well managed, procedures in other areas were inadequate to ensure that medical equipment was acquired and maintained in a cost-effective manner. For instance:

- Two of the three hospitals we visited did not use multi-year strategic plans to determine and prioritize medical equipment needs. While all three did have a prioritization process for annual equipment requests, most of the purchases we sampled at one hospital were made outside this process, because acquisitions using funds from sources such as the hospital's foundation did not need to go through the regular prioritization process.
- Hospitals did not consider certain relevant criteria in assessing proposed medical equipment purchases. For example, one hospital purchased laboratory equipment for \$534,000 without a documented assessment supporting the need for this equipment.

- The majority of the medical equipment acquisitions we reviewed were made without competitive selection. Hospitals indicated that this was due primarily to the standardization of medical equipment. While we recognize the benefits of standardizing certain types of medical equipment (for example, to ensure compatibility with other hospital devices), we found that none of the hospitals had guidelines on what medical equipment should be standardized and therefore be exempt from competitive purchasing practices.
- One of the hospitals purchased its equipment through a buying group, which we expected would result in lower prices. However, none of the items that we sampled, including a computed tomography (CT) machine costing more than \$1.1 million, were purchased by the buying group using an open, competitive process. Given the specialized nature of certain medical equipment purchases, we were unable to assess whether hospitals or the buying group could have acquired equipment that met their patients' needs at a lower price had they followed a competitive selection process.
- All three hospitals relied on equipment vendors to maintain their MRIs and CTs. We noted that the extent of maintenance varied, and was often less frequent than the standards set by the College of Physicians and Surgeons of Ontario for MRIs and CTs located in independent health facilities. We also noted that MRIs and CTs were not always subject to normal quality assurance procedures to ensure that they were operating properly.
- Medical equipment was often not maintained as frequently as required by service manuals or hospital plans. For example, 75% of defibrillators at one hospital did not receive scheduled maintenance during 2005, and some had no maintenance at all during that year.

3.06 HOSPITALS—MANAGEMENT AND USE OF DIAGNOSTIC IMAGING EQUIPMENT

Diagnostic medical imaging includes the use of x-ray, ultrasound, magnetic resonance imaging (MRI), and computed tomography (CT) to provide physicians with important information for diagnosing and monitoring patient conditions. Ontario hospitals conducted about 10.6 million diagnostic imaging tests in the 2005/06 fiscal year. Although CT and MRI examinations are a small percentage of the overall number of diagnostic imaging procedures, our audit focused on CTs and MRIs since the equipment can cost several million dollars, there are health safety risks associated with such examinations, and the use of CTs and MRIs has been increasing over the years. According to ministry data, between the 1994/95 and 2004/05 fiscal years, the total number of CT examinations increased by almost 200%, and MRI out-patient examinations increased by more than 600%.

The three hospitals we visited—Grand River, the University Health Network (consisting of Princess Margaret, Toronto General, and Toronto Western), and Peterborough Regional Health Centre—were managing and using their CTs and MRIs well in some respects. However, we noted areas where these hospitals could improve their management and use of this equipment to better meet patient needs. Our observations on the operations of MRIs and CTs included the following:

- Although the Canadian Association of Radiologists (CAR) noted that 10% to 20% of diagnostic imaging tests ordered by physicians were not the most appropriate tests, the hospitals we visited generally did not use referral guidelines to help ensure that the most appropriate test was ordered.
- At two of the hospitals we visited, we noted that Workplace Safety Insurance Board (WSIB) patients received much quicker access to MRI examinations than non-WSIB patients.

Hospitals receive about \$1,200 from the WSIB for each MRI examination of a WSIB patient.

- Wait times reported on the Ministry's website combined in-patient and out-patient wait times, even though in-patients generally received their appointment within a day. At one hospital, for example, the ministry-reported wait time for a CT was 13 days, but out-patients actually waited about 30 days.
- Many referring physicians and staff at the hospitals we visited indicated that they were unaware that CTs expose patients to significantly more radiation than conventional x-rays. For example, one CT of an adult's abdomen or pelvis is equivalent to the radiation exposure of approximately 500 chest x-rays. Ontario has not established radiation dose reference levels to guide clinicians in establishing CT radiation exposure levels for patients, whereas other jurisdictions, such as Britain and the United States, have established such reference levels.
- Staff at the two hospitals we visited that performed pediatric CT examinations indicated that, in close to 50% of the selected cases, the appropriate equipment settings for children were not used. As a result, the children were exposed to more radiation than necessary for diagnostic imaging procedures. Radiation levels are particularly important when the patient is a child, since children exposed to radiation are at a greater risk of developing radiation-related cancer later in life.
- None of the hospitals we visited analyzed the number of CT examinations by patient or monitored the radiation dosages absorbed by patients. At the two hospitals that were able to provide us with information for 2005, 353 patients had received at least 10 CT examinations each, and several had had substantially more than that during the year. In addition, these patients may have received CT examinations at other hospitals, or in other years,

which would also add to their lifetime radiation exposure.

- Patient shielding practices, such as the use of a lead sheet to cover body parts sensitive to radiation, varied at the hospitals we visited. For example, one hospital informed us that lead sheets were placed over and under a patient's body if they did not interfere with the diagnostic image. However, another hospital provided no similar protection for patients undergoing a CT examination.
- Most of the interventional radiologists at one hospital, who are exposed to higher levels of radiation since they perform procedures close to the radiation source, did not wear the required dosimeter, which measures radiation exposure. As a result, the hospital was unable to tell whether these physicians exceeded the annual maximum radiation doses established under the *Occupational Health and Safety Act*.
- The Ministry examines x-ray operations. However, it does not do the same for CT operations because there are no CT operating standards established under the *Healing Arts Radiation Protection Act*—even though CT examinations expose patients to significantly more radiation than x-rays.
- None of the hospitals we visited had a formal quality assurance program in place to periodically ensure that radiologists' analyses of CT and MRI examination images were reasonable and accurate.

3.07 HYDRO ONE INC.—ACQUISITION OF GOODS AND SERVICES

Hydro One Inc. was created following the reorganization of Ontario Hydro, pursuant to the *Electricity Act, 1998*, and incorporated under the *Business Corporations Act* on December 1, 1998. Wholly owned by the province of Ontario, Hydro One has as its

principal business the transmission and distribution of electricity to customers in Ontario.

Hydro One controls almost \$12 billion in total assets, consisting primarily of its transmission and distribution systems. In 2005, Hydro One earned more than \$4.4 billion dollars in revenue, while its total costs were \$3.4 billion. These costs included \$2.1 billion for the purchase of electricity to distribute to its customers, \$792 million for operations, maintenance, and administration, and \$487 million for depreciation and amortization.

Our audit focused on Hydro One's spending on goods and services, including its acquisition of capital assets but excluding employee salaries and benefits. This spending totalled more than \$800 million in the 2005 calendar year. Hydro One has contracted an outside service provider to perform purchasing activities on its behalf, but in-house departments and individuals also do a significant amount of buying—\$163 million in 2005, or about 20% of total spending—using corporate charge cards.

We found that Hydro One generally had adequate policies in place to help ensure that goods and services were acquired with due regard for value for money. However, systems and procedures were not adequate to ensure compliance with corporate policies. In 2004, Hydro One's internal audit department examined many aspects of the corporation's purchasing functions and concluded that, in several key areas, internal controls needed to be improved. We noted at the time of our audit that a number of internal control weaknesses remained to be addressed.

Some of our major concerns and observations were as follows:

- Hydro One's corporate policy encourages the establishment, through a competitive process, of blanket purchase orders (BPOs) for the procurement of goods or services directly from specified vendors for a stipulated period of time. However, the BPOs we examined

had not always been established through a competitive procurement process, or had no documentation available to verify that a competitive process had been used. In addition, BPO suppliers increased their prices periodically without competition. For example, a BPO established in 1996 for a two-year term with an original value of \$120,000 had been revised 39 times, extended an additional eight years, and increased in value to \$6.7 million.

- Competitive selection of suppliers is required for all Hydro One purchases over \$6,000 where no BPO arrangement exists. We found that procedures needed to be improved to ensure that the required competitive process was followed in the acquisition of goods and services. In a number of the cases we tested, the required competitive-procurement process was not followed.
- Hydro One's procurement policy allows goods and services to be purchased from a single vendor ("single sourcing") if it is neither possible nor practical to obtain them through the normal competitive processes. However, many of the single-source purchases for materials, consulting services, and contract staff that we examined could have been obtained from several different vendors. As well, the required documentation justifying the decision to single-source was not on file in most of the cases we examined.
- In December 2001, Hydro One entered into a 10-year, \$1-billion agreement to outsource significant operations of the corporation. Under its master service agreement with the service provider, Hydro One can reduce the fees it pays the provider if benchmarking studies show that the provider is charging more than fair market rates. Although a consultant's benchmarking report concluded that no adjustment to the fees was required, the consultant examined only two of six lines of

business conducted by the service provider. A more thorough review may have been warranted.

- During the 2005 calendar year, Hydro One purchased \$127 million worth of goods and services using corporate charge cards. We found that the documentation, such as charge-card slips, submitted in support of expenditures was often insufficient to determine what was purchased. We also identified instances where monthly statements had been reviewed and approved even though employees had not provided details about the cash advances received and charged to their corporate charge cards.

3.08 ONTARIO HEALTH INSURANCE PLAN

The Ministry of Health and Long-Term Care (Ministry) works to provide all Ontario residents with a readily accessible, publicly funded, and accountable health-care system. The Ontario Health Insurance Plan (OHIP) is a key vehicle for delivering on this objective. In the 2004/05 fiscal year, the Ministry paid more than \$6.9 billion through OHIP for insured services covering some 180 million medical claims. As of January 2006, there were about 12.9 million valid OHIP health cards in circulation.

Our audit of OHIP indicated that while controls and procedures were generally adequate to ensure that claims are paid accurately, they do not yet effectively mitigate the risk that people who are not entitled to OHIP services could receive medical care free of charge or that health-care providers could be paid for inappropriate billings. Some of our specific concerns included the following:

- In 1995, the Ministry began gradually to replace the older red-and-white health cards with new photo cards containing additional security features. This project was to have been completed by 2000 but delays have

pushed back the completion date by another 14 years at least. Our data analysis also indicated that there continue to be approximately 300,000 more health cards in circulation than there are people in Ontario. The Ministry has not yet verified the authenticity of the citizenship documents for about 70% of all existing health-card holders.

- Few resources have been devoted to monitoring health-card usage to identify areas that warrant review or investigation. We identified thousands of cases where card holders submitted medical claims from every region of the province within a short period of time, and instances where service-provider billings appeared excessive. For instance, our computer analysis of OHIP claims identified a group of clinics that have potentially overbilled the Ministry by almost \$10 million for medical tests since 2001. We also questioned why the Ministry's Fraud Program Branch did not have a mandate to conduct fraud audits or investigate suspected fraud cases.
- In fall 2004, the Ministry suspended the activities of the Medical Review Committee, which reviewed cases where physicians may have filed inappropriate claims, but it has yet to implement a replacement process. As a result, we estimate that the Ministry may have lost the opportunity to recover as much as \$17 million, since all outstanding reviews were cancelled at the time of the suspension and the Ministry has not initiated an audit review process for suspicious cases since that time.
- Physician licensing information was not being updated properly. We identified 725 unlicensed physicians who could still submit claims, with 40 of them having billed and received full payment from the Ministry after their licences had expired.
- We found weaknesses in the procedures used to review rejected claims, and in systems

designed to verify claims and protect the confidential records of card holders and service providers.

3.09 ONTARIO POWER GENERATION—ACQUISITION OF GOODS AND SERVICES

As part of the reorganization of Ontario Hydro, Ontario Power Generation (OPG) was created under the *Electricity Act, 1998* and commenced operations on April 1, 1999. Wholly owned by the province of Ontario, OPG's objective is to own and operate generation facilities to provide electricity in Ontario. In 2005, OPG generated approximately 22,000 megawatts of electricity, which accounted for 70% of the electricity produced in Ontario that year. OPG generates electricity from three operating nuclear stations, five fossil-fuelled stations, 35 hydroelectric stations, 29 certified green power stations, and three wind power stations. During 2005, OPG spent \$2.5 billion on operations, maintenance, and administration.

Included in OPG's total expenditures are annual purchases of goods and services amounting to approximately \$1 billion. Most of this amount is for goods and services procured through the general purchasing system. Such procurement is to be made in one of three ways—through master service agreements with selected vendors, a competitive procurement process, or, when justified, single sourcing. The remaining purchases, which amounted to \$61 million for the 2005 calendar year, are acquired by OPG staff using corporate credit cards.

We concluded that, although OPG had sound policies in place for acquiring goods and services and controlling employee expenses, in many respects its systems and procedures for ensuring compliance with those policies were not adequate. Specifically, there was often insufficient evidence on file to demonstrate that goods and services were acquired with due regard for value for money.

Also, although purchases requiring the competitive selection of vendors were generally conducted appropriately in accordance with OPG's policies, we had concerns with other purchases, such as those arranged through master service agreements, which do not require competitive selection. Some of our particular concerns were as follows:

- Most of the master service agreements OPG established with vendors that we reviewed were made without an open or competitive process. Instead, OPG practice is to establish master service agreements with vendors that have carried out business with OPG for some period of time. As well, we found that most of the master service agreements did not have fixed rates for specific services, typically a key benefit of such agreements.
- The single-source purchases we reviewed, for such items as temporary staff, equipment, and consulting services, ranged from \$110,000 to \$2.6 million. We noted that the explanations for single-sourcing such large purchases either were not documented or were inadequate to justify not carrying out a competitive process.
- In the five years that OPG has outsourced its information technology services, OPG has not audited the service provider with respect to its provision of services, setting of fees, and performance reporting, even though the contract allows for this. Given that this contract is worth approximately \$1 billion over a 10-year period, such periodic audits would be a sound business practice to provide assurance that the contractor is furnishing accurate and reliable data to support its fees and performance.
- We noted in our review of travel and purchasing credit-card payments numerous examples where supporting documentation was inadequate for managers to properly assess what was purchased and how much was paid for each item. Managers may be the only ones reviewing these transactions, which makes

effective supervisory review a critical internal control for ensuring that such purchases are appropriate and compliant with policy. However, these reviews were often not completed satisfactorily.

3.10 ONTARIO REALTY CORPORATION—REAL ESTATE AND ACCOMMODATION SERVICES

The Ontario Realty Corporation, a Crown corporation, provides services relating to real estate, property, and project management to most ministries and agencies of the province of Ontario. Cost-effective management of real property and accommodations is a responsibility shared by the Corporation with the Ministry of Public Infrastructure Renewal (Ministry) and its client ministries and agencies. The Corporation manages one of Canada's largest real-estate portfolios, including more than 95,000 acres of land and 6,000 buildings comprising more than 50 million square feet of space. Eighty-one percent of the portfolio is owned by the government of Ontario, and the remainder is leased. The Corporation requires revenues of nearly \$600 million each year to offset expenses incurred to manage the portfolio and look after the accommodation needs of its clients.

Our audit concluded that the Corporation had recently made a number of improvements with regard to its systems and procedures for leasing and for property sales and acquisitions, and in its hiring and monitoring of building management service providers. However, it must continue to work with the Ministry and its client ministries and agencies to ensure that:

- all managed space is being efficiently used;
- properties are being maintained through appropriate investments in the life-cycle repair and maintenance of buildings; and
- its management-information systems provide decision-makers with sufficient reliable information.

The Ministry also recently identified several factors that had inhibited effective management and rationalization of the province's real-estate portfolio, such as the processes used to deal with surplus and underutilized property. We noted that the province gave its approval in 1999 for the Corporation to sell 330 properties, but as of 2006, the Corporation had disposed of fewer than half of them. The Corporation also needs to improve its systems and procedures for identifying properties that could be rationalized or sold.

Some of our more significant observations were as follows:

- Better controls were needed to record and track potential recoveries from property sales and to monitor subsequent sales of government properties to identify large resale profits. As a result of our inquiries, the Corporation recovered approximately \$265,000 that was still owing to it from a property sale and that had been available to it since April 2004. As well, the Corporation has instituted additional monitoring procedures after we noted that one property sold by the Corporation for \$2.6 million was resold seven months later for \$4.2 million.
- In handling requests for new accommodations that could not be met by the existing inventory of owned space, the Corporation generally leases space without assessing the cost-effectiveness of alternatives such as construction, lease-buy, outright purchase, or relocation.
- The Corporation did not have adequate information or assurance that space was being used by its clients in an efficient manner. As well, the Corporation's real-estate database contained extensive errors regarding the current status of properties, raising concerns about the integrity of data used for assessing accommodation needs and tracking property use.

- More than 40% of the buildings the Corporation manages are at least 40 years old, and it rated 148 buildings as being in poor to defective condition. It also estimated that deferred costs for repairing, renewing, and modernizing provincially owned buildings stood at \$382 million as of March 31, 2006.

3.11 SCHOOL BOARDS—ACQUISITION OF GOODS AND SERVICES

Ontario's publicly funded elementary and secondary schools are administered by 72 school boards and 33 school authorities. Total funding for public education in Ontario for the 2005/06 fiscal year was about \$17.2 billion. While school boards spend the majority of their funding on salaries and benefits, they also spend several hundred million dollars on purchases of services, supplies, and equipment. Our audit focused primarily on the acquisition of supplies and services and equipment, and on contracted services and minor capital projects. Our audit excluded pupil transportation and capital expenditures for the construction of new schools.

We found that purchasing policies at the four school boards we audited (Durham District, Rainbow District, Thames Valley District, and York Catholic District) were adequate for promoting due

regard for economy, and the boards were generally complying with the policies and procedures. In addition, all four school boards were participating in purchasing consortia in an attempt to reduce the cost of goods and services. However, we did note areas where compliance could be improved. For instance:

- School boards were using some suppliers for significant purchases, as well as for ongoing minor capital projects, for a number of years without periodically obtaining competitive bids.
- Rather than publicly advertising their needs, school boards often invited a selected group of suppliers to bid. As a result, only one or two bids were received for some significant contracts.
- Payments continued to be made to suppliers where the purchase order had expired and/or the amount on the purchase order had been exceeded.

While the four school boards generally had adequate policies governing use of corporate charge cards (purchasing cards), we had a concern about the lack of clear policies with regard to the use of board funds for employee recognition and gift purchases. As well, we had concerns about certain meal and travel-related expenditures at one school board.

Towards Better Accountability

This year, from our perspective, we have seen several areas where progress has been made “towards better accountability.” Specifically, in this chapter I would like to highlight the impact of our expanded mandate on the broader public sector, improvements in the implementation of our prior years’ recommendations, government initiatives regarding results-based planning and reporting, and certain aspects of the *Fiscal Transparency and Accountability Act, 2004*. I also reiterate my concern regarding limitations on my access to certain government activities or information resulting from the *Quality of Care Information Protection Act, 2004*. And finally, I outline concerns regarding our access to certain government-controlled corporations and the need for a number of the larger agencies of the Crown to table their annual reports on a much more timely basis.

My Expanded Audit Mandate

Bill 18, the *Audit Statute Law Amendment Act*, which amended the *Audit Act* (now the *Auditor General Act*), received Royal Assent on November 30, 2004. The most significant amendment contained in Bill 18 was the expansion of the Auditor General’s value-for-money audit mandate to include the thousands of organizations in the broader public sector

that receive government grants, and Crown-controlled corporations such as Ontario Power Generation and Hydro One Inc. (The expanded mandate does not apply to grants to municipalities, but it does allow the Auditor to examine a municipality’s accounting records to determine whether a municipality spent a grant for the purposes intended.) The effective date of the expanded mandate with respect to value-for-money audits in the broader public sector was April 1, 2005.

In our first year of this new mandate, organizations from a broad spectrum were selected for audit, including school boards, community colleges, hospitals, Children’s Aid Societies, and the two provincially controlled hydro companies. The results of these audits are included in Chapter 3.

The acquisition of goods and services was the primary focus of our audits at selected school boards and colleges as well as at Ontario Power Generation and Hydro One Inc. It was also a secondary focus of our audits of Children’s Aid Societies. This area was selected for three reasons:

- Our audits of these areas in ministries in recent years have found opportunities to achieve savings and strengthen controls, and we suspected similar opportunities might exist in the broader public sector.
- The government has been examining ways to improve supply chain management in Ontario,

citing potential savings of several hundred million dollars in the broader public sector.

- Examining the acquisition function provided my Office with an opportunity to use existing expertise in an area that cuts across many aspects of the operations of these organizations in the broader public sector, thereby helping my staff to build their knowledge of the organizations' businesses. This knowledge will serve us well as we plan and carry out audits in these sectors in the future.

Audit work at four of the 53 local not-for-profit Children's Aid Societies in the province assessed whether the funding provided by the Ministry of Children and Youth Services was spent prudently with due regard for economy and efficiency, and whether children in need had received care and protection in a timely manner in accordance with legislation and policies. The Ministry provides 100% of the required funding for these services.

Given the significance of the expenditures incurred and the services provided, we conducted two separate audits at selected hospitals. One focused on the adequacy of policies and procedures to ensure cost-effective acquisition and maintenance of medical equipment, while the other focused on the management and use of medical diagnostic imaging equipment, particularly magnetic resonance imaging machines (MRIs) and computed tomography (CT) equipment. In the second audit, the objective was to determine whether the selected hospitals had adequate policies and procedures in place to ensure that the management and use of medical imaging equipment met patient needs efficiently and was in compliance with applicable legislation and that test results were reported on a timely basis.

Improved Implementation of Our Recommendations

Our Office has the following primary objective: providing legislators with the information they need to hold the government, its administrators, and grant recipients accountable for achieving value for money and a high level of service to the public. We obtain this information primarily through our value-for-money audits, which, over time, cover all major activities of the government and the broader public sector.

In conducting these audits, the Office believes that it is not enough to just point out problems or concerns. We also provide what we feel are practical and constructive recommendations to address issues in a cost-effective manner. Three years ago, when I tabled my first Annual Report, I commented on two overriding themes. One related to the lack of sound management information systems; the second related to some frustration with the lack of implementation of our prior years' recommendations. With respect to this latter issue, in my opening remarks to the media on my *2003 Annual Report*, I stated that

it was apparent to us this year that there were far too many areas where prior-year concerns—often going back four, five, six, or even 10 years—had not been satisfactorily addressed. We acknowledge that many of our recommendations deal with very substantive and complex issues that cannot be addressed overnight and substantial progress in addressing them may well take a year or two. However, there is no excuse for a lack of effective action after so many years have passed.

I am pleased to report that this is one area where I have seen an improvement over the past three years. It is evident from Chapter 4 in this year's

report, where we present our follow-up of the status of recommendations we made in the *2004 Annual Report*, that action has been taken and progress made in addressing most of the recommendations we made two years ago. Of particular interest is the number of audits where the progress made to date is not only satisfactory but significant—action is being taken on all recommendations, with a number already having been substantially implemented. Figure 1 illustrates the trend over the last decade with respect to this.

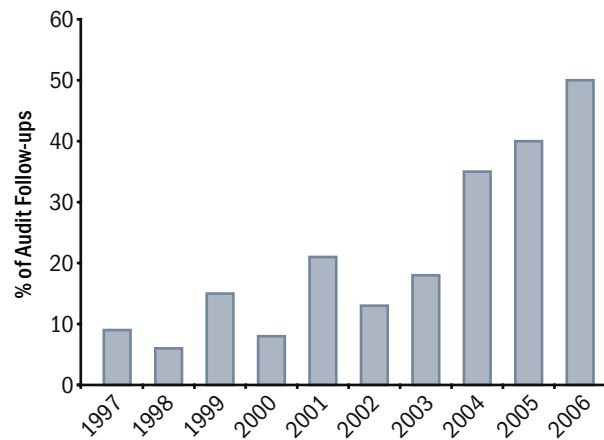
As well as being evident at the audit level, as Figure 1 shows, this positive trend has also been evident at the individual recommendation level. We made over 200 recommendations in each of the years 2002–04 and, based on our follow-up work two years after the original audit, the proportion of these that have been substantially implemented after two years has been rising steadily. Specifically, 42% of recommendations made in 2002 had been substantially implemented, as had been 44% of those made in 2003 and 46% of those made in 2004. As well, at least some progress has been made on over 90% of the 239 recommendations we made in 2004.

So who should take the credit for such progress? First of all, senior management in the ministries and central agencies that we audit certainly must be recognized for their increased commitment to implementing our recommendations. However, another not-so-obvious contributor is the Legislature’s Standing Committee on Public Accounts.

As further discussed in Chapter 8, “The Standing Committee on Public Accounts,” our Annual Report is automatically referred to this Committee on tabling in the Legislature. The Committee selects a number of sections from our report—including both current-year audits as well as sections from our follow-up work on recommendations made two years ago—to hold formal hearings on. At these hearings, the Deputy Minister or agency head, along with his or her senior officials, have the

Figure 1: Audit Follow-ups Noting Significant Progress in Addressing Recommendations Made Two Years Prior

Prepared by the Office of the Auditor General of Ontario



opportunity to outline what action they have taken on issues identified by that particular audit and are questioned by members from all three parties. I suspect that ministry and agency awareness of the possibility that they will be called to appear before the Committee acts as an additional motivator for management to take action on our recommendations.

This is not to say that, in the absence of the influence of the Committee, senior management of ministries, organizations in the broader public sector, and Crown agencies would not be taking our recommendations seriously. In fact, I was heartened to hear, when meeting with the government’s Council of Deputy Ministers to discuss alternative ways of reporting auditees’ responses to recommendations, that the Deputies were committed to continuing to respond formally to our recommendations. They felt that this would maintain a “healthy tension” in the system that would help ensure that timely action is taken to address our concerns.

The bottom line is that improved and timelier implementation of our recommendations will result in better, more cost-effective services being delivered to Ontarians.

Developments in Public Performance Reporting

ONTARIO

Over the past 10 years, the government of Ontario has made efforts to enhance the use of performance measures by program management to help focus efforts and expenditures on achieving results as well as to enhance the public reporting of those measures.

In May 1996, the government of Ontario published its first annual business plans and committed to publishing these plans annually. The business plans were to include a presentation of the results achieved during the year as well as targets, goals, and objectives for the following year.

In April 2000, Management Board Secretariat (now the Ministry of Government Services) issued the Business Planning and Allocations Directive and, in December 2000, a companion guideline entitled Performance Measurement in the Business Planning Process—A Reference Guide for Ministries. These documents provided valuable guidance to ministry management and staff on improving their performance reporting, with a particular focus on the outcomes being achieved by significant government programs.

In our *2003 Annual Report*, we felt that it would be worthwhile to review the guidance provided by Management Board Secretariat. We used as a benchmark the nine public-performance-reporting principles that had recently been developed by the Canadian Comprehensive Auditing Foundation (CCAF). We noted that the guidance had partially or fully incorporated five of the CCAF's nine principles. We recommended that

over the next few years, as ongoing refinements to the guidelines are made, the four principles not yet included be considered in future revisions of the guidelines and

that ministries be encouraged to implement them as soon as possible.

We also noted that “it is encouraging to see the progress that has already been made in the public reporting of the government’s performance. Nevertheless, in these days of constrained resources, increased delegation of responsibilities, and rapid and constant change, the need for clear, credible, and timely performance reporting has never been greater.”

We were pleased to note that the 2004 Ontario Budget referred to the CCAF’s nine principles for public reporting as a model for improving Ontario’s reporting on performance. These principles have been officially adopted by the federal government and the governments of British Columbia, Saskatchewan, and others and served as a valuable underlying framework for a Statement of Recommended Practice for Public Performance Reporting issued in June 2006 by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA).

Results-based Planning

Commencing with planning for the 2004/05 fiscal year, the government of Ontario introduced “results-based planning,” which was defined as “the corporate process through which ministries demonstrate the alignment of resources to strategies and programs to support achievement of the government’s priorities and results and the fulfillment of statutory obligations.” Performance measurement is a key element of results-based planning and is intended to help decision-makers at various levels throughout the process. Based on extensive research into best practices in other jurisdictions, Management Board Secretariat issued a reference guide for performance measurement in March 2005 that describes the Ontario Public Service’s approach to performance measurement and explains how performance information is to be used

in decision-making, risk management, and business planning.

The Ontario government currently uses three levels of performance measurement:

- *output measures*—to measure the tangible products or invoices that result from activities;
- *outcome measures (short-term and intermediate term)*—to demonstrate the achievement of ministry activities and strategies and /or the contribution of ministry activities and strategies to meeting government priorities; and
- *high-level indicators*—to measure social, environmental, or economic conditions for which government alone is not accountable but which reflect the extent to which the government's priorities are being achieved.

In addition to their role in assessing effectiveness in achieving goals and intended outcomes, these measures are intended to provide information about efficiency and customer satisfaction.

Since 2004, the government of Ontario has been publicly reporting annually on its progress in achieving results on three main priorities:

- Success for Students;
- Better Health; and
- Jobs and Prosperity.

A 2004 report entitled *Getting Results for Ontario* identified the results that the government of Ontario was endeavouring to achieve and the strategies it would use to achieve those results. The 2005 progress report, *Working Together For A Better Ontario*, and the 2006 progress report, *Getting Results for Ontario Families*, describe the progress the government has made in achieving the planned results. The 2004, 2005, and 2006 reports are available at www.resultsontario.gov.on.ca. These performance reports are not intended to achieve the degree of comprehensiveness recommended by the CICA and the CCAF reporting principles, which are gaining widespread acceptance, but they do provide useful information on high-level outcomes to help track progress against key priorities.

There are other, more comprehensive sources and levels of performance information that are or will be publicly available to Ontarians. Currently, ministry-published results-based plans are made available to the public on individual ministry Internet sites. These plans are intended to provide the public with more detailed information about the individual ministry's mandate, its goals and objectives, the major programs and services delivered by the ministry, and how these support government priorities or statutory obligations. We also understand that Treasury Board Office is continuing to collaborate with the CCAF to advance adherence to the nine principles. Commencing in the 2007/08 fiscal year, Ontario will participate in a three-year pilot to improve public performance reporting, led by the Ministry of Finance and involving the Ministry of Government Services as the pilot ministry.

Sector-focused Reporting

In addition to government-wide and ministry public reports on progress against the priorities established by the government, there are also sector-specific initiatives underway to enhance public reporting and accountability. Two recent examples are the creation in 2005 of the Ontario Health Quality Council and the Higher Education Quality Council of Ontario. Both are independent agencies established to oversee the performance of their respective sectors.

The Ontario Health Quality Council reports directly to Ontarians on access to publicly funded health services, health human resources in publicly funded health services, consumer and population health status, and health system outcomes. Its first public report, issued in April 2006, identified the attributes of a high-performing health system, thereby establishing a framework for reporting on the performance of the system. These attributes lead to performance measurement based on the extent to which the system is safe, effective,

patient-centred, accessible, efficient, equitable, integrated, appropriately resourced, and focused on population health. Although the Council has proposed performance measures to capture these attributes, it noted that “inadequate information is limiting our ability to continuously improve quality, monitor performance and report on it.” In response, the Council proposed that “investing in e-health—using information technology to manage health, arrange, deliver and account for care, and manage the health care system—will do the most to improve each of the attributes of a high-performing health system.”

In addition, the 2006 legislation governing Ontario’s new Local Health Integration Networks requires that the Minister and each local health integration network establish multi-year accountability agreements for the local health system, including performance goals, objectives, standards, targets, measures, and reporting requirements for the network and the local health system. Local health integration networks are responsible for planning, funding, and integrating local health systems to improve the health of Ontarians through better access to high-quality health services, co-ordinated health care in local health systems and across the province, and effective and efficient management of the health system.

Also, the Ministry of Health and Long-Term Care has been developing a strategic management and accountability framework for the Ontario health system that will include performance measurement and reporting at multiple levels (that is, local, sector, and provider levels) using consistent indicators and agreed-on methodologies.

The education sector is another significant sector that lacks sufficient appropriate information with which to monitor and report on service quality and the achievement of improvement objectives. Although some progress in this regard has been made by the Education Quality and Accountability Office, which measures and reports on trends in

elementary and, to a lesser extent, secondary student success in mastering the Ontario curriculum, less progress has been made in the postsecondary education sector. Recognizing this, the Higher Education Quality Council of Ontario was given the mandate to monitor and report on performance measures and guide the postsecondary education system towards improved quality.

One initiative aimed at obtaining the commitment and information necessary to deliver on this mandate is the establishment of performance agreements with each publicly funded postsecondary institution—a similar initiative is being undertaken in the hospital sector. These will establish key public expectations and the reporting requirements necessary for funders and the Council to oversee the sector and to strengthen institutional accountability.

Citizen-focused Reporting

While much literature and effort has been devoted to high-level or aggregated performance reporting by governments, sectors, and publicly funded institutions, there has been an increasing interest in providing more detailed information that citizens will find useful in making the decisions important to them, that will hold service providers accountable, and that will drive continuous improvement in the services being delivered. Below are several examples of this web-based, citizen-focused information. In many cases, this information is aligned with key government objectives and therefore can also provide the data needed to report on progress against improvement objectives.

- In the postsecondary education sector, the Ministry of Training, Colleges and Universities has, for several years, required institutions eligible to participate in the Ontario Student Assistance Program (OSAP) to report on loan default and graduation and employment rates by program of study, so that parents and students can make more informed career choices

with the money they invest in postsecondary education.

- Since 2000, the Ministry of Municipal Affairs and Housing, under its Municipal Performance Measurement Program (MPMP), has required that all Ontario municipalities report annually on the effectiveness and efficiency of key municipal services. Now in its sixth year of operation, the MPMP examines 54 measures in 12 service areas—including fire, police, roadways, transit, land-use planning, water, sewage, local government, parks and recreation—that cover key areas of interest of taxpayers and municipal expenditures. The performance measures are well defined, widely understood, and used by taxpayers, elected officials, and administrators to further accountability and service improvement. Municipalities use a range of methods to publish their results. Municipal results are also summarized on the Ministry of Municipal Affairs and Housing’s website.
- Since June 2004, the Ministry of Labour has been maintaining on its website statistics for the last 10 years on key activity measures for its Occupational Health and Safety Program, such as the number of workplaces inspected and investigated, total field visits, and orders issued and prosecutions initiated for violations of the *Occupational Health and Safety Act*. Such information, when combined with workplace accident statistics, provides an indication of whether Ontario workplaces are becoming safer or riskier.
- More recently, a website has been created for the education sector to provide parents and funders with information on class sizes for every elementary classroom in Ontario. This information informs both parents and the government on progress towards its commitment to reduce class sizes in elementary schools.

- Similarly, for the health sector, a website has been established to track wait times for diagnostic tests and certain high-demand surgical procedures, so that patients, providers, and funders can monitor trends and opportunities for improvement.

The reliability and usefulness of this information improves as the necessary information systems and data-collection practices mature. For example, while older initiatives, such as OSAP and the MPMP, include some rigour to ensure that the data reported are reliable, newer initiatives, such as the reporting of wait times for key health services, are still in need of continuous improvement because of exclusions and inconsistencies in the way service providers collect and report their information. We discuss this issue in more detail with respect to wait times for diagnostic tests in Section 3.06, Hospitals—Management and Use of Diagnostic Imaging Equipment. We understand that the Ministry of Health and Long-Term Care is developing a single wait-time information system for Ontario to collect accurate and timely data. By December 2006, this system will be established in approximately 50 Ontario hospitals, representing more than 80% of the total volume for the five health services funded through the Wait Times Strategy. Eventually, this new system could track wait times for all surgical procedures in Ontario.

OTHER JURISDICTIONS IN CANADA

In some Canadian jurisdictions, such as British Columbia and Alberta, public performance reporting is legislated and has been in place for a number of years. As a consequence, their public performance reporting practices are somewhat more advanced than practices in Ontario to date.

British Columbia

Through British Columbia's *Budget Transparency and Accountability Act*, the government, ministries, and Crown agencies are required to prepare and publish a three-year service plan, which includes goals, objectives, measures, and targets. The government and Ministers are also required to table annual reports that compare actual results against the expectations set out in the government's three-year strategic plan and ministry and Crown agency service plans. In an annual strategic plan report, actual results and performance are compared against targets established in the British Columbia government's three-year strategic plan.

Alberta

Under Alberta's *Government Accountability Act*, the Minister of Finance must prepare an annual government business plan as part of the consolidated fiscal plan. This plan must include the current fiscal year and at least two subsequent fiscal years. The government business plan must include the following:

- the mission, core businesses, and goals of the government;
- the measures to be used in assessing the performance of the government in achieving its goals;
- the performance targets set by the government for each of its goals; and
- links to ministry business plans.

Ministers are required to prepare annual business plans for their ministries that include the same type of information as the government's business plan and links to the government's business plan.

The Minister of Finance must prepare and make public, on or before June 30 of each year, a consolidated annual report for the province of Alberta for the fiscal year ended on the preceding March 31. This report is to include a comparison of the actual performance results to the targets included in the government business plan, an explanation

of any significant variances, and a message from the Minister of Finance providing an overview of the performance of the government. Ministers must include in their ministry's annual report the same type of information for their ministry that is required to be included in the province's consolidated annual report.

CONCLUSION

Clearly, there is considerable momentum for improving accountability and decision-making through the collection and reporting of more meaningful performance information on the delivery of publicly funded services. Our Office will continue to report on ways to improve the quality of performance information collected and reported on the services and programs we examine each year, as part of our goal to strengthen accountability and encourage value for money in the delivery of government services.

The *Fiscal Transparency and Accountability Act, 2004*

The *Fiscal Transparency and Accountability Act, 2004* (Act) requires the government to plan for a balanced budget each fiscal year unless it determines that it would be consistent with prudent fiscal policy to have a deficit in a given fiscal year as a result of extraordinary circumstances. The Act also requires that the Minister of Finance publicly release:

- a multi-year fiscal plan as part of each year's budget;
- a mid-year review of the fiscal plan;
- periodic updated information about Ontario's revenues and expenses for the current fiscal year;

- Ontario's economic accounts each quarter; and
- a long-range assessment of Ontario's fiscal environment in the two years after each provincial election.

The Minister of Finance is in compliance with the Act and has publicly released the required information listed above.

Another key requirement in the Act is that the Ministry of Finance release a report on Ontario's finances prior to an election. The pre-election report must provide information that updates the current year's fiscal plan as reported in the latest budget, including:

- an update on the macroeconomic forecasts and assumptions used to prepare the fiscal plan;
- a description of significant differences, if any, from the forecasts and assumptions originally used to prepare the fiscal plan;
- an updated estimate of the revenues and expenses used in the fiscal plan;
- details of the budget reserve for financial contingencies; and
- updated information about the ratio of provincial debt to Ontario's gross domestic product.

The Act states that the Auditor General must review this pre-election report to determine whether it is reasonable and to release a statement describing the results of the review. As of the printing of this Annual Report, the deadline for the release of the pre-election report had not been established by regulation. Since the next general election will take place in October 2007, I encourage the Ministry of Finance to ensure that these and other regulatory details are established well in advance of my review.

Restricted Access to Health-related Information

Section 10 of the *Auditor General Act* (Act) states that the Auditor General is entitled to free access to all information and records belonging to or in use by a ministry, government agency, or grant recipient that the Auditor believes necessary to perform his or her duties under the Act. Clause 12(2)(a) of the Act states that the Auditor General shall report whether, in carrying out the work of the Office, all the required information and explanations were received.

In this regard, I must again inform the Legislature, as I did in my *2005 Annual Report* (see Chapter 2 and Chapter 3, Section 3.08), of a scope limitation on our health-related audit work imposed by provisions of the *Quality of Care Information Protection Act, 2004* (Information Protection Act), which prohibits the disclosure of certain information.

The sections of the Information Protection Act and related regulations that affected our audit work this year came into force on November 1, 2004. They prohibit the disclosure of information prepared solely or primarily for or by a designated quality-of-care committee unless the committee considers the disclosure to management of a health facility or a health-care provider necessary in order to maintain or improve the quality of health care or in order to reduce a significant risk of serious bodily harm. Similarly, anyone to whom such a committee discloses information generally may share the information with others at the health facility only if it is considered necessary to maintain or improve the quality of health care. We understand that this legislation was designed to encourage health professionals to share information to improve patient care without fear that the information would be used against them.

One of the three hospitals we audited for Section 3.06 of this report (Hospitals—Management

and Use of Diagnostic Imaging Equipment) had designated a quality-of-care committee under the Information Protection Act. When we sought certain information relevant to our audit, we were informed that the information had been prepared for this committee, and therefore our access to it was prohibited due to the Information Protection Act. As a result, we were unable to determine whether this hospital had an adequate system in place to analyze and follow up on diagnostic imaging incidents (for example, unusual occurrences associated with diagnostic imaging causing injury to patients or hospital employees) and to take corrective action, where necessary, to prevent similar incidents in the future.

The other two hospitals we audited did not have a designated quality-of-care committee; therefore, we were able to review their processes to analyze and follow up on incidents.

We have been expressing our concerns with the scope limitation imposed by the Information Protection Act since December 2003, when this Act was introduced for first reading in the Legislature. However, our attempts to remedy this situation have to date been unsuccessful and so we continue to maintain that the Information Protection Act has the potential to impact negatively on our current and future audit work, especially on our ability to determine whether important systems that can affect patient safety and treatment are functioning as intended.

Annual Reporting by Provincial Agencies

Like all provincial governments across Canada, the Ontario government has established a number of Crown agencies that undertake a variety of activities in the public interest. Although such activities are carried out by agencies rather than directly by

Figure 2: Classifications of Government-controlled Agencies

Source of data: Ministry of Government Services

advisory	130
operational service	64
adjudicative	63
operational enterprise	36
Crown foundation	28
regulatory	18
trust	7
Total	346

government ministries, such agencies must still be accountable to the Legislature and the public.

According to the List of Classified Provincial Agencies that was prepared by the Corporate Policy Branch of the Ministry of Government Services, as of January 2006, there were 346 agencies established and controlled by the Ontario government. These agencies are classified as shown in Figure 2.

The Corporate Management Directive on Agency Establishment and Accountability, approved by the Management Board of Cabinet and dated February 2000, specifies that any agency established by the province of Ontario is accountable to the government through the responsible minister of the Crown. The Directive also discusses the following accountability mechanisms for agencies:

- *annual financial and performance reporting*—to demonstrate what has been achieved and at what cost;
- *auditing*—to ensure reporting is reliable, operations are conducted prudently, and assets are safeguarded;
- *Memorandum of Understanding*—to clearly articulate roles, responsibilities, and expectations;
- *business planning*—to establish what is to be achieved and at what cost;
- *periodic review*—to assess the continuing need for and direction of the agency; and

- *customer/client service*—to develop and operationalize processes to deal with customer service matters.

The Directive's requirement with respect to auditing is that each year, all but the 130 agencies in the advisory classification be subject to an external audit (regardless of whether the agency's constituting instrument refers to such an audit) if the agency has any of the following attributes:

- The agency holds capital assets.
- The agency incurs financial liabilities or other commitments (for example, through borrowing or making loans).
- The agency enters into commitments with other parties.
- The agency's revenues (including provincial funding, if any) and/or expenditures may be material to the operations of the government.

An annual external audit of an agency's accounts and financial transactions is commonly known as an "attest" or "financial-statement" audit. In such an audit, the auditor gives an opinion stating whether the results of operations (annual surplus or deficit) and financial position (assets and liabilities) of the agency, as reflected in its financial statements, have been fairly presented in accordance with appropriate accounting policies, which in most cases are those established by the Canadian Institute of Chartered Accountants.

Most of Ontario's agencies (excluding advisory agencies) are audited by public accounting firms that are appointed by the agencies' governing boards or shareholders. The Auditor General has the responsibility to audit 35 of the many provincially established agencies that require an annual external audit. Twenty-eight of these agencies designate the Auditor General as their external auditor in their enabling legislation, while the remaining seven, through their governing board or shareholders, have appointed the Auditor General as their external auditor. The Auditor General also has the responsibility to direct the audit of an addi-

tional five provincially created agencies that are audited by another auditor.

Another of the accountability mechanisms identified by the Directive on Agency Establishment and Accountability—annual financial and performance reporting—requires that each agency's audited financial statements be made public annually. Specifically, the Directive requires that every agency, except an agency classified as advisory, prepare an annual report for submission to the minister responsible (unless otherwise specified in the agency's constituting instrument) that includes:

- discussion of performance targets achieved/not achieved and of action to be taken;
- analysis of the agency's operational performance;
- analysis of the agency's financial performance; and
- names of appointees, including when each was first appointed and when the current term of appointment expires.

The annual report is to be submitted to the minister responsible within 120 days of its fiscal year-end, unless the agency does not have a governing board, in which case it must be submitted within 90 days. Then, within 60 days of receiving the report, the minister must table it in the Legislative Assembly.

From a legislative and public accountability perspective, the requirement to prepare and make publicly available an annual report is of paramount importance. Doing so in a timely manner enhances the transparency of the actions taken and the results achieved by the agencies, thereby strengthening agency accountability to the Legislature and the public. In mid-September 2006, we assessed whether the 35 provincially established agencies for which the Auditor General has direct audit responsibility had complied with this requirement. Our findings are summarized in Figure 3.

Based on the results of our limited review, we believe improvements are required to ensure more

Figure 3: Agency Compliance with Requirement to Table Annual Report

Prepared by the Office of the Auditor General of Ontario

Number of agencies whose 2005 annual report was tabled within the Directive time frame	1
Number of agencies whose 2005 annual report was tabled, but not within the Directive time frame	17
Number of agencies whose 2005 annual report was not yet tabled	17
Number of agencies whose 2004 annual report was not yet tabled	8
Number of agencies whose 2003 annual report was not yet tabled	5
Number of agencies whose 2002 annual report was not yet tabled	3*

* All three agencies are in arrears for annual reports from 2000 to 2005.

timely tabling of agency annual reports if agencies are to be effective in demonstrating their accountability to the Legislature and the public. While the individual agencies are first and foremost accountable for meeting this responsibility, under the Directive on Agency Establishment and Accountability, monitoring and ensuring compliance with its mandatory requirements, which includes the timely tabling of agency annual reports, is also the responsibility of the individual ministries. We understand that, in some cases, annual reports may have been prepared and submitted to the Minister responsible but have not yet been tabled.

We were informed during discussions with Corporate Policy Branch staff that a recent Internal Audit review, based on a sampling of five ministries, also revealed that the rate of compliance with the requirements set forth in the Directive could be improved. The Branch indicated that it has established an Agency Co-ordinators Forum to address non-compliance with the Directive. The Forum has representatives from all ministries, and its mandate includes providing guidance to the Branch on the needs of ministries and on how to improve and assess compliance with the Directive's requirements.

Restrictions on Our Right to Audit Certain Government-controlled Corporations

My rights and responsibilities with respect to audits of various government-controlled organizations are laid out in the *Auditor General Act* (Act). The Act's definition of "agency of the Crown" states that the Auditor General is either to perform the audit or direct the audit performed by another auditor, who must report to the Auditor General:

"agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (a) whose accounts the Auditor General is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (b) whose accounts are audited by the Auditor General under any other Act or whose accounts the Auditor General is appointed by the Lieutenant Governor in Council to audit,
- (c) whose accounts are audited by an auditor, other than the Auditor General, appointed by the Lieutenant Governor in Council, or
- (d) the audit of the accounts of which the Auditor General is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor General under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*.

The Auditor General's audit rights and responsibilities with respect to Crown-controlled corporations are somewhat different—while Crown-controlled corporations are audited by other auditors, the Auditor General is to receive a copy of the final results and has full access rights to audit reports, working papers, and other related documents. Furthermore, as discussed earlier, Crown-controlled corporations are subject to the expanded value-for-money audit mandate of the Auditor General, and my Office began to exercise its right to perform such audits on Crown-controlled corporations this year.

Currently, the wording of the Act in defining “Crown-controlled corporation” excludes a number of corporations that are nevertheless controlled by government. Specifically, the definition in the Act ends with a reference to the Lieutenant Governor in Council making or approving appointments to a corporation's board of directors:

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council.

However, the government has established corporations whose boards of directors are appointed

by a minister, without the express approval of the Lieutenant Governor in Council. These include, for example, the Independent Electricity System Operator (IESO) and the Ontario Power Authority (OPA), both established as non-share capital corporations under the *Electricity Act*.

The accounts and financial transactions of both IESO and OPA are required to be audited annually by one or more auditors licensed under the *Public Accounting Act, 2004*. However, because the IESO and the OPA do not fit the Act's definition of Crown-controlled corporation, the Auditor General does not have any legislative audit-oversight responsibilities with regard to their operations nor the ability to access information and records from them.

While the government, through the minister, clearly controls the appointment of the directors to the boards of the IESO and the OPA, under the current wording in the Act these corporations cannot be considered Crown controlled.

It is our view that corporations such as the IESO and OPA are, for all intents and purposes, controlled by the government through the minister's board-appointment process and that the distinction between a corporation where the majority of the board is appointed by a minister and one where the majority of the board is appointed by the Lieutenant Governor in Council has little substance.

The foregoing was brought to the attention of the Minister of Finance, who indicated agreement with the Office's interpretation by including our requested amendment to the *Auditor General Act*, as part of Bill 151, the *Budget Measures Act, 2006* (No. 2), which was introduced for first reading on October 18, 2006.

Reports on Value-for-money (VFM) Audits

Our value-for-money audits are intended to examine how well government and organizations in the broader public sector manage their programs and activities, to determine whether they comply with relevant legislation and authorities, and, most importantly, to identify any opportunities for improving the economy, efficiency, and effectiveness measures of their operations. These audits are conducted under subsection 12(2) of the *Auditor General Act*, which requires that the Office report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of service delivery. This chapter contains the conclusions, observations, and recommendations for the value-for-money audits conducted in the past audit year.

The ministry programs and activities and the organizations in the broader public sector audited this year were selected by the Office's senior management on the basis of various criteria, such as a program's or organization's financial impact, its significance to the Legislative Assembly, related issues of public sensitivity and safety, and, in the case of ministry programs, the results of past audits

of the program. The selection of our first audits conducted in the broader public sector is discussed more fully in Chapter 2—Towards Better Accountability.

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

Before beginning an audit, our staff conduct in-depth research into the area to be audited and meet with auditee representatives to discuss the focus of the audit. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. At the conclusion of the audit fieldwork, which is normally completed by May of that audit year, a draft report is prepared, reviewed internally, and then discussed with the auditee. Senior Office staff meet with senior management from the ministry, agency, or organization in the broader public sector to discuss the final draft report and to finalize the management responses to our recommendations, which are then incorporated into the report at the end of each of the VFM sections.

Chapter 3

Ministry of Children and Youth Services

Section 3.01

Child Welfare Services Program

Background

The Ministry of Children and Youth Services (Ministry) administers the Child Welfare Services Program under the authority of the *Child and Family Services Act* and Regulations. The Ministry contracts with 53 local not-for-profit Children's Aid Societies (Societies) for delivery of legislated child-welfare services in their respective municipal jurisdictions and provides 100% of the required funding for these services. The Ministry operates nine regional offices that co-ordinate service planning and monitor the activities of the Societies in their jurisdictions.

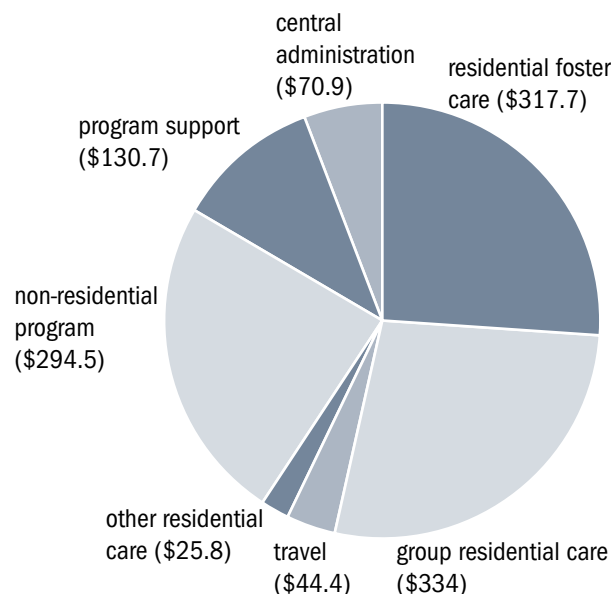
Among other responsibilities, Societies are to investigate allegations and evidence to determine whether children may be in need of protection and supply the necessary services to provide that protection.

Each Society operates at arm's length from the Ministry and is governed by an independent volunteer board of directors. While provision of services in most other ministry programs is subject to availability of funding, in the Child Welfare Services Program, each Society must, by requirement of the *Child and Family Services Act*, provide all of the mandatory services to all identified eligible chil-

dren. In other words, a child requiring protection must not have to wait for services due to funding constraints. For the 2004/05 fiscal year, total program expenditures reported by all Societies of \$1.218 billion were allocated by category of expenditure as illustrated in Figure 1.

Figure 1: Society Expenditures, 2004/05 (\$ million)

Source of data: Ontario Association of Children's Aid Societies



In 2003, the Ministry issued the Child Welfare Program Evaluation Report, which concluded that there had been a rate of increase in expenditures in

the child-welfare system that was not sustainable. To address this problem, government policy, the funding framework, and the Societies' approaches to service delivery needed to be modified. As a result, the Ministry developed a Child Welfare Transformation Agenda built around seven key priorities:

- a more flexible intake and assessment model;
- court process strategies to reduce delays and encourage alternatives to court;
- a broader range of placement options;
- a rationalized and streamlined accountability framework;
- a sustainable and strategic funding model;
- a single information system; and
- a provincial child welfare research capacity.

All of these initiatives are intended to support a more effective and sustainable child-welfare system that protects children at risk of maltreatment and improves the quality of their lives.

Implementation of the transformation agenda took a significant step forward when Bill 210, the *Child and Family Services Statute Law Amendment Act, 2005*, received third and final reading, and Royal Assent, in March 2006. The Act is expected to be proclaimed by the end of November 2006.

Audit Objectives and Scope

The objectives of our audit were to assess whether:

- funding provided to individual Children's Aid Societies (Societies) was equitable and commensurate with the value of services provided; and
- oversight of the Societies by the Ministry of Children and Youth Services (Ministry) adequately ensured that children in need received the appropriate care and protection.

The scope of our audit included a review and analysis of relevant files and administrative pro-

cedures, as well as interviews with appropriate staff at the Ministry's head office and three regional offices, which between them accounted for about 50% of total program expenditures. We also held discussions with, and obtained information from, senior management at the Ontario Association of Children's Aid Societies and several individual Societies .

In addition, we engaged the services of an academic expert in child-welfare services to assist us in the conduct of this audit.

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

We completed the bulk of our audit fieldwork by April 30, 2006. Our audit was performed in accordance with 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.

Our audit also included a review of relevant audit reports issued by the Ministry's Internal Audit Services in 2003. However, we were unable to reduce the extent of our audit as a result of the internal audit work because it focused on specific issues at individual Societies rather than on overall assessment of the Child Welfare Services Program.

Summary

Even though the Ministry of Children and Youth Services (Ministry) has initiated major program changes since our last audit of the Child Welfare Services Program in 2000, program costs have doubled, and more rigorous oversight is still needed if the Ministry is to be assured that vulnerable children are being adequately protected.

With respect to program costs and funding, we found the following:

- Total program expenditures have almost doubled, from \$639 million in 1999/2000 to \$1.218 billion in 2004/05. Over the same period, the number of open cases where children were under society protection increased 32%, from 24,806 at the end of the 1999/2000 fiscal year to 32,785 at the 2004/05 year-end, while the number of residential days of care rose 38%, from about five million to 6.9 million.
- While the number of children deemed to need protection increased in part as a result of the introduction of the Ontario Risk Assessment Model in 1998 and other legislative changes, the Ministry discontinued its practice of reviewing the files of non-Crown wards in residential care and children receiving non-residential protection services, which left it unable to assess, among other things, whether services were provided cost effectively.
- The Ministry's funding practices, along with minimal oversight, contributed to significantly different rates of funding and caseload growth between Societies and to significantly higher total program costs. For example, we noted that the eight Societies with the biggest percentage increase in transfer payments from the Ministry got an average 181% increase in funding between 1999/2000 and 2004/05, while the eight Societies with the smallest increase received an average increase of only 25% over the same period.
- The Ministry was unable to ensure the accuracy of caseload data supplied by the Societies to support funding increases because it discontinued reviews of service and financial data in the 2005/06 fiscal year.
- Ministry-negotiated *per diem* rates for service providers used by Societies varied significantly, both within and between regional

offices, and they have increased substantially since our last audit. There was little documentation available to explain how these rates had been set or whether they were reasonable in relation to the services provided.

- Similarly, foster-care rates paid to families for similar care varied significantly within and between regional offices, and the Ministry was unable to explain the rationale for these rate variances.
- Even though Society expenditures had doubled in the last five years, ministry financial oversight continues to be inadequate both with respect to monitoring Societies' actual spending against their spending targets and identifying ineligible spending.

With respect to the Ministry's oversight of Societies and program services, we continued to find, as we stated in our 2000 audit, that "if the Ministry is to be assured that children in need are being adequately protected, the Ministry must more effectively monitor the Societies." Our specific findings were as follows:

- Although the Ministry introduced the Ontario Risk Assessment Model to promote consistency and accountability in the intake process, it does not currently monitor the implementation of this model and therefore cannot be certain that children are getting the most appropriate services for their needs.
- Crown-ward review files often contained contradictory information, along with evidence that the Ministry had not issued the necessary directives for Societies to remedy service deficiencies. Furthermore, in many files, the same concerns were repeatedly raised year after year. For example, in about half of the files we reviewed, recommendations issued in one year were repeated in the next. The files also lacked evidence of supervisory review and approval.

- While we were pleased to note that the Ministry expanded its reviews of non-Crownward and child-protection files as we had recommended in our 2000 audit, these reviews were discontinued in 2003, and therefore the Ministry cannot be assured that these children are receiving appropriate care and protection.
- Many of the annual licensing files we reviewed for children's residences contained insufficient information to support the issuing of a licence.
- The Ministry was still in the process of implementing the systems and processes needed to measure and report on the effectiveness of the care and services provided to children in need.

Detailed Audit Observations

Under the *Child and Family Services Act*, the Ministry has exclusive authority to:

- make recommendations to government regarding legislation, regulations, and policy;
- determine provincial resource allocations, strategic priorities, and reporting requirements;
- set service standards and define required outcomes;
- inspect and license residences into which children in the care of Societies are placed; and
- monitor Societies to ensure that they provide the prescribed standards of services and take corrective action where required.

Societies are required to:

- investigate allegations and evidence that children under the age of 16 may be in need of protection;
- protect, where necessary, children under the age of 16 by providing the required assistance,

care, and supervision of children in either residential or non-residential care;

- work with families to provide guidance, counselling, and other services where children have suffered from abuse or neglect, or are otherwise at risk; and
- place children for adoption.

Our detailed audit observations focus on, first, concerns about the Ministry's determination of resource allocations (program funding) and, second, issues involving the Ministry's service-standard setting and monitoring of Societies (oversight of services).

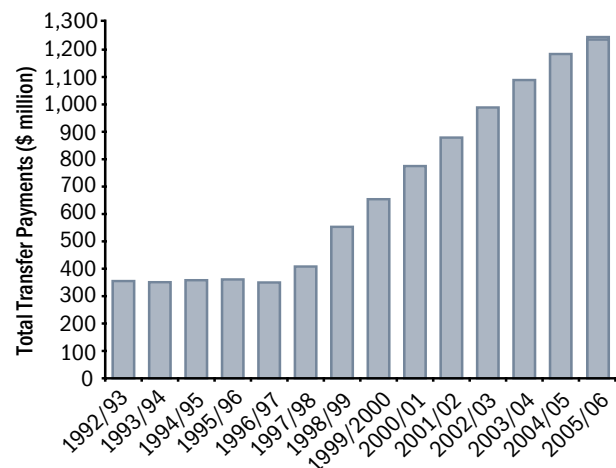
PROGRAM FUNDING

After remaining relatively stable in the early to mid-1990s, transfer payments under the Child Welfare Service Program began to increase substantially in the late 1990s, reaching \$1.24 billion in 2005/06. Total actual Child Welfare Services Program transfer payments by year are shown in Figure 2.

The increase in expenditures between 1997/98 and 1998/99 was due primarily to the province assuming 100% of program funding under the then-government's Local Services Realignment

Figure 2: Total Transfer Payments to Societies, 1992/93–2005/06

Source of data: Ministry of Children and Youth Services



Initiatives. Previously, the province funded 80% of child-welfare services while municipalities paid for the rest.

Three significant changes to the Child Welfare Services Program were major contributors to the substantial annual increases in program expenditures since 1998/99:

- In December 1998, the Ministry introduced a new funding framework for the Societies, phased in over the following three years and based primarily on society-reported data about the types and volumes of services provided.
- Legislative changes introduced in 2000 added emotional harm, including neglect, to the list of conditions for which children require protection.
- The same legislative changes strengthened mandatory reporting requirements by professionals that, in conjunction with the introduction of the standardized risk-assessment model, increased the number of children deemed to require protection.

Other factors that may have contributed to increased costs at some Societies included the impact of collective agreements and a shift to caring for more children in more expensive settings.

Our comments and observations regarding both these changes/factors and the quality of the information used for funding decisions are as follows.

Funding Framework

Prior to the 1998/99 fiscal year, funding to Societies was based primarily on annual budget requests, which themselves were based largely on historical funding patterns. As noted in our audit of Transfer Payment Agency Accountability and Governance in our *1997 Annual Report*, this mechanism was inequitable and failed to relate an agency's funding to

any assessment of the value of the underlying services it provided.

Various studies and reviews commissioned by the Ministry in the late 1990s, as well as our earlier audits of the Ministry, identified the need for adjustments to the funding framework to better correlate ministry funding to the underlying services provided by Societies. As a result of these concerns, and in order to promote greater funding equity among Societies, the Ministry announced a new funding framework in December 1998 to provide a more rational and equitable approach. The new framework was phased in over three years and fully implemented during 2000/01.

The new funding framework essentially provided for the following:

- Approximately half of a Society's funding would cover residential-care costs, based on the number of children in group-home and foster care at various *per diem* rates.
- Another one-quarter would go towards direct service costs such as staff salaries, based on caseload data and ministry-determined workload benchmarks and salary ranges.
- The remaining one-quarter would cover indirect costs, calculated as a percentage of the first two funding components.

To ensure that caseloads and service data used in the funding framework were complete and accurate, the Ministry also began to conduct annual service-and-financial-data reviews at the Societies.

Although in our 2000 audit report we considered this new funding framework to be a significant improvement over the previous funding mechanism, its implementation was lacking in two significant respects.

First, Societies have continued to have significant discretion, with minimal ministry oversight, over the types and volumes of cases provided with non-residential protection or residential in-care services. This has led to significant differences in the volume growth of overall caseloads between

Societies and, perhaps more importantly, the practices for placing children in more expensive settings.

As well, the Ministry has continued to fund every Society's annual expenditure deficit—the difference between its actual expenditures and its entitlement—regardless of the Society's formal budgetary entitlement under the framework, and the amounts being funded are significant, as illustrated in Figure 3. Of even greater concern is that overall ministry transfer payments have increased at a significantly higher rate than the key underlying service volumes, as illustrated in Figure 4.

Our analysis of transfer-payment increases and corresponding increases in key service volumes for individual Societies indicated even more significant variances for individual Societies. For example:

- The eight Societies with the biggest percentage increase in transfer payments from the Ministry got an average 181% increase in funding between 1999/2000 and 2004/05, while their weighted-average key service volumes increased by about 91% over the same period.
- The eight Societies with the lowest percentage increase in transfer payments from the province got an average 25% funding increase between 1999/2000 and 2004/05, while their weighted-average key service volumes increased by about 18% over the same period.

The Ministry's Child Welfare Program Evaluation report, issued in 2003, concluded that the

Figure 3: Deficit Funding, 2001/02–2005/06

Source of data: Ministry of Children and Youth Services

Year	Additional Funding Approved to Cover Year-end Deficits (\$ million)	% of Eligible Funding Under Framework
2001/02	47.8	5.7
2002/03	102.2	11.5
2003/04	177.8	19.5
2004/05	91.8	8.4

Figure 4: Rate of Increase for Transfer Payments and Key Service Volumes, 1999/2000–2004/05

Source of data: Ontario Association of Children's Aid Societies

	2004/05	1999/2000	% Increase
Transfer Payments (\$ million)			
amount paid	1,184	654	80.9
Key Service Volumes			
# of investigations	82,137	63,809	28.8
# of ongoing protection cases (non-residential care)	26,754	18,288	46.3
total days of residential care	6,921,440	4,998,983	38.4

funding framework achieved its original goals of being sensitive to direct service volume and providing a more equitable and rational approach to funding. However, it offered little flexibility to promote cost-effective care and other efficiencies. We note in this regard that, in most cases, the Ministry's regional offices have not had staff with sufficient background and training to analyze Societies with significant expenditure increases to ensure that they are justified.

In part as a result of the significant growth in expenditures and to facilitate the Child Welfare Transformation Agenda, the Ministry introduced for the 2005/06 fiscal year a new funding model comprised of four distinct blocks through which funding was allocated to the Societies. The components of the model, as well as the projected total allocations to Societies, are illustrated in Figure 5.

Under the new block-funding model, a Society whose core funding factors exceed the provincial average by more than 10% is required to explain the reason for the variance and propose a three-year plan to bring its funding factors back to the provincial average. However, in cases where Societies incurred abnormally large expenditure increases, we noted little formal analysis by the Ministry to assess the appropriateness of the increases, especially where neighbouring Societies did not incur

Figure 5: Projected Funding Allocated to Four Blocks, 2005/06

Source of data: Ministry of Children and Youth Services

Block Type	Description/Purpose	Projected Allocation, 2005/06 (\$ million)
1: Agency Core	actual total funding in 2003/04 + 3%	1,165.7
2: Change Management Investment	for achieving transformation policy, service priorities, and other related objectives determined by Ministry	3.4
3: Select Service-volume Growth Change	for providing eligible service-volume growth as reported by Societies, usually at ministry-determined provincial average <i>per diems</i> or benchmark rates	41.3
4: Ministry-managed Child Welfare	for specific purposes such as capital acquisitions and technology improvements	21.7
Total		1,232.1

similar increases. For instance, one Society incurred a net increase in expenditures of 154%, with weighted-average key service volumes increasing by 111%, while a neighbouring Society's expenditures increased by only a net of 30%, with average key service volumes increasing by 24%.

We also noted a number of limitations in the block-funding model. Among other things, it perpetuates previous funding inequities by defining a Society's 2005/06 Block 1 (total-core) funding as actual expenditures for 2003/04 plus 3%. In essence, Societies that may have been overfunded relative to caseload volumes are allowed to use that funding level as their ongoing base-funding level. Also, in the absence of annual service-and-financial-data reviews and reliable baseline data for Block 1 funding, as discussed later in this report, it will be difficult to assess the merits of any Block 3 (service-volume growth) funding, which we understand is starting to escalate.

In most cases, Societies could not explain why their funding factors exceeded the provincial averages by more than 10%, and in most cases they did not provide the required three-year plan to bring them into line. When this is coupled with the lack of adequate analysis by the Ministry of the justifiability of the incurred deficit, as pointed out above, the risk persists that the Ministry will continue to fund Societies' annual deficits in the future,

whether or not Societies have used the funding efficiently and effectively.

We also noted that, by March 31, 2006, the last day of their fiscal year, none of the Societies had received any funding approval from the Ministry for their 2005/06 budgeted expenditures.

RECOMMENDATION 1

In order to ensure that funding is commensurate with each Children's Aid Society's caseload, the Ministry of Children and Youth Services should:

- assess the appropriateness of providing all Societies with core funding equal to their 2003/04 actual expenditures plus 3%; and
- consider funding volume growth reported by Societies according to detailed assessments of what would be reasonable for each individual Society based on its circumstances, rather than at provincial average costs.

The Ministry should also ensure that it issues approvals of funding to Societies as early as possible in the fiscal year. In addition, the Ministry should reassess its practice of funding all Societies' year-end deficits regardless of the funding framework used.

Effect of Revised Risk Assessment

In the mid 1990s, the deaths of several children and some other high-profile failures of the child-welfare system raised serious concerns about the safety of Ontario children in certain circumstances. As a result, the Ministry established a number of provincial review committees charged with recommending improvements to the system. These committees made a number of recommendations to address a broad spectrum of issues, which led to significant changes to Ontario’s child-welfare system. Among these was the introduction of a mandatory, standardized risk-assessment system and a broadened definition of risk that expanded the grounds for protection to include emotional harm, including neglect.

The Ontario Risk Assessment Model (ORAM), introduced in 1998, was intended to provide Societies with two important tools:

- a standardized means of collecting the information necessary to understand both the nature and degree of risk for a child and his or her family; and
- a basis for selecting from a range of services available within the child-welfare system.

The ORAM includes five assessment categories, called “influences,” and within each are elements that rank risk on a scale from zero to four. The risk-assessment scales are further defined by descriptions, called “anchors,” which help assign a rating based on narrative descriptions, as illustrated in Figure 6.

The ORAM is often referred to as a “deficit model” of assessment because it highlights areas in which families are deficient and identifies those things families are unable to do. The decision to use this particular risk-assessment model followed a review of several available instruments. We understand that the ORAM is a version of a model that had been in use in New York State at that time but has since been replaced.

Figure 6: Assessment Structure of the Ontario Risk Assessment Model

Source of data: Ministry of Children and Youth Services

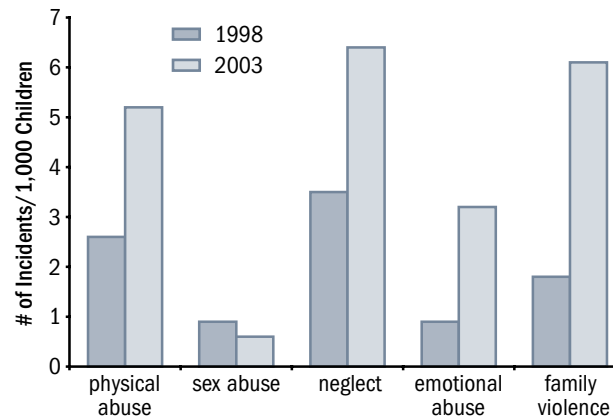
Influence	Anchors
caregiver	abuse/neglect alcohol/drug use expectations of child acceptance of child physical capacity to care for child mental/emotional/intellectual capacity
child	child’s influence child’s response to caregiver child’s behaviour child’s mental health and development physical health and development
family	family violence ability to cope with stress availability of social supports living conditions family identity and interactions
intervention	caregiver’s motivation caregiver’s co-operation with intervention
abuse/neglect	access to child by perpetrator intention and acknowledgement of responsibility severity of abuse/neglect history of abuse/neglect committed by present caregivers

It was expected that standardizing the assessment tool would improve consistency in decision-making while enhancing accountability. The new model was also intended to ensure that intake case workers carefully review and assess all relevant information before arriving at a decision. Nevertheless, the need remains for intake case workers to draw also on their experience and professional judgment, particularly since the vast majority of cases involve greyer areas of child neglect and family violence rather than more blatant physical or sexual abuse, as illustrated in Figure 7.

We noted that, although the Ministry conducted child-protection-file reviews in 2002 and 2003 that assessed compliance with ORAM requirements, no such reviews have been carried out since then. As

Figure 7: Rate and Nature of Child Maltreatment, 1998 and 2003

Source of data: Public Health Agency of Canada



a result, the Ministry currently has no process in place to assess Societies' compliance with ORAM requirements and consequently does not know whether children are being appropriately placed or receiving similar services in similar situations.

In addition, observers in the area of child-welfare risk assessment consistently note that the imposition of a standardized risk-assessment system has the effect of erring on the side of caution, thereby increasing the number of children deemed to be in need of protection.

We were advised by our academic expert that, in many other jurisdictions, deficit-based models similar to the ORAM are giving way to a more balanced means of assessment, often characterized as a "strength-based" model. This form of assessment still considers the risk factors for a child or family, but it also highlights what a family is able to achieve and what strengths the Society can draw upon from the extended family or the community. These strengths can often be used to provide care and support while requiring less formal and costly intervention from the child welfare authority. Both Alberta and New Zealand have successfully adopted such approaches, and we understand that Ontario is heading in the same direction. For example, we understand that, subject to a Minister's Regulation, Ontario intends to provide for differential responses

for lower-risk cases by spring 2007. Such responses are to employ strength-based assessments that include consideration of participation in a child's protection by his or her relatives and members of his or her community.

RECOMMENDATION 2

In order to ensure that Children's Aid Societies are providing similar services in similar situations and making appropriate decisions in assessing children's needs, the Ministry of Children and Youth Services should:

- re-institute a child-protection-file review process similar to the one in place during 2002 and 2003 that assessed compliance with the requirements of the Ontario Risk Assessment Model; and
- given the trend in other jurisdictions, consider adopting a strength-based assessment model as soon as is practical and monitor and evaluate its effectiveness.

Service-and-financial-data Review

Both of the Society funding frameworks in place since the time of our last audit used caseload data in whole or in part as a determinant of the funding provided to each Society. It is therefore essential, in order to ensure that funding decisions are properly based and supported, that the Societies' reported caseload data are complete and accurate.

At the time of our last audit in 2000, the Ministry had established a pilot review process for the service and financial data reported by Societies. However, necessary policies and procedures for these reviews, including those concerning their frequency, sample size, and selection process, had not been finalized. Our review of the guidelines for service-and-financial-data reviews developed by the Ministry since our last audit, as well as of a sample of completed reviews, found that the process

was still insufficient to ensure that the caseload data used for funding purposes were complete and accurate, bringing into question whether the society-funding process was operating reliably. For example:

- Ministry guidelines did not require testing of data on residential days of care, which account for approximately half of each Society's total funding. Two of the three regional offices we visited did not test these data. Our own testing of residential-days-of-care data found a number of errors. For example, we noted at one Society that 4,730 free days of care (care generally paid for under other programs) were incorrectly reported under the Regular Foster Care category. This led to the Society receiving \$320,000 to which it was not entitled under the funding framework.
- Ministry guidelines did not require, and the service-and-financial-data reviews conducted in one regional office did not ensure, that summary listings from which samples were selected for testing agreed with the data reported to the Ministry for funding purposes.
- Ministry guidelines did not require, and the service-and-financial-data reviews did not result in, additional testing or extrapolation when errors were found. Thus, no work was done to determine the most likely impact of the errors on funding. In fact, most of the errors noted by the Ministry in the service-and-financial-data reviews we reviewed did not result in changes to the determination of eligible funding but may have done so if additional follow-up work had been performed.

We also noted that the Ministry instructed its regional offices to suspend service-and-financial-data reviews for the 2005/06 fiscal year. The Ministry advised us that this was done because each regional office conducted its reviews differently and for different periods of the year. However, we also found that two of the regional offices we visited had conducted no such reviews for some

of their Societies in 2004/05, a year before the Ministry suspended these reviews.

RECOMMENDATION 3

In order to ensure that caseload data on which funding levels are based are reliable, the Ministry of Children and Youth Services should consider requesting that Children's Aid Societies provide independent audit assurance on their reported caseload and service data. (Since the financial statements of Societies are already independently audited, the costs associated with this additional audit assurance should not be significant.)

Alternatively, if this option is considered not cost-effective, service-and-financial-data reviews by ministry staff should be regularly conducted. The work completed during such reviews should be sufficient and adequately documented to meet the objectives of the Ministry's funding framework.

Per Diems for Residential Care

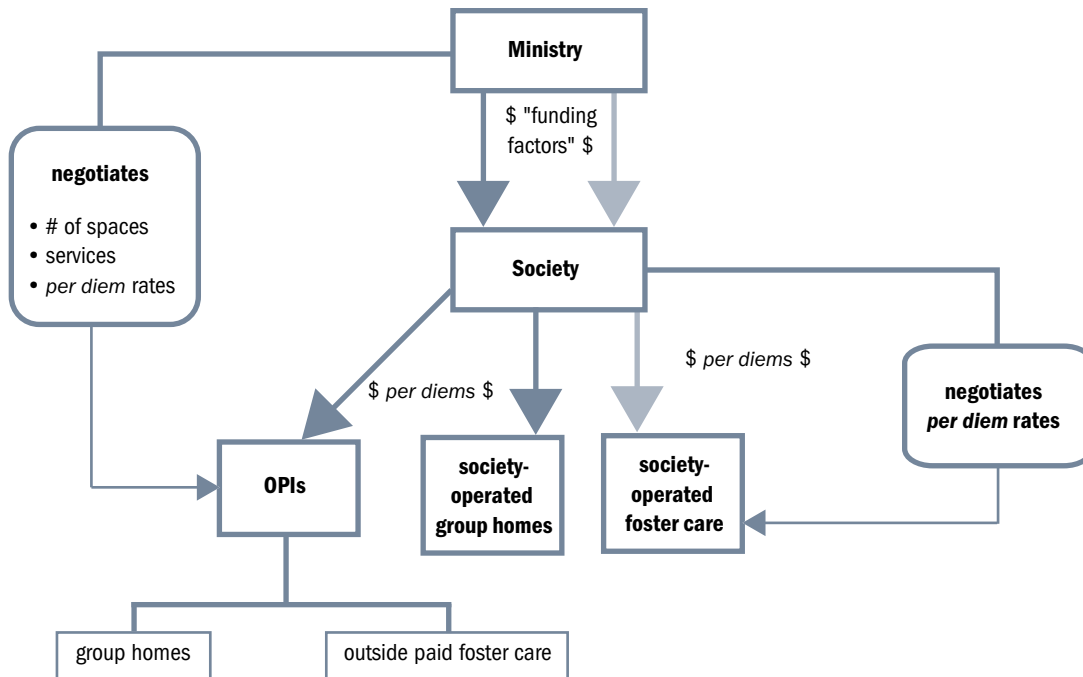
Societies pay *per diems* for various types of residential care, including:

- care provided by Outside Purchased Institutions (OPIs), which are individual agencies that the Ministry contracts with for placing children in group homes or foster families that have contracted with an OPI ("outside paid foster care");
- care provided by society-operated group homes; and
- care provided by society-operated foster-family homes.

Societies receive funding from the Ministry to pay these *per diem* costs. Specifically, each individual society is assigned its own "funding factors" by the Ministry—one to cover the *per diems* of society-operated foster care and another to cover the *per*

Figure 8: Funding and Payment for Residential Care

Prepared by the Office of the Auditor General of Ontario



diems of all other residential care. Figure 8 is a schematic representation of the flow of funding and the relationships between the Ministry, Societies, and residential-care providers. In the following sections, we comment on specific aspects of this residential-care funding framework.

Group Homes and Outside Paid Foster Care

Each individual Society's 2005/06 funding factor for group homes and outside paid foster care was based on its total actual 2003/04 costs for such care, plus 3%, divided by the number of paid days in that year.

In addition, the Ministry negotiates directly with OPIs for the number of spaces to be made available to the Societies, along with the *per diem* rates, and it negotiates these irrespective of funding for a Society. Societies may place children with any OPI that has successfully negotiated an agreement with the Ministry. The agreement terms, including the *per diem* rates, are generally in effect until such time as an OPI requests a change in rates.

Since the funding-factor formula does not take into consideration the negotiations the Ministry conducts with OPIs to arrive at *per diems*, funding factors will not match the *per diems*. In fact, funding factors are generally lower than the higher-cost *per diems* for both OPI and society-operated group homes. Figure 9 demonstrates this: it indicates for a sample of Societies in three different regions the range of funding factors, from highest to lowest, given to individual Societies, and it compares this range to the range of *per diems*, from highest to lowest, paid by the Societies in our sample to different kinds of residential-care operators.

Our concerns with respect to this process are as follows:

- In most cases, there was little or no documentation on file to illustrate how the Ministry assessed the appropriateness of *per diem* rates paid to operators. In most cases, the rates were only compared in a general way to rates paid to other similar operators in the area. With rates fluctuating by as much as 30% to 40%, significantly higher rates warranted

Figure 9: Funding Factors vs. *Per Diems*, Group and Outside Paid Foster Care, 2005/06

Source of data: Ministry of Children and Youth Services

	Region		
	#1	#2	#3
Funding Factor (Ministry Pays to Society) (\$/day)			
high	199	230	182
low	156	167	174
average of all Societies reviewed	175	200	177
<i>Per Diem</i> for OPI Group Home (Society Pays to Operator) (\$/day)			
high	238	263	231
low	217	218	211
<i>Per Diem</i> for Society-operated Group Home (\$/day)			
high	274	376	n/a*
low	136	309	n/a*
<i>Per Diem</i> for Outside Paid Foster Care (Society Pays to Operator) (\$/day)			
high	115	137	133
low	110	92	106

* Societies in this sample did not operate any group homes.

investigation to ensure that the higher *per diems* were justified.

- In most cases, the Ministry did not enter into written agreements with the operators detailing the specific services to be provided for the approved *per diem* rates.
- *Per diem* rates among operators varied significantly, in part because of the range of services provided by individual operators. However, Societies were only advised by the Ministry of the number of spaces available to them and the *per diem* cost—not the services to expect for the amounts charged.
- Operators do not provide any information with respect to actual costs incurred—such information could be used to assess the reasonableness of the *per diem* rates paid.

We were advised that the Ministry does not monitor operators to ensure that they actually deliver the services they agreed to when negotiat-

ing their rates with the Ministry. One Society did conduct its own monitoring and advised us that one operator reduced the number of hours of therapy to be provided for the approved *per diem* rate from 65 to 30 hours per month without obtaining ministry approval. We were further informed that this operator also offered the required hours at an extra charge above the base *per diem* rate. In another case, the same Society found that another operator failed to deliver individual counselling to children in its care as it had undertaken to do.

We also noted that the *per diem* rates for outside paid foster care are significantly lower than for group care. Since the number of children placed in OPI group homes, society-operated group homes, and outside paid foster care, respectively, varies from one year to the next, there is a risk that simply using previous outside-paid-foster-care costs to calculate the funding factor can result in Societies being either overfunded or underfunded in any one year.

RECOMMENDATION 4

To ensure that *per diem* rates paid to Outside Paid Institutions (OPIs) are reasonable and the contracted services are actually received, the Ministry of Children and Youth Services should:

- establish appropriate requirements for assessing and documenting the reasonableness of *per diem* rates paid to OPIs and ensure that higher-than-normal *per diems* are justified;
- enter into formal agreements with each OPI that detail the respective rights and responsibilities of both the Ministry and the OPI; and
- ensure that Children's Aid Societies are aware of the specific services they can expect for the *per diem* rates and assess whether Societies are ensuring that the services being paid for are actually being received.

Society-operated Foster Care

Societies may place children directly into one of three types of foster-care homes:

- regular foster care;
- specialized foster care for children with developmental, emotional, or medical needs; and
- treatment foster care for children requiring intensive care such as behaviour modification treatment.

Until 2002/03, provincial *per diems* paid to each Society for each type of placement were as shown in Figure 10.

After 2002/03, the Ministry changed its funding formula for foster care several times until 2005/06, when it established with each Society a separate funding factor just for the above three types of society-operated foster care. The funding factor was determined based on each Society's total actual 2003/04 cost for foster care, plus 3%, divided by the total number of paid days in that year. Additional funding was also available for service volumes above a predetermined threshold.

In turn, Societies negotiate rates directly with foster families. As with other types of residential care, given that the calculation for the funding factor is independent of the negotiations the Societies conduct with foster families to arrive at *per diems*, funding factors do not correlate exactly with *per diems*. Figure 11 demonstrates this: it indicates for three different regions the range of funding factors, from highest to lowest, given to a sample of individual Societies, and it compares this range to the range of *per diems*, from highest to lowest, paid by

Figure 10: Per Diem Rates for Society-operated Foster Care Until 2002/03

Source of data: Ministry of Children and Youth Services

Type of Care	Per Diem Rate
Regular	\$32.20 per day
Specialized	\$49.76 per day
Treatment	\$67.64 per day

Figure 11: Funding Factors vs. Per Diems, Society-operated Foster Care, 2005/06

Source of data: Ministry of Children and Youth Services

	Region		
	#1	#2	#3
Funding Factor (Ministry Pays to Society) (\$/day)			
high	42.28	44.88	49.55
low	35.32	35.46	46.97
average of all societies reviewed	39.71	39.46	48.31
Per Diem for Regular Foster Care (Society Pays to Family) (\$/day)			
high	41.14	36.47	40.83
low	30.65	30.05	33.85
Per Diem for Specialized Foster Care (Society Pays to Family) (\$/day)			
high	60.94	47.56	57.53
low	41.61	37.48	45.84
Per Diem for Treatment Foster Care (Society Pays to Family) (\$/day)			
high	71.04	84.01	86.29
low	62.33	49.45	68.07

the Societies in our sample to families for the different kinds of foster care.

We noted that, in general, the *per diem* rates for society-operated foster care are approximately half the rates for outside paid foster care. This can be seen in comparing the rates in Figure 12 with Figure 11's Region #3 *per diems* for the three types of foster care.

We also noted significant differences between the highest and lowest *per diem* rates within and between the three regional offices we visited. The Ministry was unable to explain the merits or appropriateness of these differences. In addition, the Ministry's funding formula was based on average *per diem* costs of all types of foster care. Since specialized and treatment foster care is significantly more expensive than regular foster care, simply using previous regular-foster-care costs to calculate foster-care funding may result in funding factors that are inadequate to cover the *per diem* expenses

Figure 12: *Per Diem* Rates for Outside Paid Foster Care in Region #3, 2005/06

Source of data: Ministry of Children and Youth Services

Type of Foster Care	Highest Rate (\$/day)	Lowest Rate (\$/day)
Regular	90.00	74.18
Specialized	137.59	97.66
Treatment	173.00	80.00

Note: The highest and lowest rates do not match Figure 9's high and low *per diems* for outside paid foster care for Region #3. The reason is that Figure 9's rates are based on only a *sample* of Societies in the region, while the data for Figure 12 are based on *all* Societies in the region.

of Societies with a large number of children requiring specialized and treatment foster care or with a significant increase in the number of children requiring such care in any one year.

RECOMMENDATION 5

To ensure that *per diem* rates paid to all foster families are reasonable, the Ministry of Children and Youth Services should assess the reasonableness of the variances in *per diem* rates paid to foster families for similar care, both within and between regional offices. In addition, to ensure that Children's Aid Societies with a large number of children requiring more expensive specialized and treatment foster care receive the funding they need, the Ministry should consider adjusting the funding formula for foster care as needed for Societies with legitimately higher *per diem* foster-care costs.

Quarterly Reporting

In order to monitor Societies' in-year progress against caseload and financial-expenditure targets, Societies were required, up to March 31, 2005, to submit quarterly reports that compared total actual spending to budgeted expenditures, by category (such as wages, benefits, and travel),

and also included caseload data. As part of the reporting process, Societies were also required to identify significant variances and propose appropriate action plans to reduce them. The first three quarterly reports were due 30 days after the end of the quarter and the fourth was due 45 days after the end of the year. Our review of a sample of quarterly reports at the three regional offices we visited found the following:

- In general, quarterly reports were submitted on a timely basis.
- Where Societies identified significant variances, they did not in most cases provide sufficient detail to identify the reasons for the variances or propose action plans to deal with them.
- In two of the three regional offices we visited, there was little evidence that ministry staff reviewed the quarterly reports or followed up with Societies to ensure any necessary corrective actions were taken.

In the 2005/06 fiscal year, new reporting procedures were introduced whereby Societies were required to submit revised quarterly reports that compare total baseline funding to year-end forecast expenditures. However, the revised quarterly reports do not require that:

- Societies provide a year-to-date actual-to-budget comparison;
- Societies identify or explain the reasons for variances, or propose any necessary corrective actions; and
- the Ministry's regional offices review the reasons for variances, assess the need for corrective action, and follow up with Societies to ensure corrective actions are taken (which is especially important given that the Ministry funds all deficits).

RECOMMENDATION 6

To more effectively monitor the in-year performance of Children's Aid Societies and identify the need for corrective action on a timely basis, the Ministry should:

- revise the quarterly reporting process to compare actual performance to date against approved budgets and provide related caseload data;
- require that Societies identify and explain the reasons for significant variances and propose corrective action; and
- follow up with Societies to ensure that the necessary corrective action is taken.

Annual Program Expenditure Reconciliation

Until March 31, 2005, each Society had to submit to the Ministry a year-end reconciliation of its eligible expenditures with the funding provided by the Ministry. The reconciliation had to be submitted to the Ministry with an audited financial statement no later than four months after the end of the fiscal year. The Ministry had to review and approve the reconciliation within 12 months of the end of the fiscal year and recover any identified surplus within 24 months.

For the 2005/06 fiscal year, new reporting procedures require that Societies submit to the Ministry a year-end reconciliation, including audited financial statements. However, the detailed requirements were still under development at the end of our audit.

We reviewed a sample of reconciliations submitted by Societies for 2004/05 and found that all reconciliations and audited financial statements were submitted within the required time frame. However, our review of the reconciliation process found that it was ineffective for the following reasons:

- For all reconciliations reviewed, the accompanying audited financial statements lacked sufficient detail for the Ministry to effectively identify ineligible expenditures and confirm the accuracy of the reported surplus or deficit.
- The Ministry did not contact or regularly meet with the Societies' external auditors to review areas of potential concern requiring further follow-up to be resolved cost effectively.

We have noted similar concerns with respect to reconciliations in our previous audits of the Ministry.

RECOMMENDATION 7

To ensure that the new reporting procedures will identify and recover any ineligible expenditures and surplus funding, the Ministry of Children and Youth Services should:

- ensure that year-end reconciliations and accompanying audited financial statements contain sufficiently detailed information to identify ineligible expenditures and surplus funding; and
- provide a template or other guidance to Children's Aid Societies and their auditors outlining the required format for financial statements and including explanatory notes and schedules.

OVERSIGHT OF SERVICES

Risk Assessment

As noted earlier, the Ministry introduced a standardized intake risk-assessment model in September 1998, called the Ontario Risk Assessment Model (ORAM). Significant benefits of the ORAM were to include a higher degree of consistency across the province in assessing children's needs and improved accountability.

Figure 13: ORAM's Risk Decision Points

Source of data: Ministry of Children and Youth Services

1. Does case meet eligibility requirements for child-welfare services?
2. What is the response time?
3. Is the child safe now?
4. Are child protection concerns verified?
5. Is the child in need of protection?
6. Is the child at risk for future abuse or neglect?
7. What other assessment issues must be considered to inform the plan of care?
8. What is the plan of service for the child and family?
9. Does the case continue to meet eligibility requirements for child protection service?
10. Have assessments changed?
11. Should the plan of service be modified?

As illustrated in Figure 13, there are 11 risk decision points in processing a child-welfare case under the ORAM, which essentially comprises three tools: the eligibility spectrum, to determine whether or not a case meets eligibility for a child protection intervention; the safety assessment, to determine the immediate safety of the child/children in their biological home; and the risk assessment tool, used to determine the level of risk of harm to the child/children in their home.

Answers to these risk decision points play a critical role in a number of ways and would be expected to help ensure that:

- the most intensive placement resources are reserved for the children most in need;
- all children's needs are ultimately matched with the best available resources and the most appropriate services that the system can offer; and
- costs of necessary services are minimized, because, for example, a child at lower risk can be protected with lower-cost services that are also less intrusive.

Although the Ministry had conducted service- and financial-data reviews at Societies up to 2004/05, the primary purpose of these reviews was to ensure that cases were correctly reported for quarterly-reporting and funding purposes. These reviews were never intended to assess either compliance with the ORAM or the appropriateness or consistency of the decisions made. In the absence of any other reviews, therefore, the Ministry cannot be assured that children are receiving the most appropriate services for their needs.

One of the few studies in the Ontario child-welfare field to address this issue, published by the Ministry in 2004, found that overall, as expected, the highest-risk children were more frequently found in the most intensive services, while lower-risk children were more likely to receive regular services through the foster or group-home system. Those cases where lower-risk children were placed in more intensive services generally reflected the lack of appropriate space within the range of services available to a Society at the time children entered care.

RECOMMENDATION 8

To ensure that children's needs are being consistently assessed across the province and that all children in need of protection are matched with the most appropriate resources, a periodic review—by either staff of the Ministry of Children and Youth Services or a contracted external expert—should be conducted of a sample of case files at the Children's Aid Societies to assess the appropriateness and consistency of placement decisions.

Children's File Reviews

In the past, the Ministry has reviewed files on specific categories of children to assess the appropriateness of placement decisions and the quality of

care. We examined the Ministry's oversight with respect to three of these categories of children: Crown wards, non-Crown wards, and children receiving protection services.

Crown Wards

When a court order designates a child as a Crown ward, all parental rights and responsibilities are terminated and a Society assumes responsibility for the child. At December 31, 2005, there were approximately 9,400 Crown wards in Ontario.

The *Child and Family Services Act* requires that the Ministry review annually the status of every child who has been a Crown ward in the preceding 24 months and to report the results of these reviews to the appropriate Society. Crown-ward reviews examine compliance with regulatory service requirements, including assessment of the adequacy of the child's plan of care and the child's placement.

When the Ministry identifies instances of non-compliance with regulatory requirements, it must issue a directive to the Society, which must comply within 60 days and advise the Ministry of its compliance. Non-compliance with less serious non-regulatory requirements may result in a directive, but more commonly, the Ministry will issue a recommendation for compliance. Although recommendations may eventually lead to directives, Societies are required neither to act on recommendations nor confirm to the Ministry that they have taken action to address the recommendations.

During 2005, the Ministry conducted 5,190 Crown-ward reviews. The results of these reviews were as shown in Figure 14.

The Ministry's annual review consists of a review of the Society case files, completion of a questionnaire, and an interview with the Crown ward if requested by the child. Our review of a sample of ministry Crown-ward-review files found the following:

Figure 14: Results of Crown-ward Reviews, 2005

Source of data: Ministry of Children and Youth Services

	# of Cases
full compliance	4,534
directives and/or recommendations issued	569
some less significant non-compliance and no directives and/or recommendations issued	87

- In about 10% of the files we examined, the Ministry issued recommendations for non-compliance with regulatory matters instead of the required directives. For example, one file showed a child's plan of care did not meet the child's needs. It was noted in the file that the plan of care contained no goals and the Society needed to pay more attention to the development of time-targeted, child-specific, and measurable outcomes to address the child's needs. Since only a recommendation was issued in this case, the Society was not required to either address this concern or inform the Ministry of action taken, if any.
- We also found that, in many files, the same concerns were repeatedly raised year after year. For example, in over half of the files we reviewed, recommendations issued in one year were repeated in the next.
- In over 15% of the files we reviewed, we found issues that should have been carried forward either as directives or recommendations but were identified as neither. For example, one file noted that a child's plan of care needed to be enhanced to include specific goals and to address cultural, religious, and other needs. However, there was no directive or recommendation issued to enhance the plan of care.
- About 30% of the files we reviewed contained contradictory information. For example, one ministry file noted that the plan of care did not address the child's cultural issues and should be enhanced. Yet the review question

asking if “cultural needs were addressed” was answered with a “yes.”

In addition, none of the files we reviewed contained any evidence of supervisory review and approval by the supervisor of the Crown-ward-review team to ensure consistent and appropriate completion of the Crown-ward reviews.

RECOMMENDATION 9

To ensure that care and services provided to Crown wards are appropriate and in compliance with regulatory requirements, the Ministry of Children and Youth Services’ review of Crown-ward files should assess whether:

- appropriate directives or recommendations have been issued for all instances of non-compliance with program regulations or other requirements;
- directives and recommendations have been followed up; and
- files have been reviewed and approved by supervisors.

Non-Crown Wards

Non-Crown wards are children in residential care who have not been declared Crown wards by the court, which means that parental rights and responsibilities have not been terminated. At December 31, 2005, there were 9,100 non-Crown wards.

The *Child and Family Services Act* does not specifically require that the Ministry monitor pro-

gram delivery for non-Crown wards. However, since the requirements of the Child Welfare Services Program apply equally to Crown wards and non-Crown wards, we recommended in our 2000 audit of the Child Welfare Services Program that the Ministry regularly review non-Crown-ward files to ensure that children receive appropriate services that meet their needs and comply with program requirements. We were pleased to note that, subsequent to our last audit in 2000, the Ministry implemented annual reviews of a sample of non-Crown-ward files. In 2003, the Ministry expanded these reviews to include child-protection files at all Societies.

The Ministry visited all Societies for these reviews and randomly sampled 10% of the non-Crown-ward files. The Ministry’s summary of its review results from 2000 to 2002 is shown in Figure 15 (the Ministry did not summarize the results of its 2003 non-Crown-ward reviews).

Ministry review reports identified the need for improvement in the following key areas:

- **Plans of Care**—Reviewers noted a significant number of concerns related to plans of care, including late completion of plans of care, lack of supervisory review and approval of plans, and the failure of plans to address children’s specific needs. A significant proportion of the total directives dealt with plans of care. In 2000, 293 directives, or 28% of the total, were issued regarding plans of care. In 2001, there were 407 directives dealing with plans, or

Figure 15: Results of Ministry Review of Non-Crown-ward Files, 2000–02

Source of data: Ministry of Children and Youth Services

Year	Cases Reviewed	Non-compliance Cases	Directives Issued	Average Number of Directives Per Case Reviewed	Average Number of Directives Per Non-compliance Case
2000	695	410 (59%)	1,049	1.5	2.6
2001	1,024	479 (47%)	1,313	1.3	2.7
2002	1,150	454 (39%)	1,286	1.1	2.8

Figure 16: Results of Ministry Review of Child Protection Files, 2003

Source of data: Ministry of Children and Youth Services

Ministry Standards and Requirements	Cases Where Requirement Applicable	Cases Not in Compliance	Rate of Non-compliance (%)
Child Abuse Register results recorded within 3 days of receiving report of alleged abuse	205	123	60
full protection investigation completed and documented within 30 (or, by exception, 60) days	1,408	730	52
verification decision, supporting reason, and supervisory approval, documented within 30 (or, by exception, 60) days	1,392	700	50
eligible case of verified abuse reported to Abuse Register within 40 days of verification decision	91	76	83.5
Plan of Service documented within 60 days	1,160	725	62.5
Specific measurable outcomes to reduce risk and promote well-being	1,247	293	23.5

31% of the total, and 425 directives, or 33% of the total, in 2002.

- **Permanency Planning**—Permanency planning is planning for the permanent care of a child or youth in order to ensure that care is effective and provides both psychological and legal continuity. Permanency-planning documentation was unclear in 25% of the cases in 2000, in 21% of the cases in 2001, and in 16% of the cases in 2002.

As of December 31, 2003, the Ministry discontinued reviews of all non-Crown-ward and child-protection files. Given that the Ministry identified many areas of concern during the time these reviews were conducted and given that the Ministry has an oversight responsibility, we question the decision to discontinue these reviews.

Children Receiving Protection Services

In 2003, the Ministry's corporate review team visited every Society and randomly sampled 5% of all the open child-protection files (that is, the files on children then receiving child-protection services) at each Society. The team reviewed 1,632 child-protection cases and issued a total of 8,380 directives, or an average of 5.1 directives per case.

The Ministry's summary of the 2003 review results showed many areas of non-compliance, as noted in Figure 16.

RECOMMENDATION 10

To ensure that care and services provided to non-Crown wards and children receiving protection services are appropriate and in compliance with program requirements, the Ministry of Children and Youth Services should:

- reinstate regular reviews of both non-Crown-ward and child-protection files;
- communicate all instances of non-compliance with program requirements to the Children's Aid Societies and ensure that corrective action is taken in a timely manner; and
- consider providing Societies with information on the most common areas where improvements are required, as well as guidance on how to address those areas.

Licensing of Children's Residences

Licensing provisions for children's residences are established by legislation and regulation, and are

intended to ensure that minimum standards of care are provided to children in residential care.

Children’s residences and foster-care operators must apply annually for licence renewals, and they must do so prior to the expiry date of current licences. Provided that the applicant has completed and submitted an application for renewal, a licence past its due date is deemed to continue until the request for renewal has either been granted or denied.

The Ministry conducts annual licensing inspections, using the licensing checklist supported by the Children’s Residence Licensing Manual and the Foster Care Licensing Manual it developed to facilitate the process. These manuals specify policies on the number of children’s, staff, and foster-parent files to be reviewed, the number of children’s, staff, and foster-parent interviews to be conducted, and the procedures to be used in reviewing an operator’s policies and procedures.

Our review of a sample of licensing files noted that over 30% of them lacked the documentation required to support the issuing of a licence. Concerns noted included the following:

- For half of the files reviewed, we found that the number of licensing interviews and/or number of files reviewed did not meet the minimum numbers required by the Ministry’s own policies. For example, 52 child files should have been reviewed in one file, according to the Ministry’s policies, but only 28 were. Similarly, 68 children should have been interviewed, but only 11 were. In addition, there was no documentation in the file to explain this deviation from the requirements.
- For almost half of the files reviewed, there was no documentation of the number of children in care, the number of staff hired, and/or the number of approved foster homes. Accordingly, it would not be possible to determine whether there was compliance with policies in this regard based on a review of the file.

- We found one licensing report that indicated that 50 foster parents were interviewed—but only one completed interview checklist was found in the file.
- In more than 80% of the files reviewed, we found that the Ministry issued the renewal after the expiry of the previous licence. The average delay between expiry and renewal was 26 working days, an improvement from the average of 63 days noted in our last audit.

In nearly half the files reviewed, we also found that the Ministry had not ensured that the necessary corrective actions were taken to address instances of non-compliance identified during licensing inspections. At one regional office, 24 non-compliance issues were identified in a file, with half of these repeated for two consecutive years. Some of these non-compliance issues included inability to confirm that all required criminal reference checks were conducted, unavailable documentation to determine if the number of children placed in the residence exceeded the licensed capacity, and weaknesses in plans of care for some children. In the two years following the identification of non-compliance, the Ministry requested from the operator only a written confirmation stating all issues had been addressed. The Ministry then issued licence renewals.

In addition, we interviewed a number of licensing staff during our audit and found that 70% indicated they had received no formal training with regard to the *Child and Family Services Act*, licensing procedures, and interviewing techniques. They told us they believed training in these areas would be useful.

RECOMMENDATION 11

To help ensure that residential-care operators provide minimum acceptable standards of care to children, the Ministry of Children and Youth Services should:

- conduct licensing inspections and renew licences prior to expiry;
- ensure that the licensing inspection process is conducted and appropriately documented in compliance with ministry policies;
- ensure that timely corrective action is taken to address non-compliance issues identified during licensing inspections; and
- provide periodic formal training to licensing staff.

Reporting of Serious Occurrences

All service providers are required to report incidents such as serious injuries, assaults, physical restraints, or other physical abuse of children in care to the Ministry within 24 hours of the occurrence. When they receive such reports, regional offices document the particulars in an initial notification report. Within seven working days of the initial serious-occurrence notification, the service providers must submit a written follow-up report to the Ministry detailing the corrective actions taken and the outcome of the case. The Ministry must review the report and follow up where necessary.

Our review of a sample of serious-occurrence files at three regional offices found that reporting requirements were not always being followed. For example:

- In almost half the files we reviewed, the initial notification reports were not filed within the required 24 hours. On average, they were filed 10 working days late.
- In about one-sixth of the files we reviewed, the follow-up reports were not filed on a timely basis; on average, they were about 100 working days late.

In addition, in about 10% of the files we reviewed, case outcomes were unclear from the reports filed by the service providers, but there was no documented evidence of ministry follow-up. At

one regional office we visited, we found that in 75% of the files we reviewed, there was no documented evidence to indicate that ministry staff either reviewed the reports they received or evaluated the appropriateness of actions taken.

In addition to having to report serious occurrences within 24 hours, service providers are required to file an annual summary-and-analysis report to the Ministry by the end of each January about serious occurrences for the previous calendar year. Under ministry requirements, the Ministry is to review the report to analyze the service provider's management of serious occurrences and to identify possible training needs, internal policy modifications, or follow-up actions that the service providers must take. In cases where follow-up actions are required, the service provider must submit an outcome report to the Ministry upon completion of the identified actions.

Our review of a sample of the annual summary-and-analysis reports at three regional offices found that at two of them, we could find no documented evidence that the offices reviewed the annual summary-and-analysis reports and followed up on any unusual trends. In the case of one service provider, for example, the late filing rate for the initial notification reports was left blank in its 2004 annual summary-and-analysis report. However, there was no evidence to indicate that the regional office followed up on this issue, and in the 2005 annual summary-and-analysis report, the same service provider reported that the initial notification reports were submitted late 72% of the time.

RECOMMENDATION 12

To ensure that all serious occurrences are appropriately dealt with, the Ministry of Children and Youth Services should ensure that:

- all serious-occurrence reports are submitted on a timely basis and all necessary follow-up actions are taken by the service provider; and
- it reviews all annual summaries and service reports from service providers and takes the required follow-up action where necessary.

Complaints

Under the Act, each Society is required to establish a written procedure for hearing and addressing complaints. In most cases, people complaining to the Ministry are given information about the Society's complaint procedures and advised to contact the relevant Society directly.

We found that none of the three regional offices we visited had any system to track complaints. In addition, the Ministry does not request detailed complaint information from the Societies. As a result, the Ministry cannot perform any analysis on complaints received by Societies.

We noted that, under the new annual reporting process, Societies must report to the Ministry the number of complaints reviewed by their executive directors and/or boards of directors during the previous fiscal year, and how they were resolved. However, our review of this information found that it was insufficiently detailed to enable the Ministry to perform useful analysis on complaints. Neither the total number and types of complaints, nor the stage at which complaints were resolved, are being reported. We obtained complaint statistics from three Societies and found that the executive director and/or board of directors reviewed on average only 5% of all complaints. We found two other Societies that maintained no complaint statistics at all.

RECOMMENDATION 13

To help identify areas of concern regarding service delivery and compliance with ministry policies, the Ministry of Children and Youth Services should require that Children's Aid Societies:

- maintain information on complaints; and
- annually report the number and types of complaints and how they were resolved.

Performance Information and Effectiveness Reporting

Our last audit of the Child Welfare Services Program in 2000 noted that the Ministry did not have any performance measures in place to assess the effectiveness of services provided under the program. In particular, no information was collected to assess performance in areas such as the quality of care provided, progress of children in care, and rate of recurrence of maltreatment. Recognizing the need to develop outcome measures, the Ministry adopted a nationally developed outcome measurement framework, referred to as the Child Welfare Outcomes Indicator Matrix. The 10 indicators in the matrix were designed to track the effect of child-welfare services in terms of child safety, child well-being, permanence, and family and community support.

A ministry pilot project was conducted in 2000/01 to collect data on three of these 10 indicators (recurrence, placement rates, and number of moves in care). The Ministry found that the results were encouraging but nonetheless indicated the need for a well-co-ordinated province-wide information system to gather credible outcome data. The pilot project found that Societies had the technical capacity to report on five of the 10 key indicators without changing their current information systems. Although Societies collected information on the other five remaining

indicators, this information was generally not accessible in their data systems. There exists no one single province-wide information system to produce standard reporting to facilitate policy planning and program delivery and assess the effectiveness of services provided.

The Ministry said at the time of our last audit in 2000 that it was planning to develop a comprehensive system to collect and summarize data from all Societies. However, we were informed during this audit that the system was never developed due to a lack of funds. Thus, now, as in the previous audit, the current multiple information systems do not provide province-wide standardized information in areas such as:

- types of reported and investigated maltreatment;
- age and gender of children receiving services;
- the proportion of children receiving services who are taken into care;
- the number of placement changes; or
- the proportion of children who received services and have since been victimized again.

We understand that the Ontario Association of Children's Aid Societies, as part of the Child Welfare Transformation Agenda, is designing and developing a new web-based child-welfare information system (the Single Information System) that will assist in case and workload management, and support the information needs of the Child Welfare Outcomes Indicator Matrix, described earlier, in assessing the effectiveness of services. We also understand that the Ministry intends to pilot the system in three sites beginning in January 2007.

However, if the system is to be cost effective and widely adopted by all Societies (especially the smaller Societies), the Ministry must meet the challenge of ensuring that the system is both user friendly and sufficiently comprehensive to meet the needs of both the Societies and the Ministry. In 2008, we will follow up to assess the progress made in implementing the province-wide information system.

MINISTRY OF CHILDREN AND YOUTH SERVICES RESPONSE

The Ministry of Children and Youth Services (Ministry) welcomes the observations and recommendations of the Auditor General and is committed to making continuous improvement in the delivery of the Child Welfare Services Program. In keeping with the Auditor General's recommendations, the Ministry will focus this response on the areas of accountability, quality, and financial management.

With respect to accountability, the Auditor has recommended improvements to ministry accountability processes, including the need to reinstate children's file reviews (recommendations 2 and 10) and enhance client complaints processes (Recommendation 13). The Ministry will strengthen its overall accountability framework for the delivery of child-welfare services

and ensure that effective monitoring and review processes are established.

To this end, specific measures to improve accountability related to child protection have been taken:

- In February 2006, a Minister's Regulation was implemented across all Children's Aid Societies (Societies) requiring them to complete more timely and comprehensive background and criminal reference checks for caregivers (for example, family/community members) in out-of-care kinship arrangements.
- The Child Death Reporting and Review Directive, issued March 31, 2006, requires that Societies report all child deaths to the Office of the Chief Coroner, which has lead

responsibility for the analysis of child death, dissemination of recommendations, and production of an annual report. Protocols between the Ministry and the Coroner will ensure that recommendations are addressed and will support appropriate program development.

The Ministry recognizes that further work is needed to improve accountability and will undertake the following:

- The Ministry is developing an accountability framework for child-welfare services, which will be ready for implementation by April 2007. The framework will clarify ministry and society roles and responsibilities, require that Societies have specific accountability measures in place, and identify the review mechanisms that will assess services delivered to children in the care of Societies, including Crown wards.
- Consistent with the Auditor's findings on client complaints, effective June 2006, Societies must report quarterly on the number and types of formal complaints received, their current status, and their resolution rates. This information will facilitate ministry analysis and follow-up with Societies. With proclamation of Bill 210 expected in November 2006, a standardized client, complaints process will be implemented by all Societies. The new process, which includes stringent time frames for response and client recourse through the Child and Family Services Review Board, will improve Society accountability for resolution of complaints.

With respect to quality, the Auditor recommends implementation of a strength-based intake risk-assessment model (Recommendation 2) and improvement of the ministry licensing process (Recommendation 11). The Ministry agrees that risk-assessment tools and effec-

tive licensing are critical to improving both outcomes for children and service quality.

In line with the Auditor's recommendation, the Ministry has developed, in partnership with the child welfare sector and experts at the University of Toronto, a strength-based risk-assessment model, similar to those used by other jurisdictions. The new model and related tools include requirements for more rigorous documentation of supervisory review and approvals.

To further improve quality assurance, the Ministry will:

- pilot the new risk-assessment model in three Societies, beginning in January 2007, as part of the Single Information System (implementation of the model and related tools in all Societies will begin in April 2007);
- implement Phase 2 of the Automated Licensing Project—focusing on *Child and Family Services Act* licensing—beginning in January 2007, with completion by April 2007, in order to allow the Ministry to monitor the timing of licence renewals and the terms and conditions under which licences are renewed (consistent with the Auditor's recommendations, licensing staff will receive training on licensing requirements, procedures, and interviewing techniques to enforce compliance and standardization across regions); and
- implement, by spring 2007, the first phase of a web-based registry, which will provide key information on licensed residences, including licensed capacity and licensing status.

With respect to financial management, the Auditor identified issues regarding growth in child welfare expenditures and made recommendations to refine the current funding model to provide more appropriate base funding for Societies (Recommendation 1) and improve

financial monitoring and oversight (recommendations 1, 3, 4, 5, 6, and 7). Rising costs in child welfare relate to a number of factors, including service volume increases and other cost drivers, including salary settlements, legal services, and transportation and health expenditures. The Ministry is working with Societies to reduce the cost curve for child welfare through implementation of reforms, better cost management, and increased operational efficiencies.

The Ministry has taken the following steps to enhance financial management:

- A multi-year, results-based planning process has been implemented that requires Societies to develop an annual plan and report quarterly on projected service demands, resource requirements, and progress on specific ministry and society targets. Societies must identify and account for significant variances and propose corrective action where required.
- Following discussions with the Auditor's staff, the 2006/07 funding model was modified to base core funding on average expenditures over multiple fiscal years and to base cost-of-living increases on province-wide analysis and Ministry of Finance guidelines. In support of the Auditor's recommendations, the Ministry commits to the following:
 - The Ministry will develop tools, including standardized methodologies and templates,

and provide necessary training to assist ministry regional offices and Societies to improve forecasting, financial management, and reporting. The tools will enable the Ministry to further conduct ongoing analysis of society expenditures.

- The Ministry will continue to work with Societies to implement cost-containment measures and identify efficiencies. In order to enhance consistency and reduce unit costs for residential services, the Ontario Association of Children's Aid Societies, in collaboration with the Ministry, is developing a shared-services model for procurement of Outside Paid Institution (OPI) beds, for approval as part of the OntarioBuys program. This model includes common approaches to assessment of OPIs, service agreements, reservation management, performance measurement, and training. Participating Societies would benefit from: optimized *per diem* rates, clarity about services covered by the rate, streamlined placement processes, and better matching of placements to children's needs.

The Ministry appreciates the opportunity to respond to the findings of the Auditor General and remains committed to improving the delivery of child-welfare services in Ontario.

Chapter 3

Section 3.02

Children's Aid Societies

Background

Under provisions of the *Child and Family Services Act* (Act), the Ministry of Children and Youth Services (Ministry) contracts with 53 local not-for-profit Children's Aid Societies (Societies) for delivery of legislated Child Welfare Services in their respective jurisdictions. The Ministry provides 100% of the required funding for these services. Each Society operates at arm's length from the Ministry and is governed by an independent volunteer Board of Directors. Under their agreement with the Ministry, Societies are required to:

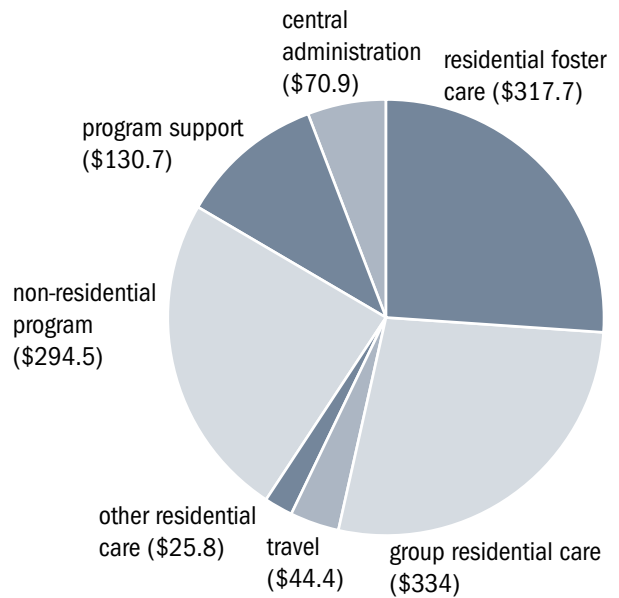
- investigate allegations and/or evidence that children under the age of 16 may be in need of protection;
- where necessary, protect children under the age of 16, by providing the required assistance, care, and supervision in either residential or non-residential settings (services will continue until age 18 unless the child opts out);
- work with families to provide guidance, counselling, and other services where children have suffered from abuse or neglect, or are otherwise at risk; and
- place children for adoption.

Unlike most other Ministry programs, where provision of services is subject to availability of

funding, the Child Welfare Services Program requires each Society to provide all of the mandatory services to all identified eligible children. In other words, there is no such thing as a waiting list for Child Welfare Services. Ministry transfer payments to Children's Aid Societies to fund expenditures were \$1.24 billion in the 2005/06 fiscal year. Just over half of annual transfer payments go towards residential foster care and group residential care, as illustrated in Figure 1.

Figure 1: Program Expenditures by Category, 2004/05 (\$ million)

Source of data: Ontario Association of Children's Aid Societies



Note: Program expenditures by category were not available for the 2005/06 fiscal year.

All but one of the 53 Societies belong to the Ontario Association of Children's Aid Societies, which aims to provide leadership in the protection of children and the promotion of their well-being. The Association's services include advocacy and facilitating the sharing of information and best practices between Societies.

Audit Objectives and Scope

This was the first value-for-money (VFM) audit conducted of Children's Aid Societies, enabled by an expansion of the mandate of the Office of the Auditor General of Ontario, effective April 1, 2005. The expansion allows us to conduct VFM audits of institutions in the broader public sector such as children's aid societies, community colleges (see Section 3.03), hospitals (see sections 3.05 and 3.06), and school boards (see Section 3.11).

Our audit objectives were to assess whether Children's Aid Societies ensured that:

- funding provided by the Ministry was spent prudently with due regard for economy and efficiency; and
- children in need received appropriate care and protection in a timely manner, in accordance with legislation and policies.

The scope of our audit included a review and analysis of relevant files and administrative procedures, as well as interviews with appropriate staff, during visits to four Societies in Toronto, York, Peel, and Thunder Bay. These four Societies between them accounted for almost 25% of total expenditures by all Children's Aid Societies in Ontario. We also sent questionnaires to another 48 Societies and received responses from 42 of them.

In addition, we met with senior staff at the Ontario Association of Children's Aid Societies to obtain summary information and to gain a better

understanding of issues in the Child Welfare Services sector.

Prior to commencing our work, we identified the audit criteria we would use to address our audit objectives. These were reviewed and agreed to by board member representatives and senior management of the four Societies we visited.

We completed the bulk of our audit work by mid-May 2006. Our audit was performed in accordance with standards for assurance engagements, encompassing value for money spent 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 also reviewed the most recent audit reports issued by the Ministry's Internal Audit Services in 2003. Although the reports were helpful in planning our audits, we were unable to reduce the extent of our audit because their work was completed more than three years ago.

Summary

Total society expenditures net of society-generated funds more than doubled between the 1998/99 and 2004/05 fiscal years, rising from \$541.7 million to \$1.173 billion, while key service volumes, including the number of families served, increased by only about 40% over the same period. In light of the fact that expenditures by Children's Aid Societies have increased at a substantially higher rate than the underlying service volumes over the past six years, Societies need to be more vigilant to ensure that they receive—and can demonstrate that they receive—value for money spent.

Among our findings:

- Societies need to formally establish and follow prudent purchasing policies and procedures for the acquisition of goods and services.

- Controls over acquisition of, and payment for, professional services should be strengthened by, for example, ensuring that invoices contain sufficient detail to assess the appropriateness and reasonableness of the amounts billed. For example, one Society paid an annual retainer of \$160,000 to a law firm without adequate documentation regarding the amount of service actually being provided each year.
- Societies should tighten controls on reimbursements to staff for use of personal vehicles at work, and on amounts billed to corporate credit cards, by ensuring that all charges are for valid business purposes only, and are reasonable in the circumstances.
- Societies should acquire vehicles only when it is necessary and economical to do so. One Society operated a fleet of 50 vehicles but logged fewer than 10,000 kilometres a year on half of them, suggesting such a large fleet was unnecessary.
- Societies should draft policies regarding international travel by staff and children in care. For example, we found instances of travel to international conferences and trips by staff and children to visit biological families in the Caribbean that, in our view, were questionable.
- Societies need to do more to obtain and document information about residential care services provided by outside institutions, and document the factors considered to ensure that children are appropriately and economically placed in residential care.
- Only when necessary should Societies enter into Special Rate Agreements, which require payments to private residential care providers over and above those prescribed by the Ministry, and they should ensure that services contracted for are reasonably priced and actually received.

With respect to the provision of child welfare services, Societies need to adhere better to legislative requirements and established policies and procedures to ensure children receive the appropriate care and protection. We found that:

- Requirements for completing the required Intake/Investigation Process following referrals were, in many cases, not met in a timely manner or, in some cases, not at all. For example, in one-third of instances where a child should have been seen by a caseworker within either 12 hours or seven days (with most of the instances pertaining to the seven-day requirement), visits were late by an average of 21 days.
- Initial plans of service or care for children receiving protection services, along with the required assessments and plan updates, were often not completed in a timely manner. For example, we noted that in 90% of cases reviewed, plans of service were not completed as required and there were some instances of plans being late by more than 300 days, making it difficult for Societies to demonstrate that children were getting appropriate care.
- In many cases, Societies performed inadequate monitoring of former Crown wards who receive assistance under a program designed to help youths between the ages of 18 and 21 successfully make the transition to independent living.
- A sampling of foster-parent files we reviewed showed that, in most instances, Societies were meeting and documenting specific requirements to ensure that foster parents have the necessary skills and resources to provide quality care to children entrusted to them.
- Our review of personnel files at the Societies we visited indicated that, generally, there was compliance with internal policies regarding procedures to be completed for hiring new staff and ongoing performance management.

Detailed Audit Observations

DUE REGARD FOR ECONOMY AND EFFICIENCY

As detailed in Figure 2, net expenditures by Children's Aid Societies have increased substantially over the past seven years—and much faster than caseloads have increased. We were advised that a number of factors contributed to this situation, including increased diversity and complexity of cases, as well as general cost increases. We also understand that a number of factors have contributed to increased caseloads, including a new standardized risk-assessment model, legislated changes that expanded the definition of a child in need to include neglect and family violence, and mandatory reporting by professionals, such as doctors, teachers, and police, of suspected abuse.

Despite these significant increases in both expenditures and caseloads, the Ministry of Children and Youth Services deliberately does not involve itself in the management of Children's Aid Societies. This approach evolved over time as the Ministry sought to balance the requirement for Societies to be accountable to it, with their need for operational autonomy and flexibility.

The Ministry currently has three principal accountability mechanisms to help ensure that it receives value for money spent by the Children's Aid Societies:

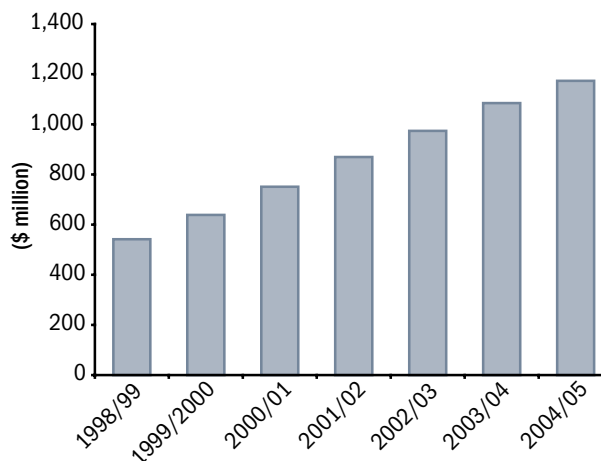
- the annual funding mechanism;
- the in-year quarterly reporting process; and
- the year-end Annual Program Expenditure Reconciliation.

However, our review of these mechanisms in our audit of the Ministry's Child Welfare Services Program found them to be generally ineffective because:

- The Ministry continued to fund the annual year-end expenditure deficits of Societies

Figure 2: Net Expenditures by Children's Aid Societies, 1998/99–2004/05

Source of data: Ontario Association of Children's Aid Societies



regardless of their entitlement under the funding framework. This contributed to significant differences in funding growth between Societies, and significantly higher overall program costs.

- In most cases, quarterly reports did not provide sufficient detail to identify the reasons for variances in planned versus actual results, or to propose plans for corrective action. In addition, there was no evidence in most cases that Ministry staff even reviewed these reports or followed them up with Society staff to ensure the necessary corrective actions were taken.
- The Annual Program Expenditure Reconciliation process did not consistently ensure that Ministry funding was spent for eligible purposes. Nor did it confirm the accuracy of the reported year-end funding surplus or deficit.

Given these deficiencies, it is all the more critical for Children's Aid Societies themselves to have strong controls and practices in place to ensure that they operate prudently and deliver quality services in a cost-effective manner. Our detailed audit observations focus first on concerns about Societies' spending practices and second on issues regarding the care and protection of children.

Purchasing Policies and Procedures

Most larger private- and public-sector organizations have policies and procedures requiring that goods and services be acquired through a competitive process that seeks to achieve the best value for money spent, meets specific needs, and promotes fair dealing and equitable relationships with vendors.

For example, the government of Ontario has detailed directives outlining the obligations of its ministries in these areas. With respect to obtaining competitive quotations or bids, ministries must comply with the following purchasing thresholds:

- Up to \$5,000—one telephone quote;
- \$5,000 to \$24,999—three telephone quotes;
- \$25,000 to \$99,000
 - goods—advertisement for bids, no minimum number of bids; and
 - services—invitation to tender or proposal, minimum three bids.
- Over \$100,000—advertisement tender/proposal on MERX, the national electronic-tendering service.

We found that one of the four Societies we visited had no purchasing policies or procedures at all, while the remaining three operated under a variety of policies, as noted in Figure 3.

We also found that, for most of the Society purchases we reviewed, including several significant-dollar purchases, Societies did not comply with their own purchasing policies and procedures. In one instance, the same Society spent over \$100,000 on computer leases and another approximately

\$100,000 on building renovations, without there being any evidence that the Society had solicited requests for proposals or followed any other competitive process. As a result, there was no assurance that these expenditures represented the best value for money spent or that all vendors were treated equitably.

RECOMMENDATION 1

To help ensure that expenditures represent value for money spent while promoting fair dealings with vendors, Children's Aid Societies should:

- establish prudent requirements for the competitive acquisition of goods and services; and
- adhere to those requirements, unless they can document adequate reasons for doing otherwise.

Professional Services

Societies generally acquire services of professionals, including lawyers, psychologists, psychiatrists, and interpreters, from selected individuals or firms. Our review of these arrangements found that in the vast majority of cases:

- there was no indication as to how a particular individual or firm was selected;
- there was no attempt to establish or periodically evaluate the qualifications of individuals or firms providing services; and

Figure 3: Purchasing Policies at Three Children's Aid Societies

Source of data: Individual Children's Aid Societies

Society #1	Society #2	Society #3
under \$5,000—no quotes	under \$1,500—no quotes	any purchase of supplies—three verbal quotes
\$5,000 to \$25,000—three written quotes	\$1,500 to \$7,500—two verbal quotes \$7,500 to \$15,000—three verbal quotes	equipment, furniture & any vehicle purchases—three written quotes
over \$25,000—request for tenders	over \$15,000—three written quotes	any purchase of services—open tender

- there was no written agreement detailing either the condition under which services were to be provided or the determination of amounts to be billed and paid.

We also reviewed a number of invoices for professional services and found that they lacked sufficient detail to ensure that billings were reasonable and appropriate, or even that services had actually been delivered. In many cases, for example, the amounts billed consisted of a monthly total, without any detail about the cases on which the vendor worked or the number of hours billed. We noted one instance where a legal firm received an annual retainer of \$160,000 without providing an indication of the amount of service actually being provided each year, which makes it difficult to periodically assess the reasonableness of the annual retainer.

RECOMMENDATION 2

In order to promote value for money spent in the purchase of professional services, Children's Aid Societies should:

- document the basis on which professional firms or individuals were selected and why the fees were commensurate with the qualifications of those firms or individuals;
- enter into formal written agreements detailing the conditions under which services are to be provided and paid for, and periodically evaluate results achieved; and
- ensure that invoices contain sufficient detail to assess the appropriateness and reasonableness of amounts billed.

Travel Expenses

Vehicles Leased or Owned by Societies

Although three of the four Societies we visited had only a few owned or leased vehicles, the fourth had an extensive fleet of approximately 50 vehicles. A

few were assigned to senior management staff for their exclusive use, some were available to staff of Society-owned group homes and property-management personnel, and others were in a pool shared by front-line workers.

Our comments and concerns with respect to the use of these vehicles are as follows:

- Senior management staff received high-end luxury vehicles, including two SUVs worth \$53,000 and \$59,000. The cost of these vehicles was significantly higher than, for example, the maximum allowance of \$30,000 set by the Province of Ontario for Deputy Ministers' vehicles.
- With few exceptions, no travel logs were maintained for any vehicles, making it impossible for the Society to effectively monitor and control their use, or for us to assess the purpose and extent of use.
- Our review of expenditures incurred on individual gasoline cards assigned to each vehicle found that, based on fuel purchases, almost half the vehicles logged fewer than 10,000 kilometres per year, with some below 4,000 kilometres per year. This level of usage is significantly lower than the Ministry of Transportation's threshold of 22,000 kilometres per year, below which it is not economical for a government ministry to lease or own a vehicle.
- In one instance, an individual had a Society-owned vehicle while at the same time receiving a tax-free vehicle allowance of \$600 per month from the Society for use of his personal vehicle.

We also noted that the Society performed no review or analysis to determine the number of vehicles it actually needs, or the cost-effectiveness of other forms of transportation.

RECOMMENDATION 3

In order to help ensure that vehicles are owned or leased only when necessary, and that trans-

portation requirements are acquired economically, those Children's Aid Societies that have vehicles should:

- analyze their transportation requirements and ensure that the number of vehicles they own or lease is justified based on those requirements;
- reassess the appropriateness of acquiring high-end luxury vehicles; and
- maintain logs for all vehicles to effectively control and monitor their use.

Use of Society Credit Cards

In general, corporate credit cards at the four Societies we visited were held by senior management staff while gasoline credit cards were assigned to individual vehicles. Card issuers billed Societies monthly, and Societies paid them directly.

In order to ensure that items billed and paid for are legitimate, and that amounts paid are accurate and in compliance with their spending limits, Societies would be expected to review and reconcile monthly billings with detailed supporting receipts before making payments.

Our review of a sample of payments to credit-card companies found that at three of the four Societies we visited, most of the detailed supporting receipts were appropriately attached to the monthly statements and supported the amounts paid. Our review of the detailed receipts found no unusual items (other than those noted below relating to international travel).

At the fourth Society, however, detailed receipts were missing in the majority of cases, and in almost all cases for meals and entertainment expenses. Our review of a sample of items billed and paid for noted some that seemed excessive or otherwise questionable, in the absence of adequate documentation. For example:

- Numerous expenditures of hundreds of dollars at a time were made at high-end restaurants, but the purpose and reasonableness of these could not be determined. We understand that many of these meals were for Society staff only and significantly exceeded the established meal allowance.
- A number of substantial payments were made for vehicle maintenance and repairs, but with no indication as to which vehicles were serviced or what service they received.
- The Society paid on behalf of a senior executive for an annual gym membership worth \$2,000, along with quarterly personal trainer fees of \$650. Neither expense was recorded as a taxable benefit to the employee.
- Several car washes were purchased at \$150 each.

We also found that there is no policy regarding international travel, or the supervisory level at which such travel must be approved. In the absence of a clear policy, we noted a number of instances where Societies paid for international travel that in our view was questionable. For example, a senior staff member of one Society attended an international conference in Beijing, China, that was unrelated to his duties or society business. At the same Society, an Executive Assistant travelled with the Executive Director to a conference in Buenos Aires, Argentina.

We also found a number of instances at three of the four Societies we visited where payments were made to fly children and, occasionally, an accompanying caseworker, for visits or repatriation with their biological families. While the circumstances may justify this in some instances, more formal guidance is needed in this area. For example, we noted a number of instances where Societies bought return tickets for children to visit family in the Caribbean. In other examples, a Society paid \$1,700 for a seven-day all-inclusive trip to a resort in St. Martin and \$4,000 for a one-week trip

to St. Lucia for a caseworker to accompany a child who was returning to its biological family.

RECOMMENDATION 4

In order to ensure that payments made for credit-card purchases are legitimate and reasonable in the circumstances, Children's Aid Societies should:

- obtain sufficiently detailed receipts necessary to establish the appropriateness and reasonableness of items purchased, and the amounts billed and to be paid, and reconcile these receipts with the credit-card companies' monthly statements;
- ensure that all amounts paid are reasonable and for valid business purposes; and
- develop a policy regarding out-of-country travel that clearly indicates under which circumstances such travel is permissible, and sets out reasonable fare guidelines.

Reimbursements for Use of Personal Vehicles

Society employees, volunteers, and foster parents usually get monthly reimbursements for the use of personal vehicles for such work-related purposes as investigations, home visits, and travel to various appointments. At the four Societies we visited, the reimbursement rate varied between \$0.30 and \$0.40 per kilometre. Our review of a sample of monthly claims paid out by Societies noted the following:

- The reason for mileage claims was often not documented, making it impossible to determine whether the kilometres claimed were actually work-related.
- Travel-claim forms often contained no start or end points for the trips claimed, making it impossible for supervisors approving the claim to determine the reasonableness of the number of kilometres claimed.

- In cases where start and end points were provided, the number of kilometres claimed often varied significantly for the same trip, or were vastly different from distances indicated on Internet mapping programs. For example:
 - In one case, claims for travel between the same identified locations varied between 17 kilometres and 89 kilometres.
 - The amount claimed for one trip was 438 kilometres while an Internet mapping program put the actual mileage at 346 kilometres.

RECOMMENDATION 5

In order to help ensure that amounts reimbursed for the use of personal vehicles are reasonable and work-related, Children's Aid Societies should:

- require the purpose of each trip be documented, and ensure that all claim forms indicate start and end points for the trips claimed; and
- ensure that kilometres claimed for longer trips are reasonable relative to distances indicated by Internet mapping programs, unless otherwise explained.

Residential Care Costs

Societies pay *per diems* for various types of residential care, including:

- care provided by Outside Purchased Institutions (OPIs), which are private organizations that negotiate with the Ministry as to what services they will provide and what the *per diem* rate for those services will be;
- care provided by society-operated group homes; and
- care provided by society-operated foster-family homes.

Societies receive funding from the Ministry to pay these *per diem* costs, which cover basic residential costs along with any necessary additional services. As mentioned above, the *per diem* rate for OPI residential care is negotiated by the Ministry and the OPI; in contrast, *per diem* amounts for society-operated group homes and foster-family homes are established by the Societies themselves.

In the 2004/05 fiscal year, residential-care costs, including society-operated facilities and services, totalled approximately \$652 million, or 54% of total society expenditures. The cost of placing children in the various types of residential care varied significantly between the Societies we visited, as shown in Figure 4. As well, the type of care provided varied, depending on the placement option selected. Placements ranged, for example, from basic residential to highly specialized care, depending on a child's need.

Placement Decisions

Given the significant differences in services and costs for the various placement options, it is essential that Societies assess and document the needs of each child and the appropriateness of each placement. However, our review of any available documentation supporting a sample of placements at the Societies we visited found that the documentation was insufficient to enable an assessment of the appropriateness and reasonableness of those placements for several reasons.

First, when the Ministry enters into service agreements with OPIs, the only details about these agreements it provides to Societies are the number of spaces available and the *per diem* rates. The Ministry cannot provide additional details because, as noted in our audit of the Child Welfare Services Program (see Section 3.01), these agreements are usually negotiated verbally at face-to-face meetings and later set out in brief letters of confirmation that do not provide sufficient detail and are not provided to Societies.

Figure 4: *Per Diem* Rates for Residential Care

Source of data: Individual Children's Aid Societies

Type of Care	Low (\$)	High (\$)
foster care—regular	26	41
foster care—specialized	29	53
foster care—treatment	40	70
Society-operated group home	180	416
Outside Purchased Institution—foster care	72	449
Outside Purchased Institution—group home	82	739

In addition, processes for making placement decisions varied significantly across the Societies we visited. Some were made on the recommendation of a placement committee and others on the recommendation of the child's caseworker. In neither case was any documentation maintained to support the decisions.

We also noted that under the Ministry's current funding model for Children's Aid Societies, there is no incentive for Societies to place children in a setting that will most economically meet their needs. For example, we noted one case where a Society placed an infant with no special needs in an OPI foster home at the rate of \$120 per day—and kept the child there for four years at a cost of \$44,000 a year—without periodically assessing the cost-effectiveness of the placement against the specific needs of the child.

RECOMMENDATION 6

In order to help ensure that children are appropriately and economically placed, Children's Aid Societies should:

- obtain from the Ministry of Children and Youth Services detailed information on the specific services covered by the *per diem* rates in the contracts with outside purchased institutions and on whether any other services are available; and

- formally document the basis and factors on which placement decisions are made.

Special Rate Agreements

In many cases, Societies are asked by Outside Purchased Institutions to enter into Special Rate Agreements for additional services beyond those included in the basic *per diem* rates negotiated with the Ministry. In most cases, these agreements cover the cost of providing one-on-one personal services at prices that typically average several hundred dollars per day.

Our concerns with respect to these agreements are as follows:

- At two of the four Societies we visited, there were no written agreements in place detailing the additional services to be provided in return for the Special Rate Agreements, or any documented assessment of why the additional services were deemed necessary.
- There were no written procedures in place requiring periodic visits to the institution to verify and document that the agreed-upon additional services were being received. Some society staff acknowledged our concern that, without any such follow-up, it was difficult to ensure whether these services were actually delivered. One Society told us of an instance where a visit to an Outside Purchased Institution revealed fewer care providers on the job than the contracted-for number. The Society subsequently stopped using that institution.

RECOMMENDATION 7

In order to ensure that Children's Aid Societies enter into Special Rate Agreements only when necessary, and that contracted-for services are reasonably priced and actually received, Children's Aid Societies should:

- periodically assess and document the need for additional services over and above those provided for under the Ministry-negotiated *per diem* rate;
- enter into written agreements spelling out what additional services are to be provided, and at what cost; and
- periodically visit the institution providing the services to verify and document that they actually receive the additional services for which they pay.

CASE MANAGEMENT AND QUALITY OF SERVICE

Although all front-line Child Welfare Services are provided by Children's Aid Societies, the Ministry continues to be responsible under the *Child and Family Services Act* for establishing minimum service standards and for program service delivery.

Many of the Ministry's current standards for Child Welfare Services are either legislated or have been incorporated into the Ontario Risk Assessment Model (ORAM), first published by the Ministry in 1998, and revised and implemented in 2000. ORAM, which Societies must use, prescribes a number of mandatory service requirements with respect to both the Intake/Investigation Process, and the Ongoing Service Delivery.

Intake/Investigation Process

Within 24 hours of receiving a referral for a child potentially in need of protection, a Society must complete the Eligibility Spectrum, a component of ORAM based on information provided in the referral. The Eligibility Spectrum consists of five sections and related assessment scales, as detailed in Figure 5.

Also within 24 hours of referral, the Society must check for any previous referrals involving that

family by verifying its own records and consulting the province's Fast Track database of all Children's Aid Society records. If it deems it necessary, the Society must also check the Ontario Child Abuse Register within three days for any previous history with the involved parties. This is important because previous referrals, as opposed to first-time referrals, are one factor taken into consideration in assessing the level of severity of the referral.

Based on the above requirements, a referral whose level of severity is assessed as "minimal" or "not severe" is ineligible for service and the file is closed.

Referrals assessed as "moderately severe" require the child be seen within seven days. The Society must also at that time conduct an assessment of the child's immediate safety, and document that assessment within 24 hours. In most cases, the full investigation, including a risk assessment regarding the likelihood of future abuse or neglect requiring ongoing protective services, must be completed within 30 days of the original referral.

Referrals assessed as "extremely severe" require the child be seen within 12 hours of the assessment. At the caseworker's discretion, the child may be taken into care immediately or follow the Intake/Investigation Process for "moderately severe" cases.

Our review of a sample of case files at the four Societies we visited found frequent instances of non-compliance with requirements of the Intake/Investigation Process, as detailed below:

- In approximately one of every 10 files reviewed, the Eligibility Spectrum was completed an average of 17 days later than the required 24 hours from the time of referral. We noted one instance where the review was completed 127 days late, and a couple of cases where there was no evidence that the Eligibility Spectrum was completed at all.
- In approximately one-quarter of the files reviewed, the check of the Fast Track database was not completed within the required 24 hours. There was no evidence in half these cases that the required checks were ever

Figure 5: Eligibility Spectrum

Source of data: Ontario Risk Assessment Model, Ministry of Children and Youth Services

Section	Scale
1. physical/sexual harm by commission	<ol style="list-style-type: none"> 1. physical force and/or maltreatment 2. cruel/inappropriate treatment 3. abusive sexual activity 4. threat of harm
2. harm by omission	<ol style="list-style-type: none"> 1. inadequate supervision 2. neglect of child's basic physical needs 3. caregiver response to child's physical health 4. caregiver response to child's mental, emotional developmental condition 5. caregiver response to child under 12 who has committed a serious act
3. emotional harm	<ol style="list-style-type: none"> 1. caregiver causes and/or caregiver response to child's emotional harm or risk of emotional harm 2. adult conflict
4. abandonment/separation	<ol style="list-style-type: none"> 1. orphaned/abandoned child 2. caregiver-child conflict/child behaviour
5. caregiver capacity	<ol style="list-style-type: none"> 1. caregiver has history of abusing/neglecting 2. caregiver inability to protect 3. caregiver with problem 4. caregiving skills

made, while the remainder ran an average of three weeks late. One missed the deadline by 160 days.

- In approximately one-third of the files reviewed, children were not seen within the required 12 hours or seven days (with most of the files pertaining to the seven-day requirement). Caseworker visits were an average of three weeks late, with one being 165 days late. Other specific examples of deficiencies included:
 - one visit that was never made because the worker called 19 days after the referral and the family had by then moved away (the caseworker subsequently notified the Society in the child's new city of residence);
 - a child who was not seen until his aunt and school principal called again, 12 days after the original seven-day requirement to visit had passed, to inform the Society that the child had been beaten by his mother; and
 - one child who was never seen even though the case was rated above the threshold for intervention because the caseworker was unable to reach the family during several attempts over a five-month period. When the caseworker finally did reach the child's mother, she said everything was fine and the file was closed on that basis.
- In approximately one of five files reviewed, Safety Assessments were late by an average of 15 days, or were never even completed.
- In about half the files reviewed, the full investigation was not completed within the required 30 days of referral. Investigations were completed an average of five weeks late and, in one case, seven months after the due date.
- In about half the files reviewed, risk assessments were not completed within the required 30 days of referral. In some cases, risk assessments were never completed, while in others,

they were an average of 40 days late—and, in one case, 222 days late.

As a result, there is little assurance that all referrals are appropriately assessed and, if necessary, investigated in a timely manner to ensure children receive the service they require.

RECOMMENDATION 8

To ensure that all referrals of children potentially in need are appropriately assessed and investigated on a timely basis, and that Children's Aid Societies can demonstrate that they have done so, Societies should conduct and adequately document the Intake/Investigation Process required under the Ontario Risk Assessment Model, within the required time frames, for all referrals.

Ongoing Protection Services

Children assessed at risk of future abuse or neglect, and therefore in need of protection, may receive services in one of two ways:

- different non-residential protective services varying with the type and degree of assessed risk, while the child continues to stay with its biological family under the supervision of a society caseworker; or
- placement with a foster family or in a group home, in many cases supplemented by various types of protective services, again under the supervision of a society caseworker.

The Ministry's Ontario Risk Assessment Model establishes certain requirements that Societies must adhere to with respect to protection services. For example, children requiring such services while still living with their biological family must have a first Plan of Service completed by a caseworker and approved by a supervisor within 60 days of the initial referral. Eligibility reviews must then be completed by a caseworker and approved by a

supervisor every 90 days after the initial Plan of Service to assess the need for continued service. For as long as it is determined that the child requires ongoing protection, a comprehensive risk assessment must also be completed, and the Plan of Service must be updated accordingly every 180 days, and must be approved by a supervisor.

Children taken into care and placed with a foster family or in a group home must have a detailed needs assessment completed within 21 days. They also require a Plan of Care completed by a caseworker and approved by a supervisor within 30 days of coming into care. The caseworker must visit the child at his or her placement within seven days, and then again within 30 days of the original placement. Every 90 days after the original Plan of Care has been approved, the caseworker must visit the child, and the Plan of Care must be reviewed and updated accordingly.

Our review of a sample of case files at the four Societies we visited noted a number of instances where the requirements for ongoing protection services were not followed:

- Initial Plans of Service must be completed and approved within 60 days of referral, and subsequent plans must be drafted within 180 days. We noted that 90% of cases reviewed were not in compliance with the requirements for either the initial or ongoing Plans of Service and were late an average of 88 days. In a couple of instances, we noted Plans of Service were late by more than 400 days.
- Eighty-seven per cent of the 90-day Eligibility reviews were not completed and approved on time, and were an average of 72 days late.
- The comprehensive risk assessment, required every 180 days, was not completed on time in 73% of files reviewed, and was an average of 77 days late. At one Society, we noted an example where the last assessment on file was done almost two years prior to our visit.

- Initial and ongoing Plans of Care for children taken into the care of a Society must be done within 30 days of admission, and every 90 days thereafter. In 94% of the files reviewed, however, requirements for either the initial or ongoing Plans of Care were not met and Plans were done an average of 23 days late. We also noted one instance where three Plans of Care for one child were completed on the same day, 192 days after the first one was due.
- The requirement to visit a child in care every 90 days was not met in 60% of the cases reviewed, and the visits were an average of 19 days late.

RECOMMENDATION 9

To ensure that all children and families get the services they require on a timely basis, and to ensure that Children's Aid Societies can demonstrate that they are properly monitoring cases, all Societies should conduct and adequately document the ongoing protection services procedures required under legislation and the Ontario Risk Assessment Model.

Quality Assurance over Case Files

The Ministry's Ontario Risk Assessment Model also requires Societies to perform quarterly supervisory reviews on 10% of the cases deemed ineligible for service, but only two of the four Societies carried out these reviews.

One Society we visited did perform quality assurance reviews of specific case-management requirements under its annual Quality Assurance Work Plan. For example, the most current work plan included a review of all initial service-plan documents and of the timeliness of in-care visits. The other three Societies did not have this best practice in place and did little to review case files.

RECOMMENDATION 10

Children's Aid Societies should implement periodic quality assurance reviews of referrals deemed ineligible for service, as well as of open case files, to ensure compliance with Ontario Risk Assessment Model requirements and to assess the appropriateness of decisions being made by front-line caseworker staff.

Extended Care and Maintenance Agreements

Under the *Child and Family Services Act*, a child ceases to be a Crown ward when he or she reaches the age of 18 or marries. However, Children's Aid Societies may provide access to ongoing services, including financial support up to \$663 per month (about \$8,000 a year), to all former Crown wards until they reach the age of 21. This ongoing support is intended to help the young person work towards specified individual goals that aid in the transition to independent living.

To be eligible for Extended Care and Maintenance Assistance, a former Crown ward must:

- sign an annual written agreement with a Children's Aid Society;
- work towards achieving goals specified in the agreement, such as completion of secondary or postsecondary education or vocational programs, and towards meeting personal development/improvement targets;
- maintain contact with a caseworker at intervals specified in the agreement;
- have earnings from part-time employment of less than \$492 a month (youths working full-time are ineligible), with financial assistance reduced accordingly when earnings exceed that amount; and

- receive no benefits under either the *Family Benefits Act* or the *General Welfare Assistance Act*.

Our review of a sample of Extended Care and Maintenance Agreements noted that Children's Aid Societies were not adequately monitoring youths that had entered into these agreements to ensure the goals of the program were met. We found that:

- Although annual written agreements were completed in most cases, deficiencies included instances of:
 - no signatures of youths to indicate they agreed to abide by the agreement;
 - missing information, such as a youth's individual goals or the required frequency of contacts with the Society;
 - significant gaps in time between renewals of agreements, even though assistance continued uninterrupted; and
 - no signed approvals of society Executive Directors or designates.
- In over half the files reviewed, we found youths not in compliance with requirements to attend school or work part-time.
- Required monitoring or contacts between youths and caseworkers as outlined in agreements went unmet in half the files reviewed.
- In most cases where youths were employed, Societies did not ensure that monthly employment earnings were less than \$492, beyond which financial assistance should have been reduced. We noted that one Society required some of its youths with Extended Care and Maintenance Agreements to be employed full-time, making them ineligible for assistance.

At the time of our last audit of the ministry Child Welfare Services Program in 2000, we had similar concerns regarding the lack of monitoring of youths who had entered into Extended Care and Maintenance Agreements.

RECOMMENDATION 11

To comply with the intent of Extended Care and Maintenance Agreements, Children's Aid Societies should ensure that:

- agreements are properly completed and signed by all required parties, and include all ministry-required goals and conditions; and
- youth are adequately monitored and assessed for compliance with the terms of their agreement.

Society-operated Foster Care

Children's Aid Societies are responsible for recruiting, approving, training, and monitoring all foster parents other than those contracted through an external agency. The *Child and Family Services Act* contains some specific requirements for the recruiting, approving, training, and monitoring of foster parents. Individual Societies can also implement other requirements contained in their internal policies and procedures.

All foster-care requirements exist to ensure that foster parents have, and continue to have, the necessary skills and resources to provide quality care to the children entrusted to them. Our review of a sample of foster-parent files found that in most cases, specific requirements for recruiting, approving, and monitoring were met and documented.

However, we did find instances where:

- there was no required police check on file;
- no assessments were made of the financial stability, and hence the suitability, of foster parents;
- the required agreement between the foster parents and the Society could not be found, or was not signed;
- the required annual evaluation of the foster home and parents was not completed;
- required visits by resource workers to foster homes were not made; and

- foster parents did not receive the required training.

RECOMMENDATION 12

To help ensure that foster parents have the necessary skills and resources to provide quality care to the children entrusted to them, Children's Aid Societies should verify and document adherence to the requirements for the recruiting, approving, training, and monitoring of foster parents.

Outside Purchased Institutions

As noted previously, the Ministry negotiates service agreements with all Outside Purchased Institutions (OPIs), and is responsible for licensing them initially and on an annual basis. Once licensed, OPIs are available to Children's Aid Societies requiring residential care for children.

Societies are in turn responsible for ensuring that children they have placed in OPIs receive an appropriate level of care. As outlined earlier, society requirements in this regard involve visits, assessments, and completing Plans of Care for children. Societies may also have other internal requirements regarding the OPIs they use.

For example, three of the four Societies we visited had an internal requirement to perform annual evaluations of the OPIs they used. However:

- Two of the three Societies with this policy did not perform the required annual reviews.
- Although the third Society did carry out reviews, they were often documented six to seven months after the fact.

In light of our review of the Ministry's OPI licensing process, noted in our audit of the Child Welfare Services Program (see Section 3.01), society evaluations of OPIs would be a valuable component of the Ministry's annual licensing and contracting process.

RECOMMENDATION 13

To help ensure that children are placed in Outside Purchased Institutions that provide quality care and services, Children's Aid Societies should have policies and procedures requiring them to perform annual evaluations of the Institutions used, and they should comply with these policies. In addition, Societies should provide the Ministry with copies of the annual evaluations for consideration during the licensing and contracting process.

Human Resources Management

With regards to human resources and staffing, Children's Aid Societies have developed internal policies and procedures that specify operational requirements. We reviewed the following areas for compliance with Ministry expectations and internal society policies and procedures:

Caseloads

Ministry funding to Children's Aid Societies is no longer based on ministry-established caseworker/caseload benchmarks, as was the case prior to April 1, 2003. However, these earlier benchmarks are currently the only information available to help Societies assess the workload of their caseworkers. The Ministry's previous caseload benchmarks are as illustrated in Figure 6.

We found that, in general, the Societies we visited tracked caseworker caseloads and, in most

Figure 6: Caseload Benchmarks

Source of data: Ministry of Children and Youth Services

Case Type	Cases Per Month
intake services	7.4
family services	17
child in care services	21
foster homes	30

cases, were meeting, or were close to meeting, the old ministry benchmarks. However, one Society tracked caseloads only on an overall basis rather than by the case types outlined above. As a result, the wide variations in the ministry benchmarks make it difficult to determine whether this Society has reasonable caseloads based on the information it is currently collecting. We also note that, given the increasing complexity of caseloads, the previous ministry benchmarks may no longer be appropriate.

RECOMMENDATION 14

Children's Aid Societies should:

- establish reasonable caseload benchmarks for their caseworkers; and
- collect information on caseworker caseloads in a format that allows comparison to established benchmarks in order to determine whether current Society caseloads are appropriate.

Time Accounting

Approximately 40% of Societies' expenditures are for staff salaries and related benefits. Society staff provide residential care and services at society-operated facilities, non-residential programming and support, and administrative services. Many staff are caseworkers operating independently, sometimes after normal business hours and frequently away from the Societies' main offices.

Given the nature of the work performed by many Society staff, it is our view that an adequate time-accounting system is essential to properly monitor and manage caseworker time. For example, information about time spent on direct-service delivery and the client served, travel, training, and administration is essential to assess the adequacy of staffing levels and the effectiveness of staff deployment relative to caseloads.

None of the four Societies we visited had a time-accounting system in place for their caseworkers. Time reporting was limited either to logging daily absences or to reporting whether staff were on the job or away. As a result, Societies were unable to monitor, for example, the time their caseworkers spent on direct-service delivery, which may have contributed to the service-delivery deficiencies noted earlier in this report.

RECOMMENDATION 15

In order to ensure that staff time is properly monitored and accounted for, Children's Aid Societies should institute a time-accounting system to track how their caseworkers use their time.

After-hours Program

The need for Child Welfare Services may occur at any time during the day or night, so most Children's Aid Societies have established after-hours programs to deal with requests for service after normal business hours. In general, Societies either put their own daytime staff on after-hours shifts, or they hire contract staff for caseworker and supervisory positions. Staff is assigned on an on-call basis for the duration of the after-hours shift, which usually covers the periods from 5:00 p.m. to 9:00 a.m. Monday to Friday, and 24 hours on weekends.

We noted the following concerns regarding the after-hours programs at the Societies we visited:

- At three of the four Societies, there was insufficient documentation of activities for this program. Societies did not track the number of hours worked by staff or the volume of calls per shift, and thus did not have an accurate picture of utilization of on-call staff.
- One Society launched a review of the utilization of after-hours staff. Our analysis of that data revealed that after-hours staff was under-

utilized. After-hours staff were paid based on a minimum number of hours, whether they actually worked those hours or not, and they got overtime pay for any hours above the minimum. We found that for 70% of the after-hours work periods reviewed during a four-month period, some employees worked less than the minimum number of hours for which they were paid, while others incurred overtime—all on the same shift.

- Scheduling of after-hours staff was not based on any documented analysis of need or specific call volumes at any of the Societies we visited. This analysis is necessary to ensure that staff are efficiently deployed and that there is adequate staffing coverage for the program. In one Society, our review of incoming calls over a three-month period indicated that the highest volume was received on Tuesdays but staffing was highest on Fridays and Saturdays.

RECOMMENDATION 16

In order to properly allocate after-hours staff based on call volume, and to determine optimal staffing levels, Children's Aid Societies should have systems in place to monitor and analyze after-hours call volumes and the utilization of staff, and then assign staff accordingly.

Staff Qualifications and Requirements

Most Societies have internal policies with specific requirements regarding the suitability of candidates being considered for vacant positions. These requirements include reference and qualification checks, verification of résumés, and police or criminal record checks. In addition, after a candidate has been hired, there are other internal requirements to check the new employee's performance on a periodic basis through performance evaluations.

In general, our review of personnel files at the Societies we visited found compliance with internal policies regarding procedures to be completed for hiring new staff and ongoing performance management, with the following exceptions:

- In 20% of the files reviewed there was no evidence that the required reference checks were conducted.
- Twelve per cent of personnel files were missing documentation to establish that qualifications of the individual had been verified.
- In 15% of files, there was no evidence that the required performance appraisals had been completed.

RECOMMENDATION 17

Children's Aid Societies should have supervisory personnel perform spot checks to ensure compliance with internal policies regarding hiring practices and the ongoing management of employee performance.

Other Human Resource Issues

Our review of the human resource area uncovered the following additional issues at the Societies we visited:

- One Society paid bonuses to two senior staff members for each of the years we reviewed without any contracts or policies in place to allow these payments. One bonus amounted to 5% of salary and the other about 8%.
- At another Society, a caseworker who fell behind on her paperwork, in part because of her questionable competency and a lack of supervision, was allowed to catch up by working 800 hours of overtime in a six-month period, collecting \$21,000 over and above her regular pay.
- At one Society, a senior staff member was paid more than \$12,000 for unused vacation days.

Society policy does not allow for this type of payout unless the person leaves the Society.

- The same Society's management team of eight people was paid more than \$14,000 for contract negotiations with its union, without any documentation to support how that amount was determined.

RECOMMENDATION 18

Children's Aid Societies should ensure that additional remuneration paid to employees over and above their regular salary is in compliance with established policies and approved by senior management and the Board of Directors as appropriate.

Complaints

Under the *Child and Family Services Act*, Children's Aid Societies are required to establish written procedures for hearing, and dealing with, complaints from anyone who has sought or received services from the Society. These procedures must include an opportunity for the complainant to be heard at appropriate levels of society management up to the Board of Directors. In the event the complainant is dissatisfied with the Board's response, the complainant can have the matter reviewed by the Ministry. Other specific aspects of the procedures and time requirements vary from Society to Society.

During a review of the complaints policies and procedures at the Societies we visited, and the review of specific complaints received, we noted the following concerns:

- More than 60% of the files were missing the documentation required to complete the complaints process. In many instances, we were unable to determine whether society policy was followed or whether specific timelines were met due to the missing information.

- In more than 35% of the files reviewed, the specific timelines in society policies regarding the complaints process were not met. Examples of areas where specified timelines were not met were as follows:
 - Complaints were not responded to within the time specified.
 - Investigations into complaints were either not initiated or completed on time.
 - Outcome letters with responses were not sent as required to the complainants.
- In addition, although timelines for holding meetings requested with Directors or Executive Directors during the complaints process were not specified in policies, in our opinion such meetings were not held in a reasonable time frame in over 10% of the cases reviewed. They were held on average 33 days after being requested, and, in a few instances, the requested meetings were not held at all. The lack of a time requirement in this area can substantially lengthen the complaints process.

Also, two of the Societies we visited did not have a tracking system in place to record complaints received so we were unable to determine whether the information provided to us was complete. As such, we could only examine the information that they provided us regarding complaints received.

RECOMMENDATION 19

In order to help ensure that complaints get timely and appropriate attention and resolution as required under the Child and Family Services Act, Children's Aid Societies should:

- ensure that internal policies and time requirements are adequate and complied with; and
- maintain adequate records in order to properly track all complaints received, along with their resolution.

Serious Occurrences

All Child Welfare Service providers are required by Ministry policy to report any serious occurrences involving children in their care to the Ministry within 24 hours of the incident, with a written follow-up within seven days of the occurrence detailing corrective action taken. Examples of serious occurrences that would require this reporting are:

- death, serious injury, or allegations of mistreatment of a child in care;
- complaints made by or about a client that are considered serious in nature;
- disasters such as fire on the premises where a service is provided; and
- situations where a client is missing.

We examined the Serious Occurrence reporting process at the Societies we visited and found that 75% of the files we reviewed were not in compliance with the required Ministry policy and procedures. Issues included failure to meet timing requirements and a lack of documentation on the follow-up action taken as a result of the incident.

We noted similar concerns in our 2000 audit of the ministry Child Welfare Services Program.

RECOMMENDATION 20

All Children's Aid Societies should:

- comply with ministry requirements to ensure all serious occurrences are reported to the Ministry in a timely fashion; and
- ensure the required follow-up action is taken and documented for the protection of all parties involved.

SUMMARY OF RESPONSES BY CHILDREN'S AID SOCIETIES

The audit examined practices at four of Ontario's 53 Children's Aid Societies. This response consolidates their views and those of the Ontario Association of Children's Aid Societies (OACAS).

The Children's Aid Societies welcome the Auditor's recommendations with respect to both financial- and human-resource management practices at the four Societies in question, and policies and procedures relating to case management and the quality of service. The Societies will have acted or begun to act on the issues raised in the audit by year-end.

While it is reasonable to add new policies and procedures to ensure greater value for money, it is important to understand that the child welfare sector is already both highly regulated and severely stretched for resources. Accordingly, adding new requirements without appropriate flexibility and eventual streamlining of the regulatory burden can have a very real cost in terms of service to the vulnerable populations that we serve. Although recent increases in ministry funding have enabled critical investments in the long-term capacity of the sector, a direct correlation between new resources and the number of families served should not be expected.

Since the care of children is the top management priority of every Society, we are pleased to note the Auditor's finding that, in most instances, Societies were meeting and documenting specific requirements to ensure that foster parents have the necessary skills and resources to provide quality care for children. We are also pleased that the Auditor's review of personnel files indicated that the Societies were generally complying with established procedures for hiring new staff and managing their performance.

The Auditor also made recommendations to address a number of concerns noted in the audit. Before outlining our response to each recommendation, we note by way of context that the child welfare system, despite significant expansion and increase in resources, still struggles to:

- keep up with its caseload;
- recruit and retain skilled staff (including senior managers, who are usually compensated less than they would be by other potential employers);
- improve its financial- and human-resource management practices; and
- strike the right balance between the lowest-cost solution and the most effective solution while caring for vulnerable children.

In short, while the four Societies in question—and the OACAS—are committed to acting on the issues raised in the audit, it is important to recognize that some of the identified challenges are systemic and cannot be remedied fully by more effort on the part of the Societies. For instance, fully addressing several of the recommendations would require investment in up-to-date, integrated technology that is common to all Societies and accessible by workers when they are out of the office.

With continued improvement in both resources and management systems and policies, Ontario's Children's Aid Societies can continue to become more effective in protecting the province's most vulnerable children.

Recommendation 1

The Societies agree with this recommendation and have begun the process of developing and updating procurement policies. They note, however, that, while the Auditor General used ministry policies and procedures for procurement as benchmarks in some areas, Societies have not

received a directive to use these policies. If Societies and other transfer-payment agencies in all ministries are required to adhere to public-sector procurement policies, a directive should be issued by government to ensure standardized practice.

Recommendation 2

The Societies agree with this recommendation. They have taken steps to ensure that suppliers provide sufficient detail in invoices so that services billed can be reconciled with services received. This applies to lawyers, translators, doctors, and psychological and capacity assessors/counsellors.

Recommendation 3

The Societies agree and are developing logging systems. One Society is reviewing the size of its fleet and is making changes given that office consolidation has changed the requirements of fleet size.

Recommendation 4

The Societies agree. They have taken steps to ensure that hard-copy documents such as original receipts accompany explanatory emails regarding credit-card expenses (auditors would not accept email documentation). One Society is creating additional policy for business lunches and dinners and hospitality costs. Policies for international travel to repatriate children or to facilitate family visits are under review. Societies will ensure that costs are assessed on a case-by-case basis and have processes in place where senior staff will approve out-of-country travel in these situations. Policies for international travel to attend conferences and other professional development events are under development.

Recommendation 5

The Societies agree. They are changing policies to require more detail on mileage claims, such as exact travel destinations. Some Societies have

implemented policies for spot audits of mileage claims and reconciliation with Internet mapping systems, while other Societies are looking at different solutions that fit their local needs.

Recommendation 6

The Societies agree and look forward to receiving detailed information from the Ministry of Children and Youth Services. Societies are also working on a Shared Service/Supply Chain management proposal that would ensure that standards are adhered to by approved *per diem* providers.

An important caveat is that Societies must sometimes place children into expensive *per diem* facilities when there is no society-operated foster home available. Placement decisions are complex, and a Society often must choose a more costly placement that will serve the child better. And while a more cost-effective solution may present itself later, any change must be weighed carefully in light of the potential trauma involved in moving the child.

Recommendation 7

The Societies agree. One Society has already implemented new requirements that *per diem* facilities provide the name of the worker and the hours worked during the Special Rate Agreement. Society workers do visit children in *per diem* facilities at a minimum of once every three months. One Society has a dedicated worker whose job is to be the liaison/quality assurance monitor of external placements. A shared services model of monitoring *per diem* providers would provide standardized business practices for agreements and monitoring.

Recommendation 8

The Societies agree. Timely responses are required if children are to be protected. Sometimes this is impossible because the volume of calls is in excess of available resources, and

naturally the urgent calls requiring 12-hour responses take precedence. At other times, investigations cannot be completed because the family cannot be located. The OACAS has consistently recommended that 60 days are required for completion of most investigation requirements.

Recommendation 9

The Societies agree. This is a resource issue, and these are documentation gaps rather than service gaps in our view. One challenge in implementing this recommendation is adhering to documentation requirements, which are often a lower priority than service requirements.

Recommendation 10

More consultation and discussion are required. All Societies that were reviewed indicated that ministry regional offices had instructed them to stop quality assurance reviews. Societies, in consultation with the Ministry, will consider how to implement spot checks and other processes to ensure compliance.

Recommendation 11

The Societies agree and are reviewing supports to youth on Extended Care and Maintenance Agreements and youth leaving care. Ministry policies relating to these agreements also need to be reviewed and updated.

Recommendation 12

The Societies agree and will review practices and update policies to ensure that all requirements are met. The Societies have already implemented the requirement for police checks on new foster parents.

Recommendation 13

The Societies agree. Many Outside Purchased Institutions provide excellent service. The four Societies audited would prefer that annual evaluations be shared across all Societies so that

operators who do not adhere to established standards are not used for placements by any Society. Societies are currently developing a business model for a Shared Services/Supply-chain-management approach that could assist with this process. The Ministry has conducted a review of residential services. Results of this residential review are not yet available.

Recommendation 14

The Societies agree. Human-resource management has been a key area of advocacy for the OACAS, because previous workload studies have shown that caseload funding benchmarks were inadequate.

Recommendation 15

This recommendation will be considered carefully. Time-accounting systems are generally not part of best practices in social work. The Societies maintain that workers do not work independently; they may work alone, but never independently of supervision. Sign-out systems are used extensively. Other systems to track time will be explored.

Recommendation 16

The Societies indicated that after-hours services have been reviewed and adjustments to schedules are now made regularly to respond to demand.

Recommendation 17

The Societies agree. Society policies are under review and compliance monitoring of staff qualifications has been implemented.

Recommendation 18

The Societies agree. The incidents reported in this section are rare because most Societies are highly unionized and therefore have rigid salary policies. Policies have been developed for board approval of bonuses based on performance. The

Societies have also reviewed their policies for monitoring overtime and recording of overtime.

Recommendation 19

The Societies agree. Practices for handling client complaints have varied. New proposed provincial legislation includes extensive amendments dealing with client complaints. In the future, the Child and Family Services Review Board will have final jurisdiction over client complaints. There will be provincial regulations and directives to deal with time frames. At this writing, these regulations were due for release in fall 2006.

Recommendation 20

The Societies agree. See our comments under Recommendation 19.

Chapter 3

Section 3.03

Community Colleges— Acquisition of Goods and Services

Background

Ontario's 24 community colleges are governed by the *Ontario Colleges of Applied Arts and Technology Act, 2002* (Act). According to the Act, colleges are to offer a comprehensive program of career-oriented, post-secondary education and training to assist individuals in finding and keeping employment, to meet the needs of employers and the changing work environment, and to support the economic and social development of their local communities.

According to the Association of Colleges of Applied Arts and Technology of Ontario (ACAATO), colleges employ 17,000 academic staff and 16,800 other employees. Enrolment data from the Ministry of Training, Colleges and Universities (Ministry) indicate that 215,000 full- and part-time students are enrolled in community colleges.

Total college expenditures have increased from \$1.8 billion in 2001 to \$2.3 billion in the 2004/05 fiscal year, or 32%. Enrolment increased from 199,000 to 215,000, or 8%, over the same period. Funding from ministry grants and student tuition has grown in line with expenditures during the 2001–05 period.

Audit Objective and Scope

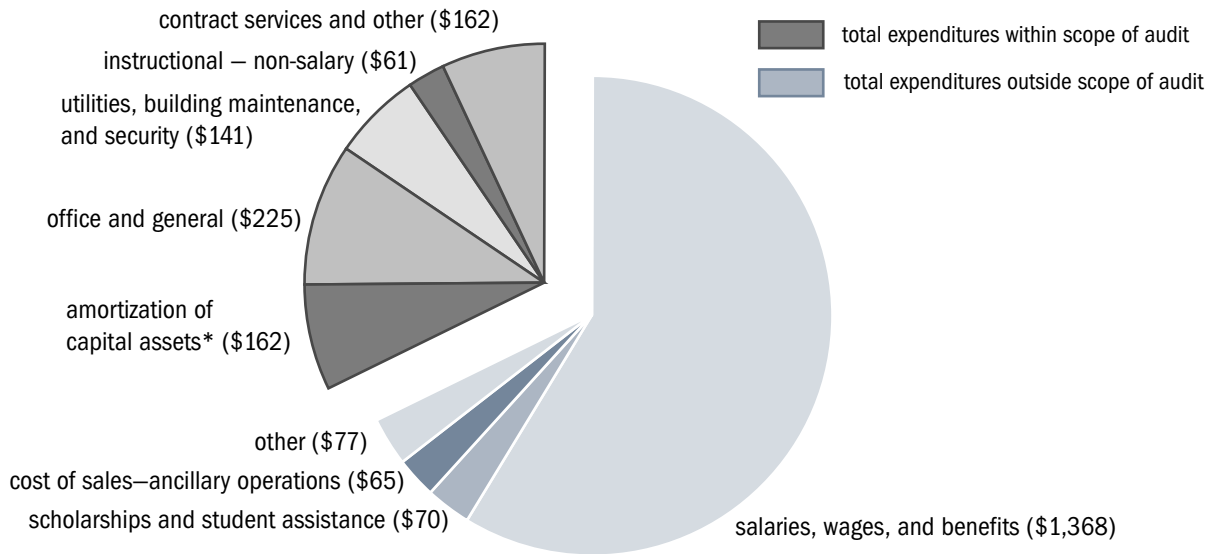
This was the first value-for-money (VFM) audit conducted in the community college sector, enabled by an expansion of the mandate of the Office of the Auditor General of Ontario effective April 1, 2005. The expansion allows us to conduct VFM audits of institutions in the broader public sector such as community colleges (this audit), Children's Aid Societies (see Section 3.02), hospitals (see sections 3.05 and 3.06), and school boards (see Section 3.11). We chose to examine purchasing practices as a means to gain a broad exposure to, and understanding of, overall college expenditures and operations, which will assist our Office in selecting and planning future audits in the community college system.

Our audit objective was to assess whether the purchasing policies and procedures in place at selected colleges were adequate to ensure that goods and services were acquired economically.

Our audit focused on a broad range of expenditures but did not include employee compensation and benefits, student assistance, purchases made by ancillary operations (for example, bookstores, food services, and student residences), or the costs of acquiring college facilities. As shown in Figure 1, of

Figure 1: College Expenditures, 2004/05 (\$ million)

Source of data: Ministry of Training, Colleges and Universities



* includes buildings and structures, which were outside the scope of this audit

the \$2.3 billion spent by colleges in 2004/05, \$751 million was spent in areas covered by this audit, while about 87% of the expenditures outside the scope of our audit related to compensation and benefits to staff.

Our on-site audit work covered the purchasing policies and procedures at four colleges: Conestoga, Confederation, George Brown, and Mohawk. At each of the four colleges, we selected a sample of purchases for review. The processes to be followed for each of these purchases varied based on each college's established policies but generally depended on the value of the purchase. In addition, we compared the purchasing policies of several other colleges to those of the colleges we audited.

Enrolment and expenditure information for the four colleges we audited is summarized in Figure 2.

Our audit was substantially completed in May 2006 and was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests

and procedures as we considered necessary in the circumstances. The criteria used to conclude on our audit objective were provided to senior management of the colleges we audited and were related to the systems, policies, and procedures that should be in place and operating effectively.

Summary

We found that the purchasing policies at the colleges we audited were adequate to ensure that goods and services were acquired economically and were generally being followed. All of the colleges we audited were participating in purchasing consortia in order to reduce the costs of goods and services acquired. Nevertheless, we found some areas where procedures could be strengthened, as follows:

- Some major contracts with suppliers had not been re-tendered for a number of years. Therefore, colleges might not have known whether the goods or services could be

obtained at a better price, and other potential suppliers did not have an opportunity to bid on these public-sector contracts.

- Where non-purchasing personnel managed the purchasing process—for example, for purchases relating to technology products—policies and procedures were not always followed, increasing the risk that the goods and services purchased did not represent the best value.
- Before making major purchases in certain areas, colleges did not always clearly define their needs and objectives for those purchases and therefore could not ensure that the purchases met their needs in the most cost-effective manner.
- For large purchases, the colleges normally established committees to evaluate competing bids. However, they had not developed procedures for committee members to follow, such as identifying the evaluation criteria for the non-monetary aspects of bids (to ensure they were appropriate and consistent). As a result, colleges could not be assured that all committee members ranked bids in the same manner.
- Policies governing gifts, donations, meals, and hospitality were neither clear nor consistently enforced. While the individual amounts were not significant, we noted several examples of gifts purchased for staff, including, at one college, five gift cards worth \$500 each.

Detailed Audit Observations

PURCHASING CONSORTIA

In *Ontario Budget 2004—Budget Papers*, the government identified purchasing in the broader public sector as an area where improvements could be made that it anticipated could result in savings of “... hundreds of millions of dollars [that] can be channelled back into key front-line public services.” The BPS Supply Chain Secretariat was established at the Ministry of Finance to promote purchasing initiatives such as purchasing consortia at hospitals, school boards, colleges, and universities. Purchasing consortia are intended to achieve savings through high-volume, group tendering for goods and services to obtain the lower prices associated with greater volumes. Group purchasing also reduces administrative costs, since all purchases are managed by one organization on behalf of all members of the group (rather than each member institution separately managing each purchase for itself).

At the time of this initiative, most of Ontario’s community colleges were already members of purchasing consortia, having partnered with other public-sector organizations such as other colleges, universities, school boards, hospitals, and municipalities in an attempt to reduce their costs. For example, 18 of Ontario’s 24 community colleges, including two of the colleges we audited, participate

Figure 2: The Four Colleges Audited—Enrolment and Expenditures (2004/05)

Source of data: Association of Colleges of Applied Arts and Technology of Ontario and Ministry of Training, Colleges and Universities

	College			
	George Brown	Mohawk	Conestoga	Confederation
Enrolment (full-time-equivalent)	14,800	10,500	6,900	3,200
Expenditures (\$ 000)				
within scope of audit	47,440	30,632	20,586	18,556
outside scope of audit	106,036	93,130	66,841	38,832
Total expenditures (\$ 000)	153,476	123,762	87,427	57,388

in a consortium to purchase insurance. In addition, colleges purchase library books and related materials through a bibliocentre to reduce costs. According to *Ontario: A Leader in Learning. Report and Recommendations*, a 2005 report prepared for the Ministry of Training, Colleges and Universities, this initiative alone resulted in estimated savings of \$10 million per year. Colleges also share the results of their group-purchasing efforts with other colleges to assist them in their price negotiations.

All four of the colleges we audited participated in consortia for electricity. Each college also participated in purchasing consortia for other goods and services, such as natural gas, printing and photocopying, cleaning services, and paper products. We also noted instances where colleges used the prices obtained by consortia comprised of other colleges to get a better price from their suppliers.

COMPETITIVE ACQUISITION PRACTICES

The policy or expectation at the colleges we audited was for purchases to be made competitively (except for relatively smaller-dollar sundry items). At each college, the processes to be followed to obtain competitive bids were dependent on the value of the purchase. We found that, if followed, the competitive acquisition policies, both at the colleges we audited and at those where we reviewed the policies, would ensure a fair and open competitive acquisition process.

At the four colleges audited, we found that the established policies were generally followed for most of the purchases we examined. We noted only two significant exceptions, as follows.

First, none of the colleges we audited had policies regarding the maximum number of years that the college may deal with a vendor without re-tendering the contract. We noted several cases where purchases had been made from the same vendors for many years. As a result, colleges may not have been in a position to know whether the

prices being paid were still reasonable, and other potential suppliers were not given an opportunity to bid for the business. These cases included contracts for security services, cleaning services, electrical work, and the ongoing purchases of furniture and office/instructional supplies. For example, at one college, security services, which cost \$350,000 in 2005, had been purchased from the same supplier since 1998 without re-tendering, while at another college, furniture purchases totalling \$735,000 in 2005 had been purchased from the same supplier for a number of years, also without re-tendering.

Second, due to requirements for technical or other expertise, certain purchases were managed by non-purchasing personnel. We found two cases, both from the same college, of material non-compliance with college policies.

In the first instance, the college planned to purchase significant amounts of information-technology equipment over a three-year period for use in a new technology centre and a laptop program for business students. We noted the following:

- Only two vendors were invited to bid on a three-year agreement, even though there were several other major information-technology vendors that could have provided the required equipment.
- The vendor with the higher bid was awarded the contract. The presentation made to the Board of Governors compared prices for the first year of the three-year agreement, and just for this first year, the chosen vendor had offered a one-time, \$100,000 discount. Even with this first-year discount, however, the chosen vendor's bid was still \$200,000 higher than its competitor's bid. The price differential in the second and third year would depend on the amount and mix of equipment purchased in those years.
- The college recommended this vendor to the Board of Governors primarily because the Information Technology Department had

received good service from it for a number of years. However, there was no information in the file indicating that the other, well-known, vendor's reputation for service was not as good.

In the second instance, a \$225,000 contract to develop project-management methodology was awarded without competition on the basis of an undocumented recommendation from a dean at a nearby university.

RECOMMENDATION 1

To help ensure that the prices paid for major purchases are competitive, as well as to give all potential suppliers a fair opportunity to obtain college business, colleges should limit the number of years they use the same supplier without re-tendering.

To help ensure that purchases comply with college policies, colleges should require that purchasing departments oversee major purchases made by other departments at the college.

NEEDS IDENTIFICATION

Making economical purchases involves buying the right goods and services, when needed, at the best price. While the four colleges we audited had competitive acquisition processes in place to ensure that they obtained the best price, they had not developed adequate procedures to ensure that they always bought the most appropriate goods or services based on well-defined needs. For example, new computer equipment costing \$8.7 million was purchased to meet certain specifications established by the Information Technology (IT) Department of one college. A planning document posed a number of questions regarding the IT strategy the college should pursue. However, there was no documentation addressing these questions or outlining the

final strategy that was agreed upon and nothing to link the strategy to equipment specifications.

Normally, needs and objectives can be more economically satisfied when they are well defined. This results for two reasons. First, when needs and objectives are well defined, vendors are able to use their expertise to recommend the most relevant or appropriate products or staffing levels. For example, one bidder, when apprised of the different levels of demand for photocopying services at different college sites, was able to lower the college's costs by proposing a more cost-effective equipment mix—lower-capacity, lower-cost copiers were used at low-demand sites. Such expertise could also be applied to contracts for services such as cleaning and security, if potential suppliers were informed of the purchasing needs or objectives and given the opportunity to identify the most cost-effective way of meeting them.

Second, when needs and objectives are well defined, management is in a better position to find new and innovative ways to improve service or lower costs. For example, one college was able to meet its objective of having equipment for students to train on without having to actually purchase the required expensive industrial equipment. Instead, the college entered into an agreement with a manufacturer of such equipment whereby the manufacturer permitted students to use the equipment in return for the opportunity to demonstrate the equipment to prospective customers invited to the college for this purpose.

Formally defining what is to be accomplished through proposed major expenditures would also provide colleges with a basis for:

- developing criteria to evaluate the non-monetary aspects of competing bids; and
- subsequently determining whether the goods or services acquired are meeting the college's expectations/needs.

RECOMMENDATION 2

To help ensure that objectives are achieved at the lowest cost, colleges should specifically identify and define their needs before making significant purchases.

EVALUATION OF BIDS

As mentioned earlier, the four colleges we audited used tenders or requests for proposals for the majority of their major purchases. Vendors' proposals for major purchases are often complex and involve a number of non-monetary aspects that must be evaluated. Normally, the colleges established committees comprised of faculty and/or other staff to carry out such evaluations.

However, the colleges did not establish the procedures to be followed by the evaluation committees. We noted, in the absence of such procedures for the purchases we examined, common weaknesses in the committees' procedures, including the following:

- Committees did not identify the criteria members were to use to evaluate the non-monetary aspects of bids. This increases the risk of bids being unfairly ranked as the result of inappropriate or inconsistent criteria being used by different members.
- After a committee member summarized the prices submitted by competing vendors, there was no evidence that the summary was checked for accuracy by another member. Lack of such checking increases the risk of errors and the misranking of bids going undetected, particularly where the bids are complex or where budgetary limitations result in only components of a bid, rather than the entire bid, being selected. While the errors we found were not significant, they do illustrate the need for a verification process.

RECOMMENDATION 3

To help ensure that the best proposals are selected when major purchases are planned, colleges should:

- develop procedures for evaluation committees, including a requirement that they identify the criteria to be used to evaluate the non-monetary aspects of proposals; and
- require that the price summary be checked by someone other than the person who prepared it.

EMPLOYEE EXPENSES

At the four colleges we audited, policies governing gifts, donations, and meal and hospitality expenses were not clear and were essentially left to the judgement of department heads. Insofar as such expenses are being paid for by college funds, we would expect that their benefit to the college and/or its students should be demonstrable. We found several examples of questionable expenditures on individual expense claims and purchasing-card summaries, such as:

- one claim for five \$500 and fifty \$25 gift cards, purchased for distribution to staff;
- numerous claims for gifts or flowers to employees;
- a total of \$1,500 claimed for five members of a college to attend a political party fund-raising dinner, despite the political party noting in its registration form that donations from provincially funded educational institutions are inappropriate (the \$1,500 was originally paid by an individual's personal credit card and then reimbursed by the college);
- several claims by staff who took other staff to lunch or dinner or who exceeded reasonable meal expenses while travelling (for example, \$860 for wine and cheese followed by

dinner for five staff attending a conference in San Francisco); and

- a claim for airfare that included a flight to Los Angeles for a vacation following a flight to San Francisco for a one-and-a-half-day conference (the college was not reimbursed for the cost of the additional airfare).

While such expenditures are small in relation to total college spending, they nevertheless represent a questionable use of public funds.

RECOMMENDATION 4

To help ensure that college funds are used appropriately and to the benefit of colleges and their students, colleges should implement clear policies for gifts, donations, and meal and hospitality expenses.

SUMMARY OF RESPONSES BY COMMUNITY COLLEGES

Recommendation 1

The colleges agreed to limit the number of years that colleges use the same supplier without re-tendering. They indicated that appropriate policies would be developed and implemented. These could vary depending on the type of service or products being acquired.

The colleges also agreed to require that purchasing departments oversee major purchases made by other departments at the college. For example, one college indicated that revised purchasing policies and procedures would emphasize the importance of having the purchasing department oversee major purchases. In addition, senior management will reinforce to College staff the need to follow the Purchasing Policy and Procedures at all times and that additional staff would enable more involvement of the purchasing department in major purchasing activities. Another college indicated that it would require clear adherence to policies and evidence to support decisions but that it could not provide additional resources to be present at all discussions and meetings.

Recommendation 2

The colleges agreed and indicated that, before making significant purchases, they would

ensure that needs are identified and defined and properly documented.

Recommendation 3

The colleges agreed to develop procedures for evaluation committees, including a requirement that they identify the criteria to be used to evaluate the non-monetary aspects of proposals. One college indicated that it had already refined its processes for evaluating non-monetary aspects of proposals. Others indicated that they would either document existing procedures or would ensure that appropriate criteria will be developed and decided on prior to evaluating proposals.

The colleges also agreed to require that the price summary be checked by someone other than the person who prepared it. The colleges had either implemented processes for double-checking or were in the process of revising their policies and procedures to ensure that prices are double-checked.

Recommendation 4

The colleges agreed that there was a need for clear policies and had either already developed them or had committed to developing them.

MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES RESPONSE

The Ministry of Training, Colleges and Universities fully appreciates the professionalism of the Office of the Auditor General in conducting this audit of the acquisition of goods and services at the colleges of applied arts and technology and the co-operation extended to the Office by the four audited colleges—Conestoga, Confederation, George Brown, and Mohawk.

The report makes it clear that Ontario colleges of applied arts and technology operate

responsibly under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, Ontario Regulation 34/03, and the Minister’s Binding Policy Directives.

The Ministry will continue to work with the colleges to identify better practices to implement and strengthen their control framework over procurement and expenditure management.

Forest Fire Management

Background

The Public Safety and Emergency Response Program of the Ministry of Natural Resources (Ministry) provides leadership for the delivery of emergency management services to protect people and property from various hazards. The Ministry's primary responsibilities are detecting and suppressing forest fires on 90 million hectares of Crown land in Ontario and managing an air fleet used for forest fire fighting, natural resource management, and passenger transportation for all government ministries.

The Ministry is also responsible for managing provincial obligations relating to six other types of hazards: floods; drought/low water; dam failures; erosion; soil and bedrock instability; and emergencies related to crude oil and natural gas production/storage and salt-solution mining.

At the time of our audit, the Ministry employed about 220 full-time forest fire management staff at its head office in Sault Ste. Marie, two regional offices in Dryden and Sudbury, and 19 fire management headquarters located across the northern part of the province. As many as 1,000 additional staff are hired on a contractual basis as needed during the fire season. Aviation services employed about 160 full-time and seasonal employ-

Figure 1: Ten-year Summary of Program Costs

Source of data: Ministry of Natural Resources

Fiscal Year	Fixed Costs	Extra Firefighting Costs	Total Program Costs
	(\$ million)		
1996/97	39.3	66.1	105.4
1997/98	38.3	49.9	88.2
1998/99	36.1	88.8	124.9
1999/00	34.0	73.1	107.1
2000/01	35.7	27.8	63.5
2001/02	34.5	62.4	96.9
2002/03	37.4	70.4	107.8
2003/04	35.1	103.6	138.7
2004/05	35.9	37.7	73.6
2005/06	36.6	66.8	103.4
Average	36.3	64.7	101.0

ees, and emergency response employed eight full-time staff.

For the 2005/06 fiscal year, expenditures for the Public Safety and Emergency Response Program totalled \$103.4 million. Program fixed costs, for full-time staff and infrastructure expenditures, amounted to \$36.6 million. Extra costs, such as additional staffing and contracted services that are incurred to deal with year-to-year fluctuations in the number and intensity of fires, amounted to \$66.8 million. As Figure 1 shows, program costs vary significantly from year to year.

Audit Objectives and Scope

The objectives of our audit of the Public Safety and Emergency Response Program were to assess whether the Ministry of Natural Resources had established adequate procedures to ensure that:

- forest fire management, aviation services, and emergency response functions were delivered effectively in accordance with applicable legislation, agreements, and standards;
- operations were carried out with due regard for economy and efficiency; and
- the extent to which program objectives were met was being appropriately measured and reported.

The scope of our audit included discussions with fire, aviation, and emergency management staff, a review and analysis of program policies, management reports, and other relevant documentation as well as research into comparable practices in other jurisdictions. In recent years, the Ministry's Internal Audit Services Branch had performed work on a number of areas within the Program that we found useful in finalizing the scope of our audit.

Our audit was substantially completed in April 2006 and 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. The criteria used to conclude on our audit objectives were discussed with, and agreed to, by ministry management and related to systems, policies, and procedures that the Ministry should have in place.

Summary

We found that once forest fires were detected, the Ministry of Natural Resources (Ministry) had a good track record of effectively suppressing the fires. However, the Ministry did not have measures for assessing the effectiveness of its procedures for detecting forest fires and consequently could not demonstrate that its fire-detection performance was adequate to support successful fire suppression. In addition, although the Ministry had implemented a number of good initiatives to help prevent forest fires, a comprehensive strategy for fire prevention may more effectively focus efforts in this area. We also found that, while the Ministry had a number of processes in place to help ensure that its operations were carried out in an economic and efficient manner, we noted areas where improvements could be made. Our more significant observations are as follows:

- In the last five years, the Ministry reported that once a fire was detected, it essentially achieved a 96% success rate in suppressing the fire by noon the next day or limiting its extent. However, we noted instances where more timely detection of fires might have allowed firefighters to more readily bring them under control, which could have resulted in significantly reduced suppression costs. We noted two other Canadian jurisdictions that detected two-thirds of fires through planned methods as opposed to Ontario, which detected one-third of all fires through proactive ministry efforts. As well, these other jurisdictions had adopted more rigorous monitoring and reporting of their success in detecting fires when they were still small.
- In 2005, one region had a significant number of fires caused by railways, and regional staff had directly observed railway workers fail-

ing to comply with required practices for fire prevention. Railways operating in Ontario are required to submit an annual work schedule and a five-year plan for fire preparedness and prevention to the Ministry. One railroad company had not submitted its five-year plan and had submitted only a partial annual work plan. This company caused 36 fires in the 2005 calendar year that cost the Ministry over \$1 million for fire suppression.

- Forest fires put firefighters at a high risk of injury. In 2005, a total of 285 worker injuries were recorded, over 40 of which resulted in Workplace Safety and Insurance Board (WSIB) claims. Although the Ministry has implemented a number of worker safety initiatives and is developing a system for accident reporting and analysis, this system needs to provide information that relates the number of injuries over time to the number or severity of the fires in the fire season and/or the number of firefighter days worked. Such information could help the Ministry prioritize and assess the effectiveness of its safety initiatives.
- Based on an innovative simulation modeling exercise, the Ministry implemented a program, beginning in 1999, to reduce firefighting costs by better utilizing its resources and optimizing the number of seasonal firefighters and contracted helicopters. Since that time, the Ministry estimates that this program has achieved savings of over \$23 million.
- An external consulting firm, engaged by the Ministry in 2005, concluded that the Ministry's aviation services delivery model—a ministry-operated fleet complemented at peak workload times with externally contracted aircraft—was well suited to its requirements and recommended that the government retain the

existing aviation delivery model and continue improvements over the long term.

- The Ministry had negotiated a favourable price for aviation fuel purchases from two suppliers at various locations throughout the province. However, we found that the Ministry had often paid more than the negotiated price for aviation fuel and was unable to verify whether the \$4.7 million it paid for aviation fuel in the 2005/06 fiscal year was billed correctly.
- In 2004, the Ministry was assigned new responsibility for developing a plan for emergency management of a number of potential hazards, including failed dams and abandoned oil and natural gas wells. The Ministry found that over 300 dams were high-risk and, if breached, could cause extensive damage. It also estimated that there could be as many as 50,000 abandoned natural gas and crude oil wells in the province, many of which pose a range of threats, including the build-up of explosive gas or groundwater contamination. The Ministry has begun to implement procedures to mitigate such risks, but at the conclusion of our audit field work, the Ministry had not completed the identification of specific ministry actions to be undertaken in various emergency situations related to these responsibilities.

Detailed Audit Observations

FOREST FIRE MANAGEMENT

Annually over the last decade, an average of over 1,300 forest fires have burned almost 200,000 hectares, or 2,000 square kilometres, in Ontario. Half of these forest fires were caused by human activity as noted in Figure 2.

Figure 2: Historical Summary of Forest Fires in Ontario, 1995–2005

Source of data: Ministry of Natural Resources

Calendar Year	Summary of Forest Fires		
	# of Fires	Hectares Burned	% Human-caused
1995	2,122	612,436	47
1996	1,245	445,146	48
1997	1,636	38,525	59
1998	2,279	158,278	38
1999	1,017	328,263	63
2000	644	6,733	70
2001	1,562	10,732	35
2002	1,132	172,585	40
2003	1,039	314,219	50
2004	432	1,676	74
2005	1,961	45,235	32
Average	1,369	193,984	50

The goal of forest fire management is to prevent personal injury, economic loss, and social disruption from forest fires, to promote an understanding of the ecological role of fire, and to utilize the beneficial effects of fire in the management of natural resources. Forest fire management helps protect communities, homes, and recreational properties. Even forest fires that occur in remote areas of the province can affect services in the more populated areas as they can impact railways, roadways, telecommunications, and electrical and natural gas transmission corridors that the public relies on for uninterrupted service.

The Ministry of Natural Resources' Aviation and Forest Fire Management Branch is headquartered in Sault Ste. Marie and has operational responsibilities primarily in Northern Ontario. The Branch's Provincial Response Centre, also located in Sault Ste. Marie, attempts to predict forest fires and monitors ongoing fires across the province. It also co-ordinates fire suppression operations by setting priorities for firefighting and allocating resources accordingly. If necessary, the Provincial Response

Centre may request assistance from, or allocate resources to, other jurisdictions.

Regional response centres located in Sudbury and Dryden are responsible for fire operations within their respective east/west fire regions. These operations are carried out from a number of bases distributed across each region and include operations for fire detection as well as the deployment of firefighters and equipment to fire locations.

Forest Fire Prediction and Detection

During fire season, ministry staff attempt to predict the number and location of forest fires using a prediction model that factors in weather observations, the amount of moisture in the forest, and fire behaviour. Relatively accurate fire prediction can help staff prepare for firefighting. For example, fire detection aircraft can fly over areas at high risk of fire, and with prompt detection, the deployment of staff and aircraft to those areas can be expedited. Such measures can ultimately reduce the costs of fire suppression because they allow for fires to be attacked and suppressed on a more timely basis.

The Ministry's prediction model is generally helpful in planning for forest fire management and the allocation of resources. In 2005, the Ministry introduced factors into its model to better predict fires caused by lightning. Although the Ministry kept track of both fire predictions and actual fires, it did not assess or report on the accuracy of its predictions. We selected three five-day periods during the 2005 fire season to compare the accuracy of the

Figure 3: Comparison of Actual and Predicted Forest Fires for Selected Periods in 2005

Prepared by the Office of the Auditor General of Ontario

Five-day Periods	Actual Fires	Predicted Fires	Variance (%)
period 1	136	121	-11
period 2	278	221	-21
period 3	161	202	+25

Ministry's fire predictions with actual outbreaks of forest fires. We found that the variance between the predicted and actual number of forest fires started within the periods selected varied by up to 25%, as shown in Figure 3. Such assessment and reporting could help to refine the Ministry's prediction capabilities and ultimately help reduce the cost of fire suppression and the loss of natural resources.

Forest fires that are detected early require fewer resources to suppress and cause less damage than those not detected early. The Ministry uses a variety of techniques to detect fires, including organized aerial and ground detection patrols. We calculated that such proactive ministry activities have resulted in the detection of one-third of the forest fires started in the past three years. The remaining forest fires were reported either by the general public (54%) or ministry staff not specifically assigned to detection patrols (13%). In contrast, planned fire detection methods in two other Canadian jurisdictions have resulted in the identification of almost two-thirds of all reported fires. While these detection methods are not strictly comparable to those used by the Ministry—since these other jurisdictions use, for example, manned fire observation towers—such positive results suggest there may be room for improvement in the Ministry's detection capabilities.

We noted instances where fires were not detected in a timely manner and firefighters were not able to readily bring them under control, resulting in significant costs for fire suppression. For example, on a high fire-start day in 2005, when 51 active fires were recorded on the fire log, we noted that four of the 10 forest fires we sampled had not been detected from within one to seven days of their estimated start times. Subsequently, three of the four fires either were not under control by noon the next day or were not confined to a size of less than four hectares, thus not meeting ministry standards for suppression once a fire has been detected.

Suppression costs for these fires were \$128,000, \$228,000, and \$312,000, respectively.

We noted that two other Canadian jurisdictions have adopted performance targets for detecting fires while they are still small. One of these jurisdictions defines a failure of forest fire detection as: the time from fire ignition to detection that is greater than 40 minutes; suppression costs plus damage exceeding \$20,000; or the size of the fire at detection exceeding 0.2 hectares.

The Ministry does not assess its actual performance in early fire detection or whether that performance is improving, stable, or deteriorating over time. Adopting standards for fire detection could help focus early detection initiatives that, if successful, would reduce the cost of forest fire suppression and minimize personal injury, economic loss, and social disruption.

RECOMMENDATION 1

To help reduce the cost of fire suppression as well as to achieve its objectives of preventing personal injury, economic loss, and social disruption, the Ministry of Natural Resources should:

- formally assess its fire prediction results in order to help refine its prediction model and determine areas for improvement;
- consider adopting forest fire detection standards and performance targets;
- analyze the reasons for any trends in its fire detection capabilities; and
- report on its success in predicting and detecting forest fires.

Forest Fire Response

In 2004, the Ministry adopted a new strategy for forest fire management to help ensure public safety, protect the wood supply, promote an understanding of fire's role in the ecosystem, and prevent fires

through public education and awareness. Every fire is to receive a response based on the predicted behaviour of the fire, the potential impact of the fire on persons, property, and economic value, and the estimated cost of the response.

Prior to 2005, the Ministry reported only on its initial response to forest fires as a measure of its success province-wide. The Ministry considered a fire successfully attacked if it achieved one of the following: the fire was under control before noon the day after it was reported; the final size of the fire was limited to four hectares; or the fire remained within predetermined boundaries. From 2001 to 2005, the Ministry reported that it substantially achieved its target of 96% initial attack success (2005—97.8%; 2004—99.5%; 2003—95.6%; 2002—97%; 2001—96%).

The Ministry's new strategy for forest fire management refined its performance measurement of forest fire suppression by having the Ministry report its success by zone rather than for the province as a whole. Performance targets for fire management have been developed for each zone/sub-zone and the extent to which those targets are achieved is to be reported annually. In 2005, the Ministry reported that it had substantially achieved the targets set for fire response, as shown in Figure 4.

Figure 4: 2005 Initial Forest Fire Response Targets/ Success by Zone

Source of data: Ministry of Natural Resources

Fire Management Zone/ Sub-zone	% Initial Response Success	% Initial Response Target
Boreal	96	96
Great Lakes/St. Lawrence	98	96
Hudson Bay	100 ¹	90
Northern Boreal	100 ¹	94
Bak Lake Sub-zone	n/a ²	96
Parks	95	96

1. All fires reported were adjacent to economic values at risk and required initial action based on a full response.

2. No fires reported.

For some fires a decision can be made to increase, decrease, or discontinue suppression efforts according to whether costs and potential damage can be minimized or the benefits of fire, such as ecological renewal, can be realized. In these cases, considerations and decisions about responding to the fire are to be documented in a fire-assessment report. The fire-assessment report describes current and anticipated fire activity, the potential impact of the fire on persons and property, and the options for fire response.

We reviewed the completeness and accuracy of fire-assessment reports at the regional office we visited and selected forest fires from one of the days in the fire season where there were 42 fires on the fire log. We selected seven fires covering larger areas throughout the region. All seven had been difficult to control, and fire-assessment reports should have been completed for each of them. However, two reports had not been prepared as required, and a third was missing key information such as the response objective, cost estimate, potential impact of the fire on persons, property, and economic values, and fire behaviour prediction. Without such information, management cannot determine whether corrective actions should be taken or whether other fire control alternatives need to be considered.

The Ministry was developing two additional measures for fire response, one for sustained action and the other for response time. Reporting on these two measures was scheduled to begin in 2006; however, these measures were still being developed at the time of our audit.

Sustained action was to be measured as a percentage of achievement of the objectives stated in the fire-assessment reports. However, such a measure cannot be determined without properly completed fire-assessment reports. In addition, the Ministry did not have a method for capturing information from the fire-assessment reports to enable it to measure sustained action. The measure

for response times was to be a percentage of compliance with established guidelines for response times and preparedness of resources for firefighting. At the time of our audit, these guidelines were being updated to accommodate the reporting of response times.

RECOMMENDATION 2

To help enhance the information available relating to fire response and suppression and thereby help the Ministry of Natural Resources improve its capabilities in these areas, the Ministry should:

- monitor fire-assessment reports to ensure they are completed when required and that all necessary information is documented; and
- develop a method to capture and summarize relevant information from fire-assessment reports and update guidelines to enable meaningful reporting on the sustained-action and response-times performance measures.

Performance Measures for Forest Areas Burned

In addition to the fire response performance measures, the Ministry introduced three new performance measures for the forest area burned:

- **Forest Depletion**—This measure relates to the protection of the province's wood supply in areas where commercial forestry is carried out. The Ministry's response to fire in forestry areas is intended to limit the loss of this valuable wood supply.
- **Hazard Reduction**—This measure relates to the reduction of hazards caused by dead or dying forest due to insect infestation or trees felled by severe storms. Such areas can provide an abundance of tinder-like matter that

can become a fire hazard. For forest renewal purposes, the Ministry may allow a modified fire response or allow fires to burn in these areas if the risks and costs are acceptable.

- **Ecosystem Renewal**—Some areas of the province require fire to maintain their natural state, since certain plants require fire to regenerate and certain kinds of wildlife require fire disturbance to create the proper habitat. In particular, some major parks contain examples of fire-dependent ecosystems that are naturally exposed to fire on a cyclical basis. In such areas, where the risk is acceptable, the Ministry may let natural fires burn or purposely set fires in a prescribed manner to create the desired natural habitat.

In 2005, the Ministry accumulated data for the past decade for each zone and for each of these performance measures to calculate a 10-year average and reported on the achievement of these measures as illustrated in Figure 5.

The additional new performance measures provide more meaningful information because they recognize both the negative and positive effects of fire. The Ministry reported that it had achieved its targets for the protection of valuable wood supplies. However, at the time of our audit, the Ministry had not yet developed a method for assessing which areas require intentional burning to reduce fire hazard risk and which natural fires should be intentionally left to burn to reduce fire hazard risk. In the meantime, the Ministry had based its achievement of targets for reducing fire hazards on the number of fires set intentionally for this purpose.

In regard to ecosystem renewal, the strategy for forest fire management states that fire can have positive benefits by renewing the forest, creating natural habitats, and providing diversity in the landscape. The strategy promotes the role of fire in achieving positive benefits in ecosystems that depend on fire disturbance and, as noted in Figure 5, calls for the burning of 59,600 to 166,000

Figure 5: Ten-year Average of Performance Targets and Results for Forest Area Burned

Source of data: Ministry of Natural Resources

Fire Management Zone	Forest Depletion Area Hectares Burned		Hazard Reduction Area Hectares Burned			Ecosystem Renewal Area Hectares Burned		
	Target Less Than	Achieved	Target Minimum	Target Maximum	Achieved	Target Minimum	Target Maximum	Achieved
Boreal	55,000	52,882	0	5,000	2,920	2,000	5,000	4,592
Great Lakes / St. Lawrence	2,100	963	0	100	638	100	1,000	0
Hudson Bay	— ¹	— ¹	— ³	— ³	0	50,000	125,000	37,016
Northern Boreal	— ¹	— ¹	— ³	— ³	0	5,000	25,000	7,503
Bak Lake Sub-zone	18,000	785	— ³	— ³	— ²	— ³	— ³	— ²
Parks	— ³	— ³	0	5,000	1,600	2,500	10,000	7,385
Total	75,100	54,630	0	10,100	5,158	59,600	166,000	56,496

1. Not applicable because the zone is not within the area of forestry activity.

2. Not applicable because this sub-zone is not separate for this measure.

3. No targets have been set.

hectares of forest on a 10-year rolling average. In the first year of reporting on this measure, the Ministry stated that it met the minimum requirements for three of the five zones for which targets had been set. Overall, the Ministry calculated that, over the last 10 years, an annual average of 56,496 hectares were burned for ecological renewal, which was slightly less than the minimum requirements of the forest fire management strategy. The calculations for the area of ecological renewal were based on natural fires for which a modified fire suppression or monitoring only response was selected, as opposed to fires intentionally set for ecological renewal purposes.

One of the areas in which ecosystem renewal processes are being developed is in the Parks Zone, which consists of 11 parks, each of which is a representative example of native biodiversity within an ecologically defined region. The strategy for forest fire management states that forest fire management plans must be developed for each park. In addition to identifying opportunities for ecosystem renewal, each plan is to consider public safety, capital assets within the park and adjacent to it, timber values within and surrounding the protected areas, the protection of species at risk of extinction, and maintenance of critical habitat. Currently, eight out of 11

parks, which account for 86% of the acreage in the Parks Zone, do not have plans for fire management in place.

RECOMMENDATION 3

To help achieve its objectives of protecting valuable wood supplies and utilizing fire's beneficial effects in resource management, the Ministry of Natural Resources should:

- develop processes for identifying areas where fire is necessary for hazard reduction and ecological renewal; and
- complete the required plans for fire management for the eight of 11 parks that do not have such plans in place.

Fire Investigations and Reviews

Forest fire investigations attempt to identify the exact source and cause of a fire. These investigations allow information to be gathered to help identify recurring fire causes, to assist in efforts to prevent fires, and to successfully prosecute any violators of the *Forest Fires Prevention Act*. An investigation report is prepared for every forest fire

detected. For those fires of a significant size that are caused by human activity, a further investigation is carried out, and charges may be laid as a deterrent and/or the cost of fire suppression could be pursued.

We visited one region where 437 fires were caused by human activity in 2005. The regional office had selected a sample of investigation reports related to these fires and had reviewed them to establish trends, determine adherence to policy and guidelines, and detect and identify strengths and weaknesses in investigation techniques. The review contained a number of recommendations for improvements in the process for fire investigations, including the collection of sufficient evidence, ensuring that reports are properly completed, and ensuring staff trained in advanced investigation techniques are available when needed.

Ministry policy requires, in addition to investigation reports on individual fires, higher-level provincial and regional reviews of the plans made for, and actions taken on, significant forest fires. These reviews identify and recommend improvements to forest fire management practices. A review at the provincial level is to be conducted for fires that are high-profile, have caused significant damage, or have resulted in high cost to control. However, we were informed that no provincial reviews had been conducted since the policy was adopted in 1989.

At the regional level, reviews are to be conducted if fires are not controlled in the initial attack or exhibit unusual behaviour, or if the handling of the fire or situation was noteworthy. Reviews are to be completed for a minimum of 1% of fires in a region. In the region we visited, there had been 1,442 forest fires during the 2005 fire season, for which 14 to 15 fire reviews should have been completed. However, the regional office could provide only four reviews for the 2005 fire season, and there was no consistency in the form and content of these reports. Completion of the required number of reports and formal reporting standards could assist management in identifying recurring issues and help in developing plans for corrective actions.

RECOMMENDATION 4

To improve its techniques of fire investigation, help identify recurring causes of fire, assist in fire prevention efforts, and provide a deterrent, the Ministry of Natural Resources should:

- take action to resolve any training, documentation, or evidence-gathering weaknesses already identified in the process of fire investigation; and
- clearly define the criteria for determining when a fire review at the provincial level is necessary and develop guidelines for the form and content of fire reviews at both provincial and regional levels.

Forest Fire Prevention

In 2004, the Ministry's new strategy for forest fire management called for educating the public about its responsibility for reducing the number of forest fires caused by humans. Educational priorities were to be based on statistical information about the causes of fires. Guidelines and operating procedures were to be developed to help reduce the risk of fires being started by people working, living, or engaged in recreational activities in forested areas.

Over the last three calendar years (2003–2005), the Ministry reported that there were 3,432 forest fires in the province, of which 1,970 were started by lightning, 1,375 were caused by known human activity, and 87 were of unknown origin, as shown in Figure 6.

In 2006, the Ministry adopted a five-year public education program to promote forest fire prevention. A number of activities were proposed for implementation, such as updates to brochures on fire prevention, the development of an Internet site as a source for educational information, revitalizing the image of Smokey the Bear, and the promotion of Wildfire Prevention Week. An annual summary

Figure 6: Summary of Forest Fires by Cause, 2003–05

Source of data: Ministry of Natural Resources

Fire Cause	2003	2004	2005	Total Fires	# of Known Human-caused
lightning	517	113	1,340	1,970	–
recreational (camping)	126	128	234	488	488
miscellaneous (children)	112	57	111	280	280
resident (chimney sparks)	111	54	90	255	255
railway (welding repairs)	66	18	89	173	173
forestry (machinery)	24	29	42	95	95
incendiary (arson)	24	15	15	54	54
other industrial (mining)	12	5	13	30	30
unknown	47	13	27	87	–
Total fires	1,039	432	1,961	3,432	
Total known human-caused	475	306	594		1,375

of education activities is to be carried out, with a program evaluation report in 2010.

Aside from these educational initiatives, the Ministry also restricts the use of open fires in designated areas to reduce the number of fires caused by humans during periods of high fire risk. In addition, the Ministry has guidelines in place for those activities that pose a risk of starting forest fires, including guidelines for forestry and mining and for work on railroads and power lines. The Ministry also performs compliance activities and investigations that may lead to invoicing those responsible for forest fires to recover costs and/or laying charges under the *Forest Fires Prevention Act*.

In December 2004, the Ministry prepared a business case for fire prevention that examined historical information on forest fires and identified and ranked the fires by cause. The business case showed that the number of fires in several categories was increasing over time, and it suggested activities to help to prevent fires caused by humans, as well as target setting for fire prevention. Two other jurisdictions in Canada were identified as having implemented specific targets for fire prevention. The business case also noted that the activities proposed to reduce the occurrence of fires caused by

humans would require incremental spending that was expected to result in net savings if measured over a five-year period, which would allow sufficient time to get the proposed activities for fire prevention in place. However, at the time of our audit, the proposed activities had not been implemented and targets for fire prevention had not been set.

In 2005, one regional office that had noted a significant number of fires caused by railways investigated and implemented measures for fire prevention. Regional staff had directly observed railway workers in non-compliance with required practices for fire prevention. Railways are required to develop plans for fire prevention and must submit a five-year plan for fire preparedness and prevention and an annual work schedule to the Ministry. Five railway companies were required to file these plans and work schedules in the region we visited. Two companies had submitted adequate annual work schedules and five-year plans and two other companies were substantially compliant. The fifth railroad company, which had caused 36 fires in 2005, had not submitted a five-year plan and had submitted only a partial annual work plan.

The regional office was aware that significant technology changes had occurred in railway

operations and that fire investigators required an understanding of current railway operations to effectively investigate fires on railway lands. In January 2006, the regional office completed the development of a training curriculum specifically for railway-fire investigations. This is a best practice that may be worth considering for the other region as well as for other industrial causes of forest fires.

RECOMMENDATION 5

To help prevent forest fires and ensure appropriate action is taken when fires are caused by human carelessness or repeat offenders, the Ministry of Natural Resources should implement an overall strategy for forest fire prevention that includes:

- a specific prevention and compliance strategy for each major type of forest fire caused by humans;
- an estimate of the potential costs and benefits of the proposed initiatives to address each type of forest fire caused by humans as well as performance targets for each initiative; and
- mechanisms to report on the achievement of results.

Firefighter Training and Safety

In addition to its permanent staff, the Ministry hires over 1,000 part-time firefighters each fire season. Some are hired for the entire season while a greater number are hired on an as-needed basis. Each firefighter must be certified by an accredited training agency or by the Ministry itself. The Ministry also participates in the development of national standards for firefighters so that personnel can be exchanged among jurisdictions at times of peak fire activity. The Ministry has contracted out entry-level training to private companies and keeps more advanced training in-house.

Figure 7: Firefighter Injuries, 2003–05

Source of data: Ministry of Natural Resources

Injury	2003	2004	2005
WSIB	188	67	165
non-WSIB	158	89	120
Total	346	156	285

Firefighting is high-risk work. In 2005, a total of 285 injuries were recorded of which 165 were reported to the Workplace Safety and Insurance Board (WSIB). Over 40 of these injuries resulted in WSIB claims for a total of 460 lost-time days. Reported injuries to firefighters are shown in Figure 7.

The Ministry business plan states that its firefighting program will continue to place the highest priority on the safety of its firefighters. Since 2003, the Ministry has produced an annual safety report that is supposed to summarize the number of employee accidents, injuries, and health-related incidents, analyze trends, and make recommendations for improvement. We reviewed the safety reports for the 2003, 2004, and 2005 fire seasons and noted that the safety reporting process has become increasingly more complete and useful over the last three years. While no recommendations were included in the 2003 report, the 2004 report included recommendations for a range of activities from front-line firefighting safety to proper techniques for lifting and carrying. The report for the 2005 fire season included actions taken on the previous year's recommendations. However, we noted that the safety reports compare the number of injuries over time but do not factor in the number or severity of the fires in each fire season or the number of firefighter days worked. Such analysis could assist the Ministry in determining whether its safety initiatives are working.

As the Ministry has taken on an increasing number of training programs, its training unit has identified a need for effective testing and evaluation to determine whether individuals are getting

from that training the skills necessary to perform their jobs safely and effectively. In October 2005, the Ministry prepared a request for proposals for the design, development, and delivery of a method for evaluating individuals in its training courses. The identified benefits were to include assurance that all testing and evaluation conformed to accepted methodologies and techniques; identification of appropriate time intervals for providing refresher training; and a process that allowed individual workers to identify and work on skills that they believe require improvement. However, at the conclusion of our audit, we were advised that the project had not moved forward due to funding limitations.

RECOMMENDATION 6

To help improve the training of its firefighters and further develop its worker safety initiatives and reporting, the Ministry of Natural Resources should:

- enhance the usefulness of its safety reports by analyzing trends in firefighter injuries in relation to the number and severity of forest fires and number of firefighter days worked; and
- address the identified need for an evaluation methodology to help improve the effectiveness of its training courses for firefighters.

Fire Management Costs, Revenue, and Inventory

Ministry costs for firefighting vary substantially depending on the number and severity of forest fires during the fire season. However, as noted in Figure 1, fixed costs (infrastructure and full-time staffing costs) have been relatively stable for the past 10 years and, as would be expected, extra costs for firefighting (contracted aircraft and helicopters,

part-time staffing) account for most of the variability in program costs.

At the end of the 1998 fire season, the Ministry began a project to determine the optimal cost for fire management. Simulation modelling was done to analyze the relationships among levels of protection, requirements for suppression resources, and overall costs. The model analyzed eight years of historic information on firefighting to predict future needs and to determine an optimal number of seasonal helicopters to contract and the optimal number of firefighters for initially attacking forest fires. The Ministry determined that additional savings could be found through implementing an information system to manage equipment for firefighting and another information system to minimize unused hours on aircraft hired for periods of elevated fire risk. A desired level of protection was determined, and management was charged with delivering that level of protection while minimizing costs.

Because of the annual variability of fires, savings targets set for the program for total cost management were to be evaluated over five-year periods. Reporting was prepared for each year up to 2003 and a final report was prepared in 2006. That report indicated that from the beginning of the program up to the 2005 fire season, the Ministry had achieved savings of \$23.6 million. The Ministry calculated that \$20 million was attributable to the optimization of contracted helicopters and seasonal staffing while \$3.6 million was due to efficiencies derived from the implementation of an equipment inventory control system. The 2006 report was a final summary of the original initiatives designed to optimize costs for fire management.

In respect of program revenue, under the *Forest Fires Prevention Act*, the Ministry can recover the costs of suppressing forest fires that occur on Crown land and are caused by individuals disobeying or neglecting to carry out the provisions of the Act. It can also recover costs for fighting fires on First

Nations lands, on railway lands, and in municipalities where there is no agreement with the Ministry for firefighting.

We reviewed revenue collection practices at one fire region office and noted that, in 2005, the office invoiced individuals and companies for 65 fires to recover over \$1.6 million in costs for fire suppression. Although most companies had paid the Ministry by the end of our fieldwork, we found that the office normally did not issue invoices until four to six months after an activity to suppress a fire had taken place.

One railroad company accounted for 36 fires in 2005. The company had been invoiced for a total of more than \$1 million in fire-suppression costs. At the time of our audit, the Ministry was having difficulty collecting payment from this company. This same company still owed \$97,000 in fire-suppression costs incurred for forest fires in 2003. In 2002, the Ministry reached an out-of-court settlement with another railway company that it had difficulty recovering costs from in the past. The settlement required that an amount of \$500,000 be deposited into an account for the Ministry to fund fire-suppression costs that were incurred where the railway was deemed responsible. Similar or more severe action may be required to improve efforts to collect from the railroad company with more than \$1 million owing for the cost of forest fire suppression.

The Ministry's inventory system is used to manage the issuance of firefighting tools, equipment, and supplies such as generators, hoses, and chainsaws. During the fire season, items from the warehouse are loaned to areas throughout the fire regions as needed. At the time of our audit, the inventory system recorded 259 different items valued at \$27 million. One facility we visited had an inventory of 129 different items valued at \$3.8 million. We reviewed the inventory at that facility and found only minor discrepancies in a number of items tested but noted a number of obsolete items.

RECOMMENDATION 7

To help ensure that forest fire management is operated in the most economical manner, the Ministry of Natural Resources should:

- review the costs and benefits of formally continuing with its cost-management program and reporting annually on the achievement of any cost-saving initiatives;
- establish a shorter timeframe for invoicing costs for fire suppression and assess the merits of alternative courses of action to help improve the collection of outstanding invoices; and
- dispose of obsolete inventory on a timely basis.

AVIATION SERVICES

The primary function of aviation services is to support forest fire management, which accounts for three-quarters of its activities. Aviation services provides, for example, transport for firefighters and for the dropping of water or fire retardant on fires. Support is also provided for other ministry resource-management activities, including distribution of rabies bait, stocking of fish, and aerial surveying of wildlife. Aviation services also provides non-scheduled air transport for senior government officials.

Aviation services employs 160 full-time and seasonal staff, including 60 pilots, and spends about \$20 million annually to maintain its air fleet and seven year-round air bases in Northern Ontario. Aviation services spent an additional \$20 million in the 2004/05 fiscal year to augment its capacity during peak periods with private-sector aircraft services. The Ministry's fleet was estimated to have a value of about \$270 million in the 2004/05 fiscal year. It consists of 33 aircraft as shown in Figure 8.

Figure 8: Ministry Air Fleet as of April 2006

Source of data: Ministry of Natural Resources

Number	Type	Aircraft Model	Primary Functions
9	airplane	CL-415	fire (heavy water bomber)
6	airplane	DHC-2 Turbo Beaver	fire & resource management
3	airplane	Twin Otter (newer)	fire (water bomber) & resource management
3	airplane	Twin Otter (older)	fire (water bomber) & resource management
2	airplane	King Air 350	passenger transportation
2	airplane	Maule M7	resource management
1	airplane	Navajo	aerial photography
3	helicopter	AS350-B2	fire & resource management
3	helicopter	Bell 206 L-1	fire & resource management
1	helicopter	EC 130	fire & resource management
33 total aircraft			

Aviation Services Costs

In October 2005, a consulting firm reviewed the Ministry's aviation services and determined what aircraft and services should be provided, who should provide them, and what organizational options were appropriate. The firm used the total cost of the aviation services program in 2003/04 in preparing its study. The cost that year, including capital depreciation and the hiring of commercial aircraft, was estimated to be \$95.5 million: aviation services were \$25 million; capital depreciation was \$18.5 million; and hiring commercial aircraft \$52 million. The consulting firm recommended a "retain and improve" strategy and cited the delivery model then in use to be the best value in terms of costs and meeting the needs of the Ministry's various clients.

The consultant's report included a number of suggestions for improvements, the most significant of which was to sell off three unused aircraft estimated to be worth about \$700,000. Two of the aircraft were originally used in support of a flying conservation-officer program but were removed from service as they did not meet mission requirements, were expensive to maintain, and had ongoing maintenance problems. Neither

of these two planes had been flown since 2002, and the third aircraft was last flown in the year 2000. At the time of our audit, the Ministry still owned these aircraft. Surplus assets such as these could be sold to realize cash or traded for useful equipment upgrades for other aircraft.

In order to keep its utilized aircraft in good repair, aviation services employs 34 full-time aircraft maintenance engineers and maintains a supply of aviation parts valued at \$13 million. In addition to direct maintenance costs, any aircraft downtime for maintenance may require aircraft replacement services to be purchased from outside contractors. In our 1995 audit of the program, we reported that the Ministry was unable to allocate maintenance costs to individual aircraft. We had the same concern during our current audit in that maintenance costs, which are over \$2 million annually, were not tracked by individual aircraft or by aircraft type. Also, the Ministry's system for allocating the cost of parts to aircraft was not fully operational, for only half the inventoried items had been costed and entered into the system. As a result, the Ministry could not accurately monitor the operating costs of individual aircraft and could not identify when downtime and maintenance costs would make replacing aging aircraft a more economical

alternative. For example, the Ministry has three helicopters that are 25 years old—five years past their estimated useful economic life. The Ministry has tried unsuccessfully to get high-level government approval to replace these helicopters using subjective rationale such as its need for greater capacity and better performance. Objective maintenance costing information may provide more tangible information for making well-informed fleet-replacement decisions.

One of the Ministry's other major aviation operating expenses for the 2005/06 fiscal year was the purchase of aviation fuel for \$4.7 million. The Ministry had negotiated a favourable price for aviation fuel purchases with two suppliers with various locations throughout the province. Under each of the two contracts, the price was reviewed each month and a new price set at a discounted rate compared to established pricing. However, we found that the Ministry often had not received credit for the reduced fuel prices and was not able to verify that it was being billed correctly.

RECOMMENDATION 8

To help improve its operational efficiency and deliver aviation services in the most cost-effective manner, the Ministry of Natural Resources should:

- dispose of unused aircraft through sale or trade;
- track cost of maintenance downtime, engineering, and parts by individual aircraft to help objectively determine fleet-replacement requirements; and
- implement procedures to ensure it pays the negotiated price for aviation fuel.

Aviation Safety Inspections and Audits

Transport Canada is the regulatory agency in charge of aviation operations throughout Canada.

Transport Canada and the Canadian Business Aviation Aircraft Association approve and issue certificates authorizing both flight and aircraft maintenance operations. The Ministry holds three operating certificates: one for fixed-wing executive and passenger operations, one for aerial work for specialty fire and resource operations, and a third for passenger transport by helicopter. The Ministry also holds a certificate as an approved maintenance organization. Aircraft maintenance is highly regulated and follows rigid maintenance cycles.

Transport Canada and the Canadian Business Aviation Aircraft Association have performed nine audits of various aspects of the Ministry's aviation services since 2002. Complete compliance was found in six of the audits, and for the other three, where non-compliance was reported, inspectors noted that the Ministry took adequate corrective actions within the required time periods.

Commercial aircraft operators that provide contracted flight services to the Ministry must meet provincial requirements in addition to those imposed by Transport Canada to ensure aviation services are delivered safely and that risks to ministry staff and clients are minimized. These additional requirements give the Ministry the right, for example, to audit or inspect any of the operator's aircraft, verify pilot licences and qualifications, review medical and immunization certificates, perform criminal record checks, confirm the adequacy of the operator's insurance, inspect aircraft maintenance facilities, and review training programs.

Ministry safety officers oversee the delivery of flight operations by commercial aircraft contractors and the Ministry's own aircraft. When aircraft contractors apply to provide services to the Ministry, a safety officer reviews the application and inspects the applicant's operations prior to granting eligibility for hire. The applicant signs a form agreeing to ongoing compliance with the province's standards and provides a certificate of insurance to demonstrate that it meets the required minimum coverage.

These two documents are retained and, if approved, information on the applicant is entered into the Ministry's database.

We could not test the accuracy of the database of approved aircraft contractors at the regional office we visited because, once information had been entered into the database, the paper records were destroyed. Therefore, we could not determine the basis upon which safety officers approved eligible contractors, and we could not assess whether additions, deletions, and changes to contractor information were timely, accurate, complete, and properly authorized.

In addition, the regional office we visited was unable to provide any documentation relating to audits that had been performed in the past three years. We also noted that there were no criteria for selecting audit candidates or for minimum audit coverage in a given year. We were informed that commercial carriers were not required to advise the Ministry of changes to their operations such as aircraft purchases, or the hire of new pilots. Such events might warrant assessments by safety officers. Without periodically inspecting approved contractors and obtaining notice of changes to their operations, the Ministry cannot be assured that its approved contractors continue to meet provincial requirements.

RECOMMENDATION 9

To ensure that all commercial aircraft contractors meet and continue to meet provincial requirements for aviation safety, the Ministry of Natural Resources should:

- implement record retention policies for documentation related to commercial carrier inspections, audits, and information updates;
- outline circumstances that require commercial carriers to submit information regarding significant changes to their operations; and

- consider a risk-based program of periodic contractor safety inspections.

EMERGENCY MANAGEMENT

Pursuant to the *Emergency Management Act*, the Ministry is required to formulate an emergency plan governing the provision of necessary emergency services; conduct training programs and exercises to ensure the readiness of its employees to react to an emergency; and review and revise its emergency plan every year. In 2004, the Ministry was assigned responsibility for seven of 37 specific types of emergencies that have been identified by the Ontario government: forest fires, floods, drought/low water, dam failures, erosion, soil/bed-rock instability, and other emergencies related to crude oil and natural gas exploration, production, and underground storage, as well as salt-solution mining. Together, these types of emergencies represent almost 50% of the emergencies declared within Ontario in a typical year.

Municipalities are responsible for the first response to emergencies and must implement programs to deal with all types of emergencies. In 2002, the Act was amended to require the appointment of a Chief, Emergency Management Ontario, to monitor, co-ordinate, and assist in the development and implementation of emergency management programs at the municipal and provincial levels. When requested, Emergency Management Ontario will co-ordinate requests for assistance to municipalities with provincial ministries such as the Ministry of Natural Resources.

Emergency Management Ontario has instituted a phased implementation of ministry and municipal emergency programs beginning with an essential introductory level to have been completed in 2004, an enhanced level in 2005, and a comprehensive level in 2006. In 2005, the Ministry completed the essential introductory level by identifying hazards

and assessing the risk associated with the seven types of emergencies assigned. In doing so, the Ministry determined that certain situations were high-risk.

For example, the Ministry assessed dams in Ontario and found over 300 dams that, if breached, could cause extensive damage. The Ministry noted that the absence of a comprehensive and uniform dam-safety-oversight strategy has resulted in inconsistent and, in some cases, minimal levels of protection for persons and property. To deal with this particular risk, the Ministry has proposed an enhanced dam-safety program. In another example, the Ministry estimated that there may be as many as 50,000 abandoned natural gas and crude oil wells in the province, many of which are poorly sealed and pose a range of threats to the public and the environment, including a build-up of explosive gas and contamination of groundwater. To mitigate this threat, the Ministry received funding in 2005 for an abandoned-works program with provisions for monitoring and inspecting potential hazards.

Although the Ministry has completed some of the tasks associated with the enhanced and comprehensive levels of emergency planning, and has even begun to implement procedures to mitigate risks, at the end of our fieldwork, the Ministry had not completed the enhanced-level planning. Such planning would outline the Ministry's role and responsibilities in the event of an emergency. The Ministry noted that it was awaiting guidelines from Emergency Management Ontario related to the enhanced and comprehensive levels of emergency planning. However, the Ministry needs to work with Emergency Management Ontario to ensure that its legislative responsibilities have been fulfilled.

The Ministry had six employees qualified to train staff in emergency management, and more than 200 front-line staff have received basic training. However, an enhanced comprehensive emergency-management program would help form the basis for conducting the legislatively required exercises

to ensure the readiness of ministry employees to provide the necessary services in the event of an emergency. Such exercises can uncover weaknesses in planning and highlight unexpected problems.

For example, the Ministry participated in two emergencies that required the provision of aircraft for the evacuation of residents in a northern community. A misunderstanding regarding the roles and responsibilities of the Ministry, the local government, and the evacuees unexpectedly hindered the first evacuation in 2005. The Ministry participated in a post-emergency review and identified areas for improvement. We were informed that a second emergency evacuation in the spring of 2006 proceeded much more smoothly because of lessons learned the previous year. The Ministry has performed some exercises, but without a comprehensive plan in place outlining the roles and responsibilities of all parties involved in an emergency, it may be difficult for the Ministry to realistically simulate actual emergencies.

RECOMMENDATION 10

To ensure that its legislative responsibilities for emergency management are being fulfilled and to protect people, property, and the environment from the natural and human-caused hazards for which it has been assigned responsibility, the Ministry of Natural Resources should:

- work with Emergency Management Ontario to complete the required enhanced and comprehensive levels of emergency planning; and
- develop a comprehensive emergency-simulation program to test the effectiveness of various components of its emergency plans.

MINISTRY OF NATURAL RESOURCES RESPONSE

The Ministry appreciates the audit observations and recommendations from the Auditor General and will work to address them.

The Ministry is dedicated to providing integrated and efficient services through the effective use of its expertise and resources to protect Ontario's people and manage its natural resources in an ecologically sustainable manner. Escalating costs, exacting service-level standards, the dynamic forest fire regime (for example, changing conditions based on climate), and increasing demand from the public and industry for protection from fire are some of the challenges in developing an action plan to address the audit recommendations.

Recommendation 1

The Ministry acknowledges that fire prediction and detection can always be improved, and an initiative to improve fire prediction is being tested this fire season. It should result in a refined decision-support tool, improving forest fire prediction results.

Forest fire detection factors in many variables. Lightning fires frequently smoulder undetected for several days until high winds and other weather conditions create enough smoke for random or organized detection methods to work. The weather that makes fires detectable also makes them difficult to suppress within initial attack standards. The Ministry is developing forest fire detection standards and performance targets for testing during the 2007 fire season. A gap analysis for identifying fire detection capability trends will be conducted. The Ministry will report in 2007 on its success in predicting and detecting fire.

Recommendations 2 and 3

The Ministry is formalizing the use of fire-assessment reports (FARs) to track performance

under the new Forest Fire Management Strategy and improving processes to capture and summarize relevant information from FARs, as recommended. The information from FARs will be used to develop meaningful reporting on the sustained-action and response-times performance measures by 2007.

The 2004 Forest Fire Management Strategy for Ontario included a project to identify areas where fire is necessary for hazard reduction and ecological renewal. Local planning and identification of targets are under way. New guidelines, issued in 2005 and 2006, will help the Ministry achieve the goals highlighted in the audit. Before 2008, fire management and Ontario Parks staff will develop a strategic plan for fire management activities in parks that will consider the capacity of the Ministry and the planning priorities of Ontario Parks.

Recommendation 4

Techniques for identifying the exact cause of a forest fire are complex and involve a process of elimination to rule out possible causes. As part of regular business, when weaknesses in any training, documentation, or evidence-gathering processes are identified, the Ministry takes a "lessons-learned" approach to address them. The Ministry agrees that continuous improvement is essential to fire investigations.

The Ministry is also instituting a lessons-learned process flowing from the content of all fire reviews it conducts. The Ministry agrees that the decision-making criteria for provincial-level reviews, as well as the form and content guidelines for provincial and regional fire reviews, need clarification. New policies and criteria for fire reviews will be in place before the 2007 fire season.

Recommendation 5

An analysis to guide the development of a prevention-and-compliance strategy for the major human-caused fire types is under way. Part of this will include developing a set of prevention-related performance measures. Predicting what might have occurred in the absence of specific action, coupled with the seasonal variability in weather, is a challenge for prevention programs. The new strategy will guide development and testing of prevention-related results-reporting methods in 2007, and these will be implemented in 2008.

Recommendation 6

The Ministry agrees with this recommendation and appreciates the Auditor General's recognition that safety-reporting processes have shown continuous improvement over the last three years. The Ministry has a project under way to enhance the usefulness of safety reports by analyzing trends in firefighter injuries relative to the number of days worked and the number and severity of forest fires and will implement recommended changes starting in the fall of 2006.

The Ministry is developing an evaluation methodology to improve the effectiveness of firefighter training, although funding pressures have caused delays and continue to create challenges. Improvements to the evaluation of training will be launched this year and completed by 2008.

Recommendation 7

The Ministry is pleased the Auditor General recognizes the value of the Total Cost Management (TCM) concepts it uses to ensure that the overall value to the taxpayer is considered in every decision, and it will continue to improve the TCM program.

The Ministry believes the time frame for issuing an invoice for fire suppression costs is reasonable, given staff availability during the

fire season and the complexity of the invoices. It takes time to analyze and ensure an invoice is correct before it is paid. The outstanding invoices mentioned in the audit have been paid. There is an initiative under way to develop and implement enhanced protocols/agreements with companies to improve the recovery of expenditures.

The Ministry will continue to regularly evaluate equipment levels and dispose of obsolete equipment. Another review before the 2007/08 fiscal year will ensure inventories are current and accurate.

Recommendation 8

The Ministry acknowledges the recommendation. Plans are in place to dispose of four underutilized aircraft identified in the Aviation Services Review. Two have been disposed of, Ontario Shared Services has identified a broker to sell the third, and the fourth will be disposed of before April 2007.

The Ministry is implementing a system to assist with the requirements for tracking aircraft maintenance. It will track repair and part costs to specific aircraft. In 2007, the Ministry will report on cost-effective ways to track air engineer time for specific aircraft.

The Ministry and its fuel suppliers are collaborating to improve billing procedures so Ministry departments can verify and approve their invoices, thus reducing potential errors. A database to improve the reconciliation of invoice payments will be implemented during the 2006/07 fiscal year. An audit procedure to validate the process and accuracy will be introduced in 2007.

Recommendation 9

The Ministry supports the recommendation. A Health, Safety and Security Coordinator position will be recruited in 2006 to supervise Aviation Safety Officers and increase capacity.

The Ministry will establish record retention schedules for documentation relevant to commercial carrier inspections, audits, and information updates. In fall 2006, a document will be produced that outlines policy requirements for aircraft operators applying to be on the Ministry's aircraft carrier eligibility list, and a risk-based program to audit currently approved commercial aircraft operators.

Recommendation 10

Emergency Management Ontario advised the Ministry that there were no required enhanced levels of emergency planning or deadlines for 2005 and 2006. Rather, Emergency Management Ontario has advised ministries that the approach they should now follow is to develop and integrate components of a comprehensive-level Emergency Management Pro-

gram into their own emergency management programs over a number of years, without a targeted completion date. The Ministry acted accordingly, working towards the comprehensive level of planning in accordance with international standards. The Ministry will continue to work with Emergency Management Ontario to ensure its legislative responsibilities are fulfilled.

The Ministry has the capacity to develop exercises and realistically simulate actual emergencies. Emergency Management Ontario advised ministries to perform table-top exercises to test their plans pending a complex exercise program. The Ministry responds in actual emergency situations and takes lessons from these real activities to enhance various aspects of its program, including planning and training.

Chapter 3

Section 3.05

Hospitals— Administration of Medical Equipment

Background

There are 155 public hospital corporations in Ontario, each providing patient services at one or more physical locations. Public hospitals in the province are generally governed by boards of directors and are, for the most part, incorporated under the *Corporations Act*. The board is responsible for the hospital's operations. As well, each hospital is responsible for determining its own priorities to address patient needs in the communities it serves. The *Public Hospitals Act* and its regulations provide the framework within which hospitals operate.

Hospital boards are also accountable to the Ministry of Health and Long-Term Care (Ministry), and provincial payments provide approximately 85% of total hospital funding, some of which is for specified purposes (for example, purchasing a specific type of medical equipment). Other funding sources may include internally generated surpluses, such as those from parking revenues or cafeteria sales, as well as donations, which may also be restricted for specified purposes. In the 2005/06 fiscal year, the total operating cost of the 155 hospital corporations was approximately \$17.5 billion.

Public hospitals in Ontario have a large variety of medical equipment ranging from small, less

expensive items—such as vital signs monitors costing several thousand dollars that are used throughout the hospital—to expensive, complex equipment costing millions of dollars—such as magnetic resonance imaging machines (MRIs). The acquisition, preventive maintenance, and repair of this medical equipment is essential for providing quality patient care in hospitals.

While hospitals report their overall equipment spending to the Ministry, they are not required to report separately on the type or total value of medical equipment purchased or the cost to maintain this equipment. The three hospitals we visited spent a total of \$20 million to acquire medical equipment in the 2005 calendar year. None of these hospitals had readily available information on the overall cost of maintaining and repairing their medical equipment.

Audit Objective and Scope

This audit and the one in Section 3.06 constitute the first value-for-money (VFM) audits conducted of the hospital sector, enabled by an expansion of the mandate of the Office of the Auditor General of Ontario effective April 1, 2005. The expansion

allows us to conduct VFM audits of institutions in the broader public sector, such as hospitals, children's aid societies (see Section 3.02), community colleges (see Section 3.03), and school boards (see Section 3.11).

The objective of our audit was to assess whether adequate policies and procedures were in place at selected hospitals to ensure that medical equipment was acquired and maintained in a cost-effective manner that supports quality patient care.

We conducted our audit work at three hospitals of different sizes that provide services to a variety of communities: Grand River Hospital serving the Region of Waterloo and area, Mount Sinai Hospital in Toronto, and the Thunder Bay Regional Health Sciences Centre, serving Thunder Bay and northwestern Ontario. In conducting our audit, we reviewed relevant files and administrative policies and procedures, met with appropriate hospital and Ministry of Health and Long-Term Care (Ministry) staff, conducted preliminary visits to familiarize ourselves with medical equipment operations at two other hospitals, and reviewed relevant literature, including publications by the Institute for Clinical Evaluative Sciences on Access to Health Services in Ontario and the Canadian Institute for Health Information's Medical Imaging in Canada.

Our audit was conducted 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. The criteria used to conclude on our audit objective were discussed with and agreed to by senior hospital management.

We did not rely on the Ministry's internal audit to reduce the extent of our audit work because the Ministry had not recently conducted any audit work on the acquisition, maintenance, and repair of medical equipment located in hospitals. None of the hospitals we visited had an internal audit function.

Summary

All the hospitals we visited had administered some parts of their equipment management processes well, but in other areas we noted opportunities for significant improvement. Specifically, all hospitals had areas where procedures were not adequate to ensure that medical equipment required to meet patient-care needs was acquired and maintained in a cost-effective manner. For instance, we noted that hospitals often did not use multi-year planning processes, competitive selection, or other key elements of effective purchasing processes normally used by other organizations to acquire equipment.

More specifically, we noted that:

- Multi-year strategic plans were not used by two of the three hospitals to determine and prioritize medical equipment needs. This is a common best practice in other organizations that have recurring large equipment purchases, and we noted recommendations from other jurisdictions indicating that this was a best practice for hospitals as well. While annual equipment requests from their various departments were prioritized at all the hospitals, one hospital, based on available funding, approved \$10.4 million of the \$39 million in department requests it received for the 2005/06 fiscal year—however, it had no documented rationale for determining which purchases were approved for acquisition versus which were not. At another hospital, while most of the purchases we sampled were made outside of the annual prioritization process, hospital management indicated that purchases made with funding from sources such as the hospital's foundation did not need to go through the hospital's annual prioritization process.
- Hospitals did not consider certain relevant criteria in assessing proposed medical

equipment purchases. For example, one hospital purchased laboratory equipment for \$534,000 without a documented assessment supporting why this equipment was needed, such as anticipated demand for the services in the hospital, or an assessment of whether another laboratory could perform the work within required time frames. Hospital management indicated that a clinical assessment was completed, but not fully documented.

- The majority of medical equipment acquisitions we reviewed were purchased directly from a vendor without any evidence of other suppliers being considered. Hospitals indicated that this was due primarily to the standardization of medical equipment, which was necessary for various reasons, including ensuring compatibility with other hospital devices or minimizing incidents relating to staff being unfamiliar with other vendors' medical devices. While we recognize the benefits of standardizing certain types of medical equipment, we found that none of the hospitals had guidelines on what medical equipment should be standardized. This increases the risk that medical equipment will not be standardized when it should be, or that it will be standardized, and subsequently purchased without competitive selection from one vendor, without justification.
- One of the hospitals purchased its medical equipment through a buying group, which we expected would result in lower prices. However, none of the items that we sampled were purchased by the buying group using an open competitive process. These items included many that cost well in excess of \$100,000, including a computed tomography machine (CT) that cost over \$1.1 million.

We acknowledge that in most cases, given the specialized nature of the medical equipment purchased, we were unable to assess whether hospi-

tals could have acquired equipment that met their patients' needs at a lower price had they followed a competitive selection process.

We also had concerns with the maintenance of medical equipment, which included the following:

- All hospitals relied on equipment vendors to maintain their magnetic resonance imaging (MRI) machines and CTs. We noted that the vendors' maintenance varied and was often less frequent than the standard set in the Clinical Practice Parameters and Facility Standards by the College of Physicians and Surgeons of Ontario (College) for MRIs and CTs located in independent health facilities. For example, while one hospital had preventive maintenance on its MRIs conducted monthly in 2005, which was consistent with the Clinical Practice Parameters and Facility Standards, another hospital did not have maintenance performed on its MRI until seven months after it was installed. We also noted that MRIs and CTs were not always subject to normal quality assurance procedures, such as phantom scans, to ensure that they were operating properly.
- Medical equipment was often not maintained in-house as frequently as required by service manuals or hospital plans. For example, 75% of defibrillators at one hospital did not receive scheduled maintenance during 2005, including 45% that went over a year without maintenance.

Detailed Audit Observations

PRIORITIZING MEDICAL EQUIPMENT ACQUISITIONS

Strategic Planning

Strategic long-term planning for medical equipment purchases is essential given the substantial

variety of equipment available, current and future hospital priorities, and funding constraints. Such plans enable hospitals to better manage the costs of acquiring and maintaining medical equipment. We also noted recommendations in other jurisdictions indicating that multi-year strategic plans for medical equipment was a best practice.

A long-term planning process should assess future equipment needs using criteria to prioritize those needs, and it should detail the planned acquisition, maintenance, repair, and timely replacement of equipment over a multi-year period. Such planning is necessary to help ensure that required medical equipment is available to meet patient-care needs (for example, equipment malfunctions that can result in delayed patient care), that emergency purchases are minimized, and that acquired equipment is not significantly underutilized.

We found that the medical equipment planning processes at the hospitals we visited varied. Only one of the hospitals we visited had an up-to-date plan for medical equipment purchases that included planned acquisitions over a three-year period for all major hospital departments, with reasons provided in most cases outlining why the equipment was required. One of the other hospitals focused only on current-year acquisitions. This hospital had previously recognized the need for a multi-year strategic plan for the acquisition of diagnostic imaging equipment, but had not conducted multi-year planning since 2002; however, hospital senior management informed us that they would use a two-year planning process for the 2006/07 and 2007/08 fiscal years. At the third hospital, senior management indicated that a three-year equipment acquisition plan was initiated in 2001, with purchases completed in 2004, as part of this hospital's relocation to a new site. As well, equipment acquisition plans for the 2004/05 and 2005/06 fiscal years had been combined, and there was an intention to develop a five-year planning process for

the hospital's medical equipment needs starting in the 2006/07 fiscal year.

Annual Assessment

Hospitals need appropriate medical equipment to support the delivery of patient care, and therefore a process to identify and prioritize equipment requirements is needed to enable hospital management to make informed and timely decisions. Equipment that is underutilized or unnecessarily advanced is potentially wasteful, while insufficient or outdated equipment may impact negatively on patient outcomes.

The hospitals we visited all had an annual process in place for determining medical equipment priorities. In all cases, a medical equipment committee, including management and sometimes medical representatives, or senior management received and summarized medical equipment requests from the various hospital departments—some of which included support for why the item was required—and prepared a prioritized list of medical equipment. However, only one of the three hospitals used documented criteria to prioritize the potential equipment purchases for the 2005/06 fiscal year. Factors considered by that hospital included clinical patient-care needs, operational safety concerns, expected equipment life and current age, reductions in hospital costs resulting from new equipment, and increases in revenues resulting from new equipment. We were informed by the other two hospitals that they used similar criteria as well as judgment to evaluate and prioritize the medical equipment requests. Neither senior management nor the medical equipment committee at any of the hospitals documented the needs-assessment prioritization process used or why certain equipment was determined to be of a higher priority. We noted areas where we expected some documentation to support acquisitions. These included:

- At one hospital, the initial requests from the various hospital departments totalled \$39 million for the 2005/06 fiscal year. The hospital informed us that, based on available funding, it approved \$10.4 million of the \$39 million in requests—however, there was no documentation explaining or justifying how medical equipment was short-listed for approval.
- At another hospital, we noted that during 2005, two new CTs were purchased for \$2.4 million, replacing two existing CTs that were still operational. We were informed that the hospital moved both of the older CTs to storage on an interim basis until one could be moved to the emergency department and the other to a new location for research. The dates for these moves had not been finalized by May 2006, and the older CTs remained in storage. Although we noted that there was no documented assessment supporting the CT reallocations and no assessment of whether the new CT would have better met patients' needs if it had been installed in the emergency department rather than in another hospital department, hospital management indicated that such an assessment had been completed but was not fully documented.

Given the potential impact on patient care and hospital operations, we believe that the criteria used to prioritize potential equipment acquisitions and the application of these criteria should be documented.

The boards at the hospitals we visited approved the total annual amount to be spent on medical equipment acquisitions. While two of the hospitals had no documented policies on when board approval was needed for an individual item of medical equipment, the boards at these hospitals approved individual medical equipment acquisitions of items costing over \$500,000 or \$1 million, depending on the hospital. One of these hospitals indicated that, when no acquisitions are over the

threshold amount, it would have the board approve the three largest purchases. The third hospital's policy did not require board approval for the acquisition of individual items of medical equipment regardless of the cost, unless the equipment was leased for over \$2 million. No such medical equipment leases were entered into during the period we reviewed.

Emergency and Other Special Purchases

Hospitals also acquired medical equipment in contingency or emergency situations, in which a piece of equipment had unexpectedly stopped working or been damaged. We found that all of the hospitals we visited had a process requiring that senior management approve emergency requests. In addition, two hospitals had established at least some formal policies and procedures surrounding the emergency acquisition of medical equipment. However, the third hospital did not have any formal policies on emergency purchases (although hospital management informed us that it followed informal practices) and only tracked certain emergency purchases. More comprehensive tracking of emergency purchases would enable the hospital to determine if there were reasons why the medical equipment was not included in the annual prioritization process and to take action to identify other equipment requiring replacement, prior to the need for an emergency purchase.

Our sample of emergency purchases of equipment indicated that the reason for acquiring the medical equipment was often not documented or, where it was, it often did not seem to be of an emergency nature. In addition, in our view, many of these emergency purchases could reasonably have been included and approved in the annual equipment prioritization process. For example, at one hospital in 2005, the reason for the emergency purchase of a \$25,000 esophagoscopy set (a scope used to examine the esophagus) was that a significant

patient situation arose during surgery due to the old age of the equipment. However, although the age of the equipment was known during the annual medical equipment planning process, hospital management indicated that replacement equipment was not approved because the older equipment was still functional.

At another hospital, most of the purchases we sampled were not part of the overall equipment prioritization process, although senior management indicated that only one of these was considered an emergency acquisition. We were informed that the remaining items were acquired with funding from other sources, such as funding provided by the hospital's foundation. However, there was no documentation to show why these purchases could not be included in the overall equipment prioritization process. For example, \$354,000 was spent on 14 extra workstations used to review images from the Picture Archiving and Communication System (PACS—a database that stores medical images from diagnostic equipment such as CTs and enables the images to be displayed, manipulated, and printed). These were acquired without any documented reason why they could not have been planned for and considered in the annual hospital-wide prioritization process. Senior management indicated that the workstations were funded by the hospital's Foundation, and such purchases did not need to be prioritized through the hospital's annual process.

RECOMMENDATION 1

To ensure that decision-makers have adequate information to prioritize medical equipment purchases to maximize the value to patient care, hospitals should:

- conduct multi-year equipment needs assessments and document the application of formal prioritization criteria for requesting and approving equipment purchases; and
- minimize exclusions from the hospital-wide prioritization-and-approval process and,

where equipment is purchased outside this process, require appropriate approvals and documentation to support the reasons for the exclusion.

ACQUISITION OF MEDICAL EQUIPMENT

Justification of Need for Medical Equipment

All the hospitals we visited had a process in place to gather basic information about proposed equipment purchases, such as a description of the equipment and estimated cost, including any necessary renovation and installation expenses. We noted, however, that the process often did not consider all relevant costs or criteria. For example, based on the items we reviewed, only one hospital considered whether additional training costs would be incurred as a result of purchasing new equipment. Yet even this hospital did not consider whether increased staffing levels would be required to operate the equipment. In addition, only one hospital considered whether sufficient access to the equipment was already otherwise available to patients in the region. In this regard, we understand that in the future, Local Health Integration Networks may be responsible for planning for capital funding needs, including hospital needs, within their health area and ensuring the effective and efficient management of resources, including hospital resources.

As well, our review of equipment purchases indicated many instances in which there was no supporting documentation to show why an item was required. For example:

- Laboratory equipment, the functions of which include cell sorting and cell counting, was purchased for \$534,000. Although hospital management indicated that a clinical assessment was completed and that the equipment was needed to develop expertise at the hospital, there was no assessment documenting

the anticipated demand for the services in the hospital or whether another laboratory could perform the services within required time frames.

- An additional MRI was purchased for \$2.5 million without specific documentation supporting why a second MRI was required to meet patient needs.

We also found that hospitals sometimes purchased the most recent medical equipment technology without conducting adequate due diligence, such as adequately determining the operating capabilities, or adequately assessing whether the technology purchased was the best way to meet anticipated patient needs when compared to less expensive technology. For example, one hospital decided in 2003 to purchase what was then new technology: a digital, large-field-of-view (LFOV) mammography unit. Hospital management indicated that part of the hospital's role is to acquire "cutting-edge" technology that may be unproven but meets established standards and regulations. After a competitive selection process, the hospital made a \$100,000 down payment in March 2004 and took delivery of most of the equipment in the summer of 2004. Upon installation, the hospital immediately encountered significant operational problems—including poor image quality and lengthy image transfer time. By December 2004, the vendor had not resolved the problems and had refused to accept the return of the equipment. However, as a result of a June 2006 settlement, the vendor agreed to pay the hospital about \$54,000. In addition, hospital management indicated that it planned to sell the equipment to further recover its costs. In the meantime, in 2005, the hospital considered other options but decided to purchase one small-field-of-view digital mammography unit, which was established technology, from another vendor without a competitive selection process. Hospital management indicated that this vendor was chosen because the equipment was compatible with other

hospital equipment. The hospital paid \$497,000 for the equipment, which was to be replaced with that vendor's LFOV digital mammography unit when it became available, for an upgrade cost of \$135,000. The hospital anticipated that it would receive the new equipment by September 2006.

In another case, one hospital purchased two CTs in 2005, one of which was a then-new technology 64-slice CT, which cost approximately \$288,000 more than a 16-slice model that the hospital had also recently purchased. We found no documented analysis to substantiate why the 64-slice CT was required to meet patient needs rather than a second 16-slice CT.

To make effective purchase decisions for replacement equipment, hospital management needs accurate and complete information on repair histories and expected future repair costs. Such information includes costs incurred to maintain equipment, either in-house or by third parties, and the reasons and duration of time equipment has been out of service. While all three of the hospitals informed us that they conducted a "beyond economical repair" evaluation with certain equipment to determine whether it was more economical to replace the equipment than repair it, none of the hospitals documented their analyses. One of these hospitals indicated that it was incorporating documentation requirements into its policies. In addition, none of the hospitals had any documented criteria indicating when devices should be removed from service and disposed of. We were informed by hospital management that disposal decisions were generally made as part of the annual medical equipment acquisition process or on an emergency basis when necessary.

RECOMMENDATION 2

To better manage resources, hospitals should, before purchasing medical equipment—especially new state-of-the-art equipment, consider:

- all relevant costs;
- patient needs;
- the proven capabilities of the new technology;
- adequate performance agreements to protect the hospital when the decision is made to acquire unproven technology; and
- in conjunction with their Local Health Integration Network, whether sufficient access to the equipment is already otherwise available to patients in the region.

Acquisition Process

Although there is no provincial legislation that specifically addresses the acquisition process for medical equipment, a federal statute—the *Agreement on Internal Trade Implementation Act*—which applies to all Canadian provinces, stipulates procurement practices for the broader public sector, including hospitals. These practices require a fair and open process in the procurement of goods and services costing in excess of \$100,000 and that suppliers in different provinces be treated equally. Exceptions for sole-sourcing are permitted in certain circumstances—for example, to ensure compatibility with existing products. Such open competitive procurement practices are also commonly accepted as a best practice to ensure the right equipment is acquired at the best price.

Competitive Selection of Vendors

When purchasing medical equipment, hospitals determine whether or not to conduct a competitive selection process, such as through requested quotes, verbal or written, or through a public tender. The advantages of a competitive process include providing an equal opportunity to vendors as well as ensuring the best quality and price are obtained. We expected hospitals to have outlined

this decision process in a purchasing policy that clearly states when a competitive selection process should be used, such as for equipment items costing over a certain dollar value.

We found that one hospital did not have any documented policies and procedures for medical equipment acquisitions, although we were informed by hospital management that it followed informal policies, including threshold limits for competitive processes. The two other hospitals had documented policies and procedures, which included some threshold limits above which verbal or written quotes should be obtained and requests for proposals (RFPs) issued. However, neither hospital's purchasing policies encompassed all relevant details. For example, one hospital's policies did not define the minimum dollar value for conducting a public tender and did not indicate what circumstances qualified as valid exceptions to the requirement to conduct competitive acquisition procedures (for instance, where equipment was purchased from one vendor to ensure equipment compatibility).

Policies, either formal or informal, at two of the hospitals generally required a public RFP for medical equipment acquisitions costing over \$100,000. We reviewed a sample of medical equipment acquisitions at these hospitals and found that neither issued public RFPs for many purchases over \$100,000. Furthermore, when one hospital purchased an MRI for over \$2.5 million, it excluded a known vendor from its selection process. We were informed by senior hospital management that the vendor was excluded for a number of reasons, including the vendor's limited market share and related potential service-capacity issues in the hospital's region.

The third hospital purchased its equipment in conjunction with a buying group involving two other hospitals. For the purchases we reviewed, none of them had a public RFP and in only one instance were pre-qualified vendors invited to bid on a non-public RFP. This occurred even though

many of the purchases exceeded \$100,000, including a CT that cost over \$1.1 million. Senior management at the buying group, which was acting on behalf of the hospital, indicated that it issues only non-public RFPs to vendors pre-qualified by the hospital because hospital management believes this reduces overall costs and improves the timeliness of the acquisition process. While the hospital indicated that vendors have the opportunity to be pre-qualified by contacting the hospital or the buying group, we noted that the hospital's pre-qualification process was not publicly advertised and that there was no formal process in place to inform vendors that they had to be pre-qualified in order to bid on a contract. Senior management advised us that vendors were pre-qualified by the hospital based on a number of factors, including their financial soundness and reliability, as well as whether they carried equipment that met the hospital's safety standards. In addition, with regards to the CT acquisition, hospital management advised us that it believed it had a sufficient process in place to ensure the CT was acquired at a competitive price.

Requests for Information

Requests for information (RFIs) are used by hospitals to obtain information on the types of equipment available and the vendors that carry the equipment. With this information, a hospital can more effectively refine an RFP's specifications, especially if the RFP is for a product that the hospital has not recently, or perhaps ever, purchased.

Two of the hospitals we visited considered RFIs a valid way of obtaining information on available equipment. However, none of the hospitals used public RFIs effectively to obtain information on the types of equipment available and the vendors that carry the equipment. Furthermore, the purchases we reviewed included two RFIs, but they were not used to assist in drafting RFPs. In fact, in both cases, the hospital used the RFI to select the vendor.

We also found instances, particularly with medical equipment acquisitions costing over \$100,000, in which an RFI could have ensured a more effective purchase process. For example, one hospital issued an RFP with very broad criteria for a CT. In particular, the RFP did not specify the number of CTs to be purchased or the number of slices per image the machine would take (more slices provide a more detailed image but these machines are more expensive to purchase). Requirements were specific in only a very limited number of areas, such as for start-up procedures. We were informed that a hospital selection committee short-listed the vendors based on a clinical evaluation and a committee member's familiarity with one manufacturer's equipment. However, vendors were eliminated either without documented explanation or because, even though they met the minimum RFP criteria, the hospital later decided that certain operational features were lacking or insufficient—for example, the hospital decided that the vendor's workstations were not user-friendly or that the vendor should be able to provide a 64-slice CT. As a result, multiple revised bids were required from the short-listed vendors in order to address the hospital's subsequent specifications, with the purchased CTs being delivered to the hospital about 16 months and 21 months, respectively, after the RFP was released.

Sole-sourced Purchases

The majority of acquisitions we reviewed at the hospitals we visited were purchased directly from a vendor without any evidence of other suppliers being considered. While some medical equipment may have only a single vendor, the most common reason provided for sourcing from a single vendor (sole-sourcing) for the items we sampled was equipment standardization.

We recognize that there are benefits to standardizing certain types of equipment. Medical devices that are used widely across a hospital—such as intravenous infusion pumps—are often standard-

ized. This helps minimize incidents related to staff being unfamiliar with a device when providing patient care in different areas of a hospital. Equipment standardization can also be necessary where medical devices are required to interface with other devices or systems.

However, none of the hospitals we visited had documented criteria specifying when equipment should be standardized. The lack of such policies increases the risk that medical equipment will either not be standardized when it should be or that it will be standardized, and subsequently sole sourced, without valid justification. We were informed, for example, that a light source that connects to a videoscope (an instrument used to internally view body cavities) was sole sourced due to standardization requirements. These light sources cost the hospital about \$8,000 each. However, we were also informed by expert staff within this hospital that the scopes would work with other manufacturers' light sources—although an assessment to determine compliance with the manufacturer's requirements must be completed and documented. Senior management at this hospital indicated that assessments are not completed in most cases due to limited resources, and therefore the hospital generally standardized and therefore sole-sourced all medical equipment maintained by hospital staff. At another hospital, a colonoscope (an instrument used to visually examine the interior of the colon) costing \$105,000 was sole sourced, and at the third hospital, an ultrasound machine costing \$267,000 was sole sourced. Both these hospitals indicated that the equipment was sole sourced because it was considered standardized. Again, we saw no analysis to support the initial standardization of this equipment with one vendor, although one hospital indicated that two vendors were considered in creating the standard. The other hospital indicated that its selection was based on a clinical assessment, a previous positive experience with the vendor, and an

existing service contract with the vendor that could be expanded to include the ultrasound machine.

Only one of the hospitals we visited had an official list of standardized equipment. We noted that this list consisted of over 550 items, of which only 45 had been formally assessed. Of these 45 assessments, only 15 included a comparison with other equipment. A specialized laser and its accessories, for example, were sole sourced for \$150,000 because they were the standard. However, there was no formal assessment or comparisons with other equipment considered as part of establishing the standard.

We also noted some other cases in which non-standardized equipment was sole sourced without documented rationale. For example, one hospital sole-sourced the purchase of an eye laser for \$46,000, while another hospital sole-sourced the purchase of a \$25,000 piece of equipment used to examine the esophagus. While the reasons for sole-sourcing varied, in the case of the eye laser, hospital management indicated that an RFP was not used because a clinical trial of two products indicated that this product met the hospital's specifications.

Buying Groups

An effective hospital buying group can attain savings through the combined purchasing power of member hospitals to negotiate better terms with vendors, including price. In addition, group purchasing organizations can improve efficiency by centralizing expertise in purchasing strategies and eliminating administrative duplication at each hospital.

Two of the three hospitals we visited did not participate in a medical equipment buying group. While both hospitals indicated that they had acquired some medical equipment in co-operation with other hospitals, none of the purchases we sampled were acquired this way, with the exception of one significant purchase co-ordinated by the Ministry.

The third hospital created a buying group with two other hospitals to purchase supplies, services,

and equipment for the three hospitals. Each participating hospital was responsible for the cost of the items purchased as well as for an additional fee to cover the buying group's expenses. Management at the hospital we visited indicated that, along with clinical leadership from the participating hospitals, it expected that the use of the buying group would result in lower prices, including lower prices for medical equipment. However, the hospital had never completed an analysis to determine whether any quantifiable savings had been achieved for any of the medical equipment purchases we reviewed, which amounted to about 60% of the hospital's total medical equipment acquisitions during the 13-month period ending December 31, 2005. Furthermore, as previously noted in the Competitive Selection of Vendors section of this report, the buying group did not conduct an RFP for any of the equipment purchased in our sample.

The amount paid by the hospital we visited to the buying group for its services was approximately \$1 million for the 2005/06 fiscal year. Although hospital management indicated that these costs were reviewed for reasonableness as part of the hospital's annual budgeting process, we noted that the hospital had not formally analyzed in the past five years whether the amount paid to the buying group was reasonable when compared to the expected costs of operating the buying group, based on the volume of purchases conducted.

In March 2006, this buying group became part of another organization that was established to eventually manage certain functions, including purchasing, for 12 hospitals. At the time of our audit, it was too early to evaluate the success of this new organization in achieving savings for the hospital that we visited. However, we did note that as of May 2006, two months into the new service arrangement, the hospital was still determining some aspects of its agreement with the organization, including the amount it would pay for the buying group's services. In addition, our preliminary

review of the hospital's draft contract with the new organization indicated no requirement for medical equipment to be acquired through competitive acquisition strategies, such as RFPs.

RECOMMENDATION 3

To ensure that medical equipment is being purchased as cost-effectively as possible, and to meet hospital-specific needs, hospitals or their buying groups should commit to establishing and ensuring compliance with competitive acquisition procedures, including:

- requirements regarding the use of public requests for proposals for medical equipment purchases above a certain amount;
- criteria for equipment standardization versus an open competitive process; and
- requirements on when and how requests for information to determine vendors with available equipment that meets the hospital's needs are to be used.

To help ensure that hospitals participating in co-operative purchasing arrangements for medical equipment are achieving savings, hospitals should formally monitor the co-operative arrangement's success in acquiring medical equipment.

Leasing Versus Buying

One consideration in long-term planning for the use of limited hospital financial resources is whether to lease or directly purchase medical equipment. This decision affects available cash flows because leases are generally paid over a period of time, while direct purchases, unless otherwise financed, are generally paid for up front. Depending on a variety of factors, either leasing or purchasing can be more economical. For example, in some cases, a hospital may plan on retaining equipment for a limited period of time due to anticipated obsolescence.

In such cases, leasing may be the more economical choice. As well, leasing for a few years may be a more cost-effective alternative in situations where equipment repair costs are expected to escalate as the equipment ages.

None of the hospitals we visited had policies that provided guidance on when to lease medical equipment rather than purchase it. In addition, none of the acquisitions we reviewed included an analysis of the impact of leasing versus purchasing equipment to determine the most economical option.

We noted that hospitals rarely leased medical equipment. We reviewed two leases related to one hospital's Picture Archiving and Communication System (PACS). After this hospital determined the equipment technology requirements, its primary deciding criterion in selecting the leasing packages was whether the leases could be reflected as an operating expense, rather than an asset, in the hospital's audited financial statements. There was no documented assessment of which leasing packages would be most financially favourable to the hospital—for example, the one with a lower rate of interest—or which lease would best match the hospital's intended period of use. Hospital management indicated that acquisition arrangements are generally based on which kind of funding—operating or capital—is available. For example, if operating funding is available, then the hospital would seek a lease arrangement where the lease is an operating expense.

RECOMMENDATION 4

To help ensure that major pieces of medical equipment are acquired in the most economical manner, hospitals should formally assess all acquisition options, including leasing.

MAINTENANCE AND REPAIRS OF MEDICAL EQUIPMENT

Hospitals need effective preventive maintenance and repair processes to help ensure that medical equipment functions as intended. Malfunctioning equipment could delay patient treatment, result in poor patient-treatment decisions, or even be potentially harmful to patients or hospital staff.

Because medical equipment can be very complex, maintaining the equipment can require expertise in a broad range of areas, including electronics, computer technology, and mechanical systems. To address these requirements, hospitals generally use a combination of in-house maintenance staff for less complex equipment and external maintenance contracts—which can be with the equipment vendor or a third party—for more complex equipment like CTs and MRIs.

Each hospital we visited had a team of trained technicians who performed preventive maintenance and repairs on some of the hospital's medical equipment. For the remaining medical equipment, particularly equipment of a more complex nature, the hospitals generally contracted with the vendor to provide service. In some cases, hospitals negotiated shared-responsibility service agreements with vendors under which hospital technicians were trained to address simpler maintenance and repairs, while the vendor would be called in for more complicated malfunctions.

Service Options

Hospitals determine whether medical equipment is to be maintained and repaired in-house or through a third party. In reaching this decision, hospitals may consider whether the complexity of the equipment prevents in-house technicians from becoming as proficient as external technicians who specialize in the equipment, or whether in-house expertise is preferable in order to provide an immediate response to a problem. As well, in-house expertise

enables better identification of product deficiencies that can be taken into consideration in future purchasing decisions.

We expected that hospitals would have completed a reasonable analysis of the service options available for maintaining and repairing their medical equipment, including the costs and benefits of each option. However, for the equipment we reviewed, we found that none of the hospitals consistently documented their analysis of the service options available from vendors—such as packages with various service levels—or why they chose the service package that they did. One hospital that acquired a new CT entered into a basic-level service agreement for five years, beginning in 2006, with a set annual cost of \$157,000. If vendor charges for repairs and maintenance outside of the agreement exceed the pre-set limit of \$38,000 annually, then the hospital may be billed additional fees of up to \$23,500 annually. A full-service contract that would cover all repairs and maintenance would have cost the hospital only \$167,000 annually. We noted that there was no documented analysis of the expected future costs of repairs and maintenance, either with reference to the CT they had previously owned or other hospitals' CTs, to determine which would be the more economical option over the life of the service contract. We also found that the three hospitals entered into a range of different service options that had been negotiated with third parties. For example, one hospital negotiated a contract with one vendor to service various types of equipment from different manufacturers. As new equipment was added and old equipment removed from service, the annual price of the contract was adjusted.

With respect to tracking maintenance costs, two of the hospitals did not track these costs by significant pieces or classes of equipment for in-house preventive maintenance and repairs, although one of these hospitals indicated that it did track the cost of replacement parts. The third hospital estimated

its annual in-house maintenance costs and, while it had not used this information to perform a detailed analysis of other service options, it believed that third-party maintenance would cost three to six times more than performing the maintenance in-house.

RECOMMENDATION 5

For significant pieces or classes of medical equipment, hospitals should formally assess:

- whether or not the capability to cost-effectively service and maintain the equipment exists in-house; and
- what third-party service options are available to meet the hospital's needs in the most economical fashion.

Conduct of Maintenance and Repairs

Medical equipment should be maintained in accordance with appropriate standards, which may be based on manufacturers' recommendations, professional guidelines, level of use, and past history of equipment problems. Ensuring that medical equipment operates according to these standards is necessary to provide accurate diagnostic information to assist in patient-care decisions, as well as to maintain patient and staff safety.

To ensure medical equipment is operating properly and will continue to operate properly, both preventive maintenance and functional testing are required. Preventive maintenance procedures reduce the risk of the equipment malfunctioning, while functional testing determines whether equipment is operating within normal parameters. For example, maintenance procedures for an infant ventilator include preventive maintenance to replace parts after a certain number of hours of use and functional testing to ensure the proper functioning of emergency breathing valves. Insufficient or incomplete preventive maintenance and functional

testing can result in medical equipment producing inaccurate test results, which could lead to: incorrect patient-care decisions; patient backlogs due to repeat tests; and increased equipment repair costs.

While none of the hospitals we visited had policies for establishing maintenance standards, we were advised that hospitals generally used manufacturers' service manuals as the basis for establishing the maintenance procedures and frequency of maintenance for the equipment they maintained themselves. In addition, one hospital had a policy describing a numerical ranking system that was to be used to assist in assessing and assigning the need and frequency for preventive maintenance for medical devices. However, hospital management indicated that this ranking system was used primarily to prioritize which equipment should be maintained first on a given day and therefore was not used to determine maintenance needs for the medical equipment we reviewed.

Hospitals sometimes developed maintenance checklists to assist technicians in ensuring that required maintenance was completed. However, we noted that these checklists did not always incorporate all of the manufacturer's recommended procedures and that, in many cases, hospitals did not otherwise document that these procedures were performed. For example, at one hospital, the maintenance manual for a fetal monitor indicated that a series of tests—including an ultrasound test, fetal movement detection test, and dual heart rate test—were to be performed as part of the preventive maintenance procedures in order to determine whether the equipment was functioning properly. However, the step on the checklist used by hospital technicians comprised only two words—"Ultrasound transducers"—and there was no further documentation to show all the required tests had been completed.

For equipment maintained by third parties, in many of the cases we sampled, the hospitals relied on the vendor to determine the preventive mainten-

ance to be performed as well as its frequency. In numerous instances, the vendors' reports on preventive maintenance did not detail the procedures performed or the results. Such reporting is important given that hospital staff were not trained in the maintenance of the equipment and therefore could not provide assurance that the preventive maintenance was adequate.

Maintenance and Repairs for CTs and MRIs

We noted that the American College of Radiology offers a series of accreditation programs, operating largely in the United States, for facilities such as hospitals that operate MRIs and CTs. The accreditation programs include an evaluation of the qualifications of personnel, equipment performance, effectiveness of quality control measures, and quality of clinical images. While there are no equivalent federal accreditation processes in Canada, the College of Physicians and Surgeons of Ontario (College) has developed Clinical Practice Parameters and Facility Standards (Clinical Practice Parameters) for CTs and MRIs operated in independent health facilities. These facilities provide diagnostic procedures and operate as independent clinics, generally unrelated to hospitals. The College uses the Clinical Practice Parameters to determine whether appropriate medical standards are met in these facilities, including ensuring that their equipment provides accurate results and that safety concerns are addressed.

We noted that the American College of Radiology's accreditation programs for MRIs included requirements for quality control procedures, such as the weekly monitoring of room temperature and humidity. In addition, the College of Physicians and Surgeons of Ontario's Clinical Practice Parameters for independent health facilities required somewhat similar quality control measures, including a daily record of the MRI room's temperature and humidity. Such measures are important because, for example, too low humidity levels can damage an

MRI magnet. One hospital we visited indicated that it had a sensor to alert staff if the temperature or humidity levels were outside an acceptable range. While the other two hospitals did not directly monitor humidity levels during 2005, at one of these hospitals, management indicated that humidity and room temperature monitoring were performed by the vendor through a remote connection. However, this hospital did not have any documentation to support that the vendor completed this monitoring or to indicate the results of the monitoring. We also noted that the third hospital began regular monitoring of humidity levels in early 2006 after preventive maintenance by the vendor found humidity levels to be too low. This hospital informed us that it had not previously monitored humidity levels because the vendor had never indicated that this was necessary.

The College's Clinical Practice Parameters also required phantom scans to be performed daily for MRIs and at least weekly for CTs. A phantom scan is a test in which a liquid-filled object, the "phantom," is test scanned; the test results are used to determine whether the equipment is operating properly. We reviewed the completion of phantom scans at the hospitals we visited and found that:

- One hospital had not performed any CT phantom scans during 2005. However, this hospital conducted MRI phantom scans every second week.
- Another hospital performed no phantom scans on either of their MRIs and only began performing phantom scans on one of their four CTs in operation in 2005. However, we were informed that, in April 2006, this hospital began routinely performing phantom scans on all of the MRIs and CTs in operation at that time. Senior hospital management indicated that the MRI scans commenced after the vendor providing maintenance identified problems with one of the machines.

- The third hospital indicated that it performed phantom scans on all of its MRIs and CTs every day the machines were used in 2005, although there was minimal documentation to support that some of these tests had been completed.

In addition, the College's Clinical Practice Parameters require that monthly preventive maintenance be performed on MRIs. However, management at one hospital indicated that, based on the vendor's recommendation, on-site preventive maintenance on one MRI was not performed until seven months after it was installed. At another hospital, while maintenance was to be performed four times in 2005 according to the vendor contract, it was only completed three times. The third hospital had completed monthly maintenance on both of its MRIs in 2005.

All of the hospitals we visited used the equipment vendor to perform appropriate preventive maintenance and repairs on CTs and MRIs during 2005, including functional testing to ensure the equipment was operating properly. For example, the hospitals generally relied on the vendors to ensure that the radiation produced by CTs during an exam was within acceptable limits. We were concerned that the hospitals would not be able to readily identify situations in which vendors were not adequately maintaining MRIs and CTs, because the operation of this equipment is generally not otherwise reviewed or assessed. While independent health facilities with MRIs or CTs are subject to a quality assessment process conducted by the College on behalf of the Ministry, and x-ray equipment is subject to requirements (such as machine features, their operations, and the qualifications of individuals operating them) under the *Healing Arts Radiation Protection Act*, and related inspections, the CTs and MRIs in hospitals are not subject to such external processes of quality assurance. Our concerns in this area are discussed in more detail in Section 3.06 Hospitals—Management and Use of

Diagnostic Imaging Equipment. At the end of our fieldwork, to reduce the dependence on the vendor, one hospital was negotiating a shared-service agreement for its two CTs then in use. This agreement would assign most of the preventive maintenance to trained hospital staff and most of the repairs to the vendor.

Equipment Uptime Guarantees

Most of the MRI and CT service agreements that we reviewed included an “uptime” guarantee that equipment would be operational between 95% and 99% of the time, depending on the contract, during certain hours each day. These hours generally corresponded to patient appointments.

We reviewed a sample of MRI and CT service agreements, and noted that most of the agreements did not include the time required to conduct preventive maintenance in equipment downtime, even though equipment was usually maintained during what would normally be patient appointment times.

Although MRI and CT downtime was sometimes recorded at the hospitals we visited, none of the hospitals tracked the total amount of downtime to determine if they were eligible for compensation from the vendor should the uptime guarantee be breached. Furthermore, none had policies providing guidance on when downtime should be tracked.

We were informed that the hospitals generally relied on the vendor to track downtime on their behalf. However, only one hospital requested reports of downtime from the vendor for the 2005 year, as a result of hospital staff concerns that significant periods of downtime had occurred for the hospital’s two MRIs, both of which had 98% uptime guarantees. The vendor’s downtime report did not support the staff’s concerns and indicated that the number of hours of downtime incurred did not breach the uptime guarantee. However, the hospital had no way to confirm this because it had not tracked downtime during the year. If an uptime

guarantee was breached, hospitals were generally to receive some type of compensation, for example, an extended coverage period of the service agreement.

In-house Maintenance and Repairs

All three hospitals had automated, to some extent, their in-house equipment-maintenance activity. In fact, one of the hospital’s systems automatically prompted hospital technicians when equipment was due for its scheduled maintenance. However, we found that none of the hospitals were consistently performing preventive maintenance as frequently as required by the vendors’ service manuals or by the hospitals’ planned maintenance schedules. For example:

- At one hospital, available documentation suggested that infant ventilator filters were not being checked and changed as frequently as the manufacturer recommended. The vendor manual recommended that specific filters be checked after every 1,000 or 5,000 hours of use, depending on the filter, and the filter be replaced when necessary. In one case, we noted that by January 2006, 18 filter checks (three checks of the first filter and 15 checks of the other filter) should have been conducted for one infant ventilator acquired in 1999, based on the hours the ventilator had been used. Maintenance records indicated that the first filter was examined five times during this period and replaced once. However, although hospital management indicated that the second filter was regularly checked and replaced when it failed, there was no evidence that this filter had ever been checked and replaced. Hospital management indicated that a new process was being implemented to better document this.
- At another hospital, the hospital’s maintenance schedule required defibrillators to be maintained every six months. However, 75% were not maintained as required during 2005,

including 45% that went over a year without maintenance.

- At the third hospital, almost 50% of infusion pumps that were to be maintained once a year did not receive any maintenance during 2005 and, in many of these cases, had received no maintenance for two or more years.

We noted that, although certain equipment required more frequent testing, functional testing was usually done only in conjunction with preventive maintenance procedures—for example, one hospital included a series of functional tests with its in-house preventive maintenance program. We were concerned that this practice meant that equipment was not being functionally tested frequently enough, especially since preventive maintenance was often not conducted when required.

None of the hospitals we visited had analyzed whether preventive maintenance was being conducted in accordance with the hospital's procedures, or the impact of untimely maintenance or no maintenance at all on equipment performance. Nor had they assessed whether repairs to medical equipment were completed in a timely manner. As well, none had a reliable system to track repair costs or the amount of time the medical equipment, including major medical equipment, was out of service. While medical equipment records indicated that many of the devices we reviewed had required repair at some point during 2005, in most cases, there was insufficient data to determine the length of time the equipment was out of service. Therefore, the impact of any delays in repairing equipment in-house could not be assessed.

RECOMMENDATION 6

To ensure that medical equipment operates properly, hospitals should:

- perform preventive and functional maintenance according to manufacturer's or other established specifications and monitor such

maintenance to ensure that it is being completed; and

- track downtime and other out-of-service time for major medical equipment and use this information to determine the impact on patient care and costs, and to assess whether operating performance uptime guarantees have been breached.

Tracking of Medical Equipment

To help track medical equipment, hospitals tag and record the equipment when it is purchased. In addition, an inventory that contains complete and up-to-date information on the acquisition, maintenance, and disposal of medical equipment is useful in planning and managing equipment needs. The benefits of such an inventory include identifying the age of the equipment to assist in determining whether new or additional medical equipment is needed, identifying equipment to be maintained and its location, and identifying equipment subject to a manufacturer's recall to reduce patient safety risks.

As noted previously in the In-house Maintenance and Repairs section of this report, all of the hospitals kept, to some extent, an inventory of their medical equipment. However, none of the hospitals had reviewed the completeness or accuracy of their inventories in the last three years. We reviewed a sample of medical equipment from their inventory listings and found significant inaccuracies in two of the hospitals' records. For example, the list of medical equipment used by in-house maintenance staff included many items of equipment that could not be located. In particular, in response to our inquiries, we were informed that 58 defibrillators included on the list and recorded as being in use had been disposed of. As well, according to hospital staff, manual records approving certain medical equipment disposals were not always prepared

and, when they were prepared, the medical equipment listing was not consistently updated. We were informed by hospital management that these problems resulted from the relocation of the hospital to a new facility in 2004. Hospital management could not estimate to what extent medical equipment might have been disposed of without documentation approving the disposals or to what extent the list of medical equipment contained assets that had been disposed of.

RECOMMENDATION 7

To assist in better managing medical equipment needs and identifying equipment for maintenance, hospitals should ensure that medical equipment inventory listings contain complete and up-to-date information on the acquisition, maintenance, and disposal of medical equipment.

OTHER MATTER

Conflict of Interest Declarations

Given the large dollar value of many of the medical equipment purchases made in hospitals, as well as the lack of consistent use of competitive public processes for acquiring medical equipment, as noted in previous sections of this report, it is especially important that all real or perceived conflicts of interest be identified and eliminated from the hospitals' processes of awarding contracts to vendors. Recognizing this, all of the hospitals we visited had some documented policies requiring board members and employees involved in purchasing medical equipment to declare conflicts of interest. For example, one hospital's policy stated:

Unless a specific exception has been obtained from the Chief Executive Officer, bids shall not be solicited from, nor any order placed with, any company that: (1) Is owned, controlled or actively influenced by any hospi-

tal employee, member of medical staff or Board of Governors or immediate relative of the aforementioned; (2) Employs in a management, consulting or sales capacity on a full time basis any person who is a hospital employee, member of medical staff or Board of Governors; (3) Employs in any capacity a hospital employee, member of medical staff or Board of Governors who is in a position to influence the selection of, or conduct business with, such supplier.

While we were pleased that all hospitals had recognized the importance of eliminating conflict-of-interest situations, we had some concerns regarding these policies, as illustrated by the following examples:

- One hospital required all employees and medical staff to immediately disclose any perceived potential or actual conflicts of interest. The other two hospitals only required individuals participating in the purchasing process, or having control over hospital expenditures or policy, respectively, to complete a conflict-of-interest declaration if the individual believed an actual conflict existed.
- Although one hospital required board members to make an annual conflict-of-interest declaration, another hospital only required board member declarations when the member believed an actual conflict existed. The third hospital did not specifically require any conflict-of-interest declarations by board members, although, as noted earlier in this section, its policies did forbid conflict situations, unless an exception was obtained from the chief executive officer.
- None of the hospitals indicated the consequences of failing to declare an existing conflict of interest.
- Two hospitals provided examples of what would constitute a conflict of interest, such as disclosing confidential hospital information to

unauthorized persons; the other hospital did not.

In addition, we noted that two of the hospitals did not require prospective vendors to complete conflict-of-interest declarations except when an RFP was being conducted, which occurred infrequently. Our testing indicated that conflict-of-interest declarations by vendors were generally completed at these two hospitals for the few RFP purchases we reviewed. However, prospective vendors were not required to declare conflicts for the majority of medical equipment purchases, since most of these acquisitions were not completed through an RFP process.

RECOMMENDATION 8

To help ensure that medical equipment is acquired at the best price and to avoid potential conflicts of interest, hospitals should:

- require that all board members as well as individuals participating in, or having influence over, the purchasing process complete annual conflict-of-interest declarations that include actual and potential conflicts, and should require vendors to complete a conflict-of-interest declaration as part of the acquisition process; and
- provide guidance on what constitutes a conflict, to whom conflict-of-interest declarations should be provided, and the consequences of not declaring potential or actual conflicts of interest.

SUMMARY OF RESPONSES FROM HOSPITALS

In this section, rather than reproducing the individual responses from each of the three hospitals we visited as part of this audit, we have summarized the highlights of the responses we received. Overall, hospitals generally agreed with our recommendations but indicated that implementing certain recommendations may not be practical given their organization's unique circumstances or limited financial and human resources. For example, one hospital indicated that since health-care resources are limited, they are directed to patient-care priorities over administrative functions, such as providing supporting documentation for medical equipment acquisition decisions. Another hospital indicated that, due to its relocation to a new facility in February 2004, many of its capital acquisition practices for medical equipment did not follow its normal practices.

Recommendation 1

All of the hospitals agreed with conducting multi-year medical equipment needs assessments, and one hospital had such a process in place. While one hospital indicated that it should develop a rolling two-year capital plan, both this hospital and another hospital indicated that it is very difficult to further project future capital needs due to a number of factors, including rapid changes in health-care technology introduced to improve patient care.

In addition, all hospitals agreed that appropriate prioritization criteria should be used. While one hospital indicated that it was committed to improving documentation relating to its medical equipment prioritization-and-approval process, another hospital indicated that documenting decision-making throughout the capital process was unrealistic given its current financial and resource constraints.

The hospitals also agreed to require appropriate approvals and documentation to support purchases made outside of the hospital-wide prioritization-and-approval process. However, one hospital did highlight that, since capital equipment funds are very limited in hospitals, medical equipment is kept longer than the ideal replacement life, and therefore emergency purchases are expected to occur.

Recommendation 2

The hospitals generally supported this recommendation, and one agreed that the factors identified were relevant criteria to consider in medical equipment purchasing decisions. Another hospital indicated that, in some cases, medical equipment purchases are driven by strategic planning for future patient-care capabilities, as well as competitive medical-staff retention and recruitment.

Recommendation 3

All of the hospitals agreed that they should ensure that medical equipment is being purchased as cost-effectively as possible and to meet hospitals' specific needs. Furthermore, two hospitals indicated that they were in the process of updating and formally documenting policies and procedures for medical equipment acquisitions, including, in one case, ensuring consistency with the hospital's buying group's practices. One hospital indicated that having the Ontario Hospital Association assist in the development of medical equipment acquisition policies that could be used by all hospitals across the province would be useful and would maximize cost efficiencies.

As well, one hospital believed that when the request-for-information (RFI) process identifies a limited number of vendors, the use of the RFI to select the vendor is both cost and time effective. The third hospital indicated that, while its current policies identify dollar limits for equipment tendering, it would be expanding

its policies to address standardization versus an open competitive selection process as well as the use of RFIs—although RFIs are not used very often by this hospital.

Recommendation 4

One hospital agreed with formally considering all acquisition options for major pieces of capital equipment (costing more than \$1 million) but indicated that the acquisition decision may be based on which kind of funding is available—capital (to enable direct purchases) or operating (requiring leasing). The other two hospitals indicated that they had previously assessed acquisition options and found that purchasing medical equipment outright was the less costly alternative. Therefore, they believed that formally assessing all acquisition options was not practical.

Recommendation 5

For the most part, hospitals agreed with this recommendation. In addition, one hospital indicated that it followed this recommendation but would be improving the documentation of its assessment of maintenance provision options. Another hospital indicated that its maintenance provision decisions were generally straightforward but that it was also exploring alternative maintenance arrangements. The third hospital indicated that it would conduct an analysis of third-party service-contract options when appropriate and that other factors would also be considered in its analysis, such as technology upgrades and the impact on delivery of patient care.

Recommendation 6

The hospitals all agreed that medical equipment should be maintained in accordance with manufacturer or other appropriate established specifications. However, one hospital indicated that modifications to the specifications could

also be done by competent staff within its facility. Another hospital commented that, while it endeavours to always perform maintenance when scheduled, workload and available human resources sometimes prevent this from happening.

The hospitals also agreed to assess ways of obtaining complete information on downtime and other out-of-service time for major medical equipment. In this regard, one hospital suggested the possible involvement of the Ontario Hospital Association in creating a consistent definition of major medical equipment.

Recommendation 7

All of the hospitals agreed that medical equipment inventory listings should contain complete and up-to-date information on the acquisition, maintenance, and disposal of medical equipment. However, one hospital indicated that, given limited resources, this is not always possible and that the major concern was ensuring that equipment was appropriately maintained. Another hospital indicated that, in addition to keeping up-to-date information on acquisitions, it would consider the integration of maintenance information as new administrative sys-

tems were implemented and that it was working towards ensuring full compliance with its equipment disposal policies. The third hospital indicated that it had recently implemented new software to aid in maintaining a complete and up-to-date medical equipment inventory listing.

Recommendation 8

The hospitals all concurred with this recommendation, and one hospital's policies and processes complied with the recommendation. The second hospital indicated that its conflict-of-interest policy was due for review and that the Auditor's comments would be considered as part of the review process. The third hospital indicated that it would be revising its conflict-of-interest policy to include all board members as well as any other individual participating in the acquisition of medical equipment via a request for proposal, as well as having any potential conflicts declared at its Audit and Finance Committee meetings. This hospital also suggested the possible involvement of the Ontario Hospital Association in developing a conflict-of-interest template that could be used by many hospitals, rather than each hospital developing its own.

SUMMARY OF MINISTRY OF HEALTH AND LONG-TERM CARE RESPONSE

This report was also provided to the Ministry of Health and Long-Term Care. Rather than reproduce the full response we received from the Ministry, we have summarized highlights from it. Overall, the Ministry generally agreed with the recommendations.

With respect to Recommendation 2, the Ministry highlighted the fact that the Ontario Health Technology Advisory Committee, established in October 2003, provides objective, evidence-based advice to the Ministry and the health-care system regarding the implications

of introducing new health technologies and removing obsolete ones. Potential purchasers of new health technologies such as medical equipment can refer an item to be purchased for the Committee's review. The Committee can thus be of assistance to hospitals as they consider the specific factors the Auditor recommended (such as all relevant costs, patient needs, the proven capabilities of new technologies, and the projected demand for medical equipment and services) before purchasing equipment.

Chapter 3

Section 3.06

Hospitals—Management and Use of Diagnostic Imaging Equipment

Background

There are 155 public hospital corporations in Ontario, each providing patient services at one or more locations. Public hospitals in the province are generally governed by a board of directors and are, for the most part, incorporated under the *Corporations Act*. The board is responsible for the hospital's operations. As well, each hospital is responsible for determining its own priorities to address patient needs in the communities it serves. The *Public Hospitals Act* and its regulations provide the framework within which hospitals operate.

Hospital boards are also accountable to the Ministry of Health and Long-Term Care (Ministry), which provides approximately 85% of total hospital funding, some of which can only be used for specified purposes. Other funding sources may include internally generated surpluses, such as those from semi-private and private accommodation charges, cafeteria sales, and parking revenues. Donations, which may be restricted to specified purposes, also help fund hospitals. In the 2005/06 fiscal year, the total operating cost of the 155 hospital corporations was approximately \$17.5 billion. This excludes most physicians' services that are provided to hospital patients and paid for by the Ministry to physicians through the Ontario Health Insurance Plan (OHIP).

Diagnostic medical imaging includes the use of x-ray, ultrasound, magnetic resonance imaging (MRI), and computed tomography (CT) to provide physicians with important information used in diagnosing and monitoring patients' conditions. According to the World Health Organization, diagnostic imaging is necessary for the appropriate and successful treatment of at least a quarter of all patients. There were about 10.6 million diagnostic imaging tests conducted in Ontario hospitals in the 2005/06 fiscal year, broken down by type of test in Figure 1.

Figure 1: Diagnostic Tests in Ontario Hospitals by Percentage, 2005/06 Fiscal Year

Source of data: Ministry of Health and Long-Term Care

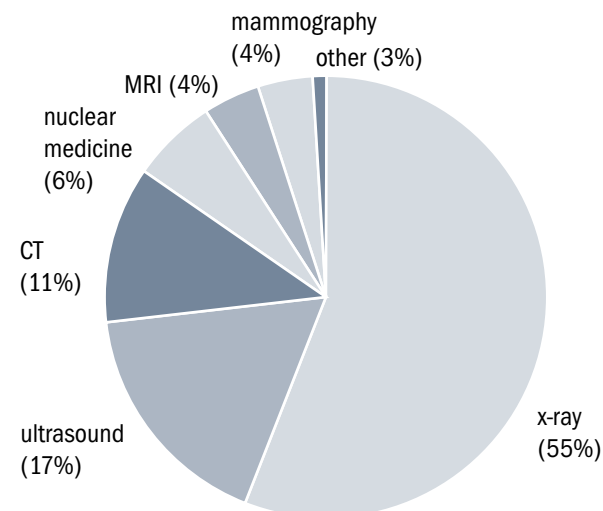
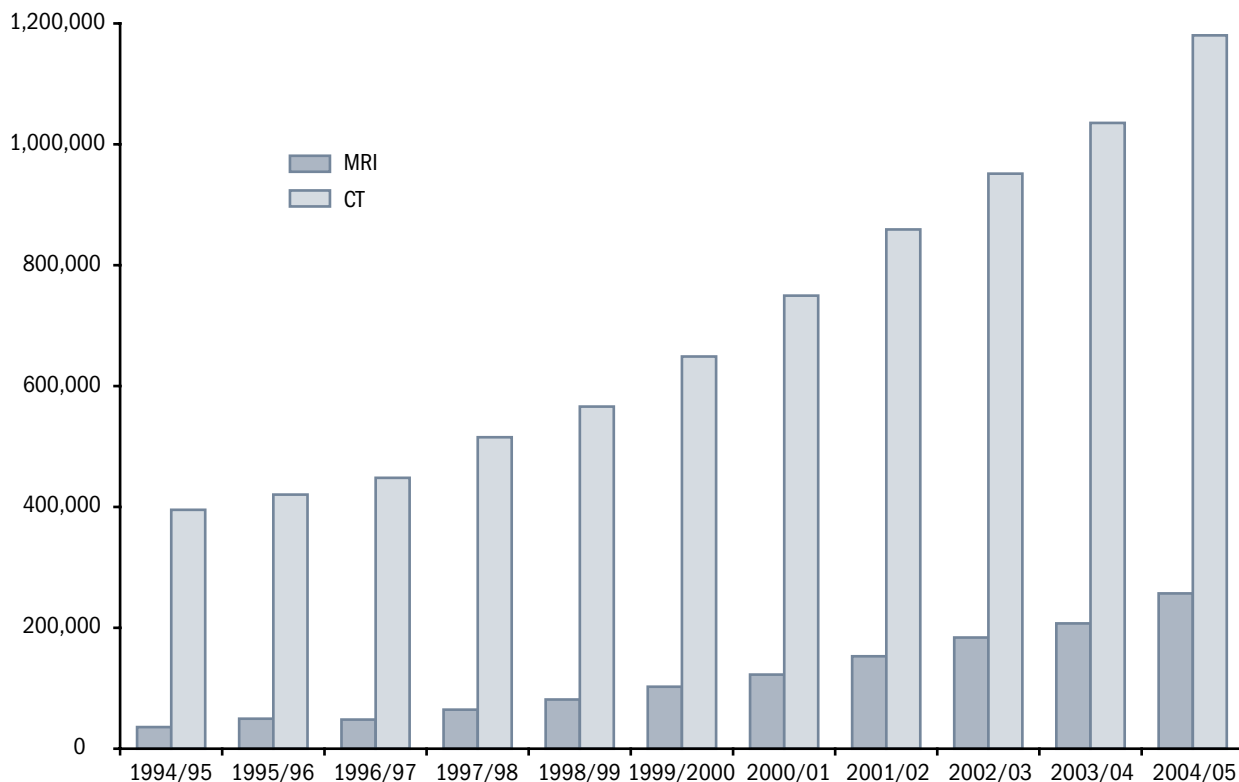


Figure 2: Number of CT and MRI Examinations in Ontario by Fiscal Year

Source of data: Ministry of Health and Long-Term Care



Although CT and MRI examinations are a small percentage of the number of diagnostic imaging procedures performed overall, our audit focused on CTs and MRIs, since the equipment can cost several million dollars, there are health safety risks associated with the examinations, and the use of CT and MRI scanners has been increasing over the years. According to ministry data, between the 1994/95 and 2004/05 fiscal years, the total number of CT examinations increased almost 200%, and MRI outpatient examinations increased over 600%. (See Figure 2.)

In reports issued in April 2005 and May 2006, the Institute for Clinical Evaluative Sciences (ICES) indicated that the reason for such a significant increase in the use of this equipment was not clear. However, it was likely due to a combination of factors including: greater patient and physician demand, the availability of more scanners, longer operating hours for MRI scanners due to increased

funding, new indications for use, physician concern about litigation, increased use of scanning to monitor response to therapy, and the capability of new CTs to complete examinations faster. According to *Medical Imaging in Canada, 2005*, a report by the Canadian Institute of Health Information, Ontario has a total of 108 CT and 58 MRI scanners. The numbers of scanners and of scans completed in Ontario relative to other large provinces are shown in Figure 3.

CT, also known as computer assisted tomography (CAT), uses a series of x-rays to create virtual images of slices of a patient's body. A computer then processes the data to create three-dimensional images of the structures within the body. Physicians use CT scans for diagnosing a wide range of conditions, such as head injury, chest trauma, musculoskeletal fractures, and for monitoring cancer. MRI machines use a strong magnetic field (10,000 to 30,000 times stronger than the

Figure 3: CT and MRI Scanners and Examinations, Selected Provinces, 2005Source of data: *Medical Imaging in Canada, 2005*, Canadian Institute for Health Information

Province	CT		MRI	
	Scanners/ Million (Pop.)	Examinations/ Thousand (Pop.)	Scanners/ Million (Pop.)	Examinations/ Thousand (Pop.)
Ontario	8.7	79.4	4.7	27.4
Alberta	9.3	90.8	7.8	36.6
British Columbia	10.9	78.2	5.5	18.4
Quebec	14.0	90.1	6.5	21.7

earth's magnetic field) and radio waves to generate images of areas inside the body. MRI is especially useful in imaging the brain, spine, abdomen, pelvis, soft tissues of the joints, and the inside of bones.

Audit Objective and Scope

The objective of our audit was to assess whether selected hospitals had adequate policies and procedures in place to ensure that the management and use of medical imaging equipment, particularly MRI and CT equipment, meets patient needs efficiently and is in compliance with applicable legislation, and that test results are accurately reported on a timely basis.

We conducted our audit work at three hospitals of different sizes that provide services to a variety of communities: Grand River Hospital serving the region of Waterloo and area, University Health Network in Toronto comprised of the Toronto General Hospital, the Toronto Western Hospital and the Princess Margaret Hospital, and Peterborough Regional Health Centre serving Peterborough and area. In conducting our audit, we reviewed relevant files and administrative policies and procedures, interviewed appropriate hospital and ministry staff, and reviewed relevant research including that on the delivery of diagnostic imaging services in other jurisdictions. We also conducted preliminary visits at two other hospitals to become familiar with their

diagnostic imaging equipment operations. In addition, we discussed the delivery of diagnostic services—in particular MRI and CT examinations—in Ontario with representatives of the Canadian Association of Radiologists, the Ontario Association of Medical Radiation Technologists, the Healing Arts Radiation Protection Commission, and the Ministry's Expert Panel on MRI and CT.

This audit and the audit in Section 3.05 constitute the first value-for-money (VFM) audits conducted of the hospital sector, enabled by an expansion of the mandate of the Office of the Auditor General of Ontario effective April 1, 2005. The expansion allows us to conduct VFM audits of institutions in the broader public sector such as hospitals, children's aid societies (see Section 3.02), community colleges (see Section 3.03), and school boards (see Section 3.11).

Our audit fieldwork was substantially completed in May 2006 and was conducted 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, except as explained in the Scope Limitation section that follows. The criteria used to conclude on our audit objective were discussed with and agreed to by senior hospital management.

We did not rely on the Ministry's Internal Audit Services to reduce the extent of our audit work because they had not recently conducted any audit

work on diagnostic services within hospitals. None of the hospitals we visited had an internal audit function.

SCOPE LIMITATION

On November 1, 2004, sections of the *Quality of Care Information Protection Act, 2004* (Act) and related regulations came into force that prohibit the disclosure of information prepared for or by a designated quality-of-care committee unless the committee considers the disclosure necessary to maintain or improve the quality of health care. Similarly, anyone to whom such a committee discloses information may share the information only if it is considered necessary to maintain or improve the quality of health care. We understand that this legislation was designed to encourage health professionals to share information to improve patient care without fear that the information would be used against them.

The Act prevails over all other Ontario statutes, including the *Auditor General Act*, unless specifically exempted. One of the three hospitals that we visited had designated a quality-of-care committee under the Act, and information relating to any analysis and follow-up of critical, severe, and near-miss incidents (for example, unusual occurrences causing injury to patients or hospital employees) associated with diagnostic imaging was prepared for this committee. Due to the Act, our access to such information was prohibited. Therefore, we were unable to determine whether this hospital had an adequate system in place to analyze and follow up on diagnostic imaging incidents and take corrective action, where necessary, to prevent similar incidents in the future.

The other two hospitals we visited did not have a designated quality-of-care committee; therefore, we were able to review their processes to analyze and follow up on incidents.

Our concerns over the scope limitation imposed by the *Quality of Care Information Protection Act, 2004* were also mentioned in our 2005 Annual Report audit of health laboratory services, where we were unable to determine whether the Ontario Medical Association's quality management program for laboratory services was functioning as intended. In fact, we have expressed concerns with the scope limitation since December 2003, when the Act was introduced for first reading in the Legislature. We continue to be concerned about the impact of the Act on our current and future audit work, and the effects it has on our ability to determine whether important systems, which can affect patient safety and treatment, are functioning as intended.

Summary

All of the hospitals we visited were managing and using their medical imaging equipment, specifically CTs and MRIs, well in some areas, such as operating patient appointment-scheduling systems and participating in Ontario's Wait Time Strategy to reduce wait times. Notwithstanding, hospitals can still improve their management and use of CTs and MRIs to better meet patient needs—for instance, by adopting best practices from other jurisdictions. More specifically, we found that the hospitals we visited generally did not use referral guidelines to ensure patients received the most appropriate test, did not always clearly prioritize patients based on their needs, and were not able to fully utilize their equipment despite patient waiting lists. Furthermore, the hospitals needed to do more to ensure the safety of patients and hospital personnel, including ensuring that exposure to radiation is as low as reasonably achievable. In particular, our observations on the operation of MRIs and CTs included:

- The Canadian Association of Radiologists (CAR) has noted that 10% to 20% of diagnostic imaging examinations that physicians order are not the most appropriate test in the circumstances, given the patient's clinical symptoms. Notwithstanding, the hospitals we visited were generally not using referral guidelines (such as CAR's September 2005 guidelines) to help ensure that the most appropriate diagnostic test was ordered.
- Hospitals receive about \$1,200 from the Workplace Safety Insurance Board of Ontario (WSIB) for each WSIB out-patient provided with an MRI examination. At two of the hospitals we visited, we noted that WSIB patients received much quicker access to their MRI examination than did non-WSIB patients. For example, at one hospital the WSIB out-patients received their MRI within an average of five days, while other out-patients waited 25 days on average.
- Wait times reported on the Ministry's website combine in-patient and out-patient wait times, even though in-patients generally receive their examination within a day. For example, at one hospital the ministry-reported wait time for a CT was 13 days, but out-patients actually waited about 30 days. As well, the starting point for measuring wait times has not been clearly established. In the sample we tested at one hospital, if all the wait times had been measured from the time the completed referral form was received, rather than from the time it was entered into the system, the reported wait time would have been an average of 13 days longer.
- Most CTs and one MRI at the hospitals we visited did not regularly operate on the weekends. We also noted that most CTs and MRIs were generally in operation for more than 80% of their posted operating hours, but that about half of the CTs at one hospital were scheduled to operate eight hours or less on weekdays. Hospital management indicated that a shortage of technologists and radiologists and a lack of funding prevented them from operating the machines for longer periods of time, even though waiting lists existed for these tests.
- Many referring physicians and staff at the hospitals we visited indicated that they were not aware that CT examinations expose patients to significantly more radiation than conventional x-rays. For example, one CT of an adult's abdomen or pelvis is approximately equivalent to the radiation exposure of 500 chest x-rays. Although other countries, such as Britain and the U.S., have established radiation dose reference levels to guide clinicians in establishing CT radiation exposure levels for patients, Ontario has not. Given that with CTs, better image quality can be obtained by increasing the level of radiation, reference levels are beneficial because they provide guidance on acceptable levels of radiation to produce an adequate diagnostic image. Without such reference levels, patients could receive more radiation at one hospital than at another for the same type of examination.
- Staff at the two hospitals we visited that performed pediatric CT examinations indicated that in close to 50% of the selected cases the appropriate equipment settings for children were not used. As a result, the children were exposed to more radiation than necessary for diagnostic imaging purposes. In addition, a recent survey of referring pediatricians in the Toronto area found that 94% underestimated the radiation exposure for children from CT examinations. Furthermore, since children's organs are more sensitive to radiation than those of adults, the use of an adult setting for one CT examination of a child's abdomen and pelvis was estimated to be equivalent to

over 4,000 x-rays, which is eight times the radiation an adult would be exposed to on the same setting. Using less radiation is particularly important when the patient is a child, since children exposed to radiation are at a greater risk of developing radiation-related cancer later in life.

- None of the hospitals that we visited had analyzed the number of CT examinations by patient or monitored radiation dosages absorbed by patients. At the two hospitals that were able to provide us with information for 2005, 353 patients had at least 10 CT examinations, and several patients had substantially more examinations than that during that year. As well, at the two hospitals that performed pediatric CTs, 58 children received more than one CT examination, including 14 children who had at least three, and one child with six examinations in 2005. In addition, these patients may have received additional CT examinations at other hospitals or in other years, which would also add to their lifetime radiation exposure. The International Commission on Radiological Protection (ICRP) cautions that while many diagnostic procedures with relatively high radiation doses (such as CTs) are very useful medical imaging tools, repeated examinations may expose patients to a level of radiation which evidence shows may cause cancer.
- Radiation protection practices include using protective accessories, such as a lead sheet, to cover a patient's body parts that are sensitive to radiation. At the hospitals we visited, policies on the use of protective accessories for CTs varied from shielding a patient's reproductive organs to shielding other superficial organs outside the area under examination. However, actual shielding practices varied. One hospital informed us that lead sheets were placed over and under a patient's body if

doing so did not interfere with the diagnostic image, whereas another hospital provided no similar protection for patients undergoing a CT.

- Individuals who are exposed to radiation as part of their job are required to wear dosimeters, a device used to measure radiation exposure. However, we found that the majority of interventional radiologists at one hospital, who are exposed to higher levels of radiation since they perform procedures close to the radiation source, were not wearing their dosimeters. As a result, the hospital was unable to tell whether these physicians exceeded annual maximum radiation doses established under the *Occupational Health and Safety Act*.
- Unlike x-ray operations, since there are no CT operating standards specified under the *Healing Arts Radiation Protection Act*, the Ministry does not examine CT operations, even though CTs expose patients to significantly more radiation than x-rays.
- None of the hospitals that we visited had a formal quality assurance program in place to periodically ensure that radiologists' analyses of CT and MRI examination images were reasonable and accurate. A 2001 British research article determined that clinically significant or major errors (those that would potentially alter patient management decisions) in radiologists' reports ranged from 2% to 20% for CT examinations and from 6% to 20% for MRI examinations.

We wish to acknowledge the co-operation we received from the hospitals visited as well as from the Ontario Hospital Association in co-ordinating our first audit in this sector. In particular, we wish to thank the hospital management, staff, and physicians for their input and open discussions throughout the audit process.

Detailed Audit Observations

REFERRAL GUIDELINES

A 2003 study done in the United States found that regions with the highest expenditures on health care (including the increased use of diagnostic tests such as CT and MRI) had no better patient outcomes; in fact, somewhat surprisingly, the study indicated there was a trend towards poorer outcomes for patients with similar acuity in higher-expenditure regions. Clinical practice guidelines can help clinicians determine which diagnostic tests are most appropriate and when they should be done. The ICES report *Access to Health Services in Ontario* (April 2005) recommended that evidence-based guidelines for appropriate use of CT and MRI scanning be developed for use in Ontario. ICES also noted that the American College of Radiology had established appropriateness criteria for diagnostic imaging and, at that time, the Canadian Association of Radiologists (CAR) was developing evidence-based guidelines for diagnostic imaging procedures.

In October 2004, the Ministry of Health and Long-Term Care established the Expert Panel on MRI and CT (Panel), with hospital, academic, and ministry representation. In its April 2005 report, the Panel identified the need for MRI and CT referral guidelines, due to a perception that referring physicians—both specialists and non-specialists—are not sufficiently informed about the appropriate clinical use of MRIs and CTs. In addition, the Panel stated that referring physicians need to be better educated about the range of diagnostic tests available. To address these concerns, the Panel recommended that the Ministry assess the CAR guidelines, once developed, and those from other jurisdictions, such as the U.S. and Britain, with the goal of adopting and implementing guidelines for the appropriate use of MRIs and CTs in Ontario.

In September 2005, the Canadian Association of Radiologists published *Diagnostic Imaging Referral Guidelines*, which are based on the British Royal College of Radiologists' guidelines. CAR noted that, according to research from around the world, 10% to 20% of diagnostic imaging examinations that physicians order are not the most appropriate ones, given the patient's clinical symptoms. Therefore, the guidelines were aimed at assisting physicians to choose the most appropriate diagnostic imaging tests for their patients. We were informed that the Panel was assessing these guidelines.

The CAR's guidelines were introduced as a small pilot project at a New Brunswick hospital in 2005. The guidelines were embedded into the hospital's diagnostic imaging order entry system. The system provides feedback to referring physicians on the appropriateness of ordered tests, based on the patient information provided (such as the patient's relevant medical history and symptoms and the examination ordered). Preliminary results indicated that 86% of tests were appropriately ordered. In addition, while the guidelines were not used to restrict the freedom of physicians to order what they believed was the most appropriate test for their patient, the pilot study noted that physicians generally changed the diagnostic test being ordered when the software indicated another test was more appropriate. At the time of our audit, a larger pilot project was under way at the Children's Hospital of the Winnipeg Health Sciences Centre.

Other than a few specific ordering guidelines, such as the Ministry's stroke protocol and Cancer Care Ontario's practice guidelines for certain types of cancer, no other MRI and CT ordering or appropriateness guidelines were formally used by the hospitals that we visited. In fact, in some cases, the referring physicians we spoke with did not know that the CAR guidelines existed. However, all the referring physicians and radiologists we contacted indicated that they were in favour of guidelines of this nature.

In the absence of guidelines, the hospitals indicated that various other approaches were used to help ensure the appropriateness of CT and MRI examinations ordered by referring physicians. At one hospital, the radiologist, chief of emergency, and other key medical personnel indicated that most cases were discussed with the radiologist first to ensure that the most beneficial diagnostic test is performed. At another hospital, we were informed that discussion of the appropriateness of diagnostic tests between radiologists and internal referring physicians occurred occasionally. However, we were told that the radiologists did not proactively pursue these consultations for two reasons: firstly, the radiologists believed that they did not have enough time to consult with physicians; and secondly, they did not want to question the judgment of their colleagues or risk possible confrontation among co-workers. At the third hospital, we were informed that the radiologist would contact the referring physician if there were any concerns about the appropriateness of the ordered test, but that this was seldom necessary due to the physicians' familiarity with the tests. As well, most radiologists we spoke with agreed that physicians who did not work at the hospital and had not specifically discussed a patient's case with the radiologist, usually did not provide sufficient clinical information with the request for a diagnostic test to enable the radiologist to determine whether the requested test was the most appropriate one. In the absence of this clinical information, the requested tests were performed as ordered.

RECOMMENDATION 1

To better ensure that patients receive the most appropriate diagnostic test given their clinical symptoms, and thereby help reduce unnecessary tests, waiting lists, and unnecessary exposure to medical radiation, hospitals should:

- in conjunction with the Ministry, evaluate the benefits of using diagnostic imaging referral guidelines, such as those issued by the Canadian Association of Radiologists, to assist with determining the appropriateness of tests; and
- have a process in place to identify possibly inappropriate diagnostic imaging tests ordered by referring physicians, particularly with respect to CT and MRI referrals.

ACCESS

Appointment Scheduling

At the hospitals we visited, CT and MRI appointments for in-patients and emergency patients were generally booked by hospital staff directly into the hospital's information system. For other patients, such as out-patients, referring physicians completed a hospital form to request either a CT or an MRI appointment. This form generally required the patient's name, address, health card number, and clinical history, as well as the nature of the test to be conducted.

Once an out-patient appointment request form is received by the hospital, it is reviewed to ensure that all of the required information is complete. Incomplete forms are returned to the referring physician.

For completed CT request forms, the hospitals book an appointment and inform the referring physician or the patient directly of the date and time of the appointment. The hospitals we visited generally reserved time each day for in-patient, out-patient, and emergency CT appointments and also conducted emergency CT examinations as required. We were told by hospital management that emergency patients were generally the top priority, followed by in-patients, and then out-patients. As well, we noted that out-patient CT appointments were generally booked on a first-come, first-served

basis with the exception of cancer patients and urgent out-patients at two of the hospitals we visited. The hospitals reserved time for cancer patients to provide these patients quicker access, and they reserved or added on time for urgent out-patients. We were informed by hospital management at two of the hospitals we visited that out-patient CT scans are generally not prioritized because not enough information is provided on the appointment request form and, in general, there is little reason to prioritize because there is not a long waiting time for a CT appointment.

Completed MRI request forms are forwarded to a radiologist who prioritizes the requests according to the patient's medical needs. One of the hospitals we visited had defined four priority codes, such as code 1 for immediate threat to life or permanent loss of function, down to code 4 for chronic and stable pathology, routine follow-up, and screening studies. However, at the other two hospitals we visited, the priority levels were not defined, and radiologists generally prioritized MRI examinations as high, medium, or low urgency; or urgent or routine, respectively. Therefore, different radiologists at these hospitals could assign a different priority to patients with similar conditions. As a result, the hospitals could not ensure that patients with similar conditions had the same access to MRI examinations. In December 2005, the Ministry of Health and Long-Term Care announced CT and MRI priority categories with associated wait-time benchmarks, as shown in Figure 4. As discussed more fully in the Wait Times section of this report, the hospitals participating in the Ministry's Wait Time Strategy, which includes the three hospitals we visited, will have to report wait times based on these priority categories by the end of 2006. We were informed that two of the hospitals we visited had adopted the Ministry's priority levels by summer 2006.

Once patients are prioritized, the hospitals then book an appointment and inform the referring physician or the patient of the date and time

Figure 4: Ontario Wait-time Benchmarks for CT and MRI Examinations

Source of data: Ministry of Health and Long-Term Care

Priority	Wait-time Target
Priority I - Emergency scan needed	Immediate
Priority II - Potential for deterioration	48 hours
Priority III - Cancer staging	2 to 10 days
Priority IV - Non-urgent scan	4 weeks

of the appointment. As with CT appointments, the hospitals we visited generally reserved time each day for in-patient, out-patient, and emergency MRI appointments and also conducted emergency MRI examinations as required.

We were told by physicians at all three hospitals that there is an informal mechanism in place where MRI and CT appointments can be scheduled sooner, based on a patient's medical needs. In these cases, the referring physician contacts the radiologist to request an earlier appointment. We recognize that these consultations are important to help ensure that patients are appropriately prioritized. However, in the absence of defined patient-priority levels, some physicians could consistently overprioritize their patient's needs and may therefore obtain earlier appointments for them.

Access for Patients Covered By the Workplace Safety and Insurance Board of Ontario

Individuals who are injured at work in Ontario may need various hospital tests, including tests (such as an MRI) to determine whether they are healthy enough to return to work. The Workplace Safety Insurance Board of Ontario pays hospitals directly for conducting these examinations. For example, hospitals are paid about \$1,200 for an MRI examination. For patients not injured at work, the costs of their in-patient and out-patient examinations generally must be covered by the hospital's global budget.

The report of the Expert Panel on MRI and CT indicated that "all Ontarians should have timely

access to MRI and CT services, with medical need determining the priority of their case.” However, in order to earn additional revenues, hospitals may try to provide services to as many WSIB clients as possible, rather than prioritizing patients based on need. At two of the three hospitals we visited, specific appointment time slots were reserved for WSIB out-patients in order to ensure quicker access to service. In addition, one of these hospitals had a policy of providing MRI examinations to WSIB out-patients within two weeks of their referral. We were informed by one hospital’s management that WSIB patients received quicker access to MRI examinations because WSIB would have the examinations done elsewhere if there was a longer wait time, which would result in lost revenue for the hospital.

We selected a sample of WSIB-funded out-patients and other out-patients who booked their appointments on the same day for the same type of MRI examination (same body part) and noted the following:

- 81% of WSIB-funded out-patients at one hospital received access to services within two weeks, while only 27% of the other out-patients received access to the same services within two weeks. In addition, we noted that the WSIB-funded out-patients were usually prioritized as “high” in order to receive an examination within two weeks.
- WSIB-funded out-patients at another hospital received their examination within an average of five days, while the other out-patients waited 25 days on average.
- At the third hospital, both WSIB-funded and the other out-patients waited a similar length of time, about 32 days, to receive an MRI examination. This hospital did not allocate specific appointment time slots for WSIB-funded patients.

The provision of quicker access to WSIB-funded out-patients at two of the hospitals we visited appears to have resulted in longer wait times for

other out-patients, who may be equally or more medically in need of an MRI examination.

As part of its Wait Time Strategy, Ontario has developed four levels to prioritize patients for an MRI. According to the Ministry, all hospitals participating in the Wait Time Strategy will be required to use these levels when booking patient appointments, including appointments for WSIB patients, and when reporting prioritized wait times. Since all patients, including WSIB patients, should be prioritized based on consistent needs-based standards, this may require policy changes at some Ontario hospitals.

RECOMMENDATION 2

Hospitals should establish policies to ensure that all patients, including Workplace Safety and Insurance Board patients, are prioritized for MRI and CT examinations in a similar manner based on medical need.

Wait Times

In February 2003 and in September 2004, the provincial ministers of health met to discuss health-care renewal and the future of health care, including the need to reduce wait times and improve access to diagnostic services. In September 2004, the First Ministers agreed to achieve reductions in wait times in five areas, including diagnostic imaging, by March 31, 2007.

As a result, Ontario’s Wait Time Strategy was announced in November 2004 to reduce wait times by improving access to health-care services for adult Ontarians in five areas, including MRI and CT, by December 2006. This strategy included funding for new and replacement MRI and CT equipment and expanding the hours of operation for MRI services in selected hospitals. In the 2004/05 fiscal year, the federal and provincial funding for medical equipment flowed through several initiatives,

including \$21 million used to replace aging MRI scanners at seven hospitals and \$45.3 million used to replace aging CT scanners at 23 hospitals. As well, the Ministry indicated that an additional 182,700 MRI examinations were to be funded in hospitals and independent health facilities through the Wait Time Strategy at a cost of \$47 million between November 2004 and March 2007.

Wait-time Benchmarks

As part of the First Ministers' agreement, the federal, provincial, and territorial ministers of health agreed to establish evidence-based benchmarks for medically acceptable wait times by December 31, 2005, for a number of procedures, including diagnostic imaging procedures. The benchmarks were to express the appropriate amount of time, based on clinical evidence, to wait for a particular procedure. While benchmarks were established for many of the selected procedures, no targets were established for access to CT or MRI examinations.

However, in December 2005, the Ministry of Health and Long-Term Care announced Ontario wait-time benchmarks, developed by clinical experts across the province, including targets for CT and MRI wait times. These benchmarks were based on four priority categories, as shown in Figure 4.

Although all three hospitals we visited participate in the Wait Time Strategy, these benchmarks were relatively new at the time of our audit, and therefore none of these hospitals were reporting wait times based on these priority levels or comparing wait times to these benchmarks. However, one hospital had established its own wait-time targets for certain types of CT and MRI examinations and monitored actual wait times against these targets. We noted that the wait times at this hospital exceeded the hospital's own targets in 43% of the CT and MRI examination categories for the period we reviewed. We were informed that the hospital has a number of initiatives to decrease wait times,

such as moving patients between sites or extending CT and MRI operating hours.

Reporting Wait Times

Commencing in July 2005, hospitals participating in the Wait Time Strategy were required to report monthly wait-time information to the Ministry for both MRI and CT examinations to be eligible to receive funding for performing additional MRI examinations. The wait times were to be calculated from the date that the test was ordered to the date that the examination was performed, and hospitals were responsible for ensuring that the data is accurate.

The Ministry uses the data provided by the hospitals to calculate the median and average wait times for each hospital and for the province as a whole. The number of days that it takes 90% of patients to receive their examination is also determined. According to the website, the combined wait times for in-patients and out-patients (excluding wait times for emergency patients) receiving tests from April 1, 2006, to May 31, 2006, for the hospitals participating in the Wait Time Strategy, are as shown in Figure 5. As shown in Figure 6, wait times for CT and MRI examinations since August 2005 have remained somewhat stable.

We reviewed the data submitted to the Ministry by the hospitals we visited and had the following concerns:

- The starting point for measuring the wait time for tests was not sufficiently defined. As a result, the hospitals reported wait times

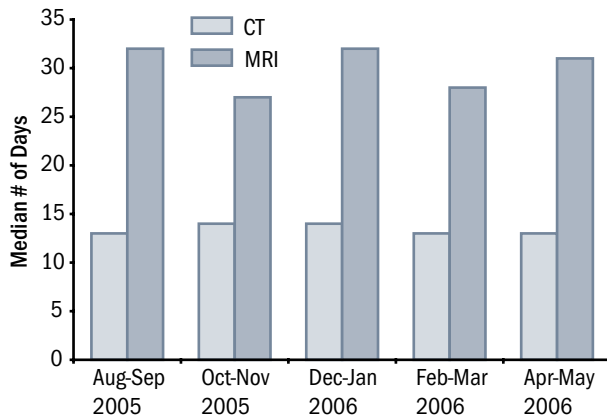
Figure 5: CT and MRI Wait Times for Participating Hospitals, April 2006–May 2006

Source of data: Ministry of Health and Long-Term Care

Type of Exam	# of Hospitals Reporting Wait Times	Wait Times (Days)		
		Median	Average	For 90% of Patients to Receive Scan
CT	38	13	28	71
MRI	41	31	44	91

Figure 6: CT and MRI Wait Times for Participating Hospitals, August 2005–May 2006

Source of data: Ministry of Health and Long-Term Care



differently. Specifically, out-patient wait times were based on one of the following dates:

- the date the hospital initially received the referral form;
- the date when the hospital received a completed referral form; or
- the date when the hospital put the referral information into their system.

For example, one hospital's process was to record wait times based on when the hospital received a completed referral form. However, we noted that this date was not always used—hospital staff indicated that paper referral forms (representing approximately 20% of the hospital's referrals) were manually entered into the system, and therefore errors (such as using the date the referral form was entered into the system, rather than the date it was received), could occur. In our sample of CT and MRI referral forms, if all the wait times had been measured from the time the completed referral form was received rather than from the time it was entered into the system, the reported wait time would have been an average of 13 days longer. Hospital management indicated that it was monitoring the recording of wait times to better ensure compliance with the hospital's process.

- Despite the Ministry's instructions to exclude emergency patients from the wait-time data, one hospital we visited included the wait times for certain emergency patients. These patients had a previously scheduled CT or MRI appointment but then had the test earlier than scheduled after being admitted to the hospital's emergency department. The wait time from the date the appointment was booked until the date of the emergency test was included in the hospital's wait-time data. The hospital was unable to determine the magnitude of the misstatement.
- Wait times for hospitals that have multiple sites are reported as an overall wait time for the hospital, although the wait times may vary significantly among sites. For example, we noted that median wait times for out-patient CT exams ranged from six days to 35 days at different sites of the same hospital, while out-patient MRI examinations ranged from 14 days to 28 days. Hospital management indicated that each hospital site provides services based on its area of specialization (for example, cardiac), and therefore wait times vary by hospital site.

Alberta, Manitoba, and Nova Scotia also report wait times for MRI and CT imaging. However, these times are defined differently from province to province and are not readily comparable to the wait times reported in Ontario.

Limitations of Wait-time Reporting

Although the Ministry's website provides some information on wait times, it does not provide wait times for every hospital in Ontario. For example, 33 hospitals that have MRI and/or CT equipment are not included in the data since they do not receive funding under the Wait Time Strategy and therefore are not required to report this information. As well, wait-time data for an additional five MRI and

Figure 7: CT and MRI Median Wait Times for In-patients versus Out-patients, Fall 2005

Source of data: Hospitals and Ministry of Health and Long-Term Care

Hospital	CT Wait Times (Days)			MRI Wait Times (Days)		
	In-patient	Out-patient	As Reported by Ministry	In-patient	Out-patient	As Reported by Ministry
#1	1	30	16	1	45	40
#2	0	15	10	1	22	20
#3	0	30	13	2	45	44

four CT scanners, operated by independent health facilities, are also not included.

There were also a number of limitations to the wait-time information reported by hospitals to the Ministry at the time of our audit. For example, the information includes follow-up tests purposely scheduled for a future date, which makes the average wait time appear longer, even though the patients can receive their tests at the requested time and therefore have no wait time whatsoever. Also, in-patient and out-patient data are combined, although out-patients normally wait much longer than in-patients. Since combining in-patient data with out-patient data could potentially have a significant impact on reported wait times, we examined the wait times for these two groups for selected months and noted that the median wait for an out-patient CT examination was significantly higher than the median reported by the Ministry. The wait time for MRI out-patients was slightly higher. (See Figure 7.) To provide more meaningful information to the public, one of the hospitals we visited posted both in-patient and out-patient wait times on its own website.

To address some of the limitations detailed above, the Ministry developed the Wait Time Information System (WTIS). According to the Ministry, the WTIS will provide more comprehensive data, for example, waiting time by priority level, waiting time to report test results, and on how long a patient must wait for a test as of a certain date. In addition, WTIS will enable physicians and hospitals to better manage their waiting lists by flagging

patients whose wait times are approaching wait-time target benchmarks. This system is being implemented between March 2006 and June 2007 in the hospitals participating in the Wait Time Strategy. We were informed that two of the hospitals we visited had implemented the WTIS by summer 2006.

RECOMMENDATION 3

To help hospitals better manage their MRI and CT waiting lists, and provide the public with more reliable and useful wait-time information, hospitals should:

- seek further guidance from the Ministry to clarify the starting point for the calculation of each patient's wait time, to ensure that wait-time data are being consistently reported across all hospitals; and
- measure and report wait times using the Ministry's new Wait Time Information System, including information on patient priority levels, ability to meet benchmarks, and out-patient wait times.

Patient Cancellations and No-shows

In order to ensure that diagnostic equipment is used efficiently and that waiting lists are minimized, it is important that CTs and MRIs are used to their full potential during operating hours. When patients cancel an MRI or CT appointment with little notice provided to the hospital, or when patients do not

show up for their scheduled appointment (patient no-shows), the equipment may not be used until the next patient is available. Since there is a waiting list for both CT and MRI examinations across the province, it is important that appointment cancellations and patient no-shows are kept to a minimum.

All the hospitals we visited recorded MRI and CT appointment cancellations as well as patient no-shows. However, none of the hospitals had summarized this information. For the two hospitals that tracked cancellations in a similar manner, we summarized this data as shown in Figure 8.

The third hospital included rescheduled appointments in their cancellation data, and therefore, they were unable to determine their overall cancellation rate. In addition, while appointments could be rescheduled by the hospital, the referring physician, or the patient, the hospital did not track who had rescheduled the appointment.

Appointments may be cancelled for various reasons, such as a change in the patient's condition, bad weather, or equipment problems at the hospital. All the hospitals we visited had some processes in place to record in some cases the reasons for CT and MRI appointment cancellations. This information enables hospitals to analyze the reasons for cancellations, and take action where appropriate to minimize them, especially last-minute cancellations and no-shows. However, none of the hospitals visited captured the information needed to determine what action to take.

At all of the hospitals we visited, hospital management indicated that cancellations did not affect the efficiency of their operations, since any CT or MRI time that becomes available from an out-patient cancellation is generally filled by an in-patient. However, MRI no-shows involve longer patient appointment times and more hospital administrative time (for example, to ensure patients do not have implanted metal devices). As a result, one hospital phoned patients to determine why they did not show up for their MRI appointment

Figure 8: MRI and CT Appointment Cancellation and No-show Rates, 2005

Source of data: Two of the hospitals visited

Hospital	Overall Cancellation Rate (%)*		No-show Rate (%)	
	MRI	CT	MRI	CT
#1	14	8	4	2
#2	14	7	7	5

*including no-shows and excluding rescheduled appointments

in July 2005. Although the hospital was unable to contact over half of the patients for various reasons, such as wrong phone numbers, the patients they contacted indicated various reasons for missing the appointment, including the patient was unaware of the appointment and the patient forgot about the appointment. In order to address the issue of MRI no-shows, hospital management indicated that they were considering informing the referring physician about the patient's appointment. Referring physicians are likely to have correct patient information such as phone numbers and may help to ensure that patients show up. Hospital management indicated that they plan to conduct telephone reviews of the reasons for MRI no-shows twice a year to help reduce missed appointments.

The same hospital (operating its MRI 24 hours a day, seven days a week) also noted that many patients missed late night or early morning appointments. As a result, the hospital further monitored the percentage of exams cancelled from 11 p.m. to 7:15 a.m., with a view to keeping missed appointments below 5%. For the three months ending December 31, 2005, two of this hospital's sites had exceeded the patient no-show target and had an average no-show rate of almost 12%. To help address this situation, hospital management indicated that they would accept MRI appointments during these hours for other hospitals' patients, who otherwise may have had to wait longer for their appointment.

To help reduce no-shows, all the hospitals indicated that they phoned MRI outpatients prior to their appointment date to remind them of their appointment and to ensure that patients were able to take the MRI examination. However, only one of the three hospitals that we visited phoned CT outpatients to remind them of their appointment date and time. At the other two hospitals, management indicated that they were unable to do this because they had insufficient administrative staff to perform this task.

RECOMMENDATION 4

In order to ensure that hospitals are utilizing their MRI and CT equipment efficiently, hospitals should monitor the reasons for cancellations and take proactive action where possible to minimize the impact of last-minute cancellations and no-shows.

UTILIZATION

Given the large capital and operating expenses associated with MRI and CT scanners, the Expert Panel on MRI and CT indicated that this equipment should operate for extended hours in order to reduce wait times. Specifically, the Panel recommended that MRI and CT equipment should operate 16 hours a day, seven days a week, where human and financial resources permit. The Panel also recommended that ultimately, the operating goal for MRI scanners should be 24 hours a day, seven days a week. Based on a survey of hospitals, the Panel's information indicated that, on average, hospitals were operating their MRI scanners about 11 hours a day, seven days a week, in the 2003/04 fiscal year. As well, the Panel's survey showed that, on average, hospitals were operating their CTs about 8.5 hours a day, including weekends. At one hospital we visited, many of the CTs operated eight hours or less and only on weekdays, while the

remaining CTs at this and the other two hospitals operated for extended hours. One hospital operated two CTs 24 hours a day, seven days a week, for emergency patients. In addition, the MRIs at all three hospitals operated for extended hours on weekdays, with four MRIs at one hospital operating 24 hours a day, seven days a week. However, most CTs and one MRI did not regularly operate on the weekend, although technologists and radiologists were generally on call or otherwise available if an emergency CT or MRI examination was needed.

The Panel noted that hospitals reported a number of factors that would impede their expansion of MRI and CT capacity. These include a reported lack of radiologists in 43% of hospitals with MRIs, and in 51% of hospitals with CTs, as well as a shortage of technologists in 41% of hospitals with MRIs, and in 47% of hospitals with CTs. Management at the hospitals we visited indicated (as did the Panel) that a combination of too few technologists and radiologists, as well as a lack of funding, prevented operation of the machines for longer periods even though wait lists existed.

The Panel also developed targets for the time needed to perform each adult MRI and CT examination based on the part of the body being scanned. Efficiency in meeting the targets was based on “worked hours”—that is, the hours that MRI and CT scanners are available to perform clinical procedures—and the Panel recommended an efficiency rate of at least 80%. Using 2003 OHIP data, the Panel applied its recommendation to 71 hospitals that had an MRI and/or a CT scanner and noted that many of the hospitals actually took less time than recommended to perform a CT or MRI examination.

Two of the hospitals we visited did not monitor the utilization of their CTs and MRIs. Therefore, we reviewed patient appointment and imaging data over a two-week period at these two hospitals and noted that the equipment was generally in use for more than 80% of the time available to perform clinical procedures, in accordance with the Panel's

recommendation. However, the time to perform clinical procedures does not consider the amount of time the equipment is unavailable for patient use during posted operating hours due to maintenance and repairs. In addition, there was no benchmark for what is a reasonable amount of downtime due to maintenance and repairs. Therefore, we also reviewed the use of CTs and MRIs in comparison to the hospitals' posted operating hours for this equipment. We did note cases where the equipment was being used for less than 80% of the posted operating hours and, at one hospital, that no patients were seen during the last 75 minutes to two hours of the MRI's posted operating hours for the weekend shifts we reviewed. Hospital management indicated that utilization was lower primarily due to unexpected equipment problems, preventive maintenance, staff preparation for the next day, and staff time for meals and other breaks.

The third hospital we visited had generally monitored the use of its CTs and MRIs. Where information was available, hospital reports indicated that CT and MRI equipment was generally in use at least 80% of the time available to perform clinical procedures. As well, on average, the CT scanners were used about 86% of the posted operating hours, with a range of 77% to 90% per CT from July 2005 to February 2006, while most MRIs were used, on average, for 75% of the posted operating hours, with a range of 66% to 79% per machine. This hospital also had three other MRIs whose use includes research. Two of these were also used for patient examinations and, in total, operated for 32% and 77% of the posted operating hours, respectively. The third MRI was dedicated to research work and was only used a few hours a week.

RECOMMENDATION 5

To better provide patients with timely access to required examinations, hospitals, in conjunction with the Ministry, should develop strategies

to increase the utilization of MRI and CT equipment, including increasing the time available for performing clinical procedures.

SAFETY

MRI Safety

Since MRIs use a strong magnetic field and radio frequency pulses, there are safety concerns for patients, medical radiation technologists, house-keeping personnel, and other individuals who may need to enter an MRI room. When materials that can be attracted to magnets come near an MRI, they are pulled rapidly toward the MRI's magnet, potentially causing a serious hazard. For example, in July 2001, a fatal accident occurred in the U.S. when an oxygen cylinder pulled by an MRI's magnet crashed into a young boy undergoing an MRI. In another case, while no one was injured, a monitor had been pulled into an MRI at one of the hospitals we visited.

The Ontario Health Technology Advisory Committee (OHTAC), an advisory group to the health-care system, including the Ministry of Health and Long-Term Care, reviewed MRI patient monitoring systems in December 2003. Their report noted that the U.S. Emergency Care Research Institute has a Health Devices Alerts database that tracks reported instances where objects have been pulled into an MRI. In Ontario, as in other Canadian provinces, there is no similar reporting system. Furthermore, there is no legislation governing or monitoring the use of MRI equipment. There are, however, various sources that promote safe MRI practices. These include the American College of Radiology's White Paper on Magnetic Resonance Safety, Health Canada's guidelines on exposure to electromagnetic fields from MRIs, and advisory notices from Health Canada to hospitals.

We noted that policies on the operation of MRIs varied greatly among the three hospitals we visited.

For example, one hospital had no formally documented MRI policies available, another had some policies and had established an MRI safety committee to develop further policies, and the third had extensively documented policies. According to clinical practice parameters and standards for MRIs for independent health facilities, set by the College of Physicians and Surgeons of Ontario (College), written policies and procedures should be in place. These include policies that provide diagnostic imaging staff with direction on the preparation of patients for MRIs, use of technical settings, and emergency procedures.

The College's clinical practice parameters and standards were developed to assist physicians in developing their own quality management program and to act as a guide for assessing the quality of patient care provided in independent health facilities. According to these standards, items to be addressed in the policies and procedures include when and how to turn off the MRI's magnet in emergencies, how to respond to emergency patient resuscitation in the MRI room, and how to screen non-patients accessing the MRI room. Furthermore, policies and procedures should be available for use by all diagnostic imaging personnel.

Patients who have materials in their body that can be attracted to magnets (metal fillings, defibrillators, clips or pins, for example) generally cannot be imaged. Metal implants or foreign bodies can be twisted and pulled by the MRI's magnet, resulting in cuts or serious damage to surrounding tissues. Patients using pacemakers cannot be imaged because the MRI's strong magnetic field can induce currents in the pacemaker's circuitry that cause it to fail, possibly causing death. Devices such as electrocardiogram (ECG) electrodes and leads also have the potential to become hot enough to cause burns when they are exposed to the MRI's changing magnetic fields and radio frequency currents.

All of the hospitals that we visited required the completion of patient screening forms to help

determine if patients had any reasons preventing them from undergoing an MRI examination. We compared the screening forms used by the hospitals to both the College's recommended screening form, used by independent health facilities, and to a screening form created by an American MRI expert. We noted that the hospital screening forms generally covered off most of the key patient risks. However, some of the hospital forms contained a more comprehensive listing of the risks than others. For example, one hospital's form did not include implanted defibrillators, electrodes, or surgical clips.

In February 2004, the Ontario Health Technology Advisory Committee (OHTAC) recommended that to minimize risks to patients and providers, the Ministry of Health and Long-Term Care should conduct a review of all MRI facilities to ensure adherence to best practices, or alternatively, to alert facilities to potential MRI safety hazards. In April 2006, OHTAC assisted the Ministry in addressing this recommendation by commissioning a review by an external research group. The review found that not all MRI facilities in Ontario followed the American College of Radiology's guidelines for MRI environment safety, which are industry-accepted safety standards. In addition, there were several inconsistencies in certain MRI practices across the province. (Some hospitals do not require out-patients to remove their clothing and change into hospital gowns for their MRI exam, for example.) As well, a number of safety issues were noted, including no designated MRI safety officer at each hospital, a lack of access controls to hospital MRI rooms, inconsistent labelling of equipment that is safe to bring into the MRI room, unclear MRI warning signs, and inadequate training for hospital staff, including some MRI personnel.

As a result, the Ontario Health Technology Advisory Committee endorsed a number of recommendations made in the study, including establishing a provincial MRI safety committee to promote

consistent MRI safety practices in Ontario. Another recommendation was to appoint an MRI safety officer at each hospital to regularly maintain MRI policies and procedures and oversee staff screening and training. OHTAC also endorsed measures to better control entry to MRI environments and recognized the need for a single, comprehensive patient screening form that would be used by all MRI facilities to ensure patient safety.

RECOMMENDATION 6

To help ensure the safety of patients and hospital staff with regard to the operation of MRIs, hospitals should address the recent recommendations endorsed by the Ontario Health Technology Advisory Committee, which were designed to promote consistent and safe MRI practices in Ontario.

CT Safety

Patient Radiation Exposure

Diagnostic tests that use radiation, including CTs, are an accepted and important part of medical practice because the clinical benefit to a patient can outweigh the potential harmful effect of the radiation exposure. However, unlike regular x-rays where excess radiation exposure results in blackening of the film, better image quality is obtained with higher radiation use in CTs.

According to the Canadian Association of Radiologists, CTs now contribute almost half of the collective radiation exposure from all diagnostic medical examinations. CAR has noted that radiation exposure from CTs, which is measured in millisieverts (mSv), is particularly high, as shown in Figure 9.

At the hospitals we visited, many staff and referring physicians indicated that they were unaware that CTs exposed patients to as much radiation as they do. In addition, hospital staff indicated that

patients were not specifically informed about the radiation risks of CT scans. A 2004 U.S. study, conducted at an academic medical centre, also found that patients, emergency department physicians, and radiologists underestimated patients' radiation exposure from CTs, and that patients were not given information about the risks, benefits, and radiation dose. A recent survey of referring pediatricians in the Toronto area found that 94% underestimated the radiation exposure from various pediatric CT scans.

A number of organizations, including the International Commission on Radiological Protection (ICRP), with representation from various countries, including the U.S., United Kingdom, Japan, and Germany, and the U.S. National Academy of Sciences have investigated the effects of radiation exposure on individuals. In June 2005, the U.S. National Academy of Sciences published the *Biologic Effects of Ionizing Radiation (BEIR VII): Health Risks from Exposure to Low Levels of Ionizing Radiation*. This study defined low doses as those in the range of near zero up to approximately 100 mSv. The report predicted, for the U.S. population, a lifetime risk of approximately one in a thousand of developing certain types of cancer from a dose of 10 mSv, or one in a hundred of developing cancer from a dose of 100 mSv.

Imaging Standards

The American College of Radiology (ACR) and Great Britain's Radiation Protection Division of the Health Protection Agency have established diagnostic reference levels for some types of CT examinations that guide clinicians in establishing standard CT parameters. By using standard parameters patients are exposed to similar radiation levels for similar examinations. A European Council Directive, pertaining to the health protection of individuals, including patients, from radiation also requires that member states promote the establishment and the use of diagnostic reference levels. Studies of CT dosages done in the U.S. (2000), the United Kingdom

Figure 9: Typical Effective Patient Radiation Exposure from Diagnostic Medical ImagingSource of data: *CAR Diagnostic Imaging Referral Guidelines*, released September 2005

Diagnostic Procedure	Typical Effective Dose (mSv)	Equivalent # of Chest X-rays	Approximate Equivalent Period of Natural Background Radiation
x-ray—limbs and joints (except hip)	less than 0.01	less than 0.5	less than 1.5 days
x-ray—chest	0.02	1	3 days
x-ray—abdomen or pelvis	0.7	35	4 months
CT—head	2	100	10 months
CT—chest	8	400	3.6 years
CT—abdomen or pelvis	10	500	4.5 years

(2003), and British Columbia (2004) found that there were wide variations in CT examination parameters, resulting in significant variances in patient radiation exposure for similar examinations performed at different locations. For example, the British Columbia study of 18 hospitals noted that radiation from an abdominal CT examination ranged from 3.6 mSv to 26.5 mSv.

Legislation in many provinces, such as Alberta and Saskatchewan, as well as Health Canada's Safety Code guidelines and the medical imaging profession in general, all follow the radiation principle of "as low as reasonably achievable" (ALARA). Although Ontario's *Healing Arts Radiation Protection Act* does not specifically refer to this principle, the June 1987 guidelines, which are intended to complement the Act and to provide additional information on many related aspects of x-ray imaging, are based on the ALARA principle. All the hospitals we visited had general radiological policies based on the ALARA principle. However, given that there are no patient radiation exposure standards for CT examinations in Ontario, a patient could receive more radiation at one hospital than at another for the same type of examination. The Expert Panel on MRI and CT identified the need to promote the standardization of imaging protocols for diagnostic procedures, including CTs, which would serve to ensure that the patient's radiation dose is minimized and that radiation exposure is consistent among hospitals.

In 2002, the ACR developed an accreditation program for CT facilities in the U.S. This voluntary program requires facilities to submit a sample of clinical images, radiation dose measurements, and scanning protocols to the ACR every three years. The ACR compares the patient radiation dose measurements to established reference levels and identifies instances where the radiation exposure is unusually high. Facilities are required to investigate any such instances and to submit documentation to the ACR within 90 days, detailing the investigation, any corrective action taken if necessary, or the justification for the use of higher radiation dose levels.

Pediatric Imaging Protocols

In November 2001, the U.S. Food and Drug Administration (FDA) issued a notification to radiologists and hospital administrators in the United States that emphasized the importance of using radiation doses during CT examinations that are as low as reasonably achievable, especially for pediatric and small adult patients who require less radiation to obtain a diagnostic CT image. Using less radiation is particularly important when the patient is a child. Children exposed to radiation are at a greater risk than adults of developing radiation-related cancer later in life, as many radiation-induced cancers can take decades to develop.

A 2001 American research paper noted that pediatric CT examinations are routinely conducted using the same level of radiation that is used on adults; this practice results in children absorbing

significantly more radiation than adults. In fact, staff from the Hospital for Sick Children in Toronto estimated that the use of adult settings for one CT scan of the abdomen and pelvis in a child is approximately equivalent to over 4,000 x-rays, since children's organs are more sensitive to radiation. The FDA also recognized this radiation exposure risk in its 2001 notification, which stressed the importance of adjusting CT settings appropriately for each individual's weight or size, as well as for the part of the body being scanned. Furthermore, the Clinical Practice Parameters and Facility Standards for CTs in independent health facilities (College of Physicians and Surgeons of Ontario), and the practice guideline (American College of Radiologists) for performing and interpreting diagnostic CTs, both refer to utilizing pediatric/small adult protocols to help ensure that acceptable image quality is attained with the lowest possible radiation exposure.

Two of the hospitals that we visited conducted pediatric CTs. The third hospital did not perform pediatric CTs since all such cases were referred to a hospital specializing in pediatric care. To ensure that the radiation exposure during CTs provides sufficient image quality to enable the radiologist to interpret the examination results, manufacturers pre-program CTs with protocols, including pediatric protocols. The technologist can therefore adjust the CT settings to the children's protocol. We found that both hospitals either modified the pre-set pediatric protocols or allowed their radiation technologists to select the most appropriate settings. Staff at one hospital indicated that the modified protocol would often expose a child to less radiation than the manufacturer's pre-set protocols, but not always—the modified protocol might expose the child to more radiation than that from the pre-set protocols. We noted that the number of pediatric CT protocols varied significantly between the two hospitals. One hospital had about 60 different pre-set protocols, based on the child's weight and the body part being scanned, while the other hospital had only one chil-

dren's pre-set protocol for head CT scans, based on the child's age.

We selected a sample of pediatric CT examinations and requested that hospital staff review them to determine if either the appropriate CT pediatric protocol or other acceptable settings were used. Staff at both hospitals indicated that in almost 50% of the selected cases the appropriate pediatric protocol or settings were not used and that the children were exposed to more radiation than necessary for diagnostic imaging purposes. In addition, staff from a pediatric hospital in Ontario indicated that, when examining CT images taken of children at referring hospitals, they noticed that the radiation exposure was sometimes higher than what was commonly used in a pediatric hospital. While there may have been unique circumstances requiring the use of excess radiation, we were informed that the pediatric hospital staff notified referring Ontario hospitals that the radiation exposure was higher than expected, and also provided referring hospitals with related educational material for conducting CTs on children.

Multiple CT Examinations

Certain patients have multiple CT examinations. For example, trauma patients may need a head, chest, and abdomen and pelvis CT to diagnose the extent of their injury. Each CT examination contributes to an individual's radiation exposure, which is cumulative over an individual's lifetime. The International Commission on Radiological Protection warns that while CT scans are a very useful medical imaging tool, the ease of obtaining results by this mode and the temptation to monitor frequently the course of a disease, should be tempered by the fact that repeated examinations may expose patients to a level of radiation which evidence shows causes cancer.

None of the hospitals that we visited had analyzed the number of CTs by patient to help determine if any patients were receiving more CTs than were medically necessary. However, two of

the three hospitals that we visited were able to provide us with information on adult patients that had CTs—in total at these two hospitals, about 85,000 adult CT examinations were conducted in 2005. While all examinations are ordered by a physician, and therefore considered clinically necessary, we noted that about 15,500 patients accounted for 63% of the total 85,000 examinations conducted. These included 353 patients who had at least 10 CT examinations, and several patients who had substantially more examinations than that. One hospital indicated that physicians weigh the benefits and risks to the patient of any examination and also noted that three CT examinations in a year is considered a reasonable standard of care for cancer patients.

Although two hospitals that we visited conducted pediatric CTs, neither had monitored the total number of pediatric CTs performed or the number of multiple CT examinations done on a particular child. At our request, one hospital provided us with a listing of all CT examinations on pediatric patients, while the other hospital was only able to provide us with a partial listing. Based on this information, at least 450 children received CT exams in 2005 at these hospitals. Of these, 58 children received more than one CT, including 14 children who had at least three exams and one child who had six.

We also noted that none of the hospitals that we visited recorded radiation dosages absorbed by patients or tracked patients' cumulative radiation exposure, although two of the three hospitals recorded specific information that could be used to calculate the radiation absorbed by the patient. Furthermore, all of these patients may have received additional CT examinations at other hospitals or in other years, which would also add to their lifetime radiation exposure. We were informed by hospital management that, unfortunately, physicians generally cannot access information on patient CTs completed outside of their hospital. In the United

Kingdom, the Health Protection Agency established a National Patient Dose Database in 1992, which contains radiation exposure information from patients' medical x-rays, provided by hospitals on a voluntary basis. Although the current database does not include information on CT examinations, a CT patient radiation dose database is being established in the United Kingdom as well.

Use of Protective Devices

No overall limits have been established for patient exposure to radiation for medical reasons in North America. However, in order to protect patients from the effects of radiation, hospitals are required, under the *Healing Arts Radiation Protection Act's* regulation, to ensure that protective accessories (for example, a lead sheet to cover sensitive body parts) are available for use by persons who may receive exposure to x-rays. Other organizations, such as Health Canada and the International Commission on Radiological Protection, as well as many research articles, also recommend shielding to protect superficial patient organs, including the thyroid, breasts, and eye lens.

Although none of the hospitals we visited had patient radiation protection policies specific to CTs, all had general patient radiation protection policies. These policies ranged from shielding the reproductive organs to shielding other superficial organs that are outside the area under examination. Our discussions with hospital staff indicated that the patient radiation protection provided varied from hospital to hospital. For example, one hospital informed us that lead sheets were placed over and under a patient's body during a CT exam if doing so did not interfere with the diagnostic image; another hospital provided no similar protection for patients.

Hospital Personnel Radiation Exposure

In Ontario, the *Occupational Health and Safety Act* (Act) establishes limits for occupational radiation exposure in order to ensure that the risks

associated with radiation are at an acceptably low level. The radiation dose limits vary by body part because certain areas absorb more radiation and are more susceptible to radiation-induced cancer (for example, superficial organs, such as the eyes, breasts, thyroid, and testes). The annual recommended radiation limit for the whole body is 50 mSv. In addition, a regulation under the Act requires that dosimeters, devices used to measure radiation exposure, be provided to individuals exposed to occupational radiation. This would include medical radiation technologists that work in the CT area and physicians who perform interventional procedures (since interventional procedures may involve irradiating the physician's extremities). Every three months the dosimeters are forwarded to Health Canada or other organizations, which report each individual's radiation exposure back to the hospital and to Health Canada's National Dose Registry. The registry tracks the individual's radiation dose, their cumulative radiation dose for the calendar year, and their lifetime radiation dose. A regulation under the Act requires employers to verify that the effective radiation dosage received by individuals exposed to occupational radiation is reasonable.

At the hospitals we visited, management indicated that they review the radiation exposure reports provided by Health Canada or other organizations to ensure that individuals are below the allowable limits. However, two of the hospitals used reports that are from organizations other than Health Canada and that are only permitted to provide an individual's radiation exposure at the hospital submitting the information. Therefore, these hospitals did not have information on the total radiation exposure for individuals who work at more than one hospital. However, Health Canada notifies the Ministry of Labour if an individual exceeds the annual radiation limit for occupational exposure.

Although the *Occupational Health and Safety Act* does not specifically state how many dosimeters

should be worn or where on the body they should be placed, a federal safety code provides some guidance. For example, it recommends that physicians performing interventional procedures wear two finger dosimeters on the hand nearest the radiation beam. However, in the absence of specific regulatory direction in Ontario, each hospital we visited had established its own radiation safety policies and procedures, which varied among the hospitals. For example, radiation safety policies at one hospital specifically stated the number of dosimeters to be provided to x-ray workers and physicians who work with interventional x-ray equipment, and where these dosimeters should be placed on the body. At another hospital, policies stated that radiation workers should wear two dosimeters but did not state where on the body they should be placed or how many dosimeters physicians exposed to radiation should wear.

In 1990, the International Commission on Radiological Protection made recommendations to limit occupational exposure to radiation. It recommended a radiation limit for the whole body of 100 mSv, averaged over five years (or about 20 mSv per year), with the further provision that the effective radiation dose should not exceed 50 mSv in any single year. Health Canada adopted these occupational radiation dose limits, in a federal safety code, as did some other provinces, such as Alberta and British Columbia. Although the radiation limits under the *Occupational Health and Safety Act* are higher than those of these other jurisdictions, our review of the radiation exposure reports available at the hospitals we visited indicated that none of the staff working in the CT area were exposed to over 20 mSv of radiation in 2005. However, our review of the most recent radiation exposure reports of a sample of physicians indicated that occupational radiation exposure may not be sufficiently monitored and tracked in some cases. Specifically, we had the following concerns:

- At one hospital, physicians who performed interventional procedures had radiation exposure results for only one dosimeter, which is worn under a protective lead apron and used to determine whether the whole body's annual radiation dose is below 50 mSv. Although the hospital's policy stated that a second dosimeter could be worn to monitor radiation exposure to areas not covered by the protective lead apron, no additional dosimeter results were available. Therefore, the hospital was unable to tell whether any physicians exceeded annual maximum radiation doses for superficial organs such as the lens of the eye.
- At another hospital, the physicians performing the majority of interventional procedures did not appear to wear their dosimeters since their readings were below the minimum reporting threshold determined by Health Canada. In particular, there was no radiation exposure noted on the radiation exposure reports for five radiologists that performed 79% of the interventional procedures at this hospital.
- At all three hospitals, only one physician performing interventional procedures had wrist dosimeter readings, and only one other physician had a ring dosimeter reading, as recommended by Health Canada's federal Safety Code. Hospital management indicated that these dosimeters are not worn because they restrict physician mobility and may perforate protective gloves, potentially creating infection-control issues.

The Ministry of Labour may periodically inspect hospital dosimetry records to ensure that radiation exposure limits are not exceeded. We reviewed the Ministry of Labour inspection reports at the two hospitals we visited that were subject to a recent inspection. At one hospital, the June 2005 inspection report noted that some physicians who per-

formed interventional procedures using radiation in the operating room were not issued radiation dosimeters. We noted that the hospital itself had previously identified the same issue in September 2004. Management at this hospital indicated that all physicians performing interventional procedures using radiation have now been issued dosimeters, in accordance with the hospital's policies. The other hospital's April 2003 inspection report noted some minor radiation safety issues, which were subsequently corrected by the hospital. We were informed that the third hospital was inspected in the summer of 2006.

Review of CT Operations

The *Healing Arts Radiation Protection Act* (HARP) and related regulations govern x-ray machine features, their operations, and the qualifications of individuals operating them. In addition, it authorizes Ministry inspectors to examine the premises and operations wherever x-ray machines are installed. However, there are no CT operating standards specified under the Act, and the regulation specifically excludes CTs. Therefore, unlike x-ray operations, the Ministry does not examine CT operations, even though CTs expose patients to significantly more radiation.

The government-appointed HARP Commission's role includes advising the Minister on matters relating to the health and safety of persons exposed to radiation from x-rays. At the time of our audit, the Commission was reviewing the *Healing Arts Radiation Protection Act*, including concerns about CT operating standards not being specified under the Act. We were informed that this review also included areas such as the possible establishment of provincial CT radiation guidelines (based on factors such as a patient's gender, age, and weight) as well as a system for tracking patients' cumulative radiation dosages. We were informed that an interim report was provided to the Minister of Health and

Long-Term Care in May 2006, with a final report planned for mid-2007.

The Ontario Health Technology Advisory Committee was also examining the use of CT equipment, including patient radiation exposure, CT imaging standards, and patient shielding practices, and expected to make recommendations to the Ministry in the summer of 2006.

RECOMMENDATION 7

To help minimize the impact of radiation exposure for patients and hospital personnel, hospitals, in conjunction with the Ministry, should:

- ensure that both physicians and patients are aware of the radiation exposure from CTs in order to make better informed decisions on the use of CTs versus other diagnostic imaging options;
- develop and implement standardized patient CT-radiation-exposure protocols, based on international and national best practices, that would ensure that the patient's radiation exposure is as low as reasonably achievable and is consistent among hospitals, and monitor adherence to these protocols through a quality assurance program;
- obtain information from other hospitals regarding CTs and other diagnostic imaging procedures for those patients who have had or will have a significant number of such examinations; and
- ensure that all hospital personnel exposed to occupational radiation wear the recommended dosimeters to enable accurate tracking of radiation to ensure radiation exposure does not exceed the limits established in the *Occupational Health and Safety Act*.

In addition, to help ensure the consistent and appropriate protection of patients from medical radiation, the Ministry of Health and Long-Term Care should review and take appropriate action

on the recommendations (once available) of the Healing Arts Radiation Protection Commission and the Ontario Health Technology Advisory Committee, and ensure that CT operations are subject to an appropriate level of review.

EXAMINATION RESULTS

When the CT or MRI examination is complete, the resulting images are sent to a radiologist for analysis. The analysis includes a review of the images, along with any available clinical information, and may also include a comparison of the current images with previous examination results. The radiologist then verbally dictates the results of their analysis, which is transcribed either electronically or by another individual in an examination report. The radiologist reviews the accuracy of the transcribed report, either before or after the report is sent to the referring physician. Any required changes are made, and an addendum is sent to the referring physician where necessary. As well, at the hospitals we visited, referring physicians who have hospital privileges (that is, are permitted to see patients at that hospital) could listen to the radiologist's dictated report in order to obtain preliminary patient information in advance of the written report.

Reporting of Results

The MRI and CT Expert Panel indicated that, as a benchmark, the radiologist's verified report should be available 48 hours from the time that the MRI or CT examination was conducted. This suggested benchmark would apply to both in-patient and out-patient reports. In some cases, the referring physician requests the radiologist's analysis on an urgent (also called "stat") basis, due to the patient's condition. In other cases, the radiologist notes irregularities that need to be brought to the referring

physician's attention immediately. Although none of the hospitals we visited had formal policies on the time frame for reporting stat examinations, the hospitals indicated that the radiologist's final report should be sent to the referring physician within one to two days after the patient's examination.

We reviewed the time it took for the radiologist to interpret the images and provide a report to the referring physician and found that, on average, outpatient CT and MRI reports were generally released to the referring physicians within four to 10 days of the examination being performed.

We also reviewed the reporting of stat examinations and noted that the hospitals had different processes for monitoring the completion of stat reports. One hospital used an automated system that alerts radiologists to review the images needed "stat" before all other images and dictate and have transcribed the reports for those images first. Both of the other hospitals used paper-based systems—at one, all stat reporting of diagnostic images was recorded in a manual log as of November 2005, while the other hospital recorded stat results on the envelope containing the examination images. Although all three hospitals indicated that the radiologist would phone the physician to provide immediate feedback and that these cases would be transcribed first, we noted that none of the hospitals monitored to ensure that all stat reports were issued on a timely basis. We therefore requested the stat-reporting information available at the hospitals to determine whether results were reported promptly after the test was performed. However, the hospital where results were documented on the examination envelope was unable to provide us with this information. Our review of the information from the other two hospitals indicated the following:

- At one hospital, the median time to release a stat report to the referring physician in 2005 was four days for a stat MRI report and two days for a stat CT report. However, we noted instances of much longer turnaround times—

as high as 96 days for CT reports and 91 days for MRI reports. Hospital management was unable to explain the reasons for the long delays but indicated that many tests are coded as "stat" when they are not truly urgent based on medical need.

- At the second hospital, we noted that the stat-reporting logbook was incomplete. Nevertheless, we found that the reports in the logbook from January 2006 that we sampled were dictated by the radiologist within one day and that almost all were communicated to the referring physician within two days. However, the time to release the formal radiologist's report ranged from two to 13 days.

A 2002 study by a U.S. organization that represents imaging professionals noted that even though most facilities offer referring physicians access to the radiologist's dictated report, few physicians make use of this service and prefer to have a final copy of the report. None of the hospitals we visited had determined the percentage of referring physicians that had access to dictated reports or how often this access was being used. In February 2005, one hospital surveyed referring physicians and found that the majority were satisfied with the turnaround times for radiologists' reports and liked the option of listening to the dictated reports.

Accuracy of Results

There have been a number of studies assessing the accuracy of radiologists' analyses of diagnostic images. These studies generally had a second radiologist review the images and the original radiologist's examination report, and note any differences in interpretation. A 2001 British research article, which summarized research in this area, determined that the level of error in the radiologists' initial analysis varied, depending on the type of diagnostic examination. However, clinically significant or major errors (that would potentially

alter patient management decisions) in radiologists' reports ranged from 2% to 20% for CT examinations and from 6% to 20% for MRI examinations. We noted that the American College of Radiology's CT accreditation program states that policies and procedures should be in place to review the diagnostic accuracy of radiologists' analyses. While it is not practical to have every image analyzed by two radiologists, a periodic second reading of a selection of each radiologist's reports is a useful quality assurance process.

None of the hospitals that we visited had a formal quality assurance program in place to periodically ensure that radiologists' analyses of the examination images were accurate. However, radiologists at two of the hospitals we visited indicated that, several years ago, they had periodically discussed and reviewed specific cases with one another, and in some instances with other departments in the hospital. This was done to ensure that the examination images were correctly analyzed, based on the available clinical information. However, this process was eliminated a few years ago due to the radiologists' increased workload. Nevertheless, we were told that informal discussions still occur between radiologists on more complex cases. At the third hospital, radiologists stated that some informal meetings occur between radiologists. As well, if a radiologist is comparing current and past examination results, and notes an error in the interpretation of previous images, it is discussed with the appropriate radiologist. However, none of these meetings or discussions are documented.

One hospital we visited had an external quality review conducted in January 2006 to assess the accuracy of the analyses of diagnostic images performed by one of its radiologists, as a result of concerns raised by physicians within the hospital. The review looked at 66 diagnostic images and the related reports completed by the applicable radiologist, and found that there were "numerous errors of omission in which abnormalities were missed" and

that the reporting was "poor enough that patient safety may be jeopardized." The hospital indicated that the radiologist was requested to complete supervised training, but since the radiologist has not worked at the hospital since January 2006, the hospital is not aware if the training is occurring. The implementation of a periodic quality assurance program may more quickly identify these types of situations and ensure that corrective action can be taken on a timely basis.

RECOMMENDATION 8

To help ensure that referring physicians have accurate information on a timely basis for making patient-related decisions, hospitals should:

- adopt benchmarks for the timely reporting of both urgent and normal MRI and CT referrals and monitor adherence to those benchmarks; and
- implement an independent quality assurance program that includes a periodic, preferably external, review of a sample of each radiologist's analysis of diagnostic images.

OTHER MATTER

Incident Reporting

Each hospital determines what constitutes an incident at their institution. At the hospitals we visited, an incident was generally defined as an unusual occurrence causing injury or loss to patients or hospital employees (for example, equipment malfunctions, patient falls, wrong test given, and allergic reactions). In addition, one of the hospitals had a documented near-miss policy, which was defined as an occurrence with a potential to cause injury, loss, or damage to patients, visitors, or employees.

The hospitals we visited all had reporting processes whereby incidents involving patients and hospital employees were reported to hospital

management so that corrective action could be taken to reduce future incidents. These processes varied from a manual system with no overall summarized data to an electronic system that categorized each type of incident.

At two of the hospitals, we found that MRI and CT incidents were being tracked and determined that there were a total of 29 incidents in 2005 in the MRI and CT area. These hospitals indicated that they followed up on incidents, although we found that this process was generally not documented. One of these hospitals did inform us that it planned to start documenting the corrective action taken.

The third hospital classified the impact of incidents as critical, severe, moderate, or minor. Incidents with a critical impact involve the actual or potential loss of life, limb, or function. Severe incidents are similar to critical incidents, except that successful intervention occurred, resulting in a positive outcome. This hospital reported a total of 289 medical-imaging incidents, including four critical and severe incidents in the MRI and CT areas, as well as 25 near misses, in the 2005/06 fiscal year.

We were informed that the hospital's Quality of Care Committee was responsible for reviewing all

critical and severe incidents, as well as any occurrences or series of occurrences that have the potential to result in harm to patients. In addition, the Committee makes recommendations and evaluates the corrective action proposed or taken by the hospital. We were unable to examine this process, as the *Quality of Care Information Protection Act, 2004* prevails over other Ontario statutes, including the *Auditor General Act*. Therefore any information that is prepared for a quality-of-care committee for the sole or primary purpose of assisting the committee in carrying out its functions is not permitted to be disclosed. As a result, our access to information relating to any analysis, including any trend analysis based on the type or cause of the incident, and any resulting follow-up of critical and severe CT and MRI incidents, was prohibited. Therefore, we were unable to determine whether this hospital had an adequate system in place to analyze and follow up on critical and severe diagnostic imaging incidents and take corrective action, where necessary, to prevent similar incidents in the future.

SUMMARY OF RESPONSES FROM HOSPITALS

In this section, rather than reproducing the individual responses from each of the three hospitals we visited as part of this audit, we have summarized the highlights of the responses we received. Overall, the hospitals generally agreed with our recommendations but indicated that in some cases limited financial and human resources may prevent the implementation of the recommendations. As well, one hospital emphasized that the successful implementation of many of the recommendations would require collaboration with the Ministry of Health and Long-Term Care (Ministry) and other organizations, especially recommendations involving

physician practices since they are not employees of the hospital.

Recommendation 1

The hospitals generally agreed with this recommendation. However, one hospital indicated that, while it agreed with identifying possibly inappropriate diagnostic imaging tests—for example, through the use of referral guidelines, it did not have the systems or human resources to implement such a process. Another hospital indicated that it had established a High Cost Utilization Committee to develop policies and mechanisms for monitoring practices pertaining to the use of high-cost interventions, such

as the use of CT and MRI equipment. The third hospital commented that referral guidelines should be standardized across the province, and suggested that organizations such as the Canadian Association of Radiologists and the Ontario Medical Association lead this initiative as it is beyond the scope of the hospital. As well, this hospital indicated that these organizations could develop a process to implement the guidelines and provide related physician education.

Recommendation 2

The hospitals had mixed positions on this recommendation. One hospital was in compliance with the recommendation but indicated that incremental funding from various government agencies should reflect the true cost of providing a service to a patient. However, the other hospitals indicated that generating revenue for themselves by providing faster access to Workplace Safety Insurance Board of Ontario (WSIB) patients was beneficial, as long as other patients received access to MRI and CT examinations in accordance with Ontario's wait-time benchmarks. These two hospitals also indicated that, given the WSIB funding structure, they compete with other hospitals to obtain WSIB revenues. Therefore, if these revenues were lost as a result of prioritizing WSIB patients the same as other patients, the hospitals would not be able to operate their MRIs and CTs during the time scheduled to serve WSIB patients, due to funding constraints. If this happened, the hospitals believed that the wait time for all patients would get longer.

Recommendation 3

The hospitals generally agreed with this recommendation. One hospital commented that the Ministry must clearly define the starting point for calculating wait times in order to standardize reporting across all hospitals in Ontario. As well, two of the hospitals indicated that they

had implemented the Wait Time Information System. The third hospital indicated that it planned to implement this system but that this would be difficult without both one-time and ongoing funding from the Ministry.

Recommendation 4

One hospital agreed and complies with this recommendation. Another hospital agreed with the recommendation in principal, but noted that it was not a resource priority as it believed that cancellations and no-shows did not significantly impact its operations. The third hospital indicated that although its current system was unable to track the reasons for all cancellations, it also believed that cancellations and no-shows did not significantly impact its operations.

Recommendation 5

The hospitals generally agreed with this recommendation. Furthermore, one hospital indicated that it was working on strategies to increase utilization. Another hospital indicated that it was now operating its MRI regularly on weekends as a result of available staff and additional wait-time funding from the Ministry. However, to further increase this hospital's MRI and CT utilization, additional funding as well as trained technologists and radiologists were needed. The third hospital indicated that provincial standards should be developed for increased CT and MRI utilization, and that stable funding over a multi-year period would be necessary to implement and sustain higher utilization.

Recommendation 6

The hospitals concurred with this recommendation. Furthermore, one hospital indicated that it had established an MRI safety committee to develop and revise policies for MRI safety.

Recommendation 7

One hospital agreed with this recommendation and the other two supported parts of this

recommendation. One hospital suggested that education to increase both physician and patient awareness of the radiation exposure from CTs could be facilitated by the Ministry, the Ontario Medical Association, and other organizations. Another hospital commented that implementing standardized patient CT-radiation-exposure protocols required ongoing development, which the hospital would be actively involved in. This hospital also indicated that physicians within the hospital could access the number of prior CTs that a patient has had at the hospital and expected that physicians would take this information into consideration when ordering CTs. However, all the hospitals agreed that it would be beneficial for physicians to be able to access information on whether a patient has had a CT, MRI, or other diagnostic imaging test completed outside of their hospital. Having said that, one hospital highlighted that technological changes to link patient information are required before this can be achieved.

One hospital indicated that it had changed its practice such that physicians performing interventional procedures now wear a second dosimeter to monitor radiation exposure to areas of the body not covered by the protective lead apron. Another hospital indicated that dosimeters must be worn in accordance with the hospital's policies but reiterated that infection-control practices take precedence over physicians wearing ring and wrist dosimeters.

One hospital suggested that the Ministry, the Healing Arts Radiation Protection Commission, and the Ontario Health Technology Advisory Committee establish standards and guidelines for CTs. As well, another highlighted that CT operations should be examined by

the Ministry or subject to some other type of accreditation or manufacturer-supported quality control program.

Recommendation 8

Two of the hospitals agreed with both parts of this recommendation. However, one of these hospitals noted that it would be unable to implement either part given current resource priorities. This hospital also indicated that funding to implement such a recommendation should include funding for physicians involved in the quality assurance process. The second hospital indicated that provincial benchmarks for reporting MRI and CT results should be established by hospitals in collaboration with the Ontario Medical Association and the Ministry. As well, this hospital commented that additional funding would be required to implement a quality assurance program and suggested that the College of Physicians and Surgeons of Ontario be involved with this program.

The third hospital indicated that it agreed with part of the recommendation and had started developing a system to monitor the stat reporting turnaround time. However, the hospital did not support the use of an external quality assurance review, since it anticipated there would be very few qualified external reviewers, due to the hospital's physicians' work being sub-specialized. Nevertheless, this hospital did support using internal reviewers to conduct periodic quality assurance reviews. As well, to help prevent diagnostic errors in the future, the hospital has requested that physicians report errors they encounter, so that an anonymous presentation can be made to all physicians working in that area.

SUMMARY OF MINISTRY OF HEALTH AND LONG-TERM CARE RESPONSE

This report was also provided to the Ministry of Health and Long-Term Care, which indicated that, overall, it agreed with the recommendations and appreciated the need for appropriate standards, guidelines, and best practices. The Ministry also expressed awareness of the financial and human resources needed to enable it to move forward with its agenda to improve access and reduce wait times for MRI and CT services.

The Ministry further expressed its commitment to the goal of providing timely and equitable access to MRI and CT services for all residents of Ontario. The Ministry indicated that, to achieve this goal and at the same time address the recommendations of the report relating to the Ministry, it has implemented many strategies through:

- the Ontario Health Technology Advisory Committee;
- the Diagnostic Services Committee, a committee with joint representation from the Ministry and the Ontario Medical Association established to further the Ontario Medical Association Agreement;
- the Diagnostic Imaging Safety Committee; and
- the Wait Time MRI and CT Expert Panel (whose second report was expected to be completed by November 2006).

With respect to Recommendation 7, the Ministry indicated that the Diagnostic Imaging Safety Committee, established in September 2006, is developing recommendations for minimizing the impact of radiation exposure for patients and hospital personnel. The Ministry anticipated that the Committee's work in this area would be completed and presented by February 2007.

Chapter 3

Section 3.07

Hydro One Inc.— Acquisition of Goods and Services

Background

As part of the reorganization of the former Ontario Hydro, Hydro One Inc. was created pursuant to the *Electricity Act, 1998* and incorporated under the *Business Corporations Act* on December 1, 1998. The principal business of Hydro One, which is wholly owned by the Province of Ontario, is the transmission and distribution of electricity to customers within Ontario.

Hydro One controls almost \$12 billion in total assets, which consist primarily of its transmission and distribution systems. The Corporation transmits electricity from generators through approximately 28,600 kilometres of high-voltage wires to Hydro One's distribution business, which distributes the electricity to Hydro One's customers through a network of 124,000 kilometres of low-voltage wires.

In 2005, Hydro One earned over \$4.4 billion dollars in revenue. Its costs totalled \$3.4 billion, \$2.1 billion of which was for the purchase of electricity to distribute to its customers. The remaining costs were for operations, maintenance, and administration (\$792 million) and for depreciation and amortization (\$487 million). Including the acquisition of capital assets and excluding employee sala-

ries and benefits, over \$800 million was spent by Hydro One on the procurement of goods and services in the 2005 calendar year.

Hydro One has contracted an outside service provider to perform the purchasing activity for the corporation, but local departments and individuals also do a significant amount of purchasing—\$163 million in 2005, or about 20% of total spending—using corporate charge cards.

Audit Objectives and Scope

This was the first value-for-money (VFM) audit conducted at Hydro One under the expanded mandate of the Office of the Auditor General of Ontario, which came into effect November 11, 2004. The expanded mandate allows us to conduct VFM audits of Crown-controlled corporations and subsidiaries of Crown-controlled corporations. We chose to examine procurement practices as a means of gaining a broad understanding of the overall expenditures and operations of Hydro One.

The objective of the audit was to assess whether the corporation had adequate systems and procedures in place to ensure that goods and services were acquired with due regard for value for money

and in compliance with corporate policies and sound business practices.

The scope of our audit included discussions with corporation staff, a review and analysis of documentation provided to us by the corporation, and research into the procurement practices and control of employee expenses in other public and private enterprises. The corporation's internal audit department had relatively recently conducted a number of audits on procurement, which we found very helpful in determining the scope and extent of our audit work in selected areas.

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. The criteria used to conclude on our audit objective were discussed with, and agreed to, by Hydro One management and were related to systems, policies, and procedures that the corporation should have in place.

Summary

We found that Hydro One generally had adequate policies in place to help ensure that goods and services were acquired with due regard for value for money. However, systems and procedures were not adequate to ensure compliance with corporate policies. In 2004, Hydro One's internal audit department audited many aspects of the corporation's purchasing functions. For several key areas, internal audit concluded that internal controls needed to be improved, and we noted at the time of our audit that a number of internal control weaknesses remained to be addressed.

Some of our major concerns and observations were as follows:

- Hydro One's corporate policy encourages the establishment, through a competitive process, of blanket purchase orders (BPOs) for the procurement of goods or services directly from specified vendors for a stipulated period of time. However, the BPOs we examined were not always established through a competitive-procurement process, or there was inadequate documentation available to verify whether a competitive process was used. In addition, BPO suppliers increased their prices periodically without competition. For example, a BPO established in 1996 for a two-year term with an original value of \$120,000 had been revised 39 times, extended an additional eight years, and had been increased in value to \$6.7 million.
- Competitive selection of suppliers is required for all Hydro One purchases over \$6,000 unless a BPO arrangement has been made. We found that procedures needed to be improved to ensure that the required competitive process was followed in the acquisition of goods and services. In a number of the cases we tested, the required competitive-procurement process was not followed in the acquisition of general services, materials, or engineered equipment. In most of the exceptions noted, either acquisitions were made through an invitational, rather than a public, tender, or the required three quotes were not obtained.
- Hydro One's procurement policy allows goods or services to be purchased from a single vendor ("single-sourcing") if it is neither possible nor practical to obtain them through the normal competitive processes. However, most of the single-source purchases we examined were for materials, consulting services, and contract staff that could have been obtained from several different vendors. As well, the required documentation justifying the decision to

single-source was not on file for most of the single-source purchases we examined.

- For the contracts we tested, we found instances where the contract price did not agree to the submitted bid; the deliverables were not clearly described; and/or the contract price did not agree with the value on the purchase order. For example, one consultant bid \$2.7 million for a contract, and the contract was awarded for this amount, yet the purchase order was set at \$3 million. To enhance internal controls, such differences should be justified and clearly documented.
- In December 2001, Hydro One entered into a 10-year, \$1-billion agreement to outsource significant operations of the corporation. Under its master service agreement with its service provider, Hydro One can reduce the fees it pays the provider if benchmarking studies show that the provider is charging higher than fair market rates. Although a consultant's benchmarking report concluded that no adjustment to fees were required, the consultant examined only two of the six lines of business conducted by the service provider, and a more thorough review may have been warranted.
- During the 2005 calendar year, Hydro One purchased \$127 million worth of goods and services using corporate charge cards. We found that the documentation, such as charge-card slips that were submitted to support expenditures, was often insufficient to determine what was purchased. We also identified instances where employees had not detailed the use of cash advances received and charged to their corporate charge cards, yet the related monthly statements had been reviewed and approved.
- In 2005, Hydro One staff wrote almost 32,000 cheques on their charge-card accounts totaling \$41.2 million, with the largest charge-card

cheque being for just over \$300,000. These cheques were used to pay major vendors for services such as telephones, telecommunications, security, and utilities. In other organizations, such payments are generally processed through the finance department to ensure segregation of duties and other controls. We were informed that the issuance of charge-card cheques was to reduce the number of transactions processed by the outsourced finance department, since this department was paid on the basis of the number of transactions processed. However, since Hydro One pays interest on cheques and cash advances in excess of \$30 million, we questioned whether paying major vendors by cheque through the charge-card system actually results in any savings.

- In one case, a senior executive's secretary charged over \$50,000 to her charge card for goods and services, a significant portion of which was for the person to whom she reported. The senior executive then approved the purchases, whereas Hydro One's policies require that the executive's superior approve the expenses. This practice also exempts these expenditures from an annual review of senior executive expenses conducted by the Corporation's external auditor.

Detailed Audit Observations

PROCUREMENT OF GOODS AND SERVICES

Hydro One has good general policies for the acquisition of goods and services, such as its principle of acquiring materials and services without favouritism at the lowest overall cost. Also, according to Hydro One corporate policy, procurement decisions are to take into consideration supplier capability and past performance; all relevant factors affecting the life

cycle of the materials; the impact on the environment; and health and safety. Procurement decisions must also pass the ultimate scrutiny of sound business judgment. In addition to its general procurement principles, Hydro One has specific policies for the acquisition of general services, construction, materials, and engineered equipment.

The Supply Chain Management group within Hydro One is responsible for implementing, monitoring, and enforcing compliance with procurement policies and procedures. Procurement activity has been outsourced to an external service provider. The Supply Management Services department of that provider executes procurement on behalf of Hydro One, including such functions as ordering, receiving, and inspecting goods, as well as monitoring spending, verifying compliance with purchasing policy, and processing payments.

Needs Assessments and Justification for Purchases

Hydro One's purchasing guidelines require that a business case be prepared for all programs or projects that require the approval of a vice president. In general, these are valued at more than \$50,000, depending on the business department and the type of purchase. The guideline strongly recommends—but does not require—that business cases be prepared for expenditures under \$50,000. In the case of consulting services, which include contract staff or persons hired indirectly through temporary-help agencies, the rationale for hiring a consultant must be documented before the competitive process begins. The policy also states that all options for performing the work internally must be exhausted first.

Buyers from the Supply Management Services department of the outside service provider are provided with a checklist to use as a guide for each purchasing request, to determine if sufficient information has been provided before proceeding with

the purchase. However, through discussions with buyers, we found that documents justifying the purchase are not typically forwarded to the Supply Management Services department, so the buyer usually assumes that the person making the requisition has already prepared the proper justification document. Consequently, we followed up with persons making requisitions and found that for a number of the purchases we sampled, the need for the purchase was not documented or the documented justification was not adequate. Although Hydro One staff informed us that the needs had been documented for some of the exceptions we identified, the documentation could not be located.

We also found that justification of the need for contract staff was often not documented or the documented rationale was inadequate. In particular, the reasons provided often did not consider the availability of internal resources. Proper evaluation and documentation of staff requirements could help central management identify and meet training and hiring needs in a more cost-effective manner than engaging outside contracted services. In addition, for a few of the purchases we tested, the approval for justification was obtained after work commenced or after the effective date of the contract.

RECOMMENDATION 1

To help ensure that corporate needs are adequately assessed and that purchases are properly justified prior to acquisition, Hydro One should:

- follow the requirements for a documented business case for major purchases;
- verify that sufficient information has been provided to supply-management buyers; and
- adequately evaluate corporate needs, including consideration of alternatives and existing resources, prior to proceeding with the acquisition.

Blanket Purchase Orders

Hydro One’s corporate policy encourages the establishment of blanket purchase orders (BPOs) for the procurement of goods or services directly from specified vendors. The expected benefits of BPOs are lower procurement costs, security of supply, and the managed inventory of more commonly used items. Such arrangements are to be for a stipulated period of time and are to be entered into through a competitive process with at least one new supplier being qualified to bid each time the BPO is competitively renewed.

At the time of our audit, Hydro One had established over 1,000 BPOs for materials, contract staff, and consulting services. According to information from Hydro One’s database, these BPOs ranged in value up to \$250 million, and many were in effect for more than 10 years. Although BPOs typically have a stated maximum value, approximately one-quarter of the BPOs had no stated maximum. We were informed that purchases against these BPOs are usually low-dollar items purchased on corporate charge cards. In addition, over 700 BPOs had changes made to their original maximum values, effective terms, or both. Ten percent of the BPOs had had their original terms extended by at least five years and an equal number had had their maximum values increased by at least \$1 million.

We noted that several of the BPOs we examined either were not established through a competitive procurement process or did not have adequate documentation available to indicate that a competitive process had been used. In view of the hundreds of millions of dollars of business given through BPOs, we believe it is essential that documented competitive practices be followed if Hydro One is to demonstrate adherence to its procurement principle to acquire materials and services without favouritism at the lowest overall cost.

BPO suppliers were also being allowed to increase their prices periodically without competitive pricing reviews or price negotiations. For exam-

ple, a BPO established in 1996 for the supply of assorted parts originally had a two-year term and a value of \$120,000. It had been revised 39 times, extended an additional eight years, and increased in value to \$6.7 million. We reviewed prices paid for recent purchases and found that Hydro One was paying current prices quoted by the vendor. To continually revise a BPO over a long period of time is equivalent to purchasing from a single vendor, which is contrary to Hydro One’s policy of acquiring, where practical, competitive proposals or tenders for its purchases to maintain the integrity and transparency of the procurement process.

RECOMMENDATION 2

To ensure that goods and services are acquired at the lowest overall cost, Hydro One should:

- establish blanket-purchase-order agreements through a competitive process unless a sound documented rationale for sole-sourcing has been approved;
- review existing long-standing blanket purchase orders to determine if they should be re-tendered;
- ensure that the prices being paid are those set out in the blanket-purchase-order agreements; and
- develop procedures regarding significant modifications to the terms and conditions of blanket purchase orders.

Competitive Selection

Corporate policy requires the competitive selection of suppliers for all Hydro One purchases over \$6,000 unless a BPO arrangement has been made. The competitive process used depends on the type of goods or services being acquired and the estimated cost of the purchase. In general, lower-valued procurements require three written quotes from selected vendors, while purchases of greater

value require a more open tendering process. We reviewed a sample of purchases and found that controls were not adequate to ensure compliance with procurement policies. For example:

- Three written quotes must be obtained for all purchases valued from \$6,000 to \$15,000. These purchases are typically acquired locally by departments using corporate charge cards. For the sample tested, 20% did not obtain any quotes, and for an additional 20% there was no supporting documentation to confirm management's assertion that the required quotes had been obtained.
- For consulting services, including contract staff, the required competitive-procurement process was not followed in 40% of the cases sampled, with most of the exceptions being sole-sourced. In addition, we found cases in which the justification for selecting the vendor was not adequately documented. For example, a vendor that bid over \$400,000 for a consulting contract was chosen even though that vendor did not have the lowest qualified bid. We were informed that the vendor was selected based on the results of an interview; however, the evaluation of the interview process and results were not documented.
- When acquiring general services, materials or engineered equipment, the required competitive procurement process is to request written quotations using a bidders list for purchases up to \$50,000; conduct a private request for tender for purchases between \$50,000 and \$1 million; and conduct a public tender for purchases greater than \$1 million. For these purchases, the required competitive procurement method was not followed in several of the cases tested. In most of the exceptions, either the acquisitions were made through a private or invitational, rather than a public, tender or the required three quotes were not obtained.

In September 2004, Hydro One's internal audit department identified similar issues of non-compliance with competitive procurement policies; yet, as of the time of our audit, our work indicated that these weaknesses had not yet been corrected.

RECOMMENDATION 3

To help ensure that it is getting value for money and that purchases are acquired through an open, fair and competitive process, Hydro One should follow established procurement policies and guidelines, and adequately document decisions made in the selection of vendors.

Single Sourcing

Hydro One's procurement policy allows single sourcing, which is the purchase of goods and services from vendors without a competitive process, up to a value of \$6,000. If the value of the procurement exceeds that amount, single sourcing of goods and services is allowed only if it is neither possible nor practical to obtain the required goods or services through the normal competitive processes. In such circumstances, the reason for single sourcing must be documented and approved by Hydro One's internal Supply Chain Management group before a vendor is approached.

Corporate policy outlines potential single sourcing as situations in which the supplier may be the only one in the market, may hold legal rights to the required goods, or may be the original supplier of equipment and the buyer wishes to avoid expensive modifications to adapt goods of a different design. However, the single-source purchases we examined were for materials, consulting services, and contract staff that could have been obtained from several different vendors. As well, most of the single-source purchases we examined, which ranged from \$6,200 to \$4.3 million, did not

have the required documentation justifying and/or approving them.

We also noted purchases in which only some goods or services were acquired through a tender and the rest were single-sourced. For example, after a tendering process, a contract was established with a consulting firm to conduct a benchmarking study on outsourced IT services. Before the finalization of the contract, Hydro One also single-sourced additional work from the same firm: a benchmarking study for customer service operations for a total of \$583,000. Adequate justification for single sourcing had not been documented.

In September 2004, Hydro One's internal audit group concluded that single-source procurement was not always being justified by a business case and approved prior to the awarding of the business. Based on our work, improvements are still needed in this area.

RECOMMENDATION 4

To ensure that single sourcing is used only when it is not possible or practical to go through the normal competitive process, Hydro One should implement oversight procedures to ensure that adequate justification for single sourcing is documented and properly approved before the business is awarded.

Managing and Controlling the Purchases of Goods and Services

When an organization makes significant purchases of goods and services, all parties involved normally sign documents to specify the deliverables to be provided, formally define their respective responsibilities, outline contract terms, and set pricing. Such documents could include formal contracts, signed purchase orders, and vendor bid submissions. For some of the purchases we tested, either

there were no formal contracts outlining purchasing arrangements or there was no evidence of other signed documents indicating that both parties agreed with the terms, pricing, and deliverables outlined in the purchase order.

Where formal contracts existed, we found instances where the contract price did not agree with the submitted bid; the deliverables were not clearly described; and/or the contract price did not agree with the price on the purchase order. For example, one consultant bid \$2.7 million on a contract, and the contract was awarded for this amount, yet the purchase order was set at \$3 million. To enhance internal controls, any differences between bid submissions, deliverables, contract price, and/or purchase orders should be justified and adequately documented.

We also found problems similar to those noted for blanket purchase orders where changes were made to existing contractual arrangements. We identified a number of cases in which the overall value of a contract or purchase order had increased from its original value over the term of the contract. In several of such cases that we reviewed, the justification for the increase was not documented. There were also several cases where either the change was not properly approved or there was no documentation showing that proper approvals had been obtained.

Hydro One's corporate policies and procedures require a buyer to determine if sufficient information has been provided before proceeding with a purchase request, and to maintain all relevant information in a purchase-order file. However, for a majority of the files we reviewed, relevant information was not on file. Missing documentation included tendering documents, evaluations, bids received, signed contracts, business cases, and approvals. In 2004, an internal audit on the acquisition of consulting services concluded that purchase-order files were generally incomplete. Our

work indicated that progress still needs to be made in this area.

Hydro One's policy requires that the work of consultants and contract staff be evaluated upon completion of the assignment. Post-performance evaluations were not conducted for many of the consultant- and contract-staff engagements we tested. There was also no central registry to maintain information on vendors' performance for future reference by all departments throughout the corporation.

RECOMMENDATION 5

To properly manage and control the procurement of goods and services, Hydro One should:

- ensure that it has signed contracts or other documentation that define the responsibilities of both parties, including the price and specific deliverables to be provided;
- ensure that purchase orders and contracts accurately reflect the agreed-upon terms and conditions under which the contract was awarded;
- ensure that any changes to the original contract terms and conditions are adequately justified, appropriately approved, and properly documented;
- identify the minimum documentation that is essential for each purchase and put in place a monitoring process to ensure that purchasing files are consistently maintained with all required information; and
- evaluate all vendors upon completion of work, as required, and examine the costs and benefits of setting up a central depository of information about vendors' performance for use throughout the corporation.

Procurement and Payment Approval

In accordance with Hydro One's corporate policy, all procurement activities should be made in compliance with the corporation's authority register, which outlines the signing-authority limits of different management positions. Authority to requisition goods and services resides with line staff within the corporation. Purchasing authority in excess of \$15,000 has been delegated to the outside service provider's Supply Management Services department. Both requisitioning and purchasing authority must be obtained prior to issuance of the purchase order or awarding of business to vendors.

We found that Hydro One's signing authority register caused confusion that resulted in the inappropriate authorization of purchases. Signing-authority limits are set according to position, but our discussions indicated that because there is little consistency in job titles in various parts of the organization, it was often unclear to staff what an individual's authority limit should be. In addition, the authority limits specified in the accounts-payable system occasionally did not agree with the established register. Hydro One's internal audit department reported similar findings in September 2004 in its report on Controls over Signing Authorities. During our audit, we were informed that a new authority register was being developed that may address the concerns that have been identified.

For a number of the purchases tested, we found that either the acquisition did not have the proper requisitioning or purchasing authority or no approval documents could be provided to show whether proper approvals had been obtained. We also noted that payments were made without the proper level of approval for several of the purchases tested.

For the purchases we tested, we noted instances where Hydro One either did not take advantage of early payment discounts or incurred penalties for late payments.

RECOMMENDATION 6

To help ensure that purchases of goods and services are properly authorized and that the appropriate amounts are paid, Hydro One should:

- complete the development of its authority register to clarify signing authority requirements;
- reinforce the requirement that Supply Management Services staff have all required approvals on hand before proceeding with the purchase; and
- make payments on a timely basis to avoid late charges and take advantage of early payment discounts.

Management of Outsourcing Agreement

In December 2001, Hydro One entered into a 10-year, \$1-billion agreement to outsource significant operations of the corporation, namely, six lines of business: customer-service operations, supply-management services (procurement staff), human resources, information technology, finance (accounts payable and receivable), and settlements (management of payments for and reports on purchased power).

We reviewed various aspects of the management of the outsourcing agreement and noted the following:

- Under the master service agreement, Hydro One can perform benchmarking studies to assess the reasonableness of costs in the last calendar quarter of the third, sixth, and ninth years of the agreement. Two of the six outsourced lines of business were benchmarked after the third year. We were informed that these two lines of business accounted for approximately 60% of the total base service fees under the master ser-

vice agreement. According to the agreement, if the service provider's fees are found to be higher than fair market rates, they can be reduced. A consultant was engaged by Hydro One and the service provider to complete the benchmarking study, and the consultant found that, for the lines of business reviewed, the service provider's fees were at the midpoint of comparable fees in the marketplace. We were informed that the consultant reviewed only two lines of business because consultants with sufficient baseline data and expertise were not available for the other four lines of business. Nevertheless, given the magnitude of the outsourcing contract, a more thorough review may have been warranted.

- Hydro One is entitled to service credits when certain service failures, such as computer-service interruption, occur. Performance indicators have been established for each outsourced line of business, which are to be used to gauge when a service failure has occurred. We reviewed the most serious service failures since inception of the contract and noted that, although Hydro One recovered \$100,000 in out-of-pocket expenditures from the service provider, it had not calculated the potential value of forgone service credits or fully pursued the financial remedies it was entitled to. Using the service-credit formula, we estimated that Hydro One had not pursued over \$300,000 in financial remedies.
- Hydro One is not reconciling monthly summary billing reports from the service provider to the amounts recorded in the general ledger and paid to the vendor. The amount expensed through the general ledger for 2005 was \$13 million higher than the amount shown on the monthly summary reports and \$24 million higher than in 2004. Since senior management advised us that they use these summaries to track the costs of the contract to

compare against the budget, we would have expected these differences to be reconciled. Reconciling these reports from the service provider on a monthly basis would provide Hydro One with the assurance that both the expenses recorded in its accounts and the amounts reported by the service provider are accurate.

- The service provider was guaranteed information technology (IT) work each year beyond that related to the base fees in the agreement. From the start of the contract on March 1, 2002, to December 31, 2005, \$53 million in additional IT project work was guaranteed. For Hydro One's remaining IT requirements, the service provider was involved in identifying potential projects, conducting needs assessments, identifying deliverables, determining required resources, and estimating project costs. Corporate policy requires that Hydro One must ensure that no supplier has an unfair advantage over its competitors through pre-tender discussions intended to develop the scope of the procurement. At the time of our audit, the service provider had been awarded \$61 million in IT work over and above the amount guaranteed under the outsourcing agreement. The additional project work should have gone through an open, fair, and competitive procurement process; yet only \$12 million worth was competitively tendered. The other \$49 million was single-sourced. We acknowledge that the experience and the expertise of the service provider may put it in the best position to deliver additional IT services. However, by not holding open competitions for such a significant amount of additional project work, Hydro One has not adhered to the intent of its policy of awarding business without favouritism and with assurance that the business is

being awarded at the lowest overall cost in a fair, open, and competitive manner.

RECOMMENDATION 7

To help ensure that it is receiving the best value for the \$1 billion it is spending on its 10-year outsourcing agreement, Hydro One should:

- consider benchmarking all outsourced lines of business in future benchmarking studies;
- collect service credits it is entitled to;
- reconcile summary reports from the service provider with the amounts recorded as expenses in the general ledger on a monthly basis; and
- tender significant information technology projects in accordance with corporate policy.

CORPORATE-CARD PURCHASES

During the calendar year 2005, Hydro One purchased \$163 million worth of goods and services using two different charge-card programs: corporate charge cards (\$127 million) and fleet cards (\$36 million). Corporate charge cards are intended to be used for employee business expenses and local procurement of items costing less than \$15,000.

Corporate policy states that the charge card is a payment mechanism only and that, regardless of the type of procurement method used or the method of payment, all purchasing activities must comply with Hydro One's policies and procedures, which provide mandatory requirements and guidelines for decision-making with respect to procurement.

Business units may also set up corporate charge cards for other types of spending. In 2005, over 322,000 purchases were made with 5,100 corporate charge cards, each of which is assigned to a specific employee. The fleet card is used to purchase fuel and pay maintenance and repair costs for corporate-owned and leased vehicles. A unique

card is issued for each vehicle. In 2005, there were 5,500 fleet cards.

Some corporate charge cards give the holder special privileges, such as the ability to obtain cash advances or to write cheques. Cash advances are to be used for out-of-pocket expenses, such as for parking, mileage reimbursement, and purchases at fast-food restaurants. The employee would then file business expense receipts in support of the cash advance taken.

At the time of our audit, 47% of the corporate cardholders' accounts had cash advance privileges and 25% allowed for the writing of cheques. Corporate-card transactions processed in the year can be broken down as illustrated in Figure 1.

Administration of Corporate Charge Cards

To obtain a corporate charge card, an employee must complete an application form for management approval and sign a document agreeing to comply with the terms and conditions that govern the use of the corporate card. Our testing of a sample of charge cards issued in 2005 revealed that, overall, charge cards were issued in accordance with company policy. However, we did note a number of issues related to the administration of charge cards:

- Twenty-seven local charge-card co-ordinators are the only persons with the authority to contact the bank on an ongoing basis regarding administrative issues for the corporate-card program. These issues include setting up cardholder accounts, cancelling cards, and changing credit limits or address information. We noted that proper documentation, signed by the department manager, to initially set up local charge-card co-ordinators with the bank was not completed in 50% of the cases tested, and, in most instances, instructions to set up local charge-card co-ordinators came directly from the individuals themselves rather than their superiors.

Figure 1: Hydro One Corporate Charge-card Transactions in 2005

Source of data: Hydro One

Type of Transaction	# (000 s)	Amount (\$ million)	% of Total
vendor purchases	278	82	64
charge-card cheques	32	41	33
cash advances	12	4	3
Total	322	127	100

- Hydro One's policy regarding the cancellation of corporate charge-card accounts requires that the reason for cancelling an account be documented, as well as whether the card was recovered and destroyed. Only half of the sample we tested had documented a reason why the account needed to be cancelled, and only half indicated whether the card had been recovered and destroyed. In addition, as of January 2006, 148 cards had been inactive for more than 12 months; almost 100 of these had been inactive for more than two years. Some cards had not been used for over five years. One-third of the inactive cards had monthly credit limits of at least \$10,000. Corporate charge cards issued to individuals but intended for specific projects were not being cancelled upon an employee's termination, and cards were not being promptly cancelled for persons on long-term disability.
- Each corporate charge card is set with a monthly credit limit and cash advance limit. We tested increases made to charge-card limits in 2005 for a sample of cardholders and found that, overall, changes were justified and properly approved. However, corporate policy requires that monthly limits be established that are consistent with the requirements and responsibilities of the applicant's position and the intended use of the charge card. We found that for both credit and cash-advance privileges, the limits were often set significantly

higher than actual usage. For example, in one case, an employee's corporate-charge-card limit was \$2 million per month. Overall, 40% of cardholders spent less in a year than their monthly limit, indicating that their limits may be excessive.

RECOMMENDATION 8

To improve administration and control over the corporate-charge-card program, Hydro One should:

- ensure that proper documentation and approvals are obtained for setting up local charge-card co-ordinators;
- follow up on and, if necessary, cancel inactive charge cards and active cards that are assigned to terminated and inactive employees; and
- review current credit and cash-advance limits placed on corporate charge cards to ensure that the limits are reasonable given the individual's responsibilities and the intended use of the card.

Review of Monthly Statements

On a monthly basis, cardholders are required to submit their charge-card statements with supporting documentation to their superior for review and approval. Supervisory staff are responsible for scrutinizing the statements and the accompanying support to ensure that charges incurred are for legitimate business expenditures. A supervisor may be the only party aside from the purchaser to review the transactions, making supervisory review a critical internal control for ensuring that purchases are made for business-related purposes in compliance with policy.

- We reviewed the monthly charge-card statements for a sample of cardholders and found that over 75% of the statements tested had

not been reviewed and approved within 28 days as required by corporate policy. We noted statements that had not been reviewed and approved for up to nine months after the statement date.

- The monthly statements submitted to supervisors are to include a reconciliation of cash advances on the charge card with cash used. If the entire advance is not spent on business expenditures, the remainder is to be carried forward and applied to future business expenses. During our testing, we noted that Hydro One staff often did not use standard cash-use reports or complete the form correctly, making it unclear whether the employee owed money to the company or vice versa. We identified employees in our sample who had not accounted for cash advances taken on their charge cards, and yet their cash-use reports had been reviewed and approved. For example, one employee had not detailed the expenditure of \$2,200 in cash advances over a six-month period in 2005. Subsequent follow-up revealed that these advances were for legitimate business purposes. Nevertheless, given that almost half of all cards allow cash advances and given the higher risk associated with such transactions, a thorough and timely review and approval process is crucial.
- We found that supervisors did not adequately scrutinize corporate charge-card expenditures. For the sample we tested, there were a number of instances in which proper supporting documentation was not submitted to substantiate purchases, or the documentation submitted was incomplete, and yet the statements had been approved. For example, some cardholders did not submit receipts for all expenditures or submitted inadequate receipts, such as signed charge-card slips that did not itemize purchases. Without such information, supervisors may not be able to determine whether

all charges were appropriate and incurred for business purposes.

- Hydro One’s charge-card policy also requires that all expenses be supported by a detailed explanation as to the nature and business purpose of the expense. For hospitality expenses, this would include the names of participants and the purpose of the event. We found that many of the cardholders tested who were claiming business meals did not disclose with whom they had had these meals or the organization the individuals were representing; therefore, a reviewer would not be able to determine with certainty if the expenses charged were legitimate business expenses.

In 2004, Hydro One’s internal audit group reported on the lack of receipts and inadequate documentation to support charge-card purchases and made recommendations for corrective action. Our observations suggest that improvements are still necessary to ensure compliance with corporate-card policies and procedures.

RECOMMENDATION 9

To effectively manage the use of corporate charge cards and to ensure that all expenditures are incurred for business purposes, Hydro One should implement procedures to ensure that:

- cardholders submit original detailed receipts with their charge-card statements for review and approval;
- necessary explanations and other supporting information are provided to verify the business nature of expenses incurred;
- cash-advance expenditures are detailed and accompanied by supporting documentation to facilitate management review and approval; and
- monthly charge-card statements are reviewed for adequacy of supporting receipts and approved on a timely basis.

Monitoring Corporate Charge Cards

On a monthly basis, Hydro One management is required to review summary-level departmental control reports to ensure that all cardholders are valid employees; that statements have been submitted for approval each month; that credit limits reflect the current needs of cardholders; and that expenditures have been charged to the appropriate project and/or general ledger account. Timely monitoring and corrective action is important because the use of the corporate charge cards has made it difficult to apply the traditional financial controls, such as segregation of duties, since one person can requisition, purchase, and receive goods and services. However, we found that these monthly reports were not being adequately reviewed and, therefore, corrective action was not being taken on a timely basis. Only one of the departments we reviewed had monthly reports that were properly approved and dated. For the other departments, some reports had no evidence of review and had not been signed or dated. In fact, some staff told us they did not know the reports were supposed to be signed and dated.

Each corporate charge card is designed to automatically record purchases against a particular general ledger account and/or project. This eliminates the need to do journal entries to reallocate the charges. However, a large number of charge-card purchases were booked to miscellaneous accounts that do not adequately describe the nature of the expense. For example, all of the expenses charged to one project, totalling \$4.1 million, were categorized as “miscellaneous.” In 2005, over \$18 million was booked to an account called “business expenses procurement card.” Hydro One staff informed us that even though expenditures charged to projects can be broken down to more specific expenditure types, the data cannot be analyzed across projects. In other words, Hydro One cannot determine the total amount it spent in 2005 for categories such as

travel, meals, and conferences. Without this detail, such corporate-wide expenditures cannot be monitored over time for reasonableness.

Hydro One's Employee Listing Report highlights cardholders with invalid or missing employee ID numbers. These discrepancies are forwarded to local charge-card coordinators on a monthly basis for follow-up and correction. Timely correction of discrepancies helps to ensure that all cards are valid and assigned to *bona fide* employees. However, we noted that one-third of the discrepancies identified in the January 2006 report had not been corrected by the end of March 2006.

RECOMMENDATION 10

To effectively monitor corporate charge-card usage, Hydro One should implement procedures to ensure that:

- management reviews and signs off on monthly charge-card departmental summary-level and exception reports to ensure that any items requiring follow-up are identified and addressed in a timely manner; and
- purchases made through corporate charge cards are fully allocated to projects and general ledger accounts so that project costs and expense accounts can be monitored over time for reasonableness.

Use of Corporate Charge Cards

According to Hydro One corporate policy, cardholders can issue cheques against their charge-card accounts to reimburse subordinates for their business expenses, where individuals have not been issued a corporate charge card of their own, and to pay vendors that do not accept credit. In 2005, 1,300 staff wrote a total of 31,800 cheques totalling \$41.2 million, with the largest charge-card cheque being for just over \$300,000.

If payments are made by cheques written against charge-card accounts, the name of the payee does not

appear on the charge-card statement or in the corporate charge-card database. Therefore, Hydro One has no record of payments to such vendors unless the payee information is manually entered into the system after the cancelled cheques are returned to the corporation. For 2005 transactions, Hydro One staff started to manually input payee detail information into the system for analysis—but as of May 2006, the inputting had not been completed.

Many of the corporate charge-card cheques were for over \$15,000 and were used to pay major vendors for services such as telephones, telecommunications, security, utilities, and vehicle leases. In other organizations, such payments are generally processed through the finance department, to ensure segregation of duties and other internal controls. In 2005, Hydro One processed 530 purchases that exceeded the \$15,000 limit, for a total of \$33.5 million. These purchases were either charged to the cards directly or paid with cheques written against the charge cards. We noted that some of these payments were made to consultants even though corporate policy states that consultants are not to be paid with corporate charge cards.

Hydro One management informed us that using charge cards helps to reduce reliance on the outsourced finance department, eliminate late payment fees, and reduce costs under an outsourcing agreement in which the Corporation pays the service provider according to the volume of invoices processed.

We analyzed charge card usage to determine if it was cost-effective. We found that, if the combined value of cash advances and cheques exceeds \$30 million annually, Hydro One incurs interest charges on the excess amount from the date of the transaction to the payment date. Our estimate suggests that, in 2005, Hydro One did not achieve any savings by using charge-card cheques rather than paying vendors through the accounts payable system under the terms of its outsourcing agreement. By comparison, the government of Ontario also uses charge cards but limits the cards use to small-dollar

transactions, with large-dollar charges being paid through the regular accounts payable system.

RECOMMENDATION 11

To ensure that corporate charge cards are used only for the purposes intended, namely employee business expenses and local purchases less than \$15,000, Hydro One should:

- minimize the use of charge-card cheques; and
- use the finance department to process large payments to major vendors.

Business Expenses and Employee Recognition

Hydro One policy states that employee business expenses should be “reasonable under the circumstances.” Although there were no guidelines regarding purchases for staff recognition and appreciation, we noted that it was common practice at Hydro One to purchase gifts for such purposes. Gifts purchased were in the form of gift certificates, flowers, bottles of wine, recreational activities, dinner theatres, and music CDs. There was often no documentation for gift purchases to indicate who was being recognized or for what reason. We acknowledge that, from time to time, purchases for staff recognition and appreciation may be well justified. However, given the diverse nature of the items purchased and the wide-ranging amounts spent, we believe there is need for corporate guidance in this area.

We found examples in which employee business expenses such as accommodation and meals did not seem to be reasonable in the circumstances. We also noted several cases where excessive mileage was claimed, usually due to not claiming the lesser of the distance from home or office to the work site as required by corporate policy.

We also noted items charged to corporate charge cards that we would have expected to be questioned as part of the review-and-approval process. For example, two senior executives charged medical examinations to their corporate charge cards instead of submitting them to the corporate insurance plan for reimbursement. One employee was using his corporate charge card to pay for physiotherapy that should have been covered by the company’s health insurance plan. Another employee charged \$900 to replace personal items, such as music CDs, that were lost when a company vehicle was stolen.

In one situation, expenses were being charged to a subordinate’s charge card and then approved by the person for whom the purchases were intended. In this case, a senior executive’s secretary charged over \$50,000 to her charge card for goods and services, a significant portion of which was for the person to whom she reported. These items should have been approved by her superior’s boss and, in accordance with policy, should have been subject to the annual review of all senior executive expenses conducted by the corporation’s external auditor. Each year the external auditor carries out specific procedures on charge-card statements and supporting documentation for senior executives and reports to the board of directors. Although the auditor has reported some non-compliance with corporate-card policy on the issues of documentation and authorization requirements, the auditor does not provide assurance that the charges were reasonable, that they were incurred for business purposes, or that the expenditures reviewed for the individuals were complete.

RECOMMENDATION 12

To help ensure that business expenses and employee recognition expenditures are in accordance with corporate policy and are reasonable under the circumstances, Hydro One should:

- develop guidelines to establish corporate expectations regarding the reasonableness of expenditures under various circumstances;
- reinforce the obligation for management to thoroughly review expense claims prior to approval; and
- implement a more comprehensive process to periodically review expense claims for compliance with corporate policy.

Monitoring of Fleet Charge Cards

On June 15, 2004, Hydro One signed an agreement with a service provider for the provision of fleet-management services, including the tracking of vehicle maintenance and repairs and fuel costs. The service provider pays third-party mechanics for repairs and maintenance on company-owned and leased vehicles, and then bills Hydro One for these costs. The service provider maintains a database with the service history for each vehicle. Information is entered into the service provider's system and is accessible to Hydro One via an online connection.

Each month, Hydro One receives two statements from the service provider: one for fuel costs and one for vehicle-maintenance costs. The state-

ments provide the total dollar amount charged to each fleet card. Each of the 5,500 fleet cards, which are used to pay for maintenance, repairs, and fuel for corporate-owned and leased vehicles, represents one vehicle. The fleet manager is responsible for reviewing and approving the statements prior to payment. In order to verify the accuracy of the amounts being billed each month, the fleet manager informed us that he spot-checks 15 to 20 items from the monthly statements by conducting a high-level review of fuel and maintenance charges, discussing the request for repair with the staff who authorized it, and viewing the vehicle's service history. However, there was no record of which items were spot-checked or what verification was actually done, and the small sample selected may not be sufficient to verify the accuracy of the \$3 million spent monthly using fleet cards.

RECOMMENDATION 13

In order to ensure that it is being billed the correct amount for authorized repairs, service maintenance, and fuel costs, Hydro One should:

- consider a more rigorous verification of the monthly fleet-card billings; and
- retain adequate documentation associated with the verification of monthly billings.

HYDRO ONE INC. RESPONSE

We appreciate the recommendations made in the Auditor General's report and the recognition that our policies are adequate to ensure that goods and services were acquired with due regard for value for money. The recommendations are generally reasonable and for the most part in accordance with existing Hydro One policies. Management has been in the process of implementing various policies and procedures to strengthen controls and address previous internal audit findings. These actions address many of the concerns and recommendations identified.

Recommendation 1

Management recognizes that the purchase-order files may not include all supporting documentation, although the information was generally available elsewhere within the corporation. A process was implemented in May 2006 to review all purchase-order files (including all 2006 files and 2005 major vendor files) for completeness.

Recommendation 2

A process for renewing and reducing the extension of blanket purchase orders was under way

in May 2006 to ensure the commodity is taken to market in a rational manner that does not jeopardize our source of continuing supply. The remaining aspects of the recommendation are part of the renewal process.

Recommendation 3

We agree with the recommendation and have strengthened policies to ensure the application of the competitive process in all situations. Although current policy was not followed in the examples provided, the process was consistent with the policy or practice in place at the time of purchase.

Recommendation 4

Management agrees.

Recommendation 5

In addition to the review of purchase files noted under Recommendation 1 above, management will also consider whether, in our circumstances, any benefit would be obtained from preparing a vendor evaluation and, if so, consider the benefits and costs of maintaining a central repository for the evaluations.

Recommendation 6

As discussed under Recommendation 1 above, a process was implemented in May 2006 to review all purchasing files for completeness.

The new authority register is in the final stages of implementation. It will also enable the automation of our approval controls.

To eliminate the few instances where payments have not been timely, management will re-emphasize the importance of making payments on time to avoid late-payment penalties and to obtain any early-payment discounts.

Recommendation 7

Due to the lack of comparables, management was able to benchmark only two lines of businesses. Our expectation is that, as outsourcing

grows, we may be able to find comparables for the remaining businesses.

Since the service provider exhibited outstanding efforts in correcting the issue raised in the audit, management exercised its business judgment to forgo the credits in this particular instance. Management recovered from the service provider all incremental costs incurred as a result of this issue.

A detailed review of the contract is completed monthly. A governance structure has been implemented around the contract such that management is comfortable that effective controls are in place.

The legacy information-technology systems are highly customized in-house systems. It was anticipated from the outset that a high volume of project work would be done by the service provider, since the required knowledge workers would reside there. The service provider's project rate card compares favourably with other tier 1 service providers, based on recent competitively bid projects. As the corporation moves to a standardized architecture, we will rely less on the service provider. This process is under way.

Recommendation 8

A process has been implemented requiring all local charge-card co-ordinators to be approved by the corporate charge-card co-ordinator.

Management agrees that all cards for terminated employees should be cancelled on a timely basis. On a monthly basis, a control report identifying any charge cards assigned to an inactive employee number is reviewed. Current procedures require that supervisors regularly confirm the ongoing need for inactive cards. A process will be introduced to cancel inactive cards once they expire.

Management agrees that credit and cash-advance limits should be reviewed on a regular

basis. We will reinstitute a sample compliance audit and periodically review the continuing need for all high-dollar limits.

Recommendations 9 and 10

Management will re-emphasize to employees the importance of complying with the procedures. To assess compliance, management will reinstitute sample compliance audits, which were temporarily suspended in 2005. The results of these audits will be reviewed with the appropriate divisional Vice-President.

In the future, management will require that both the cash advance and matching expense be shown on the summary cash-use report to facilitate review by the supervisor. Supporting documentation will continue to be attached.

Current policy requires that all expense claims have adequate documentation, and management will reinforce this requirement.

Recommendation 11

Management agrees that the use of corporate charge-card cheques should be limited to either exceptional circumstances or reimbursement of employee business expenses where

the employee has not been issued a Hydro One credit card. An email was issued by our Chief Financial Officer in April 2006 to emphasize the appropriate use of corporate credit-card cheques.

Current procedure specifically identifies the acceptable use of corporate charge cards. To strengthen controls, management will introduce an ongoing sample audit program for expenditures over \$6,000 to review, assess, and report compliance with this procedure.

Recommendation 12

Management agrees that expenditures should be reviewed for reasonableness. Current procedures, including the local purchasing policies and procedures, require such a review. Management will reinforce the obligation of supervisors to thoroughly review expense claims prior to approval.

Recommendation 13

Management agrees and will expand the size of the sample from the monthly statements that is spot-checked to 100 items and will retain the documentation.

Ontario Health Insurance Plan

Background

A key objective of the Ministry of Health and Long-Term Care (Ministry) is to provide all Ontario residents with a high-quality health-care system that is readily accessible, publicly funded, and accountable. One of the most significant vehicles for delivering these health-care services is the Ontario Health Insurance Plan (OHIP). Under this plan, the Ministry determines the eligibility of Ontario residents for coverage and remunerates physicians and other health-care professionals for health-care services rendered to eligible patients.

The insured services covered under OHIP include diagnostic, preventive, and rehabilitation services provided by both generalists and specialists, as well as services provided by community laboratories. Through OHIP, the Ministry also pays the established OHIP rates for emergency medical and hospital treatment provided to Ontario residents in other provinces or countries. In the 2004/05 fiscal year, OHIP paid approximately 180 million medical claims for insured services. These payments totalled over \$7.4 billion. Of this amount, \$5.5 billion (74%) was made to fee-for-service providers in Ontario, including some 23,000 physicians and 2,400 other practitioners, such as dentists, optometrists, and

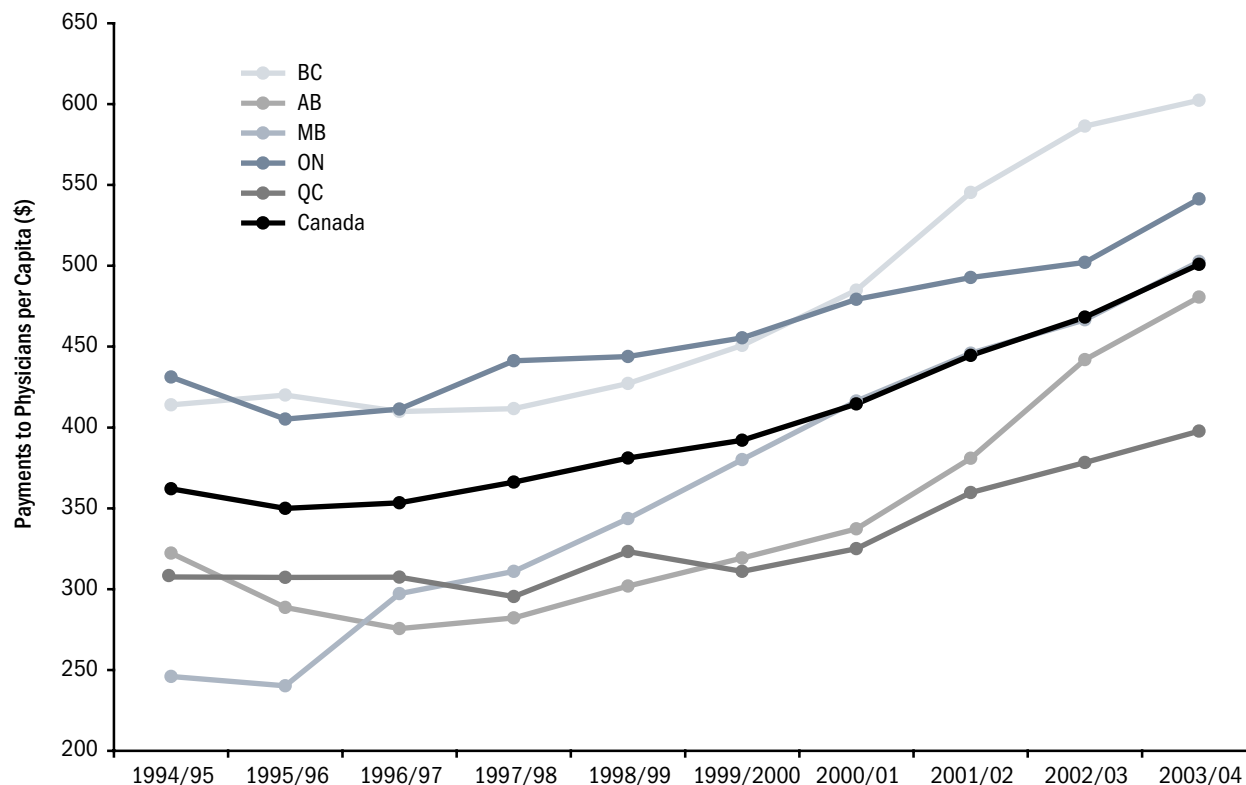
podiatrists. The remaining \$1.9 billion covered a variety of non-fee-for-service payments, including those to community laboratories, alternative payment arrangements for physicians, hospital on-call coverage, and out-of-province and out-of-country claims.

As illustrated in Figure 1, according to information provided by the Canadian Institute for Health Information (CIHI), in the 2003/04 fiscal year, Ontario paid \$540 per capita to physicians for health-care services, with only British Columbia spending more on a per capita basis. CIHI is a national, non-profit, independent organization focusing on promoting collaboration among major health-care stakeholders. It provides Canadians with essential statistics and analysis about their health and their health-care system.

Ontario residents must have a valid health card to access provincial health-care services at no personal cost. To be eligible for an OHIP card, applicants must be Canadian citizens or have landed immigrant status, have their home in Ontario, and reside in Ontario for at least 153 days in any 12-month period. The OHIP card can be either a traditional red-and-white card or a photo health card. The latter was introduced in 1995. As of January 2006, there were approximately 12.9 million valid

Figure 1: Larger Provinces' per Capita Health Services Payments to Physicians, 1994/95–2003/04

Source of data: Canadian Institute for Health Information



OHIP cards in circulation—5.7 million red-and-white cards and 7.2 million photo cards.

The legitimacy of the expenditure of more than \$6.8 billion per year under OHIP relies upon two major factors:

- that OHIP cards used to obtain health-care services are restricted to Ontario residents legally entitled to them; and
- that the medical profession works with integrity in billing the government appropriately for its services.

The Ministry relies on three main information systems to support OHIP:

- The Client Registration System is used to register eligible Ontario residents in the insurance plan. It maintains personal and eligibility information on about 12.6 million Ontario residents.

- The Provider Registry System is used to register health-care providers. It maintains information on all health-care providers who can deliver health-care services and bill OHIP for these services, either on a fee-for-service or other basis.
- The Medical Claims Payment System processes claims submissions. It verifies provider and card-holder eligibility, ensures that claims are for insured services, and issues payments to providers.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry had adequate systems and procedures in place to ensure that OHIP fee-for-service claims and

payments to health-care providers were legitimate and accurate. The audit did not address expenditures other than fee-for-service expenditures.

We identified audit criteria to address our audit objective. These were reviewed and accepted by senior ministry management. Our audit included examining documentation, analyzing information, interviewing ministry staff, and visiting six district offices. In addition to our interviews and fieldwork, we employed a number of computer-assisted audit techniques (CAATs) to analyze card-holder data, medical claims data, and providers' records.

Our audit was substantially completed in May 2006 and was conducted 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 also reviewed relevant recent reports and activities of the Ministry's Internal Audit Services Branch, which had identified a number of issues that were helpful in conducting our audit work.

Summary

While we noted some processing weaknesses, we found that controls and procedures were generally adequate to ensure that claims are paid accurately. However, we do not believe that controls are adequate to effectively mitigate the risk that people who are not entitled to Ontario Health Insurance Plan (OHIP) services could receive medical care free of charge.

With respect to the medical profession, the OHIP program embodies a trust relationship between the government and health-care providers. While the Ministry of Health and Long-Term Care (Ministry) has a number of mechanisms to detect inappropri-

ate OHIP claims, the system relies fundamentally on the integrity of health-care professionals to bill appropriately for their services. The relationship between providers and their patients is essentially a private one, and the government pays for health services provided to patients based solely on claim submissions from providers. Accordingly, there is an opportunity for unscrupulous providers to commit fraud or otherwise abuse the system, and the task of designing and instituting sufficient controls and monitoring mechanisms to prevent and detect inappropriate OHIP billings is an ongoing challenge.

While there is little doubt that the vast majority of card holders and health-care professionals act honestly and with integrity, we concluded that the Ministry should strengthen its systems and procedures in a number of areas to help ensure that all OHIP fee-for-service claims and payments to health-care providers are legitimate and accurate. In particular:

- Since 1995, the Ministry has been issuing photo health cards to replace the older red-and-white cards. The new cards have more security features than the older cards, and card holders are subject to significantly more rigorous eligibility verification procedures. However, while the Ministry originally planned to complete the conversion of all of the older, red-and-white cards to the new photo card by 2000, the conversion has been delayed for a number of reasons. At the current conversion rate, it will take at least another 14 years to phase out the old cards and verify the eligibility of all card holders.
- We continue to have concerns, originally reported on in our *1992 Annual Report*, that there are still approximately 300,000 extra health cards (that is, 300,000 more health cards than individuals in Ontario's population) in circulation in the province. Our analysis of these cards indicates that the majority are being held by individuals with addresses

either in Toronto or in regions close to the United States border.

- The Ministry devotes very limited resources to monitoring health-card usage. Our computer data-extraction analysis of medical claims records indicated that there were several areas where expenditure patterns warranted review or investigation. For example, we identified 11,700 card holders who had medical claims submitted from numerous different regions across the province within a short period of time, possibly indicating that health-card numbers were being used inappropriately. We also identified six individuals for whom a particular provider billed and was paid \$800,000 from 2001 through 2005. Our analysis also highlighted a group of clinics and their affiliated physicians that have been billing for medical tests on some 4,100 patients at much higher frequencies than recommended by the College of Physicians and Surgeons of Ontario. We estimate the potential overbilling from these providers to be some \$9.7 million since 2001. There were also indicators that some of these physicians might not have actually treated the patients involved. The Ministry advised us that, based on a complaint received, these clinics had been under investigation since 2003.
- The Ministry established a Fraud Program Branch in 1998 to promote health-fraud awareness. Although the Branch is staffed with Ontario Provincial Police detective inspectors and fraud examiners, it has never had a mandate to conduct fraud audits, nor has it had access to health records that would allow it to conduct fraud monitoring activities, and no suspected fraud cases have ever been referred to this Branch.
- The review process for health-card use by potentially ineligible individuals needs to be improved. As of October 2005, there was

a backlog of over 7,000 outstanding cases involving potential ineligibility to be investigated, and the Ministry had no documented standards or procedures on how such cases were to be evaluated or the timeliness thereof. We also noted that the recovery rate on cases where ineligible individuals have had medical services paid for was quite low. For example, since 1998, the Ministry has referred some 1,150 of its most serious cases, amounting to a potential claims recovery of \$700,000, to the Ontario Provincial Police, but the courts have only been able to recover on five of the 1,150 cases, with a total recovery of \$37,000.

- Our data analysis indicated that, to date, the Ministry has not yet verified the authenticity of the citizenship documents for about 70% of all existing health-card holders. As well, procedures for registering applicants for health cards can be improved. While applicants can use a number of documents to prove their Canadian citizenship status, the Ministry authenticates only a few of them. Also, of the types of documents the Ministry does authenticate, there was a significant backlog of 256,000 cases requiring verification with either Citizenship and Immigration Canada or the Ontario Registrar General.
- The data files received from the College of Physicians and Surgeons of Ontario used to update physician-licensing information were not complete, as they did not include data on physicians who had died, retired, resigned, moved out of the province, or had their licences cancelled for other reasons. Our analysis identified 725 physicians who were no longer licensed by the College of Physicians and Surgeons of Ontario but could still submit medical claims, and, in fact, 40 of them had billed and received full payment from the Ministry subsequent to their licences expiring. For example, we found that one physician,

suspended for violating the terms and conditions of his licence, had subsequently submitted claims and was paid for treating almost 300 patients.

- Since September 2004, the activities of the Medical Review Committee, which was mandated to review cases in which physicians may have filed inappropriate claims, have been suspended. While the Ministry has committed to replace this committee and develop a new audit process based on recommendations made in April 2005 by The Hon. Mr. Peter Cory, a retired justice of the Supreme Court of Canada, these changes have yet to be implemented. At the time of the suspension, there were 110 outstanding cases under review; all these reviews have since been cancelled. The Ministry has also not initiated any new audit reviews since September 2004. Based on past recovery rates, we estimate that as much as \$17 million in potential recoveries from physicians may have been lost during this suspension period.
- Medical rules were not always kept up to date in the Ministry's system, which can lead to errors and omissions in verifying claims. The Ministry did not have sufficient guidelines or management review procedures to ensure that overrides on rejected claims, allowing them to be paid, were made consistently and accurately.
- Improvements in information technology security were also needed to protect the confidentiality of card holders' personal health records and providers' records in the Ministry's computer databases.

Detailed Audit Observations

HEALTH CARDS

Conversion of Red-and-white Cards to Photo Health Cards

In 1990, the Ministry of Health and Long-Term Care (Ministry) moved from a family-based registration system to an individual-based system, and issued approximately 10 million red-and-white health cards to individuals. During this conversion process, the Ministry relied on the then-existing Ontario Health Insurance Plan (OHIP) records to determine who was eligible to receive a card. Applicants who provided a health number and matching surname received a health card without having to provide any additional documentation, such as proof of identity or residency.

In 1995, the Ministry introduced photo health cards and planned to re-register all Ontario residents and authenticate their eligibility over a five-year period (that is, by 2000). However, for several reasons, including resource limitations and a number of card design changes, this conversion project has yet to be completed. In our *1998 Annual Report*, we recommended that the Ministry complete the verification process for persons who registered prior to 1995; however, as of January 2006, there were still over 5.7 million red-and-white health cards in circulation for which the Ministry has yet to verify card-holder eligibility. At the time of our audit, the Ministry was converting only about half the number of cards annually that it converted in 1998. At the conversion rate of approximately 400,000 cards per year achieved over the last few years, it will take at least another 14 years to complete the eligibility verification process and phase out the red-and-white cards.

Figure 2 shows the number of conversions completed by year since the photo card was introduced.

Figure 2: Conversion Rates of Red-and-white Cards, 1995–2005 (000)

Source of data: Ministry of Health and Long-Term Care



By way of comparison, the Ontario Ministry of Transportation also commenced in 1995 a similar conversion project to replace the province's previous two-part driver's licence with a photo card. This conversion project was completed in 2000, with over 7 million new driver's licences having been issued to Ontario's licensed drivers. While we recognize that this conversion process was facilitated by the fact that driver's licences, unlike red-and-white health cards, have always had expiry dates, we believe that the success of the process for driver's licences does demonstrate that such province-wide conversions are feasible.

Ontario was the last jurisdiction in Canada to move to an individual registration system for health cards. Figure 3 compares features of each Canadian jurisdiction's health card. As it illustrates, Ontario's red-and-white health card has the least amount of printed information of any Canadian jurisdiction's card. It does not include any personal information other than the name of the card holder: there is no date of birth or address to assist in authenticating the card holder's identity. Also, unlike most other jurisdictions' cards, Ontario's card does not expire.

The accuracy of the card-holder records underlying the red-and-white cards is also questionable. Because these cards never expire and many card

holders do not inform the Ministry when they move, card-holder address information is often out of date, and the Ministry has no reliable means of locating such individuals. Ministry statistics indicated that about 25% of mailings to red-and-white-card holders are returned as undeliverable. Assuming this rate is applicable for all red-and-white-card holders, the address information is out of date for an estimated 1,425,000 card holders. This increases the risk that valid OHIP cards may be held by people who no longer reside in Ontario.

Number of Health Cards in Circulation

We reported our concerns with the reliability of OHIP data in our *1992 Annual Report* when we noted that, at that time, there were approximately 300,000 more cards in circulation than the estimated population of Ontario. The Ministry acknowledged at that time that, given the limited controls in place at the time of converting from a family-based to an individual-based registration system, it was almost impossible to detect cases of fraud.

As of December 2005, the Statistics Canada estimate of the population of Ontario stood at 12,590,000. According to our data analysis, at this time, there were approximately 12,895,000 health cards in circulation, indicating that there were still approximately 305,000 extra health cards in circulation. While we recognize that many of these cards may belong to individuals who have died or no longer reside in Ontario, some of these cards may be in the hands of ineligible individuals.

To analyze this issue further, we reviewed the health-card-address data and found that 263,000 or 86% of these extra cards were in circulation in the Toronto area. Given the Toronto population, this amounts to one extra health card in circulation for every 10 Toronto area residents. We also noted that there appeared to be over 10,000 extra health cards in certain Ontario regions that border the United States. These regions included Algoma District, Essex County, Thunder Bay, and Rainy River.

RECOMMENDATION 1

To ensure that publicly funded health services are provided only to eligible individuals, the Ministry of Health and Long-Term Care should expedite the conversion of the pre-1995 red-and-white Ontario Health Insurance Plan (OHIP) cards to the current OHIP photo cards in order to properly verify the eligibility of these health-card holders.

Health-card Monitoring

The monitoring of health-card usage can be of great assistance to the Ministry in identifying possible ineligible access to publicly funded health-care services. Moreover, as the health-care profession moves towards greater sharing of electronic records, the risk increases that a patient could be misdiagnosed or mistreated if his or her health records have been compromised by those of another individual using the same health-card number. Accordingly, moni-

toring can also help ensure the safe treatment of patients.

Although the Ministry conducts certain monitoring activities, particularly to detect ineligible practitioner billings, little monitoring takes place on individual health-card usage. We were informed that one of the main reasons for the Ministry's lack of activity in this area is the difficulty in striking an appropriate balance between individuals' right to privacy over their health records and the Ministry's responsibility for the stewardship of public funds.

In 2004, the Ministry contracted with an external consulting firm to conduct a study on potential fraudulent registration and use of health cards. The study recommended that the Ministry "develop a Fraud Measurement Framework to be used as a benchmark to measure higher risk areas, to measure the effectiveness of preventive and detective methods applied and to guide future work to mitigate consumer fraud in OHIP." The consulting firm also estimated the amount of consumer fraud in Ontario's health-care system as being between \$11 million and \$22 million annually.

Figure 3: Provincial Comparison of Health-card Features

Prepared by the Office of the Auditor General of Ontario

	Name	Birth Date	Address	Expiry Date	Renewal Cycle (years)	Photo	Magnetic Stripe on Back	Special Security Features
BC	✓	✓					✓	
AB	✓	✓						
SK	✓	month/ year		✓	3		✓	
MB	✓	month/ year	✓					
ON	photo	✓	✓	✓	5	✓	✓	rainbow printing, holographic overlay, micro printing
	red-and-white	✓					✓	
QC	✓	✓		✓	4	✓	✓	hologram
NB	✓	✓		✓	3		✓	
NS	✓			✓	4		✓	
PE	✓	✓		✓	5		✓	
NL	✓			✓	5			

In the absence of a proactive monitoring program, investigations into suspected health-card abuse are typically triggered by calls from the general public to the Ministry's Fraud Line, or staff suspicions aroused when processing card applications. The Ministry also focuses on reviewing specific medical procedures rendered, in an effort to identify ineligible claims such as the removal of a patient's gall bladder a second time, or a hysterectomy on a man.

The Ministry established a Fraud Program Branch in 1998 to raise public awareness of health fraud. Although the Branch is staffed with Ontario Provincial Police (OPP) detective inspectors and fraud examiners, at the time of our audit, it had never had a mandate to conduct fraud audits, nor did it have access to health records that would allow it to conduct monitoring activities directed at OHIP. Rather, all suspected fraud cases were referred directly to the OPP by the program areas without any involvement of this Branch. Upon request, branch staff would assist program-area personnel to assess fraud risk and to identify and mitigate potential frauds in their particular program area. However, given that the Branch is staffed by police detectives and fraud experts, this limited role may not be the best use of such specialized resources.

Over the years some special projects have been conducted to identify ineligible card holders, the results of which illustrate the importance of ongoing monitoring of card use. For example, in the Child Survey Project conducted in the 1998/99 fiscal year, the Ministry identified 6,800 children who had had no health claims for an extensive period of time—which could be indicative of ineligible card holders living outside Ontario. We were concerned, however, by the lack of follow-up conducted on these cases. Only 30 of these 6,800 files were investigated to confirm OHIP eligibility. Even though this sample of 30 led to the cancellation of the health coverage of a total of 13 of the children

together with 24 of their relatives, the Ministry did not investigate the remaining 6,770 files.

Another area that has been the subject of a special review is card-holder addresses. By regulation, OHIP card holders are generally not permitted to have postal box addresses. With few exceptions, card holders are required to have a permanent civil address in Ontario to be eligible for insured health care. The Ministry completed a Postal Office Box Project in 2003 by investigating 1,562 health cards with postal box addresses serviced by two mailbox outlet companies. Verification letters were sent to these card holders; in many cases these letters were returned as undeliverable or the card holders were found to be ineligible. While the Ministry did cancel 1,157 of these health cards, the project was discontinued due to budgetary restraints. Our data-extraction audit tests identified almost 32,000 individuals who used a postal box as their address at the time of our audit.

Under another recent monitoring activity, the Ministry sent out approximately 394,300 notices to clients for whom no claims had been filed since April 1998, requesting that they re-verify their eligibility. The Ministry received approximately 10,800 responses, and approximately 189,300 notices were returned as undeliverable, indicating that the Ministry did not have the most current addresses for these individuals. The Ministry terminated 194,100 of these cards. While the remaining 194,200 cases had not yet been followed up on at the time of our audit, the Ministry subsequently advised us that it has sent a further 100,000 final notices to these card holders and plans to complete action by the end of the 2006/07 fiscal year.

Other than the above projects, the Ministry has done little work in monitoring health-card usage to detect anomalies. For this reason, we performed a number of data analyses on medical claims records for the five-year period from January 2001 through December 2005 and found some cases, detailed below, that we brought to the Ministry's attention.

Anomalies in Health-card Usage

Insofar as some individuals may be very mobile within the province—due to the nature of their work, their family situation, or because certain health treatments or specialists are not available in their local community—claims for a single individual from providers from various geographical locations often occur. However, the occurrence of such claims within a short period of time could be an indication that the health card has been duplicated, has been used by more than one individual, or has otherwise been compromised. Our analysis indicated that there were 11,700 card holders each having health claims originating from all three regions of the province within a nine-month period in 2005.

Analysis of health-card usage helps not only to identify possible misuse by ineligible card holders but may also signal fraudulent claims submitted by medical practitioners. In this regard, our analysis also identified a group of six individuals who received extensive psychotherapy counselling services by the same provider, with total payments to the provider of \$800,000 from 2001 through 2005. Figure 4 illustrates the dramatic growth in the number of medical services and payment amounts for these individuals over this period. The Ministry has commenced a review of this case.

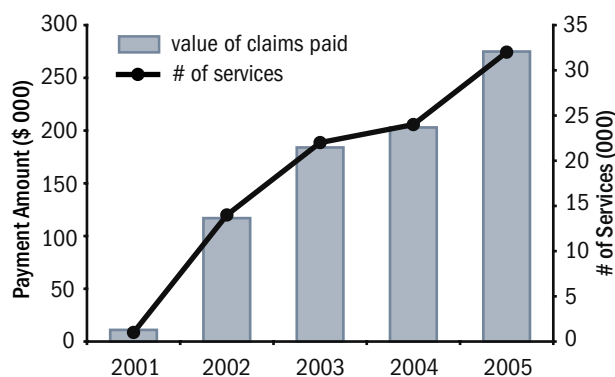
We further noted in our analysis 4,000 patients being treated by a particular group of clinics and

a number of affiliated physicians, who had been submitting extensive medical claims relating to a specific treatment, with total payments of some \$31 million since 2001. The frequency of the procedures conducted by these physicians for individual patients was dramatically higher than what the College of Physician and Surgeons of Ontario recommended as a best practice. We estimated the payments for those treatments in excess of what the College recommended to be approximately \$9.7 million since 2001.

The particulars of this case also raised concerns about the possibility of claims being paid for patients who were not seen by the physician submitting the claims. This practice is contrary to OHIP rules. Specifically, the majority of the paid claims related to thousands of laboratory tests, typically done twice per week on each patient. The claims were submitted through a number of physicians affiliated with the clinic, from their own practice locations. Physicians are allowed to directly submit claims for laboratory testing, but only if the tests are conducted in their own offices. The practice locations of these physicians were often significant distances from where the patients resided and the clinics where they were being treated. We are therefore concerned that these billings may not have been in accordance with OHIP regulations. The Ministry advised us that, due to a complaint received, these clinics have been under active investigation since May 2003. However, our data analysis indicated that payments to these clinics have continued to increase for the time periods that we reviewed, as illustrated in Figure 5.

Figure 4: Psychotherapy Counselling Services to Six Patients Billed by a Single Provider

Source of data: Ministry of Health and Long-Term Care

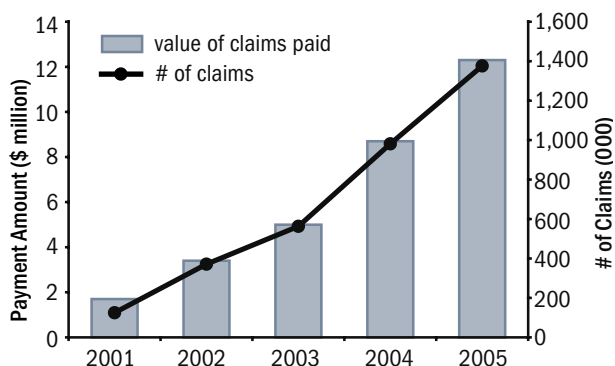


Review of Potential Cases of Ineligibility

When the Ministry receives a tip from the public on use of an OHIP card by an individual who is potentially ineligible for health-care services through its telephone Fraud Line or other means, the case is tracked in a Registration Information Tracking System. This system is also used when district office

Figure 5: Claims from Clinics for Frequent Procedures Relating to a Specific Treatment

Source of data: Ministry of Health and Long-Term Care



staff are suspicious about a health-card applicant's eligibility. Investigation of these cases may lead to the termination of the card holder's eligibility where warranted. For significant cases in which criminal intent is suspected, the matter is referred to the OPP for further investigation. We noted that the Ministry did not have documented standards or procedures for evaluating such cases. We reviewed a sample of case files and noted inconsistent practices in evaluating them as well as in the decisions made.

As of October 2005, the Ministry had a backlog of over 7,000 outstanding cases awaiting review. Over 90% of these cases were more than six months old, with the oldest case dating back to January 1998. Ministry data indicated that the average time to resolve a case is 10 months and that approximately 40% of the card holders are eventually found to be ineligible and their health cards are suspended. Accordingly, based on this ineligibility rate, there may be an estimated 2,800 ineligible individuals of the 7,000 backlogged cases whose health cards are still active.

Timely resolution of backlogged cases and suspension of ineligible cards is important because the Ministry has no restitution process and, once claims have been paid, recovery is very difficult, even when a claim is subsequently found to be ineligible. For example, since 1998, the Ministry has

referred about 1,150 cases, for claims amounting to approximately \$700,000, to the OPP for criminal investigation. Out of these 1,150 cases, the OPP eventually laid approximately 100 charges, which, to date, have resulted in one voluntary and four court-ordered repayments, for a total recovery of \$37,000, or approximately 5% of the \$700,000.

RECOMMENDATION 2

To identify potential ineligible use of publicly funded health services, the Ministry of Health and Long-Term Care should:

- review the mandate of its Fraud Program Branch, with a view to expanding the range of its activities to include OHIP-usage monitoring and fraud investigations;
- consider expanding its monitoring activities to identify potentially suspicious individual health-card usage; and
- resolve the outstanding backlog and follow up on potentially ineligible cases in a consistent, rigorous, and timely manner.

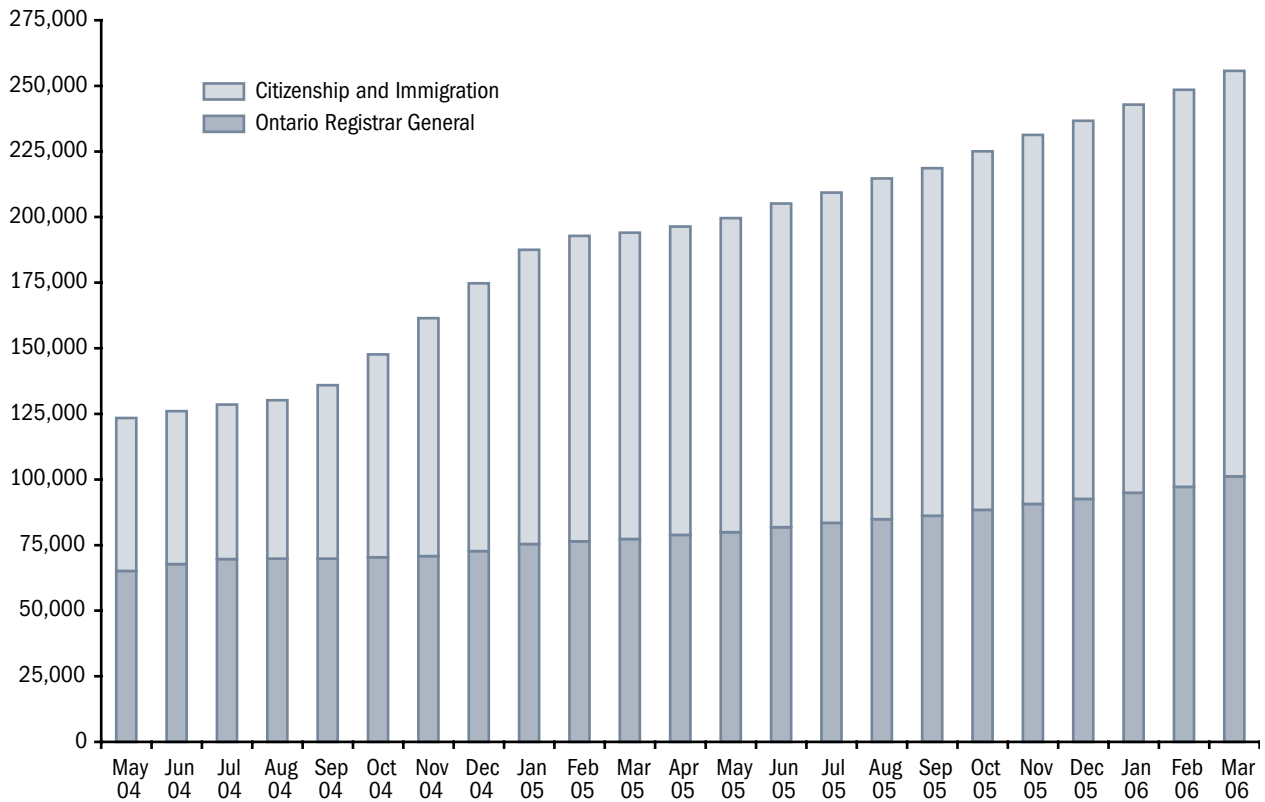
Authentication of Citizenship Documents

An OHIP card is an acceptable piece of identification for many purposes. For example, it is often used in obtaining a Canadian passport, an Ontario driver's licence, or a mortgage or line of credit from a financial institution. Accordingly, proper authentication of an applicant's identity and citizenship status before a health card is issued or its underlying information is revised is essential not only to ensure that public health care is provided only to eligible individuals, but also to reduce fraud in other areas.

All new health-card registrations, renewals, replacements, and changes of personal information are processed at one of 27 OHIP district offices located throughout the province. To complete any of

Figure 6: Document Authentication Backlog, May 2004–March 2006

Source of data: Ministry of Health and Long-Term Care



these transactions, applicants must provide proof of citizenship status, residency, and personal identity.

Since the photo health card was introduced in 1995, the Ministry has been electronically authenticating some citizenship documents, such as landing records, permanent resident cards, and working permits with Citizenship and Immigration Canada (Citizenship and Immigration). In addition, the Ministry has been electronically validating Ontario birth certificates with the Ontario Registrar General. However, at the time of our audit, only 54% of the active photo health cards and only 30% of all cards in circulation had been authenticated in this manner.

Under the authentication process, the Ministry enters the applicant's name, date of birth, and document number of the proof of citizenship into the Client Registration System and matches this information with data from Citizenship and

Immigration or the Registrar General. Unmatched cases must be followed up to determine the reason for the discrepancy. The Ministry also accepts as proof of citizenship Canadian citizenship cards and Canadian passports, which are presented by about 20% of applicants, but, unlike its practice with other documents, it does not verify these two types of documents with the issuing government departments to ensure their validity.

While we support the authentication process, we found that available resources dedicated to it were insufficient to process the number of new unmatched cases identified each month; accordingly, there is a large and increasing unmatched backlog. As illustrated in Figure 6, this backlog has doubled since May 2004. As of March 2006, it amounted to over 154,000 unmatched cases with Citizenship and Immigration and 101,000 cases with the Registrar General—for a total of

approximately 255,000 cases. The Ministry notified us that, among these backlogged items with the Registrar General, it has identified over 45,000 duplicates or cases in which no further action will be required due to such events as the death of the applicant or termination of his or her health card for other reasons.

At the time of our audit, more than 76% of these backlogged cases were more than one year old. Timely resolution of unmatched cases is important because the applicants already have their health cards and therefore have full access to Ontario health services.

Application Processing

During our visits to the OHIP district offices, we also found that procedures to ensure that all transactions were valid, complete, and accurately processed could be improved. Specifically, the Ministry had no reconciliation procedures to match the number of registrations, renewal or replacement applications accepted in the district offices with the actual transactions processed and health cards issued. We also noted no supervisory review, even on a spot-check basis, of applicant information being entered into the Client Registration System against the information provided on the application forms or on the supporting documents. This is especially important because, once an individual is entered into the system, he or she is automatically eligible to receive an OHIP card. Because copies of the supporting citizenship documents are not maintained for future reference, such reconciliations and supervisory checks would act as a compensating control by reducing the risk of unauthorized transactions being processed, improper documents being accepted for processing, or erroneous information being entered into the registration system.

Special Registration

The OHIP district offices also provide special registration support for homeless individuals, newborns, patients in long-term facilities, or individuals with accessibility issues that prevent personal attendance at OHIP offices.

Registration for the Homeless

Although a homeless person without a permanent resident address must still meet OHIP eligibility requirements in order to obtain a health card, such individuals often do not have the required citizenship, residency, or identity documents. Agencies dealing with the homeless, such as shelters, work with the Ministry to assist these individuals in applying for their health cards. Ministry policy requires all such agencies to have agreements in place with the Ministry setting out their respective roles and responsibilities.

During our district office visits, we reviewed procedures for registering homeless people and noted that controls to ensure that all such transactions were legitimate could be improved. For example, we found that five of the six district offices we visited registered homeless people referred by agencies that did not have the required agreement with the Ministry. We also found that, although the Ministry had developed a standard agreement, actual agreements often differed from this standard. As well, signatures of appropriate individuals at the agencies were not required, or the requirement was not enforced, when the applications of clients referred from these agencies were processed.

The Ministry registers any person referred by these agencies regardless of whether he or she can provide citizenship-status documents, and relies on the agencies to subsequently work with the individual to obtain and submit the appropriate documents. However, the district offices informed us that the agencies rarely reported to the Ministry if individuals had difficulties obtaining these

documents or, in fact, had problems with their citizenship status, and the district offices did not follow up with the agencies on these outstanding cases.

We also noted that, in many cases, agency personnel have no personal knowledge of the clients they assist. For this reason, special registrations may enable ineligible individuals to gain access to Ontario's health system. The Ministry indicated that about 9,700 homeless individuals had been registered without the required citizenship documents since July 1995 and that, as a control measure, the Ministry usually issues health cards with a one-year expiry date to such individuals. Our data analysis indicated that approximately 690 of these individuals had had their health cards renewed without the proper documents having been obtained.

Exemption from Photo or Signature Requirements

The Ministry also exempts some applicants from photo or signature requirements for medical reasons. In such cases, the applicant's physician must provide a signed exemption form. When we reviewed the exemption forms collected by the district offices, we found that the Ministry did not verify the physician's identity or authenticity with the College of Physicians and Surgeons of Ontario's database in order to validate these exemptions.

RECOMMENDATION 3

To better ensure that health cards are issued only to eligible individuals, the Ministry of Health and Long-Term Care should:

- follow up, in a timely manner, on outstanding cases in which the authentication of citizenship documents resulted in unmatched differences;
- consider expanding the scope of the electronic authentication program to other commonly used citizenship documents, such as

the Canadian passport and the Canadian citizenship card;

- reconcile health-card applications received to processed transactions, and randomly perform supervisory checks matching system data to application and supporting documents;
- ensure that all agencies assisting homeless individuals to obtain health cards have valid agreements with the Ministry and obtain proof of applicants' eligibility for publicly funded health-care services; and
- verify the authenticity of providers who sign photo/signature exemption forms.

Protection of Personal Health Records

The *Personal Health Information Protection Act* defines personal health information as any information related to an individual's physical health record. This includes the individual's health number, information regarding eligibility, and any payments for health services rendered. All of this personal information is maintained in the Ministry's Client Registry System and in the Medical Claims History Database. We reviewed security within the Ministry over these two systems, focusing on security administration procedures and the protection of electronic files, and concluded that security should be improved in several areas.

System access and user-group profiles (the authority assigned to individuals in a user group enabling them to access, modify, or delete data) were not adequately monitored, thereby increasing the risk that unauthorized individuals within the Ministry could gain access to personal health records. Specifically:

- We found that the Ministry did not have any approval documents to support the set-up or changes made to any of the user-group profiles for the Client Registration System.

Accordingly, we were unable to ascertain if these profiles were appropriate.

- System access was not being restricted to a need-to-know basis. We noted that some users had excessive access rights to the system and that users no longer requiring access were not removed promptly.
- Regular reviews of user access to ensure that this access was warranted were not completed for a number of district offices.
- Access rights to a special user group that could generate reports or perform ad hoc queries to the Client Registration System and the Claims History Database were not regularly reviewed.
- The security tools used to track users' access rights and change requests for user access were inadequate and inconsistent, resulting in erroneous access rights being granted or maintained.
- Security features restricting access to the Claims Correction System were very weak. For example, there were no password controls.

Security administrators typically have more system rights than general users. Due to resource constraints, the Ministry delegated certain security administration duties to an inexperienced temporary staff member who inadvertently assigned inappropriate security administrator privileges to another staff member.

RECOMMENDATION 4

To better protect confidential personal health records from unauthorized access and data tampering, the Ministry should:

- ensure that proper approvals are obtained before establishing or changing user-group access profiles;
- enforce the requirement for periodic reviews for unwarranted system access at the district offices;

- strengthen the effectiveness of the existing security review process and monitoring tools;
- implement more rigorous security features to control access to the Claims Correction System; and
- restrict security administration duties to qualified staff.

HEALTH-CARE PROVIDERS

Provider Monitoring and Control

Health-care providers are responsible for ensuring that their submitted medical claims comply with the *Health Insurance Act* and the Schedule of Benefits. The latter, a regulation under the *Health Insurance Act*, is an extensive listing setting out all of the health-service procedures that providers can render and be paid for and the billing codes relating to those health services. The Ministry has also established a Monitoring and Control Unit to review provider claims to ensure that they are appropriate. This unit educates providers on the claims-submission process and practices and pursues recovery of any overpayments resulting from claims-submission errors.

There are two types of medical claims-monitoring processes: pre-payment screening and post-payment review. All medical claims submitted by providers are screened for compliance with predefined medical rules that are programmed into the Medical Claims Payment System. For example, there are medical rules disallowing payment for certain fee codes used more than once for the same patient on the same day, or restricting payments for certain medical treatments when they are performed at the same time. However, due to the complexity of health-care services, medical rules cannot be sufficiently comprehensive to detect all inappropriate claims.

During the post-payment review, the Ministry conducts analysis on paid claims to determine if the providers submitted their claims properly and in

Figure 7: Medical Review Audit Process by Jurisdiction

Prepared by the Office of the Auditor General of Ontario

	Trigger to Initiate Reviews				Composition of Medical Review Committee				
	Complaints	Treatment Disputed in Verification Letters	Statistical Analysis/ Profile Review	Other ¹	Medical Assn.	College	Govt.	Public (e.g., CA, lawyer)	Total
BC	✓	✓	✓		1	1	1	1	4
AB	✓	✓	✓	✓	5	0	0	0	5
SK	✓	✓	✓		2	2	2	0	6
MB	✓		✓	✓	3	1	3	0	7
ON	pre-09/04	✓	✓	✓	0	18	0	6	24
	post-09/04	✓	✓	✓	Medical Review Committee and audit process suspended				
QC	✓		✓	✓	5	0	1	1	7
NB	✓	✓	✓		5	0	0	0	5
NS	✓	✓	✓		6	0	0	1	7
PE ²	n/a	n/a	n/a	n/a	5	0	2	0	7
NL	✓	✓	✓	✓	5	0	4	1	10

1. For example, an anomaly is noticed when a specific kind of treatment is being analyzed or reviewed.

2. Due to the small number of doctors in PEI (about 140), audits are performed at least once per year on each provider.

accordance with the Schedule of Benefits. Potential criminal cases are referred to the OPP for investigation. However, the Ministry has not referred any inappropriate claims identified by this analysis to the Medical Review Committee (Committee) since September 2004, when this committee was suspended, as discussed below.

Suspension of the Medical Review Committee

A post-payment review can result in a variety of possible actions. These include attempts to educate the practitioner, direct recovery for claims containing errors, referral of suspected fraud cases to the OPP, and, before the Committee was suspended in September 2004, referral of questionable claims to the Committee for its review.

The Committee had a structure and review process similar to other Canadian jurisdictions, as illustrated in Figure 7. A number of outcomes were possible once the Committee had completed its review, including directing the physician to repay

the Ministry for those services it deemed not to have been rendered, deliberately or inadvertently misrepresented, not medically necessary, or not performed according to accepted professional standards. From the 1999/2000 fiscal year through the 2002/03 fiscal year, the Ministry referred an average of 90 cases per year to the Committee and was able to recover approximately \$4.9 million annually.

Prompted by complaints from physicians over several years that the Ontario medical review process was too rigid, onerous, and unfair, in June 2004 the Minister of Health and Long-Term Care appointed The Hon. Mr. Peter Cory, a retired justice of the Supreme Court of Canada, to conduct a study of the review process. Figure 8 provides a timeline summarizing The Hon. Mr. Cory's review and subsequent developments.

In conducting his study, The Hon. Mr. Cory received written submissions from the Ministry, the Ontario Medical Association, the College of Physicians and Surgeons of Ontario, and other medical associations and professionals. In September 2004,

while awaiting The Hon. Mr. Cory's recommendations, the Ministry suspended the activities of the Committee and created a new panel called the Transitional Physician Audit Panel to act as a temporary appeal body for results on audits conducted before the Committee's suspension or for decisions relating to the direct recovery of claims paid that were made after the Committee's suspension.

When The Hon. Mr. Cory released his final report in April 2005, he made 118 recommendations to the Ministry, including the establishment of a new medical audit process and a new Physician Audit Board. The Board would be independent of the Ministry and of the professional medical governing bodies. He also recommended that the basis for any provider audit must be clear, the auditing method must be transparent, and the process must be fair. The primary goal of the new process should not be to penalize providers or recover funds, but rather to educate physicians in order to facilitate compliance with billing requirements. In May 2005, the Ministry committed to provide an implementation plan for the Cory Report by summer 2005. However, at the time of our audit, while the implementation plan had been submitted to Cabinet, legislative changes had not yet been introduced.

We noted that, when the Committee audit process was suspended, it had 110 outstanding cases under review. We understand that none of these cases will be reopened when the new audit process is

put in place. We reviewed these cases and noted that the Ministry has calculated potential recoveries for 42 of them, totalling \$3.8 million. In addition, based on the recovery rates from the 1999/2000 through 2002/03 fiscal years, we estimate that a potential \$13 million in claims recoveries to March 2006 may have been lost due to the suspension of the audit process.

RECOMMENDATION 5

To help reduce the risk of inappropriate billing from health-care providers and to identify and recover overpayments from such cases, the Ministry of Health and Long-Term Care should implement an effective audit process as soon as possible.

Provider Registration

In Ontario, there are approximately 28,000 health-care providers. These include family physicians, dentists, optometrists, nurse practitioners, and midwives. In order to submit claims for insured health services, all providers must register with the Ministry and obtain an OHIP billing number. Each provider must have an Ontario practice address and hold a current valid licence with his or her professional governing body. These governing bodies

Figure 8: The Hon. Mr. Cory's Review Timeline

Source of data: Ministry of Health and Long-Term Care

June 2004	<ul style="list-style-type: none"> Ministry appoints The Hon. Peter Cory to review the medical audit process
June to November 2004	<ul style="list-style-type: none"> The Hon. Mr. Cory accepts written and oral submissions from interested parties
September 2004	<ul style="list-style-type: none"> Medical Review Committee suspended Transitional Physician Audit Panel created to act as temporary appeal body
April 2005	<ul style="list-style-type: none"> The Hon. Mr. Cory submits his final report Ministry releases report on same day
May 2005	<ul style="list-style-type: none"> Ministry announces at Ontario Medical Association meeting it will provide an implementation plan to address the Cory Report recommendations by summer 2005
April 2006	<ul style="list-style-type: none"> implementation of the Cory Report recommendations and revised medical audit process still pending

include the College of Physicians and Surgeons of Ontario, the Royal College of Dental Surgeons of Ontario, the College of Optometrists of Ontario, the College of Nurses of Ontario, and the College of Midwives of Ontario.

Ministry district offices receive and process provider registration forms and the accompanying supporting documents, such as a copy of the licence issued by the associated governing body. While all registration forms and updates of provider's information should be maintained in the district offices for future reference, we found that the provider files kept at the district offices were often incomplete. During our visits, we sampled provider registration files. In 10% of these cases, we were unable to locate the registration documents, and, where documents were available, key supporting documentation was missing in 70% of them.

Provider Information Updates

The Ministry maintains records for each provider electronically in its Provider Registry System and receives periodic updates from the respective governing bodies. These updates include changes in licence status, address, and specialty. Licence status is particularly important in determining whether the provider has the right to submit claims for services provided.

With respect to family physicians, the Ministry receives electronic files weekly from the College of Physicians and Surgeons of Ontario and updates the physicians' records accordingly. This weekly file submission includes new physicians as well as those whose licences have expired or been terminated. However, we found that this data feed was not complete because it only included licence expirations due to suspension, and not expirations due to the physician's death, retirement, resignation of membership, or moving away from the province. Hence, the physicians' licence status was not always being updated properly in the Ministry's database.

Because the information received from the College of Physicians and Surgeons of Ontario was incomplete, we requested and obtained from the College a complete listing of all active physicians as of February 2006 and compared it with ministry records. We identified 725 non-licensed physicians who were still active in the Ministry's database and, accordingly, could still submit medical claims and be paid.

Figure 9 outlines the reasons for which these licences had expired.

We reviewed the claims submissions from these physicians and found that 40 of them had claimed for health services provided after their licences had expired. All received full payment for these claims. For example:

- Three physicians claimed for treating more than 800 patients over 16 months after their licences had expired and had received payments of about \$58,000.
- Medical claims were submitted and paid to three physicians who, according to College records, were deceased.
- A physician suspended for violating the terms and conditions of his licence had subsequently submitted claims for almost 300 patients.
- One physician continued to perform a number of surgical procedures after licence expiration.

Figure 9: Non-licensed Physicians Active in Ministry Database, February 2006

Source of data: College of Physicians and Surgeons of Ontario and Ministry of Health and Long-Term Care

Reason for Licence Expiry	# of Physicians
deceased	77
non-payment of membership fee	25
resigned membership	451
retirement	147
violation of terms and conditions of licence	25
Total	725

We provided the Ministry with the details of these instances and were advised that the Ministry would follow up on them.

For other practitioners, such as dentists or optometrists, the Ministry receives letters or written notices updating the status of licences on a case-by-case basis as changes occur. We requested and obtained from the respective colleges a complete listing of all active dentists and optometrists as of February 2006 and concluded that these practitioner records were also not being properly updated. Fifteen dentists and two optometrists with expired licences were still on the ministry system and, accordingly, could continue to submit medical claims, but we noted no evidence that they had done so. Some of these licences had expired a number of years ago.

RECOMMENDATION 6

To ensure that medical claims are paid only to licensed providers and that the public is protected, the Ministry of Health and Long-Term Care should work more closely with all professional governing bodies to ensure that all provider records are updated in a timely manner.

Protection of Provider Records

Provider records, such as name, practice address, medical specialty, and licence status or restriction, are maintained in the Provider Registry System. All medical claims submitted are verified against these provider records to ensure that the provider's status is active and that the provider is permitted to provide the specific health services. We reviewed the security administration procedures for the Provider Registry System and concluded that there were several areas where security should be improved:

- Special privileged system access, which enabled updates of provider records, was main-

tained for staff who did not require such access to fulfill their job duties.

- Dormant user accounts were not being removed from the system promptly.
- Approval documents for system access were missing in over 25% of the cases we examined.
- User-group profiles, which enabled users to have privileged system access, were created and assigned to users without proper approval.

RECOMMENDATION 7

To better protect confidential provider records from unauthorized access and data tampering, the Ministry of Health and Long-Term Care should:

- develop proper documentation for all user-group profiles and maintain all system-access approvals to ensure that all access rights are maintained on a need-to-know basis; and
- enforce regular review of access privileges to the Provider Registry System so that only necessary privileges are maintained.

MEDICAL CLAIMS PROCESSING

As discussed earlier, all medical claims submitted by the providers are reviewed for eligibility of both the provider and the patient, and assessed against predefined medical rules to ensure that payment is made only for authorized health services. While claims processing is, for the most part, done accurately, we have some concerns about the updating of medical rules, the overriding of claims rejected by the system, and the processing of paper claims.

Medical Rule Updates

When there is a change to the Schedule of Benefits, that sets out the rules for provider claims, system changes must be implemented by the effective date in order to ensure that claims are properly processed

and that payments are made accurately. However, we found that the Ministry did not always update medical rules accurately or in a timely manner.

We analyzed the implementation of the latest release of medical rules and found that the required changes were completed for only 22 of the 68 rules by the October 2005 effective date. In fact, the rules were not fully implemented until March 2006. We also noted more than 20 medical rules with errors awaiting correction at the time of our audit. For instance, one of the rules that restricted the number of antenatal preventive health assessments within a defined time frame was implemented incorrectly in April 2002; corrections were not made until August 2005. Although we acknowledge that some of the claims paid for these assessments may well be appropriate, we estimated that this delay may have led to potential overpayments of up to \$1 million.

Rejected Medical Claims

The Ministry reported that over 9.5 million claims (6% of total claims processed) were initially rejected by the system in the 2005/06 fiscal year. When medical claims are rejected under the automated medical-rule review, they are forwarded to district offices where staff further review these rejections for reasonableness. The rejected claims may then be overridden and paid if staff deem them to be medically necessary or legitimate, or returned to the provider for correction and resubmission.

Since 1993, our Office has raised concerns about the Ministry's process for overriding rejected claims, and we continue to have concerns in this area. We found that there were inadequate guidelines, standards, or procedures to assist district staff in making consistent and appropriate decisions when assessing rejected claims. We also found that the district offices did not maintain sufficient documentation supporting their override decisions. We reviewed a number of override decisions with ministry staff, who confirmed that 10% of these decisions were made in error. We also noted that there

was no periodic, ongoing management review of overridden transactions, even on a spot-check basis, to ensure that decisions made by staff were consistent, appropriate, and accurate.

Paper Claims Processing

Although almost all medical claims are submitted via electronic data transfer, diskette, or tape, about 750,000 claims are submitted on paper forms and entered manually every year. During our visits to the district offices, we reviewed the process to handle these claims, and found deficiencies in ensuring that all paper claims entered are authorized:

- There was no tracking, review, or reconciliation of the number of paper claims received, processed, or paid.
- There were poor controls over access to the data-entry system for paper claims, in that no system account or password was required. This would make it much easier for fraudulent or non-existent claims to be entered.

RECOMMENDATION 8

To help ensure that all valid medical claims are processed accurately, the Ministry of Health and Long-Term Care should:

- implement all new medical rules and corrections in a timely manner;
- develop guidelines and procedures to assist district staff in making consistent and appropriate decisions on overriding rejected medical claims, and review a sample of overridden transactions on an ongoing basis to ensure consistency and compliance with the guidelines developed;
- establish procedures to reconcile the number and dollar amounts of paper claims; and
- strengthen the security controls over the data entry system for paper claims to ensure that system access is appropriately restricted.

MINISTRY OF HEALTH AND LONG-TERM CARE RESPONSE

The Ministry of Health and Long-Term Care (Ministry) appreciates the audit observations and recommendations issued by the Auditor General. Maintaining strong controls and the integrity of the OHIP registration and claims processing systems is very important to the Ministry, and we are pleased that the Auditor General notes in his report that controls and procedures are generally adequate to ensure claims are paid accurately.

Recommendation 1

The Ministry agrees that the conversion of red-and-white cards is important. The Ministry will review options and a business case for accelerating the conversion.

Recommendation 2

The Ministry agrees with the Auditor's recommendation concerning the Fraud Programs Branch. The Ministry is in the process of expanding the role of the branch to increase its monitoring activities. These will include active risk identification within the program and ministry information systems to identify potential cases prior to referring them to the Ontario Provincial Police Health Investigation Team for follow-up (schedule implementation begins 2006/07).

Also, the Ministry implemented system changes in June 2006 to more effectively monitor client eligibility. With these system improvements, the Ministry is now sending out 10,000 notices to clients each week to re-verify eligibility and expediting the review of the outstanding cases where there have been no claims since April 1998.

The Ministry agrees with the Auditor's recommendation concerning the backlog of eligibility case assessment and is revising its business processes to enable it to more effectively use its

resources to resolve and close the outstanding cases.

Recommendation 3

The Ministry agrees that it is important to follow up on outstanding cases of citizenship document authentication. The Ministry will complete a review of the options, including automation, that would enable these business improvements in 2006/07.

The Ministry agrees with the Auditor General's recommendation to expand the scope of the electronic authentication program to include other commonly used citizenship documents. The Ministry has begun discussions with Citizenship and Immigration Canada and is initiating discussions with the Canadian Passport Office.

The Ministry is also following up on the Auditor General's recommendation regarding reconciling health-card applications received to processed transactions. The Ministry will review the requirements that would allow for the validation of the billing number for physicians who sign the photo and signature exemption forms.

Recommendations 4 and 7

The Ministry initiated a project in July 2006 to review its access control policies and procedures and make recommendations for improving the security requirements that govern staff access to ministry corporate systems.

A database that captures all authorization information for access to the Corporate Provider Database was implemented in June 2006. This system produces quarterly reports for review (first report due November 2006), which allows updates to be made appropriately, including confirming ongoing eligibility of authorized profiles.

Recommendations 5 and 6

The Ministry is already proceeding to implement a revised physician audit process in response to the recommendations brought forward in the Cory Report. Policy approval has been secured and we are in the final steps for implementation.

The Ministry has also completed discussions with the College of Physicians and Surgeons of Ontario to provide an enhanced data feed, which commenced in early September 2006.

Recommendation 8

The most recently negotiated Physician Services Agreement is very complex and has challenged the aging architecture of the claims payment system. A review will be undertaken in 2007/08 to consider solutions that will allow for more effective processing of payment streams. Attention will be paid in negotiating future agreements to ensure that there is sufficient technical capacity to support implementation of the negotiated elements of the agreement.

Chapter 3

Section 3.09

Ontario Power Generation—Acquisition of Goods and Services

Background

As part of the reorganization of Ontario Hydro, Ontario Power Generation (OPG) was created under the *Electricity Act, 1998* and incorporated under the *Business Corporations Act* on December 1, 1998. Wholly owned by the province of Ontario, OPG purchased and assumed certain assets, liabilities, employees, rights, and obligations of the electricity generation business from Ontario Hydro on April 1, 1999 and commenced operations on that date.

The objective of the company is to own and operate generation facilities to provide electricity in Ontario. In the 2005 calendar year, OPG generated approximately 22,000 megawatts of electricity, which accounted for 70% of the electricity produced in Ontario. OPG generates electricity from three operating nuclear stations, five fossil-fuelled stations (that is, stations fuelled by coal, oil, or natural gas), 35 hydroelectric (water power) stations, 29 certified green power stations, and three wind power stations. During 2005, OPG spent \$2.5 billion on operations, maintenance, and administration, as shown in Figure 1.

Included in these expenditures are annual purchases of goods and services amounting to approximately \$1 billion. Most of this amount is for goods

Figure 1: Ontario Power Generation's Operating, Maintenance, and Administration Expenditures, 2004 and 2005

Source of data: Ontario Power Generation

	2004 (\$ million)	2005 (\$ million)
salaries and wages	1,353	1,423
consultants and purchased services	409	435
augmented staff	268	260
materials	207	236
outsourced services	117	103
insurance and licence	44	44
utilities and facilities	26	34
business travel and accommodations	15	11
capital transfers	(67)	(304)
miscellaneous expenses	222	274
Total	2,594	2,516

and services procured through the general purchasing system. Such procurement is to be made through master service agreements with selected vendors, a competitive procurement process, or, when justified, single-sourcing. The remaining purchases of goods and services, which amounted to \$61 million for the 2005 calendar year, are acquired by OPG staff using corporate credit cards.

Audit Objective and Scope

This was the first value-for-money (VFM) audit conducted at Ontario Power Generation (OPG) under the expanded mandate of the Office of the Auditor General of Ontario, which came into effect November 11, 2004. The expanded mandate allows us to conduct VFM audits of Crown-controlled corporations and subsidiaries of Crown-controlled corporations. We chose to examine procurement practices as a means to gain a broad understanding of the overall expenditures and operations of OPG.

The objective of our audit was to assess whether the corporation had adequate systems and procedures in place to ensure that goods and services were acquired and employee expenses were controlled and spent in compliance with OPG's procurement policies and with due regard for value for money.

The scope of our audit included discussions with OPG staff, review and analysis of documentation provided to us by OPG, and research into the procurement practices and control of employee expenses in other public and private enterprises. OPG's Risk and Assurance Services Branch had conducted some audit work on employee expenses and purchasing in the past three years, which was useful to us in determining the scope of our audit.

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. The criteria used to conclude on our audit objective were discussed with and agreed to by OPG management and related to systems, policies, procedures, and best practices that the corporation should have in place.

Summary

We concluded that, although Ontario Power Generation (OPG) had sound policies in place for acquiring goods and services and controlling employee expenses, in many respects its systems and procedures for ensuring compliance with those policies were not adequate. Specifically, there was often insufficient evidence on file to demonstrate that goods and services were acquired with due regard for value for money. Also, although purchases requiring the competitive selection of vendors were generally conducted appropriately in accordance with OPG's policies, we had concerns with other purchases, such as those arranged through master service agreements, which do not require competitive selection. Our particular concerns were as follows:

- Most of the master service agreements we reviewed were established without an open or competitive process. Instead, OPG practice is to establish a master service agreement with vendors that have carried out business with OPG for some period of time. As well, we found that most of the master service agreements OPG had established with vendors did not have fixed rates for specific services, which is typically a key benefit of master service agreements.
- The single-source purchases we reviewed for such items as temporary staff, equipment, and consulting services, ranged from \$110,000 to \$2.6 million. We noted that the explanation for single-sourcing such large purchases either was not documented or was inadequate to justify not carrying out a competitive process.
- We noted numerous instances in which goods and services were purchased without either a formal agreement or other signed document indicating that both parties agreed with the terms, pricing, and deliverables of the purchase order. Without a formal signed

agreement, there is a risk that OPG cannot hold the vendor accountable for providing the deliverables at a specific price and under agreed-to terms and conditions. We also noted instances in which the price of the purchase order was increased without an appropriate rationale or the invoices submitted were for amounts greater than the amounts originally agreed on.

- In the five years that OPG has outsourced its information technology services, OPG has not audited the service provider with respect to its provision of services, setting of fees, and reporting of performance, even though the contract allows for this. Given that this contract is worth approximately \$1 billion over a 10-year period, such periodic audits would be a sound business practice to provide assurance that the service provider is providing accurate and reliable data to support its fees and performance.
- We noted in our review of travel and purchasing credit-card payments numerous examples where supporting documentation was inadequate for managers to properly assess what was purchased and how much was paid for each item. Managers may be the only party to review the transaction, which makes effective supervisory review a critical internal control for ensuring that the purchases are appropriate and compliant with policy, yet this review was often not being satisfactorily completed.
- Although there was no corporate policy with respect to employee recognition events and gifts, we noted in our sample of expenses tested that \$300,000 was spent on such items. Given the nature of the items purchased and the wide-ranging amounts spent by managers, there is a need for more formal guidance as to what is reasonable in this area. In addition, \$120,000 was spent on gift certificates to reward employees. Such gifts are taxable benefits, but, contrary to corporate policy, none of these gifts were reported as taxable benefits.

Detailed Audit Observations

PURCHASES OF GOODS AND SERVICES

Ontario Power Generation (OPG) annually purchases approximately \$1 billion in goods and services. These purchases are carried out by OPG's various divisions. In acquiring goods and services, buyers must comply with OPG policies and procedures, which state the key principles for decision-making during the planning, acquisition, and management of purchases. These principles include justification for the purchase, a purchasing strategy (that is, master service agreements, competitive bids, or single-sourcing), contract monitoring, and post-contract evaluation.

We found that the policies OPG had in place for the acquisition of goods and services were sound and comparable to Ontario government policies, which are designed not only to ensure the best value for money expended but also to help ensure accountability. While purchasing authority has been delegated to several individuals within the organization, OPG has delegated accountability for all purchasing commitments to its supply chain department. Supply chain managers are required to ensure that OPG procurement policies and procedures are implemented and complied with.

Master Service Agreements

OPG has established master service agreements with a number of vendors. These agreements are procurement arrangements intended to improve efficiency and lower costs by pre-establishing rates, terms, and conditions for specific services. Where a master service agreement is in place, buyers must use it for purchases unless an alternative arrangement is supported by a business case and properly approved.

The master service agreements we reviewed were for services such as engineering, construction, and

information technology. We note below three main areas where master service agreements needed to be improved to reflect the requirements of corporate policies and help ensure that OPG achieves value for money.

First, most of the master service agreements we reviewed were established without an open or competitive process. Instead, OPG practice is to establish a master service agreement with vendors that have carried out business with OPG for some period of time. Consequently, it is difficult for OPG to demonstrate that it is receiving the best value. Also, most of the agreements we reviewed did not have pre-established rates for specific services. Further, even when a rate was pre-established, OPG would still pay whatever the vendor's current price was when a purchase was made.

Second, we noted cases where master service agreements did not have an expiration date or the buyer made a purchase using an expired master service agreement. For example, we found three cases in which purchases were made using master service agreements that had expired five years ago. In these cases, no new agreements had been negotiated.

We did note in our review that, at one generating plant, a good practice with respect to value for money was being applied. Where more than one vendor can provide particular goods or services under a master service agreement, the buyers at this plant ask the vendors to submit a bid for the required work. The bids are evaluated, and the work is given to the vendor with the lowest evaluated price.

Our third concern was that we could not determine the total number of master service agreements in existence at OPG because there is no central registry to track them. Agreements are separately negotiated and maintained at each generating plant and the corporate procurement section. As a result, there is a risk that a number of agreements for similar services exist with the same vendor, each with different terms, conditions, and

pricing. A centralized registry would allow OPG to better manage master service agreements. It would also help management to oversee that, when an agreement expires, another agreement either is established using a competitive process or is renegotiated properly and that, when vendors have more than one agreement with OPG generating plants, OPG uses its combined purchasing power to achieve the best price.

RECOMMENDATION 1

To maximize cost savings through the use of master service agreements, Ontario Power Generation should:

- consider establishing master service agreements through a competitive process;
- limit agreements to a defined time period, with set terms and conditions, including pricing;
- consider implementing a second-stage competition among vendors, especially for significant purchases where there is more than one vendor with a master service agreement that can provide the required goods and services; and
- maintain information on all the agreements from the generating plants and the corporate office in a central registry available to all corporate users.

Needs Justification

OPG policy states that, when purchasing, business units must clearly identify what is required to satisfy the business need and, in the case of contracted services, must first consider using existing corporate resources. OPG's supply chain department is required to be involved in the initial stage of needs identification. If it is determined that the purchase must be made externally, a request-for-purchasing

form indicating this must be completed and forwarded to the supply chain department and maintained on file.

We noted many examples in which OPG did not document the justification for purchases such as consulting services, augmented staff, and machinery. As well, often there was no evidence of assessments of whether internal resources were available before purchasing external contracted services. Staff informed us that relevant assessments may have been performed but not documented and that internal skills and resources were often inadequate to meet purchasing needs because OPG had undergone restructuring and downsizing while, at the same time, undertaking new projects. Nevertheless, conducting a proper evaluation and documentation of staff requirements compared to staff abilities could help central management identify and meet training and hiring needs, which could be more cost effective than engaging outside contracted services, especially over the long run.

RECOMMENDATION 2

To ensure that goods and services are acquired in the most economical manner, Ontario Power Generation should, before purchasing goods and services, conduct and document a proper evaluation of its needs and available resources, including an assessment of corporate-staff-resource alternatives before contracting externally for services.

Competitive Selection of Suppliers

The corporate purchasing strategy is to purchase goods and services through master service agreements where such agreements are in place. Where they are not, the purchase method is dependent on the estimated cost of the purchase. For purchases in excess of \$10,000, a competitive process is to be

followed that includes written quotations from vendors. If the estimated cost is \$100,000 or more, an open call for tenders is required. Suppliers are to be evaluated on the basis of their ability to meet the identified needs, taking into consideration technical capability; quality assurance; proposed costs and terms and conditions; financial strength; timeliness; and past performance, including safety and environmental records. A further procurement option is single-sourcing in lieu of seeking competitive bids; corporate policy requires that, if this option is chosen, justification for it must be documented.

We concluded that, when vendors were competitively selected, OPG's procedures were generally adequate to ensure that the policy requirements were followed. In addition, the suppliers' bids were generally properly evaluated, and appropriate documentation was on file justifying the selection of the vendor.

However, we found that when a purchase was not competitively acquired, the justification for single-sourcing was often not adequately documented. The single-source purchases we reviewed ranged from \$110,000 to \$2.6 million and were for purchases such as equipment and consulting services and the engagement of temporary staff. We noted examples in which the justification for single-source purchasing was either not documented in the purchasing file as required or the explanation was inadequate. For example, the reason given for one single-source purchase was that the vendor was the best available source selected by the requisitioner.

RECOMMENDATION 3

To ensure that goods and services are acquired at the best available price and that all qualified vendors have an opportunity to compete for Ontario Power Generation business, Ontario Power Generation should minimize its single-source purchases, and, where it deems such purchases are necessary, ensure that the reasons

for, and costs of, all single-sourcing arrangements are adequately justified and documented.

Procurement Management and Control

Once a supplier has been selected and terms and conditions have been agreed to, managers are to monitor that the supplier meets all of its obligations. Effective monitoring includes ensuring that all technical specifications, quality and regulatory requirements, scheduled milestones, and stated deliverables are met or completed, as well as reviewing and authorizing invoices for payment. Overall, we noted that there was a lack of documentation in the purchasing files to demonstrate that managers were properly overseeing suppliers' work and that supply chain managers were managing the contract, both of which are required by OPG policy. This lack of documentation of monitoring activities also makes it difficult to effectively evaluate supplier performance. This general concern is described in more detail, with specific examples, as follows.

Normally, when an organization purchases goods and services, a written agreement or contract is signed by all parties involved to formally define the respective responsibilities, terms and conditions, price, and the specific deliverables to be provided by the vendor. A document such as a purchase order can serve as such an agreement provided that it outlines the agreed-upon terms and conditions and is signed by both parties. OPG does require such information and signatures for its purchase orders. However, we found numerous examples involving significant purchases in which the documents OPG used to serve as an agreement did not have any indication that both parties had agreed to the terms, pricing, and deliverables of the purchase order. Without such written confirmation, there is a risk of potential disputes with vendors as to what terms and conditions have been agreed to.

We also noted examples where the price quoted in the purchase order was increased without appropriate rationale and documentation, as well as invoices for more than the amounts agreed to in the purchase order. In the absence of adequate supporting documentation, it was not possible to determine if the terms and conditions of the purchase remained unchanged with the same deliverables or whether there was additional work requested and performed under the purchase order. For example:

- In March 2005, a purchase order to review and assess the supply-chain function was issued for \$260,000 but was increased to \$320,000 in June 2005, with the only justification on file for the increase being that it was to “pay for invoices received.”
- In November 2005, OPG hired a contractor to perform renovations at its corporate offices at a cost of \$498,000 for the first phase of the work. However, invoices submitted by the vendor and paid by OPG for this work totalled \$562,000. There was no documentation on file justifying this increased cost or indicating whether the scope of the work had been increased by OPG. The original request for proposal allowed for an expansion of the work into a second phase, which began in December 2005 without further competition and for which OPG increased the purchase order by \$1.8 million. However, there was no documentation on file from the contractor giving an estimate for this second phase, nor did OPG document how the amount was determined and how the reasonableness of the \$1.8-million increase was assessed.

We were informed that the second phase of the work was for electrical and mechanical work and that the scope of the work could not be determined until the contractor began working on this second phase. In situations like this, often the most effective approach is to extend the purchase order only for the

initial work and, before awarding the work to the contractor, to have the contractor submit a detailed cost estimate on proposed work to be done that can be validated or compared to a second external quote for the required work.

RECOMMENDATION 4

To better manage and control the procurement of goods and services, Ontario Power Generation should:

- ensure that it has, for each major procurement, a formal signed contract or other documentation that defines the responsibilities of both parties, including the price and specific deliverables to be provided;
- establish monitoring procedures to ensure that payments for goods and services do not exceed contract prices; and
- ensure that any changes to the original contract terms and conditions are adequately justified and properly documented.

Vendor Performance Evaluations

OPG policy requires the preparation of a formal evaluation of the vendor once the acquisition of goods and services is completed to ensure that OPG received value for money, that the services were obtained on a timely basis, and that the vendor provided the deliverables as specified in the contract. This information is to be evaluated by purchasing staff to assess the suitability of awarding work to the vendor in the future.

We noted that procedures were not in place to ensure that vendor evaluations were completed at the conclusion of the procurement process. We also found that evaluations were not being completed on a consistent basis, and even when they were completed, that they were not being sent to supply chain managers to review, as required. In addition, there is no central registry of vendor information

that would help OPG to evaluate vendors for future work. We were informed that a central registry is being developed that will gather information on vendor capabilities and performance to assist OPG in awarding subsequent contracts. The central registry is being developed in stages and is expected to be completed by winter 2007. However, if evaluations are not being performed, the component of the registry dealing with vendor performance will be ineffective.

RECOMMENDATION 5

To help ensure that the proposed central vendor registry fulfills its objectives and that prior experience with vendors is taken into consideration in vendor selection, Ontario Power Generation should implement procedures to ensure that vendors are evaluated upon completion of the procurement process and before awarding any subsequent contracts.

OUTSOURCED INFORMATION TECHNOLOGY SERVICES

In 1999, OPG undertook a review to assess the potential for outsourcing its information technology function. A competition was held, bids submitted from vendors were evaluated, and OPG selected the successful vendor based on predetermined criteria. In November 2000, OPG entered into an agreement with the successful vendor and subsequently transferred approximately 520 employees to the vendor. The agreement expires in January 2011, and the total cost of the initiative is estimated to be \$1 billion. As of December 31, 2005, OPG had paid the vendor \$510 million.

The agreement allows OPG to audit the vendor's provision of services, setting of fees, and reporting of performance. In the five years that the agreement has been in place, no audit of the vendor has been conducted to verify that the fees charged have

been appropriate and that the performance reports provided by the vendor, on which a portion of the fees is based, have been accurate and reliable. Specifically, we noted the following three major areas where improvement is needed in the administration of the agreement to help ensure that OPG receives value for money from the outsourcing initiative.

- The agreement sets out performance standards by which the vendor is to be held accountable for its provision of information technology services. These performance standards deal with the vendor’s availability, response time, success in problem resolution, and daily system performance. The vendor submits monthly reports to OPG on its performance in relation to these standards. If the vendor fails to meet the performance standards, OPG is to receive a credit on its payment, and if the performance standards are exceeded, OPG is to make incentive payments to the vendor. At the conclusion of our audit, OPG had not verified that the information submitted by the vendor was sufficiently accurate and reliable to determine the quality of performance, and it therefore could not ensure that credits and incentive payments had been calculated correctly.
- The outsourcing agreement stipulates that the period from January 1, 2003 to December 31, 2004 is a “gain-share” phase, during which OPG and the vendor are to share in the cost savings generated through the pursuit of new initiatives. The vendor informed OPG in November 2005 that OPG’s total portion of the gain share was \$11.9 million. However, at the completion of our audit in March 2006, this payment had not been made because OPG had not yet verified that the amount determined by the vendor was correct. Given that it has been over three years since this initiative began, more timely verification of vendor information is warranted.

- Starting January 1, 2005, and for the remainder of the agreement, OPG is to be charged a unit price for information technology services. We noted, however, that this phase of the contract has not yet been implemented because, before OPG and the vendor can agree on an appropriate price, the vendor has to collect and aggregate relevant information on service volumes, and it has not yet done so. Consequently, during 2005, OPG made payments based on the pricing terms that were in place prior to January 1, 2005. We were advised that, once the unit price for services is negotiated with the vendor, a retroactive adjustment will be made. Nevertheless, given that the costs of information technology services are currently uncertain, it is difficult for OPG to effectively manage these costs. As well, given the magnitude of these costs, it may be prudent for OPG to engage specialized consulting expertise to assist in negotiating the unit price with the vendor.

RECOMMENDATION 6

To ensure that it receives value for money from its information technology outsourcing initiative, Ontario Power Generation should:

- implement a periodic audit process to verify the accuracy and reliability of the information submitted by the vendor with respect to costs and performance; and
- consider utilizing external consulting expertise to assist with its unit-price negotiations for the 2005–10 portion of the information technology service contract.

CORPORATE CREDIT-CARD PURCHASES

To pay for certain types of expenditures incurred in its day-to-day operations, OPG staff use three different corporate credit cards: a purchasing card, a

travel card, and a fleet card. The purchasing card is to be used to procure goods and services under \$10,000. The travel card is the preferred payment method for all travel- and business-related expenditures, such as meals, hotels, car rentals, airline tickets, conferences, and other low-cost business-related expenses. The fleet card is to be used to pay for maintenance, repairs, and fuel for corporate-owned and leased vehicles. Each card is to be used only for its designated purpose—thus, for example, travel and purchasing cards are not to be used to pay any costs relating to vehicles.

For the 2005 calendar year, expenditures using the three corporate credit cards totalled \$61 million: \$30.1 million on purchasing cards, \$28.6 million on travel cards, and \$2.3 million on fleet cards.

Submission of Supporting Documents

Corporate policies and procedures, for both travel and purchasing cards, require that cardholders maintain original receipts detailing expenditures and submit them to their supervisors for review and approval. Such documentation is to include the name of the vendor, item or service purchased and, in the case of travel expenses, the names of the participants in any event or meal and the purpose of such expenditures.

Before approving any expenditures, managers are required to review the documentation submitted and ensure that appropriate receipts support the expenditures. Managers often may be the only party aside from the purchaser to review the transaction, which makes this supervisory scrutiny a critical internal control for ensuring that the purchases are appropriate and compliant with policy. We found that managers' scrutiny was not adequate—that is, for purchases on both travel- and purchasing-card purchases, we found many instances in which the proper documentation was not submitted to support the expenditures. Specifically, we noted the following:

- From our sample of credit-card purchases, we noted \$790,000 of expenses that were paid without original receipts. Instead of the original receipt, the documentation provided included credit-card slips, credit-card statements, packing slips, and photocopied or faxed receipts. For example, employees used a credit-card statement as documentation for travel-related expenses such as airfare, hotel, gifts, and car rentals. Documentation of this nature does not contain the detail a supervisor needs to determine whether expenditures were incurred for business purposes and were reasonable in the circumstances. In addition, the submission of such documentation instead of original receipts increases the risk of duplicate payments.
- Corporate policy requires that all purchasing-card receipts be submitted to accounts payable, which records whether supporting documentation has been received. We found from our sample of purchasing-card expenditures that accounts payable had made \$1.3 million in payments without the supporting documentation necessary to validate the dollar amount, quantity, and nature of the items purchased. Merchant descriptions from the corporate-card database identified these purchases as items from department, home-furnishing, and sporting-goods stores; office and industrial supplies; personal and educational services; medical equipment; services supplied by heating and air-conditioning contractors; construction materials; and services supplied by employment agencies. We reviewed the entire purchasing-card database for the 2005 calendar year and noted that the purchases for which employees had not submitted any receipts to accounts payable totalled \$6.5 million. The sheer volume of inadequate supporting documentation makes it difficult for corporate

management to effectively identify and follow up on questionable expenditures.

- Corporate policy also requires that receipts for hospitality-type expenditures include the number of persons in attendance at an event or meal, the names of those whose expenses are being paid, and the purpose of the event/meal. Such a requirement helps to demonstrate that the costs incurred are for legitimate business purposes and are reasonable. However, in our sample, excluding large groups, we noted over \$320,000 of such business expenses for which the required documentation was not provided.

In the past two years, OPG's Risk and Assurance Services Branch has also reported the lack of receipts and inadequate documentation in its audits of travel expenses and made recommendations for corrective action. Given our observations, compliance with policies and procedures in this area still requires substantial improvement.

RECOMMENDATION 7

To help ensure that only valid expenditures are charged to corporate credit cards and that such cards are used in accordance with its policies, Ontario Power Generation should implement more effective procedures to ensure that cardholders submit the necessary documentation for travel- and purchasing-card expenses and that supervisory oversight and approval controls are working effectively.

Minor Fixed Assets

OPG classifies minor fixed assets as those that are portable and used in its administrative, construction, transport, or maintenance activities. They are not used directly for the generation of energy and do not form integral components of a building. When minor fixed assets are purchased, the responsible

manager is to provide the asset-processing centre with specific details of the transaction. In addition, he or she is responsible for clearly marking the assets as the property of OPG and safeguarding the assets on site. OPG policy is to record all asset purchases over \$2,000 in its fixed-asset system, while those less than that amount are charged to an expense account. These items costing less than \$2,000 are not required to be inventoried; however, managers may still choose to do so.

OPG policy prohibits the use of corporate credit cards for the purchase of minor fixed assets. However, in our sample of travel- and purchasing-card expenditures, we noted that travel and purchasing cards were often used to purchase minor fixed assets such as computer printers, monitors, fax machines, digital cameras, projectors, and computer scanners.

In reviewing these purchases, we found that OPG lacked adequate controls for ensuring that such purchases are properly recorded and safeguarded. That is, assets purchased on corporate credit cards are not required to go through a central receiving point to ensure that they are recorded in the fixed-asset system before they are distributed to users. Purchasers generally took delivery of these items directly, with OPG relying on the employees to report these assets to the asset-processing centre for inclusion in its records. However, none of the assets sampled that cost more than \$2,000 had been recorded in the fixed-asset system.

For the sample tested, we attempted to physically verify the existence and whereabouts of the minor fixed assets that had been purchased with credit cards. We were unable to locate any of these assets, and OPG could not provide evidence that they were in its possession. Without adequate procedures in place to record and track minor fixed assets purchased with corporate credit cards, there is an increased risk of their loss or theft.

RECOMMENDATION 8

To help ensure that all minor fixed assets are properly recorded and safeguarded, Ontario Power Generation should:

- review corporate credit-card purchases for any minor fixed assets and follow up to confirm that such assets are properly reported to the asset-processing centre; and
- reinforce the policy requirements that cardholders and their managers are accountable for the proper reporting and safeguarding of minor fixed assets.

Employee-recognition and Gift Purchases

Although there is no corporate policy with respect to employee-recognition and gift purchases, we noted that such purchases were routinely made within OPG. From our sample of travel- and purchasing-card use, we noted purchases of approximately \$300,000 for employee-recognition events and other gifts. Some examples of the purchases made include a \$380 telescope for 25 years of service, approximately \$3,700 spent on dinner for staff following successful testing at a generating plant, and 40 leather jackets, totalling \$8,000, for recognition of five-year safety records.

We acknowledge that purchases of this nature may well be justified. However, given the nature of the items purchased and the wide-ranging amounts spent by managers, there is a need for more formal guidance as to what is a reasonable amount to spend on employee recognition and gifts.

Recognition rewards to employees are considered a taxable benefit to the employee, and, according to corporate policy, these benefits should be paid through the payroll system to ensure that taxes are properly withheld. The manager approving the benefit is to inform the payroll department in writing to ensure that the benefit is properly recorded and the appropriate taxes deducted.

We found many instances of travel and purchasing cards being used to pay for gift certificates to reward employees. These totalled over \$120,000. The values of individual certificates ranged from \$25 to \$300 and were purchased from department stores, electronic stores, hardware stores, and various restaurants. We provided a list of these rewards to the human resources department to determine if they had been reported as taxable benefits as required. We were informed that, contrary to corporate policy, none of the rewards were processed through the payroll system and therefore would not be reported as taxable benefits on employees' T4 slips.

RECOMMENDATION 9

To help ensure that employee recognition practices are consistent among business units, are reasonable, and comply with income-tax requirements, Ontario Power Generation should:

- provide corporate-wide guidance on employee-recognition and gift purchasing; and
- establish procedures to ensure that all employee benefits are reported to the payroll department as required and implement procedures to monitor compliance.

Monitoring Card Usage

By using corporate credit cards, employees are able to purchase and directly receive goods and services. Given that \$61 million of goods and services are purchased using corporate credit cards, it is especially critical to have appropriate monitoring and oversight procedures in place. Such monitoring should involve tracking the amounts spent on the three corporate credit cards (purchasing, travel, and fleet), analyzing card usage, and carrying out periodic audits and verifications of card transactions. Some of our specific

concerns with OPG's efforts to monitor credit-card activity and maintain internal controls are as follows.

One intended oversight control is the production of a monthly purchasing-card report that identifies employees who have exceeded their credit limits, spending on vendors from whom credit-card purchases are supposed to be blocked, food purchases, foreign purchases, and aggregate spending on each merchant category code assigned by the credit-card company. This monthly report is distributed to various directors and managers at OPG. We contacted recipients on the distribution list and were informed that, while they scan the reports, a detailed review is not done to identify and follow up on possible inappropriate purchasing.

OPG policy requires that purchases of goods and services exceeding \$10,000 are to be made through a purchase order. We noted numerous purchases exceeding this amount on employee travel and purchasing cards that should have been noted and followed up on but were not. For example, two employees used their travel cards to purchase 1,500 calendars, totalling \$17,700, and to pay for flowers and rental of table linens, cutlery, plates, glasses, and other accessories for a conference, totalling \$14,300. In addition, in the purchasing-card transactions we reviewed, we noted three purchases totalling \$90,300 for gift cards.

We noted frequent instances, totalling \$86,000, in which purchasing rather than travel cards were used for travel and travel-related expenses such as conferences, highway road tolls, meetings, and training courses. In addition, purchasing cards rather than fleet cards were used to pay for vehicle maintenance, repairs, and fuel. We obtained from the purchasing-card database a list of purchases identified as "automobile" under the merchant category code classification and had the corporate fleet-services section review the transactions. It was determined that purchasing cards had been used for over \$560,000 of expenses that should have been paid for using the fleet card. According to the fleet-services sec-

tion, having accurate information on actual vehicle expenditures is vital for managing the corporate fleet effectively and making prudent decisions regarding maintenance, replacement, and vehicle warranties.

Limiting the credit available to cardholders is a key factor in managing the purchasing-card program and minimizing OPG's financial risk. The majority of the purchasing-card holders have monthly credit limits of \$10,000 to \$25,000, with a few in the \$100,000 to \$300,000 range. We found examples of purchasing-card holders who had credit limits that far exceeded their historical spending levels. In this regard, 93% of the purchasing-card holders spent an average of less than half of their maximum monthly credit limit. For example, one employee had a monthly credit limit of \$100,000 but made purchases during the year of only \$365. In addition, we noted that 76 employees who had purchasing cards did not have any purchase activity during 2005. Given that each purchasing card increases OPG's financial risk, there should be a periodic review of credit limits that results in adjusting those limits to historical spending levels and cancelling purchasing cards not being used.

RECOMMENDATION 10

To more effectively manage the use of corporate credit cards, Ontario Power Generation (OPG) should:

- perform periodic audits to identify any patterns of improper cardholder transactions and lack of compliance with corporate policy;
- establish a more rigorous monitoring program to verify that each type of credit card is being used appropriately; and
- periodically review purchasing-card usage to reduce OPG's financial risk, cancel unused cards, and adjust credit limits to appropriate spending levels.

ONTARIO POWER GENERATION RESPONSE

Recommendation 1

Ontario Power Generation (OPG) will review its use of master service agreements. Any new or renewed agreements will be established for a finite period and will specify rates for specific services, unless rates will be established at the time of the purchase through a second-stage or other competitive process. OPG will develop plans to establish a central registry for master service agreements. OPG will also consider further use of a second-stage process where there are a number of qualified vendors who can provide the same goods or services.

Recommendation 2

OPG has defined processes and approval requirements for business cases and for the procurement of goods and services. The required level of approval within OPG is dependent on the dollar value of the project or transaction. Any decision to acquire goods or services is based on OPG's expected needs. For example, a decision to engage temporary staff is based on an assessment of cost, risk, the availability of both internal and market-place resources, and compliance with collective agreements. OPG does not require that business cases be included in procurement files. OPG agrees that there is a requirement for appropriate documentation of needs justification, especially for large purchases, and will conduct a review of current documentation practices.

Once a requisition for goods or services has been approved, it is submitted to the supply chain department for procurement of the goods and services.

Recommendation 3

OPG will review its policy and practices with respect to the selection of suppliers to ensure that a competitive request-for-proposal process

is conducted where appropriate and where there is value added. OPG will reinforce the requirement to document the justification for single-source arrangements and include this documentation in purchase order files.

Recommendation 4

OPG issues purchase orders to vendors for all purchases to document terms and conditions, price, and specific deliverables. A signed contract is required for all purchases greater than \$1 million.

Changes to commercial terms and conditions are required to be conducted by the supply chain department and incorporated in purchase order files and/or contained in electronic form in the purchasing system. Review and approval are required for any changes in the dollar amount of purchase orders, although this information may not always be documented in purchase order files.

Scope changes are documented; however, this information is presently maintained by the requisitioners. In order to improve the documentation included in purchase order files, OPG will document references to scope changes and the rationale for any changes in purchase order amounts in its purchase order files or system.

It should be noted that vendor invoices are not processed for payment until invoice details and amounts are reconciled with purchase order information.

Recommendation 5

OPG will expand its current process for evaluating vendors. OPG will continue to evaluate the practicality of and appropriateness of maintaining a central vendor registry.

Recommendation 6

The structure of the outsourcing contract, which included a joint-venture phase, followed by a

gain-share phase, provided OPG with visibility into the outsourcer's operations and costs. In the next phase of the contract, which will include unit pricing, OPG will exercise the contract provision that allows for an independent external auditor to validate the performance and fees charged for IT services. This provision becomes more relevant as the outsourcing contract transitions to unit pricing and the visibility that OPG currently has of the outsourcer's costs and operations diminishes. OPG also plans to re-engage an external outsourcing specialist to help with the transition to the next phase of the contract.

Recommendation 7

OPG's procedures for purchasing cards and employee travel- and business-expense reports require that approvals be made electronically by individuals with approval authorities as defined in OPG's corporate policies. Purchasing-card holders must electronically authorize individual line items on their monthly reports, and their manager must subsequently approve each line item electronically as a valid expense. Managers must also approve employee travel- and business-expense reports electronically. In this manner, managers are able to view each expense item, description, and cost in order to ensure that expenses are reasonable and appropriate, prior to their approval. It is incumbent upon the manager and employee to ensure that expense items are supported by appropriate documentation, which the employee is required to forward to a central processing area for filing.

OPG will reinforce the obligation of employees and management to ensure that appropriate expense-report receipts and documentation are submitted to the central processing area and will implement a more rigorous follow-up for missing documentation. OPG is investigating a receipt-imaging process to facilitate the collection and documentation of expense receipts.

OPG will also reinforce the obligation to provide additional details and explanations for receipts for hospitality-type expenditures.

Purchasing cards are suspended where reconciliations or approvals have not been made for two months.

Recommendation 8

OPG is in the process of reviewing its policy and practices with respect to accounting and reporting of minor fixed assets.

OPG will implement monitoring of corporate purchasing-card expenditures and develop exception reports for management to identify goods or services that should have been acquired using another method.

Recommendation 9

OPG will develop a guideline with respect to guidance on employee recognition and gift purchases.

OPG will enhance procedures to ensure that taxable benefits relating to employee recognition awards are reported to the payroll department as required. OPG is implementing a new version of its expense reporting system that will aid in the identification and reporting of amounts relating to employee recognition.

Recommendation 10

OPG will increase the extent of the review and monitoring of credit-card usage to ensure that each type of credit card is used for its intended purposes and to ensure compliance with the \$10,000 limit for credit-card purchases. To facilitate this review, various exception reports will be developed. OPG will also ensure that a review of compliance with corporate policy is included as part of an annual audit of expenditures.

Although OPG is insured against losses resulting from the fraudulent use of purchasing cards, which mitigates financial risk, OPG will monitor card usage and adjust credit limits appropriately.

Chapter 3

Section 3.10

Ontario Realty Corporation—Real Estate and Accommodation Services

Background

The Ontario Realty Corporation (Corporation) was established in 1993 as a Crown corporation under the *Capital Investment Plan Act, 1993*. The Corporation provides real-estate, property-, and project-management services to most ministries and agencies of the province of Ontario. Since June 2005, it has reported to the Minister of Public Infrastructure Renewal.

Management of real property and accommodations is a responsibility shared by the Ministry of Public Infrastructure Renewal (Ministry), the Corporation, and its client ministries and agencies, which are all accountable for their respective decisions, strategic planning, and use of accommodations in an economical and efficient manner. As a service provider, the Corporation itself owns no real estate. The majority of the assets it manages are for the owner, represented by the Ministry, which provides it with direction, funding, and approvals for significant decisions regarding those assets.

The Corporation provides client ministries and agencies with the following services:

- development of policies, strategies, and implementation plans to maximize use of existing real-estate portfolios;
- sales and acquisitions of land and buildings;
- property leasing as needed to augment the inventory of owned space;
- property management, including day-to-day maintenance and repair of owned and leased facilities; and
- project management of large capital projects.

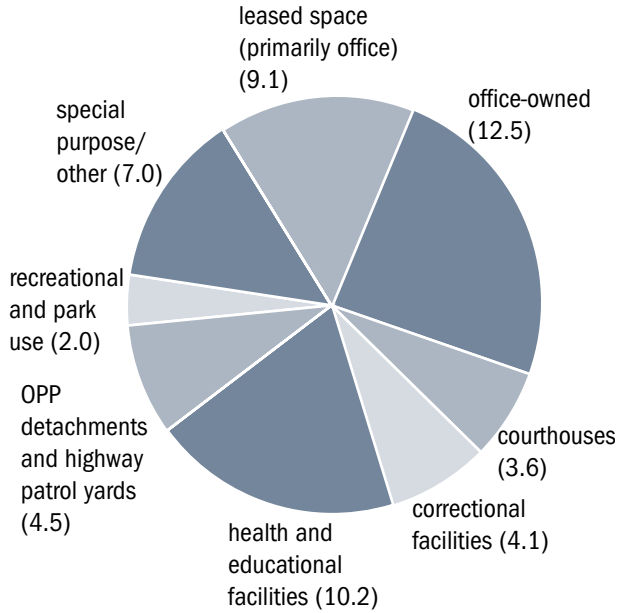
The Corporation manages one of Canada's largest real-estate portfolios, including more than 38,000 hectares (95,000 acres) of land and 6,000 buildings comprising more than 4.6 million square metres (50 million square feet) of space. (For consistency with industry standards, the remainder of this report will use imperial rather than metric measurements.) Eighty-one percent of the portfolio is owned by the government of Ontario, and the remainder is leased. The types of accommodations administered by the Corporation are shown in Figure 1.

The real-estate portfolio contains two broad categories of holdings:

- buildings used by ministries and/or agencies to deliver programs; and

Figure 1: In-use Government Real-Estate Portfolio Managed by the Ontario Realty Corporation, 2005/06 (rentable million square feet)

Source of data: Ontario Realty Corporation



- excess land, including greenbelts, land banks, farms, and other properties currently either being considered or offered for sale or being held by the province for possible future use.

In addition to acreage, the land holdings include about 1,300 residential, farm, and commercial buildings. Many are rented out to private-sector tenants, generating annual revenues of about \$28 million.

The Corporation’s head office is in Toronto and it operates four regional offices and three area offices across the province. In the 2005/06 fiscal year, it employed approximately 300 staff.

The Corporation requires revenues of nearly \$600 million each year to offset expenses incurred to manage the portfolio and look after the accommodation needs of its clients. The vast majority of these revenues come from clients in the form of rent. In addition, the Ministry provides the Corporation with annual funding. The Corporation’s real-estate portfolio revenues by source are shown in Figure 2. The Corporation uses the portfolio rev-

enues to pay for leases, property taxes, repairs and maintenance, utilities, and other services, as illustrated in Figure 3.

Audit Objective and Scope

Our audit objective was to assess whether the Ontario Realty Corporation had in place adequate systems and procedures to ensure that:

- real-estate assets are acquired, managed, and disposed of with due regard for economy and the public interest;
- government accommodation requirements are met in a cost-effective manner; and
- the Corporation’s performance is adequately measured and reported to allow for meaningful assessment of its activities and achievements.

Our scope did not include the Corporation’s project management of large capital projects. We excluded this because we previously examined several large capital projects managed by the

Figure 2: Real-Estate Portfolio Revenues for Properties Managed by the Ontario Realty Corporation, 2005/06 (\$ million)

Source of data: Ontario Realty Corporation

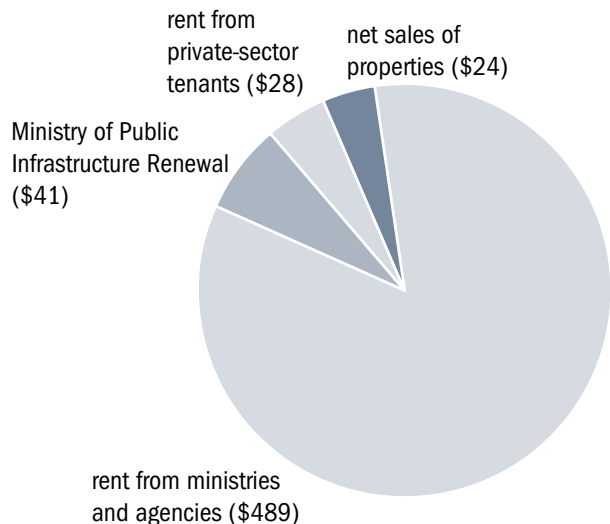
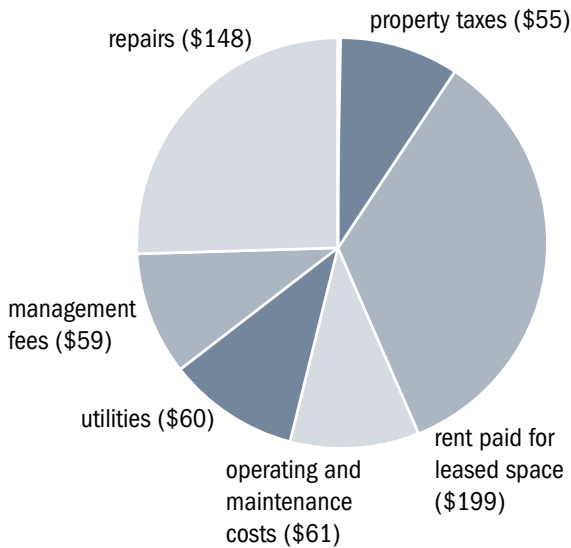


Figure 3: Operating Costs for Maintaining the Government's Real-Estate Portfolio Managed by the Ontario Realty Corporation, 2005/06 (\$ million)

Source of data: Ontario Realty Corporation



Corporation for construction of new courthouses and repairs to existing ones, as detailed in our *2003 Annual Report*. As well, the Corporation's Internal Audit group had also recently completed audit work in this area.

Our audit fieldwork included a review of relevant files, payments, reports, administrative policies, and interviews of staff at the Corporation's head office and at two of its four regional offices. We also conducted site visits to properties, held discussions with representatives of the Ministry and several client ministries, and visited the offices of one major service provider for interviews and to review their files. In addition to our own work, our audit benefited from research by the Corporation and the Ministry into practices in other jurisdictions. The bulk of our fieldwork was completed by March 31, 2006.

Our audit was conducted in accordance with 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 also reviewed the relevant work done by the Corporation's Internal Audit group, established three years ago. Internal Audit completed a number of audits, including leasing activities and use of service providers and contractors, that allowed us to reduce the extent of our own work in several areas.

Summary

The Ontario Realty Corporation has recently made a number of improvements with regard to its systems and procedures over leasing activities, property sales and acquisitions, and its hiring and monitoring of building management service providers. However, it must continue to work with the Ministry of Public Infrastructure Renewal (Ministry) and its client ministries and agencies to ensure that:

- all managed space is being efficiently used;
- properties are being maintained through appropriate investments in building life-cycle repair and maintenance; and
- its management information systems provide relevant and reliable information for decision-makers.

The Ministry recently identified several factors that had inhibited effective management and rationalization of the province's real-estate portfolio—for instance, the processes used to deal with surplus and underutilized property. Our review of the Corporation's real-estate portfolio and property sales in recent years confirmed this concern. For example, the province gave its approval in 1999 for the Corporation to sell 330 properties but, as of 2006, the Corporation had disposed of fewer than half of them. The Corporation also needs to improve its systems and procedures for identifying properties that could be rationalized or sold. Solutions include improving information systems and establishing strategic plans on the future uses of individual properties.

We also made observations in a number of other areas as follows:

- Controls were inadequate to record and track potential recoveries from property sales. Following our inquiries, the Corporation recovered approximately \$265,000 that was still owing to it from a property sale and that had been available to it since April 2004.
- We discovered one property sold by the Corporation for \$2.6 million in March 2002 that was resold by the purchaser seven months later for \$4.2 million, or 60% more. As a result, the Corporation's internal auditors will now be monitoring subsequent sales of government properties, which should help to identify any similar situations and to assess the circumstances that could result in such large resale profits.
- In handling requests for new accommodations that could not be met by the existing inventory of owned space, the Corporation generally leases space without always assessing the cost effectiveness of alternatives such as construction, lease-buy, outright purchase, or relocation.
- The Corporation did not have adequate assurance that space was being used by its clients in an efficient manner. The Ministry's recent review also raised the issue of the relationship between the Corporation and its clients—in particular the control some clients exercised over real-estate decisions—as being contributing factors.
- The Corporation imposed best practices and high standards on its two major providers of building-management services, including remuneration tied to performance standards. However, it set less stringent expectations for its own staff regarding property they manage directly.
- The Corporation estimated that deferred costs for repairing, renewing, and modernizing provincially owned buildings stood at \$382 million as of March 31, 2006. More than 40% of the buildings it manages are at least 40 years old and its assessment of 582 in-use buildings rated 148 of them—one-quarter of the total—as being in poor to defective condition.
- The Corporation's real-estate database contained extensive errors regarding the current status of properties. In addition, it requires greater co-operation from other ministries and agencies to permit the development and sharing of a complete electronic inventory of all government-owned and controlled real estate.
- The Corporation's public reporting of its performance measures did not include comprehensive and reliable performance indicators required to properly assess its effectiveness in managing the province's real-estate portfolio and meeting its accommodation needs.
- The introduction three years ago of an internal audit function that reports to an independent Audit Committee has improved the overall governance and oversight process and has contributed to more rigorous, ongoing reviews of systems and procedures.
- In our *2003 Annual Report*, we noted that the Corporation's project-management practices for large capital projects, such as new courthouses, failed to use fixed-price contracts or proper competitive-acquisition processes and approvals for projects of this size. While our current audit did not include work in this area, based on recent work by the Corporation's internal auditors in December 2005, our previous concerns have still not been satisfactorily addressed.

Detailed Audit Observations

The Management Board of Cabinet Directive on Real Property and Accommodations (Directive) provides a framework to support the government's efforts to acquire, manage, and dispose of real property and accommodations effectively and efficiently. The Directive designates the Ontario Realty Corporation (Corporation) as the mandatory fee-for-service real-estate organization for most ministries and certain agencies, and it requires that value for money be achieved by:

- using a competitive process to acquire real property and accommodations;
- optimizing use of the government's real property and accommodation assets; and
- maximizing the return to the Crown when disposing of surplus assets.

Clients must submit annual accommodation plans to the Corporation as part of their yearly planning process, and the Corporation assists clients in identifying potentially surplus properties through its annual portfolio-planning and asset-review process.

Real estate or accommodations deemed surplus to ministry or agency needs can be:

- transferred to the Corporation for reassignment to another ministry or agency;
- terminated, in the case of a lease; or
- managed by the Corporation as part of its surplus property holdings, which include consideration for sale to other government organizations in the broader public sector, or to the public.

The Corporation prepares annual sales plans for surplus or underutilized properties. These plans must be approved by its Board of Directors and the Ministry of Public Infrastructure Renewal (Ministry), and each proposed property sale must be formally authorized by an Order-in-Council.

Over the last 10 years, the Corporation has been selling surplus properties, as illustrated in Figure 4.

Figure 4: Ten-year Trend of Sales of Properties

Source of data: Ontario Realty Corporation

Fiscal Year	Gross Value of Sales (\$ million)	# of Properties Sold
1996/97	59.3	193
1997/98	79.5	175
1998/99	109.5	146
1999/2000	111.3	153
2000/01	103.6	80
2001/02	46.8	78
2002/03	112.0	84
2003/04	29.5	44
2004/05	17.6	40
2005/06	47.7	20

The few properties acquired over the same period were primarily land purchases for expected highway expansions.

REVIEW BY THE MINISTRY OF PUBLIC INFRASTRUCTURE RENEWAL

In 2005, the Ministry examined processes relating to the government's real-property management system and realized that there were a number of significant barriers that needed to be removed. The issues raised included the following:

- A significant proportion of the province's portfolio, including some properties with high development potential, was surplus and underutilized.
- There were no formal plans for, or assessments of what should be done with, many of the province's surplus and underutilized properties, for which the province continued to incur ongoing costs.
- It was unclear who was responsible for what, particularly with respect to strategic decisions such as keeping, selling, or redeveloping a property.
- The province entered into complex negotiations with municipalities and other government

organizations in the broader public sector over disposal or reuse of a property often without any clear sense of its own interests.

- There was no centralized, comprehensive understanding of the province’s overall real-estate holdings, and no easy way to get at this information quickly.
- There were few incentives—and too many disincentives—for clients to optimize their use of real estate. For example, clients must bear decommissioning costs but do not share in proceeds from sales.
- The province sold property “as is” without examining all opportunities to make improvements or seek partnerships that could add substantial value and increase proceeds to the government.

Our review of the Corporation’s real-estate portfolio and property sales over the last several years identified similar concerns.

For more than 10 years, successive governments in search of new revenues have instructed the Corporation to sell real estate. Sales during that time included primarily those properties that were the easiest to market. Surplus or underutilized properties remaining today may have conditions that could make them more difficult to sell. Examples include the need to relocate existing government tenants, soil contamination, heritage restrictions that limit use, aboriginal land claims, municipal interests, and restricted access to some properties. These conditions can all require a significant financial investment to make a property saleable, and extensive negotiations with stakeholders prior to any sale.

The difficulty in selling certain surplus or underutilized properties is evident from one past sales exercise. In 1999, the province gave its approval for the Corporation to sell a portfolio of 330 properties. In the seven years that followed, the Corporation was able to sell just 140 of them—fewer than half.

We also noted that the Corporation could improve its systems and procedures for identifying properties that could be rationalized or sold by implementing better information systems and by establishing strategic plans on the future uses of individual properties. The current information systems categorize properties as active or inactive, vacant or occupied, surplus, or sold. However, there were no categories to identify properties as targeted for sale, or as underutilized and thus eligible for rationalization. In addition, the Corporation’s information systems did not adequately capture information on future plans for individual properties.

When the Corporation did prepare strategic plans for certain properties, these were often not acted upon. Frequently, there were no timetables for implementation of the plans, and the current status of properties was unclear. Our efforts to identify properties being considered for rationalization or sale required us to compile lists from several sources, including the Corporation’s annual sales and rationalization plans, and property reports drafted by its external property managers.

For instance, we identified several residential properties in the portfolio that have not been scheduled for sale even though no plans exist for future government use. Many other properties have been demolished or are vacant and cannot be rented out to generate revenues due to their poor condition. Corporation staff indicated that many of these properties might not have been acted upon due to their relatively low value and to limited Corporation staff resources to initiate the sale process.

The government approved five initiatives in January 2006 that required the Ministry, the Corporation, and its clients to improve the strategic management of real estate. These were:

- development of a new framework to guide decisions on acquiring, using, improving, redeploying, and disposing of properties held or controlled by the government;

- examination of a number of complex and more valuable government properties to determine if they can either be used to better support programs and the public interest, or be redeveloped and sold to maximize proceeds;
- review and improvement of the business practices of the Corporation and its clients to ensure real-estate strategies and transactions support government policies. This will involve reviews of heritage-protection protocols, the process by which property is declared surplus, and the methods used to offer surplus government property to broader public-sector organizations;
- completion of an inventory of all government-owned and -controlled real estate to improve the quality of asset information and better support decision-making by providing complete, strategic, and accessible information about the portfolio; and
- changes to the way the government reviews and approves the Corporation's annual rationalization and sales plans, improving the analysis that supports decision-making, and improving the Corporation's ability to execute transactions once approval has been granted.

As part of the Ministry's new direction to the Corporation, the government rescinded outstanding Orders-in-Council for the remaining 190 unsold properties in April 2006 and established a revised, more streamlined, procedure for obtaining Order-in-Council approvals for future property sales.

The Ministry has also assumed responsibility for the rationalization and potential sale of 11 major properties, many of which had previously been earmarked for sale through the Corporation. The Ministry will facilitate inter-ministry co-operation to advance their disposition, but the Corporation will continue to play an active role in the sale of these properties.

RECOMMENDATION 1

The Ontario Realty Corporation should establish timetables for implementing any changes necessary to its operations to support recent government initiatives aimed at improving the strategic management and rationalization of real-estate assets, including developing plans for the future uses and dispositions of individual properties and implementing those plans.

CONTROLS OVER PROPERTY SALES AND ACQUISITIONS

For the most part, we found that controls over property sales and acquisitions were generally satisfactory. Properties are first offered for sale to government organizations in the broader public sector at full market value and then, if there are no takers, to the public. Key controls over the sale of properties included requirements that:

- properties be appraised using a qualified external valuation process before going on the market;
- the asking and sale price properly reflect the amounts in the appraisal report;
- sales to the public be conducted using a competitive selection process to select a listing broker, and a competitive bidding process to openly sell the property to the highest bidder; and
- an Order-in-Council be issued to pre-authorize each property sale by the Corporation.

The establishment of, and adherence to, these controls by Corporation staff follows a period of extensive audit, investigation, and ongoing litigation relating to problems with a number of earlier property sales by the Corporation. The litigation, which was initiated in 2000 by the Corporation against a number of parties and four of its own

employees, was still ongoing at the time we completed our fieldwork.

An internal audit report completed in August 2004 identified the need for stronger controls over the use of appraisers, and over selection practices for brokers and environmental consultants. While our more recent testing and Internal Audit's follow-up in 2005 both noted improvements had been made, we identified two areas where controls required strengthening:

- In June 2000, the Corporation sold a property for \$15 million and agreed to a condition that it pay \$500,000 into an interest-bearing escrow account to cover 25% of the purchaser's costs to remove asbestos from the building. The amount was a maximum, and the work was required to be completed by April 2004, after which the Corporation was entitled to any remaining funds in the escrow account. As of April 2006, we found that the Corporation was unaware of the funds remaining in the account. As a result of our inquiries, it has since recovered about \$265,000.
- We tested a sample of properties sold by the Corporation to determine if any were resold soon afterwards for higher amounts. Such transactions could indicate either that the Corporation's sales procedures failed to get the highest price possible, or that there was something questionable about the transaction. We noted one instance in which a property sold in March 2002 for \$2.6 million was resold by the purchaser in October 2002 for \$4.2 million—an increase of \$1.6 million, or more than 60%, in just seven months. At our request, the Corporation's internal auditors reviewed this transaction and, while they noted that the appropriate process was followed for this sale, they also questioned whether a conservative appraisal of the potential land use was made. We were informed that Corporation internal auditors plan to conduct more such tests on property sales in future.

RECOMMENDATION 2

In order to help ensure that amounts owing from property sales are properly accounted for and obtained, and to help ensure ongoing monitoring for effectiveness of its sales procedures, the Ontario Realty Corporation should:

- establish controls to ensure that receivables are recorded and tracked for any potential recoveries from conditions of property sales; and
- track and identify any resale of properties sold for significantly higher amounts shortly after their sale and investigate how such situations could have occurred.

In addition, the Corporation should consider the feasibility of requiring safeguards in its sales agreements that would permit it to share in any large profits from subsequent sales of properties.

ACCOMMODATION PLANNING AND UTILIZATION

Many government initiatives over the last 10 years have resulted in changes to both the size and mix of the province's real-estate portfolio. Government decisions to transfer responsibility for some provincial services to local governments, and changes to the role of the Ontario Public Service, led to a decrease in space requirements compared to 10 years ago.

Significant changes in the government's property inventory over the past 10 years included the sale and lease-back of several large office buildings previously owned by the province, and the sale of institutional properties no longer required, such as health-care facilities. Several major properties—new and bigger courthouses and jails—were added during initiatives to rationalize and modernize the justice sector.

An Accommodation Program Review (APR) was undertaken during 1996/97 and 1997/98 aimed at

Figure 5: Ten-year Trend of Government-owned and -leased Real-Estate Portfolio

Source of data: Ontario Realty Corporation

Fiscal Year	Owned	Leased
	(rentable million sq. ft.)	
1996/97	43.7	10.0
1997/98	43.6	8.9
1998/99	43.0	8.3
1999/2000	42.2	7.8
2000/01	41.1	7.6
2001/02	40.4	8.1
2002/03	40.6	8.2
2003/04	41.0	8.3
2004/05	40.0	8.6
2005/06	39.4	9.1

reducing leased space and maximizing the use of owned space. In addition, all ministries and agencies were required to pay rent, called “charge for accommodations” (CFA), for the space they occupied. CFA assigned accountability for accommodation costs to the user ministry or agency. Together, APR and CFA helped at the time to reduce accommodation costs by more than \$100 million.

As a result, there has been a reduction in both owned and leased space over the past 10 years, as shown in Figure 5. However, the table also shows that in the last five years there has been a 20% increase in the use of leased space due to the unavailability and reduction of owned space over the same period.

Recently, an Accommodation Savings Review (ASR) was initiated as a result of the May 2005 Ontario Budget. The ASR requires the Corporation and its clients to achieve accommodation savings of \$50 million by 2007/08. Two strategies have been identified to help achieve this goal:

- reducing the amount of space required, including cuts to office-space standards, reductions in underutilized space, and increased use of shared space (such as boardrooms and offices); and

- reducing the cost of space by relocating to less expensive leased premises, negotiating lower-cost leases through longer terms and earlier renewals, and electricity conservation projects.

The Corporation advised us that savings attributable to the ASR were almost \$23 million as of March 31, 2006.

Long-term Plans for Meeting Accommodation Requirements

According to the Corporation, and as was evident from our review of new accommodation requests, there were generally two options available to satisfy new client requests, particularly for office space:

- use existing owned space, which is in short supply; or
- enter into new leasing arrangements.

This increased reliance on leased space over the last five years was required because of a 7% increase in the size of the Ontario Public Service—from 60,300 full-time-equivalent staff in 2000/01 to 64,500 in 2005/06—as well as a reduction in owned space. The Corporation indicated it would need specific direction from the Ministry to pursue new capital investments and the use of other alternative financing options.

As a result of leasing being the only feasible option for satisfying client requests for more space, the Corporation concluded that it was not necessary to prepare formal financial assessments of alternatives to leasing, such as construction, lease-buy, outright purchase, or relocation, that might provide both cost-effective accommodations and long-term savings in each case. The focus on cost reductions and leasing in the past has resulted in minimal long-term planning for meeting accommodation requirements. For instance, our review of new accommodation requests from clients identified only limited circumstances when the Corporation prepared financial assessments of alternatives

to leasing (such as ownership) to satisfy clients' requests for more space. For office space, no such assessments were made of alternatives. We were informed that over the last two years, the Corporation did complete approximately 22 financial assessments for mostly smaller special-purpose space requests, such as for Ontario Provincial Police detachments in smaller communities.

Ministries were generally required to look ahead only 18 to 36 months for their anticipated space needs, and this was primarily to meet the Corporation's requirements for lease negotiations. Investment in real estate typically requires longer time frames and/or large sums of capital from the province in order to develop property or enter into significant lease or alternative financing arrangements with the private sector. We noted that the last major expansion of government-owned office space came in 1995 and 1996. At that time, government direction resulted in the relocation of several office headquarters from the Greater Toronto Area to new, owned office accommodations in four other cities.

Assessments of Existing Space Utilization

We observed some recent initiatives, still in the early stages, that should help to promote strategic longer-term accommodation planning in the future. In the short term, these initiatives should result in a continued focus on further maximizing the use and efficiency of existing owned and leased space.

In September 2004, the Corporation completed a Provincial Accommodation Plan that provides a workplan for managing the province's real-estate assets more strategically and for achieving the savings in the ASR initiative. A key component of the plan calls for reviews of existing assets at the community and client level, and of short- and long-term use of real-estate and accommodation needs.

The Corporation has reorganized its staff, creating Key Account Teams to work with individual clients towards implementing the Provin-

cial Accommodation Plan initiative. The teams work with clients to develop annual portfolio plans for their real-estate and accommodation needs, to identify opportunities for cost efficiencies, and to provide input into the development of community accommodation plans.

Annual ministry portfolio plans were initiated in 2004/05 and were again completed for all ministries in 2005/06. Our review of these plans noted that, in their current form, the activities have been largely focused on each ministry achieving short-term savings to meet its targets under the ASR. In general, we noted that the plans provide an inventory of each ministry's existing owned and leased space, and identify opportunities to reduce space, usually at the time of lease renewals. However, the portfolio plans had several shortcomings, including:

- a lack of longer-term analysis of ministry requirements;
- an absence of discussions regarding co-location and sharing opportunities with other ministries; and
- no quantitative analysis of the ministries' utilization of existing space.

With respect to the last point above, we would have expected ministries to assess their use of existing space based on the number of staff occupying the premises. There are at present no mandatory requirements for clients to report on their space usage to the Corporation. We noted that a space standard of 200 square feet per person is being applied to new accommodation requests. But we also noted that this standard is not being applied retroactively to all existing space. Ministry staffing requirements could change over time, so periodic assessment of existing-space utilization would be useful for identifying new opportunities to make better use of existing space or for justifying ministries' use of the space assigned to them. Our discussions with Corporation staff noted that such analysis would have to be done manually because central human-resource departments do not ade-

quately track staffing by location. In addition, we were informed that some clients periodically need to accommodate large numbers of temporary staff, such as consultants, and this limits the extent to which space can be cut or requirements determined with certainty.

Savings from existing-space utilization assessments can be significant. The Corporation and ministries on occasion agree to conduct such studies. In November 2004, for example, the Corporation completed a leasing plan for ministry and agency programs in six downtown Toronto buildings that occupied about 866,000 square feet and whose lease was up for renewal within two years. The plan identified through assessments of existing-space utilization that the clients could reduce their space by more than 65,000 square feet, or 8% of the total. Annual savings from this measure alone were expected to be almost \$2 million.

Another initiative under way at the Corporation during our audit was a Queen's Park Accommodation Plan for 10 owned office buildings in the vicinity of the Legislature in Toronto. We were informed that criteria have been established for the types of programs, activities, and uses suitable for these buildings and locations. However, the Corporation's efforts over the last two years to conduct a space-utilization assessment for these buildings have been on hold pending the provision of more complete and reliable data from existing tenants.

RECOMMENDATION 3

To enable it to help the government achieve additional accommodation expenditure savings in the real-estate portfolio, the Ontario Realty Corporation should work with the Ministry of Public Infrastructure Renewal and client ministries and agencies to establish requirements for:

- carrying out long-term accommodation planning to allow for exploration of options beyond leasing, such as construction, lease-

buy, outright purchasing, and relocation, to meet space needs at lower costs;

- exploring co-location and sharing opportunities with other ministries; and
- having ministries periodically report their present and future expected staff size, as well as their existing space utilization, to the Corporation to enable a more informed assessment of the use of existing space.

LEASING

Leased space is acquired to satisfy client needs that cannot be met through existing owned space. The Corporation's Key Account Team representatives work with clients to identify accommodation requirements at least 18 to 36 months in advance of the need in order to renew leases or sign new ones. The Corporation's leasing department identifies available space for lease to satisfy client needs and, following client approval, negotiates lease rates and conditions.

As of March 31, 2006, there were almost 700 leases in place for approximately 9.1 million square feet of rentable space, 78% of which was for office space and 17% for law courts. Annual net rent expenditures were approximately \$110 million.

Lease Administration for Government-occupied and -owned Space

In February 2004, the Corporation's internal auditors identified a significant backlog of expired government leases with private-sector landlords. They found that 151 of 876 leases, or 17% of the total, had expired and, therefore, were "in overhold" since ministries and agencies continued to occupy the space. The risk in failing to renew leases in a timely manner is that some programs could be forced either to vacate space on short notice or the Corporation would be put at a disadvantage in

negotiations for a new lease because of time pressures to vacate the space.

We noted that the Corporation made changes to address the backlog and prevent a recurrence. Follow-up internal audits found that the backlog had been significantly reduced, to 38 by March 2005 and down to 10 as of December 2005. Leases still in overhold were either in negotiations or had issues requiring further attention by the Corporation.

For example, the lease for Toronto's Old City Hall, used for law courts, has been in overhold since 1999. The Corporation continues to pay the 1999 rate of \$35 per rentable square foot but estimates the current market rate for this property is substantially lower, in the range of \$15. However, we were not aware of any ongoing discussions or activities to renegotiate this lease, and we estimate the Corporation and its client are paying at least \$3.3 million in excess rent each year for this property.

In addition, the Corporation administers approximately 250 leases, worth about \$10.5 million a year, for non-Ontario-government tenants occupying space in government buildings. These tenants may be from the private sector, municipalities, the broader public sector, or non-profit organizations. We noted that approximately 100 of these leases were also in overhold—many for over 10 years—including about 60 that were paying only a nominal rent of \$1 a month. About 40 others, required to pay market rates, continued to pay rent based on leases that expired several years ago. In the case of the tenants paying nominal rent, the Corporation requires direction from the Ministry clarifying whether the policy established in 1994 to permit such leases requires updating with respect to the need to pursue market rates. The Corporation estimates that charging market rates for these properties would yield an additional \$2 million a year.

RECOMMENDATION 4

To help ensure that leases negotiated by the Ontario Realty Corporation, both for government-occupied space and for government-owned space leased to others, reflects the best rates, the Corporation should:

- resolve in a timely manner all remaining leases in overhold; and
- obtain the necessary policy direction from the Ministry of Public Infrastructure Renewal to allow it to negotiate appropriate rents—at market rates where possible—for non-Ontario-government tenants in government buildings.

BUILDINGS AND LAND MANAGEMENT

The Corporation's Property Management and Client Services Division is responsible for managing operations, maintenance, and repairs for all owned and leased space, plus the land portfolio. It spends nearly \$400 million a year to ensure, on a daily basis, that the properties are clean and that the lights, heating, air conditioning, elevators, and other services are in good working order.

The Corporation contracts with various service providers in each of four regions in the province to manage buildings and lands. In 1999, it awarded two major contracts covering the two biggest regions, the Greater Toronto Area (GTA) and the Southwest. In the first contract, the Corporation outsourced the overall management and operations of more than 2,200 owned and leased buildings in the GTA and Southwest regions to one service provider for about \$4 million a year. In the second, the Corporation retained another service provider to look after the land portfolio in the same two regions for about \$2 million a year. Each contract was for five years and each had two renewal

options, at the Corporation's sole discretion, for the same rates and conditions.

In the East and North regions, Corporation staff provide overall property management services for buildings and land, using many smaller local service providers.

Overall we concluded that acquisition and management of service providers was done using proper procedures and controls, and with due regard for economy. For instance, we were satisfied that the Corporation had properly:

- exercised due diligence in awarding the two large contracts;
- followed the appropriate competitive-selection processes; and
- obtained the required approvals from Management Board of Cabinet, then responsible for the Corporation, for both the original contracts and their renewals.

The Corporation also established a number of controls for the ongoing management and monitoring of the two large contracts, including regular verification of invoices submitted by the service providers and inspections of supporting documents for those invoices.

A key clause in the two large contracts stipulates that a portion of the remuneration is held back and dependent on whether service providers meet performance standards. For example, the building-maintenance contract in the GTA and Southwest regions requires the service provider to report on 45 key performance indicators in the areas of management, financial performance, asset integrity, and customer service. The service provider must attain an overall rating of more than 80% before the Corporation pays out a portion of the holdback funds, and over 90% in order to get all of the holdback money.

The Corporation's internal auditors also act as a key control over the use of service providers, conducting regular audits of building-management contracts in all regions. These audits have led to

several recommendations for improving controls over service providers.

However, there was a need for improvement to ensure that best practices and high standards were applied consistently throughout the province. We noted that the reporting and performance requirements imposed on the two major service providers in the GTA and the Southwest were more stringent than those imposed in the North and East, for properties managed by Corporation staff.

For example, building-service providers are used in the North and East on a smaller contractual basis, managing anywhere from one to several buildings. These contractors are paid fixed amounts with no holdbacks dependent on their meeting key performance indicators. Nor were Corporation staff under any formal requirement to schedule reports and inspections for unused buildings and surplus properties, as is the case for the Corporation's major land-management service provider. We noted instances where annual inspections were not carried out, and where there were no requirements to prepare annual asset-management plans for each property detailing its condition, maintenance plan, potential for rental revenues, and recommended course of action for the short and long term.

RECOMMENDATION 5

In order to help ensure that all Ontario Realty Corporation staff and service providers managing buildings perform their management and reporting duties appropriately, consistently, and at a high level, the Corporation should review building-management practices in all regions and ensure that best practices are being consistently adopted.

DEFERRED MAINTENANCE ON GOVERNMENT-OWNED AND -OCCUPIED BUILDINGS

The Corporation estimates that, optimally, it needs about \$160 million a year to fund its repair, renewal, and modernization program for owned buildings. However, the Corporation has not had such funding, and it estimated that, as of March 31, 2006, deferred maintenance costs for its buildings totalled approximately \$382 million.

The need for major repairs is usually identified through the Corporation's annual building inspections, and these capital repairs are deferred to future years if funding is not immediately available. The Corporation classifies repairs under several categories, such as those needed for compliance with health and safety requirements, to achieve building code compliance, for energy management, and to replace aging building systems that are at risk of imminent breakdown. While deferring capital repairs can help solve short-term funding shortfalls, it can lead to costlier problems over the long run if the necessary work is not done in a timely way. Repairs deferred to future years will also decrease the funding available for repairs already scheduled for those years.

In addition, most of the Corporation's owned buildings are relatively old, putting further pressure on funding requirements for keeping the properties in a good state of repair. As shown in Figure 6, more than 80% of its key buildings are over 20 years old, and almost one-half are more than 40 years old.

The Corporation's Strategic Capital Management Unit (Unit) manages the development of implementation plans for capital repairs based on available funding. Prior to the 2004/05 fiscal year, capital repairs were prioritized on an annual basis, depending on the urgency of the requirement. In 2004/05, the Unit introduced an annual life-cycle-costing process that includes a 10-year rolling capital repair program and a comprehensive repair planning and capital investment evaluation

Figure 6: Average Age of Government-owned Buildings as of March 31, 2006

Source of data: Ontario Realty Corporation

	# of Buildings	# as % of Portfolio	Area (rentable million sq. ft.)	Area as % of Portfolio
< 11 years	39	2	2.5	8
11-20 years	205	12	3.7	13
21-30 years	171	10	3.1	11
31-40 years	295	18	6.8	23
> 40 years	825	49	11.9	40
age unknown	148	9	1.4	5
Total	1,683	100	29.4	100

process. In some cases, program use permitting, the Corporation can consider disposing of a building rather than repairing it. Repairs are then prioritized based on a business case prepared for each project that examines the options for performing the work, the scope of the work, and the levels of review performed to date in support of the recommended repairs. Projects planned for major repairs within two to 10 years are re-evaluated annually against new project initiatives, updated assessments of the planned repair, and ongoing program needs of the building occupants.

The Corporation also determines the condition of its buildings by assigning a Facility Condition Index (FCI) for each building, which compares the property's total deferred maintenance cost to its replacement cost. The Corporation conducted its assessment for 2005/06 using the FCI for the 582 in-use buildings that required repairs, as shown in Figure 7. The figure indicates that, while the majority of buildings were in good to fair condition, about 148 of them, or 26%, were classified as poor to defective.

Senior corporation management noted that its total life-cycle funding requirements were not being met by current revenues from the real-estate portfolio, most notably because of outdated rent rates paid by ministries and agencies occupying government-

Figure 7: Facility Condition Index (FCI) for Selected Government-owned Buildings Managed by the Ontario Realty Corporation, 2006

Source of data: Ontario Realty Corporation

FCI Classification	# of Buildings Assessed				Total	% of Total
	GTA	East	Southwest	North		
good condition	29	83	121	104	337	58
fair condition	10	25	24	38	97	16
poor condition	23	14	18	25	80	14
critical condition	7	3	12	6	28	5
defective condition	13	12	7	8	40	7
Total	82	137	182	181	582	100

owned space. Commencing in 1998/99, all ministries and agencies were required to pay the charge for accommodations (CFA) for the space they occupy in government-owned buildings. The rates were originally based on market-rent information collected in 1996/97—and they have not changed in the past nine years. However, ministries or agencies that occupy space leased from the private sector have always paid the actual rents. The Corporation estimates that CFA for government-owned buildings would increase by \$89 million a year if current market rates were imposed on tenants of government-owned space.

We asked the Chief Administrative Officers (CAOs) of several ministries if they believed that increasing CFA to current market rates would encourage further efficiencies in the use of government-owned space. In general, the CAOs said that after several years of funding constraints, they believed existing cost-saving measures on ministries were sufficient to motivate them to maximize the use of existing space. Concerns were raised that if CFA were raised to current market rates, additional funding would also have to be provided from the province to compensate ministries and agencies. However, many recalled that when CFA was introduced in 1997/98, ministries and agencies were only given 85% of the funding required to pay for CFA, with the balance coming out of existing program expenditures. CAOs were thus concerned

that any increase in CFA at this time, after several years of constraints, could again require offsetting program expenditure cuts.

The Corporation was also concerned that its total funding is subject to fiscal pressures and competing priorities from other government programs, and not based on the operating and capital needs of the portfolio. As a result, when capital repairs are not sufficiently funded in one year, the backlog of deferred maintenance impacts the capital repair budgets of future years until funding levels can no longer cover both in-year capital requirements and the backlog of deferred maintenance.

RECOMMENDATION 6

To enable the Ontario Realty Corporation to properly maintain government-owned buildings in accordance with life-cycle costing for capital repair requirements and to avoid any longer-term impact resulting from deferring needed preventative or preservation repairs, the Corporation should work with its clients and the Ministry of Public Infrastructure Renewal to establish stable and appropriate levels of funding for maintaining government-owned buildings.

REAL-ESTATE INFORMATION SYSTEMS

The Corporation uses a variety of computerized information systems to manage its real-estate portfolio and financial transactions. Two of its major systems are:

- RealSuite, an integrated real-estate management system that tracks leases, space, and facilities management. RealSuite was implemented in October 2003 and tracks all property for which the Corporation is responsible; and
- Geographical Information System (GIS), a computerized system recently developed by the Corporation in conjunction with a software development company, provides geographic views of the Corporation's properties and portfolio. It can display legal and mapping information about properties, along with government uses of real estate, for specified areas. A key feature is its ability to integrate information from a variety of sources, including RealSuite, the provincial land registry system, and databases maintained by other ministries.

RealSuite is used extensively by Corporation staff for making decisions on meeting accommodation needs and for tracking the use of properties. Despite the Corporation's recent efforts to improve data quality, there were extensive errors with respect to the current status of properties in the database, such as the following:

- Approximately 1,200 buildings were listed in the system as being both occupied and inactive. For example, a large office building in downtown Toronto, vacated and declared surplus in 1995, was listed as occupied.
- A large property valued at over \$10 million that was listed as active had in fact been sold almost two years earlier.
- More than 300 acres of Hydro One corridor lands managed by the Corporation were

declared surplus according to RealSuite, although they were active and in use.

- RealSuite lists the land portfolio in the Greater Toronto Area and Southwest regions managed by the Corporation's major service provider as including about 57,000 acres, whereas the service provider's records indicated that it managed only about 48,000 acres. Our inquiries with the service provider determined that approximately 7,500 acres had never been included in the contract, and approximately 500 acres originally managed by the service provider had been either transferred or sold and were no longer part of the contract. In addition, the service provider's records listed 40 fewer buildings than the 1,087 contained in RealSuite. RealSuite also listed more than 110 of these buildings as occupied when they were in fact vacant, or listed as vacant when they were occupied.

The Corporation's internal auditors noted similar concerns with RealSuite data integrity in a report issued in September 2005, based on testing of the accuracy of information on 45 high-priority buildings.

Data integrity errors also produce unreliable results for searches of vacant space in owned buildings. We noted a number of instances where premises listed as vacant in RealSuite were actually in use, usually for the temporary accommodation of clients during renovations to their permanent quarters.

As the Ministry identified in its recent review of real-estate management, there exists no complete inventory of all government-owned and -controlled real estate. Such an inventory could be used to improve the quality of asset information and support decisions by offering complete, strategic, and accessible information about the portfolio. The situation arises because some ministries and government agencies, such as the ministries of Transportation and Natural Resources, and GO Transit, are not required to use the Corporation's

services, and they own and manage real property across the province. Information about those assets, including location, size, value, and use, is known only to the ministry or agency. This makes it difficult for government to get the overall picture needed to make strategic decisions about its very large and valuable portfolio.

The Corporation has made efforts over the last two years to obtain a more complete listing of real-estate assets using several sources, most notably by linking GIS to RealSuite and Ontario's land registry system. However, RealSuite only includes records on properties managed by the Corporation, while electronic land registry information is not complete as it is available only from 39 of the province's 54 land registry offices. A more complete inventory will require the co-operation of all ministries and agencies with the Corporation to share information. At the time of our audit, these partnerships had not been established, although we understand that the Corporation had been working with the Ministry in its efforts to establish better linkages with other ministries and agencies. The Corporation also informed us that it has offered GIS to other ministries, including some that have already invested in their own systems, in order to avoid duplication of effort and costs, and to have only one comprehensive system on which the government could base decisions.

RECOMMENDATION 7

In order to help ensure that the Ontario Realty Corporation is capable of providing reliable and complete information on the province's real-estate holdings and activities, and to support strategic decision-making on real-estate and accommodation decisions, the Corporation should:

- investigate the causes of data integrity errors on its RealSuite information system and implement quality control procedures

to correct existing errors, and prevent and detect any recurrence in future; and

- continue its efforts to secure the co-operation of other ministries and agencies with real-estate holdings to permit the development and sharing of a complete inventory of all government-owned and -controlled real estate.

PERFORMANCE MEASURES

The Corporation is required to provide a results-based plan and annual report that sets out the performance targets it has achieved and the actions it plans to take, along with an analysis of its operational and financial performance. In addition, the Memorandum of Understanding between the Corporation's Board of Directors and the Minister of Public Infrastructure Renewal makes the Board responsible to ensure the development of an effective performance measurement and management system for assessing the Corporation's performance. It also requires the Corporation to provide the Ministry with mid-year and year-end performance reports. Such reports are also intended to inform legislators and the public about the extent to which programs and services meet program objectives and provide value to the public.

In our discussion with senior Corporation management, there was general acknowledgement of the need to establish more appropriate measures to report on the Corporation's performance, including:

- customer satisfaction;
- its management of the real-estate portfolio;
- its efforts to satisfy accommodation requirements economically and efficiently; and
- a benchmark comparison of its costs with industry and with other jurisdictions.

Performance measures for these areas have not been established or publicly reported in its annual report. We noted that the only key performance measurement reported in the Corporation's most recent annual report, for 2003/04, (no report was issued for either the 2004/05 or the 2005/06 fiscal year) was the overall vacancy rate, which we have already found to be unreliable.

We did note, however, that there was significant information produced by the Corporation for internal management purposes that may have the potential to be used to improve external reporting. For instance, it conducts periodic surveys of ministry staff and Chief Administrative Officers to assess their satisfaction with its services. The Corporation's annual approved corporate objectives also detail a number of key strategic goals for the year, including tracking the achievement of government-mandated initiatives such as accommodation savings and energy efficiencies.

The Corporation's recent efforts to track the Facility Condition Index (FCI) of buildings, along with deferred maintenance liabilities, could also be used to report on the condition of buildings in the portfolio. There were many jurisdictions in the United States and Canada that reported an FCI as a measure of their performance and status of their buildings' state of repair. However, senior Corporation management noted that there was no universally accepted method of calculating and reporting on FCI that would allow for benchmark comparisons between the Corporation's portfolio and those of other jurisdictions.

The Corporation had established an initiative to develop improved performance measures and targets during the current fiscal year. In this regard, a consultant engaged by the Corporation to complete a workplan to implement corporate real-estate performance indicators and benchmarking reported in April 2006 on issues relating to human resources, data, information technology, and the selection of key performance indicators. The consultant also included a survey of, and research into, public- and

private-sector organizations. The report identified more than 225 potential key performance indicators in such areas as leases, facilities and project management, and occupancy costs. While external reporting should focus on a few key indicators, this does give a good overview of the potential for enhanced performance reporting.

In addition, our discussions with senior representatives of clients revealed that the Corporation provided them only with information on budgetary and actual expenditures charged to the ministry, primarily relating to rent and project costs. Clients said they would have liked to receive information about a building's state of repair, and about the energy efficiency of their building relative to industry standards.

RECOMMENDATION 8

The Ontario Realty Corporation should develop and report comprehensive and reliable performance indicators that would enable legislators, clients, and the public to properly assess its effectiveness in managing the province's real-estate portfolio and meeting accommodation requirements and objectives in an economical and efficient manner. Where possible, the Corporation's performance should be benchmarked to comparable private-sector and government property-management organizations in other jurisdictions.

OTHER MATTER

Procurement Practices for Capital Projects

The scope of our audit did not include an examination of the Corporation's project-management activities for large capital projects—those where, for example, a ministry pays for renovations to its accommodations. However, we were concerned about the December 2005 observations by the Corporation's internal auditors that were critical of

procurement practices for large capital projects, because they reflected similar concerns raised by us in 2003 about project-management and procurement practices.

In our 2003 value-for-money audit of Court Services at the Ministry of the Attorney General, we observed that capital projects managed by the Corporation used unit-price contracts (UPCs) for construction work without proper competitive acquisition processes and approvals for projects of this size. We noted that a project costing approximately \$8 million was awarded to unit-price contractors who provided their services at rates that were agreed to beforehand but intended for assignments costing less than \$100,000.

The Corporation's internal auditors noted in their 2005 review of UPCs that:

- the Corporation's rotational process for awarding UPC work to a roster of pre-qualified contractors did not follow established procurement policies and procedures for projects of this size;
- there was a bypassing of controls intended to ensure that established project costs, proper Corporation approvals, and performance bonds were in place before work began; and

- a significant percentage of the total cost of projects assigned under a UPC were not in fact unit-price work, and as such were not competitively procured.

These concerns were identified for work performed from January 2004 to May 2005, when eight contracts ranging in size from \$1.1 million to \$3.6 million were inappropriately handled as UPC work. We were informed by the Corporation's internal auditors that they were to follow up on procurement practices for large projects by June 30, 2006.

RECOMMENDATION 9

In view of the concerns we raised in 2003, and of those raised by the Ontario Realty Corporation's internal auditors in 2005, regarding the use of unit-price contractors in place of established procurement procedures and competitive selection processes in hiring contractors for large construction projects, the Corporation should conduct a comprehensive review of its use of unit-price contractors, as well as of the policy framework that permits their use, to ensure the required open competitive procurement practices are not being circumvented.

ONTARIO REALTY CORPORATION RESPONSE

The Auditor General has made useful recommendations, and those that are operational in nature will be acted upon by the Ontario Realty Corporation as indicated below. For those recommendations that require policy approval from the government, the Corporation will continue to advise the Ministry of Public Infrastructure Renewal (Ministry) on all aspects of policy options and implementation.

Recommendation 1

The Corporation is pleased that the Ministry's examination of processes acknowledged many of the issues the Corporation has raised and sug-

gestions it has made over the years for improvements to the real property management system. The Corporation will work with the Ministry to support policy changes and make improvements.

Consistent with the Auditor's recommendation, business plans and workplans now include timetables for those changes that are the responsibility of the Corporation.

A further comment on the difficulty in selling surplus and underutilized properties: The former government gave the Corporation approval to sell a variety of properties to meet established sales targets if the business cases for sales made economic sense. Many of the 330

properties noted in the audit are “in use” for delivery of government programs, and the business cases for many of these potential sales were subsequently determined not to be sound.

Recommendation 2

We are pleased that the Auditor General found the controls over property sales and acquisitions to be satisfactory. This recommendation should help to further strengthen controls.

Safeguards in sale agreements, which the Auditor recommended be considered to prevent higher resales, are currently applied to properties sold to municipalities. These safeguards, however, would significantly limit prices for sales to the public. Where significant potential for future value enhancement may exist, other means to ensure full value to the government, such as participating with the private sector in joint ventures, will be pursued.

Recommendation 3

The Corporation agrees with the recommendation. As observed in the audit, more long-term planning has been occurring, and the Corporation will continue to work towards improved long-term planning with the Ministry and tenant ministries. The government has entered into different arrangements for some accommodation requirements (for example, Durham Consolidated Courthouse, which will consolidate seven existing leases for courts into one new location). Also, the Corporation is in the process of relocating 11 ministries in Ottawa into one location to share space and services—reducing the space requirements by 22,000 square feet and saving operating costs.

The Corporation has been working and will continue to work with the Ministry of Government Services to obtain reports on the staff size of ministries by location to assist in the proper assessment of space use.

Recommendation 4

The Corporation agrees with the recommendation. As noted in the audit, the Corporation implemented a successful strategy to reduce the number of outstanding leases for space leased from third parties from 151 to 10 by December 2005. Success in this area has resulted in a high satisfaction rating by ministries for leasing services at the Corporation. The Corporation’s 2006/07 business plan includes an initiative to apply a similar strategy to reduce the number of outstanding leases for space rented to third parties.

The Corporation plans to provide the Ministry with an overview, an analysis, and recommendations to help develop policy for leasing to not-for-profit community groups that are paying nominal rents.

Recommendation 5

We are pleased that the Auditor found that the acquisition process and management procedures in place for securing building- and land-management services used the proper procedures and controls while having due regard for economy.

As the Auditor noted, the Corporation monitors the performance of the large service providers in detail. We will examine how these enhanced monitoring practices can be economically applied to smaller service-provider contracts. In addition, commencing April 1, 2006, these smaller contracts are subject to the Corporation’s formal contractor-evaluation process. This new process should help ensure appropriate service-provider performance through ongoing monitoring of contractor performance that can lead to termination of the contract for poor performance.

Recommendation 6

The Corporation concurs that there should be a stable and appropriate level of funding for

maintaining government-owned buildings and will continue to work with the Ministry and tenant ministries to establish that level of funding.

In recognition of the deferred maintenance situation identified by the Corporation, the Ministry has provided additional capital funding for repairs over the past three years and is continuing to provide that financial support, and the Corporation has applied funding to the most appropriate building repairs.

The current deferred maintenance assessment is based on the Corporation's strategic review of key government assets using the Facilities Condition Index. As the Corporation's review of all other assets in the portfolio is completed, it is contemplated that a continuing emphasis on deferred maintenance will be required.

Recommendation 7

The Corporation concurs with the recommendation. The Corporation is re-establishing its data-quality initiative to improve information on the assets of the portfolio. This effort has been initiated, and a strategy is in place to deal with the data issues, starting with the most significant buildings in the portfolio.

A project to develop a complete inventory of government-owned and -controlled assets has commenced. Also, the Corporation is continuing its efforts to secure co-operation from ministries and agencies, in general and for this project,

through its newly established Account Teams that have significantly improved communications with ministries.

Recommendation 8

The Corporation concurs with the recommendation. Our now completed 2004/05 and 2005/06 annual reports contain more specific performance information than did previous annual reports. Included in these reports are performance measures based on pre-established corporate objectives, presented in a "report-card" fashion. Starting in 2006, additional performance information, particularly customer satisfaction levels, is being provided in quarterly reports to stakeholders. The Corporation's objectives for 2006/07 include the development of improved performance indicators benchmarked against private-sector and government property-management organizations in other jurisdictions.

Recommendation 9

The Corporation is currently implementing an alternative procurement option to address the concern regarding the use of unit-price contractors. From now on, repair and alteration projects will be awarded using established procurement procedures and a competitive selection process based on securing bids from contractors on pre-established source lists utilizing stipulated sum contracts.

Chapter 3

Section 3.11

School Boards— Acquisition of Goods and Services

Background

Ontario's publicly funded elementary and secondary schools are administered by 72 district school boards and 33 school authorities. According to the Ministry of Education, total funding for public education in Ontario for the 2005/06 fiscal year was about \$17.2 billion. While school boards spend the majority of their funding on salaries and benefits for staff, they also spend several hundred million dollars on purchases of services, supplies, and equipment.

Audit Objective and Scope

This was the first value-for-money (VFM) audit conducted of the school board sector under the expanded mandate, effective April 1, 2005, of the Office of the Auditor General of Ontario. The expansion allows us to conduct VFM audits of institutions in the broader public sector, such as school boards (this audit), children's aid societies (see Section 3.02), community colleges (see Section 3.03), and hospitals (see sections 3.05 and 3.06). We chose to examine purchasing practices as a means

to gain a broad exposure to, and understanding of, overall school board non-salary expenditures and operations.

The objective of our audit was to assess whether the purchasing policies and procedures in place at selected school boards were adequate to ensure that goods and services were acquired economically and in accordance with sound business practices.

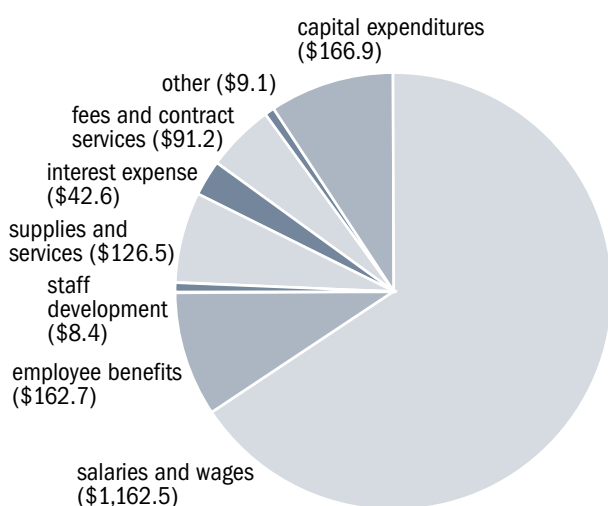
Our audit was conducted at four school boards: Durham District School Board, Rainbow District School Board (Sudbury Region), Thames Valley District School Board, and York Catholic District School Board. Total expenditures at the four boards in the 2004/05 fiscal year are broken down in Figure 1.

Our audit focused primarily on the acquisition of supplies and services. We also examined expenditures for equipment, contracted services, and minor capital projects. In the 2004/05 fiscal year, the amounts spent by the school boards that we audited in these areas totalled approximately \$147 million, as shown in Figure 2. We excluded pupil transportation and capital expenditures for the construction of new schools.

We also reviewed the purchasing policies of six other school boards to determine whether their policies were similar to those of the four boards that we audited.

Figure 1: Total Expenditures at Four Boards Audited, 2004/05 (\$ million)

Source of data: Individual School Boards



Our audit was substantially completed in May 2006 and was conducted in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. Accordingly, we performed tests and other procedures that we considered necessary in the circumstances. The criteria used to conclude on our audit objective were based on the prudent systems, policies, and procedures that should be in place and operating effectively.

Summary

The purchasing policies at the four school boards audited, and at the six boards where we reviewed the policies, were adequate for promoting due regard for economy, and the audited boards were generally complying with their policies and procedures. As well, all four school boards were participating in purchasing consortia in an attempt to reduce the cost of goods and services, such as paper and cleaning supplies, Internet services, and elec-

Figure 2: School Board Expenditures on Supplies and Services, Fees, and Contract Services (Excluding Pupil Transportation), 2004/05

Source of data: Individual School Boards

Board	Amount (\$ million)
Thames Valley District School Board	56
Durham District School Board	45
York Catholic District School Board	32
Rainbow District School Board	14
Total	147

tricity. However, we noted areas where compliance could be improved. In addition, while corporate charge cards (purchasing cards) were generally being used appropriately, we noted areas where policies relating to travel expenses were not sufficiently clear. We were particularly concerned about purchasing-card use for meal and travel-related expenses at one of the boards.

At the four boards audited, areas where procedures could be improved included the following:

- School boards were using some suppliers for significant purchases for a number of years without periodically obtaining competitive bids. As a result, other potential suppliers did not have an opportunity to bid on the work, and school boards did not know whether the goods or services could have been obtained at a lower price.
- Rather than publicly advertising their needs, school boards often invited a selected group of suppliers to bid. As a result, only one or two bids were received for some significant contracts, unnecessarily limiting the options of the board involved.
- Payments continued to be made to suppliers in situations where the purchase order had expired and/or the amount on the purchase order had been exceeded.
- For ongoing minor capital projects, such as the replacement of broken windows, school

boards continually relied on certain contractors without periodically obtaining competitive bids. One school board addressed this recently by issuing a publicly advertised request for proposals to pre-qualified contractors for certain common services, such as glass repair and replacement, heating and ventilation repairs, and electrical, mechanical, and general contracting. Another board advised us that it would be soliciting competitive bids in 2007.

While policies governing purchasing-card use were generally adequate, we did have a concern about the lack of clear policies over the use of board funds for employee recognition and gift purchases. While the individual amounts were not significant, the overall totals at the four boards for such items amounted to thousands of dollars. We were also concerned about the use of purchasing cards, particularly at one school board, for meal- and travel-related expenditures. At this board, we noted the following:

- Certain senior staff, on a number of occasions, charged expensive meals without providing detailed receipts. For example, five staff attending a three-day conference in Toronto spent \$114 each for dinner. A dinner on the following night was shared by eight diners, six of whom were school-board staff. The bill, amounting to \$1,036 (or \$130 per person), was expensed by the school-board staff (splitting it six ways on their purchasing cards). In comparison, staff from another audited board only claimed a total of \$125 for all of their meals over three days while attending the same three-day conference.
- While attending conferences, usually in the United States, some senior staff extended their stay and incurred personal expenses on their purchasing cards that were not reimbursed to the board until we brought the expenditures to the board's attention. These

costs included car rental, extra nights of accommodation, and side trips not related to the conference. For example, one employee charged six nights' accommodation for a four-day conference. Subsequent to our audit, the employee reimbursed the board for the additional two nights of accommodation.

COMPETITIVE ACQUISITION

The purchasing policies of the four school boards that we audited and the six boards whose policies we reviewed all required purchases to be made competitively. At all boards, the competitive processes to be followed, either verbal or written quotations, public tenders, or requests for proposals, depended on the value of the purchase. While the thresholds for each type of competitive process varied among school boards, we found that they were reasonable when compared to the thresholds used by the provincial government for its purchases.

At the four boards we audited, we selected a sample of purchases made in the 2003/04 and 2004/05 fiscal years to assess whether the boards were complying with their policies. We found that most of the purchases we reviewed were made on a competitive basis in accordance with the boards' policies. However, there were some instances where the policies were not followed:

- Since 1999, one board has used the same contractor to perform electrical connections and disconnections of portables, without following a competitive acquisition process. Over the past three years, payments to this contractor totalled \$605,000, of which approximately \$300,000 was for other related services. Since 2003, the board has paid the contractor a flat rate of \$2,500 per portable for connections and \$300 for disconnections. Prior to 2003, payments were based on time and materials. Another school board that we audited had hired a contractor through a competitive

process and had been paying significantly less for similar work. To disconnect a portable, the first contractor charged \$300 while the competitively selected contractor charged an average of \$160; to connect a portable, the competitively selected contractor charged an average rate of approximately \$1,200 while the other contractor charged \$2,500. We recognize that there may be some local differences in the services provided. Nevertheless, the variance in cost demonstrates the need for a periodic competitive acquisition process. We understand that, subsequent to our audit, the first board commenced such a process.

- For a number of years, one board has been using the same company to catalogue new library books and materials. The most recent purchase order for this service was issued in June 2003 for \$80,000 (without a competitive process). However, the board paid \$310,000 for this service from September 2003 to January 2006. The board indicated that this was a proprietary system. The board also advised us that it would review annually the availability of alternative suppliers, and that a current purchase order would be issued each year.

FAIR AND OPEN ACCESS

The boards' purchasing policies state that potential suppliers should have fair and open access to board business, and tenders or requests for proposals (RFPs) should be open for a minimum of 14 days. In most cases, the boards met the intent of an open, fair, and transparent competitive process. However, we noted instances, for significant purchases exceeding \$100,000, where boards invited a small number of suppliers to bid instead of using a publicly advertised process. This unnecessarily limited their options. For example:

- At one board, we noted several examples where only one or two bids were received

for tenders and requests for proposals. In certain cases, potential suppliers were only given five to seven days to prepare a bid. For example, for a \$450,000 paving contract, the board invited only three potential suppliers, gave them only five days to respond, and only received two bids. In another case, the board issued an invitational RFP to four suppliers but only received one bid of \$312,000 for a closed-circuit surveillance system.

- Another board received fewer than three bids for several tenders or RFPs that we reviewed. For example, while the board issued a tender inviting five pre-qualified contractors to bid on a masonry restoration project, it received only one bid for approximately \$200,000. In another instance, only two of five pre-qualified contractors submitted bids for parking lot improvements worth \$212,000 at two schools.

PURCHASING DEPARTMENT INVOLVEMENT

All boards require that goods and services exceeding a specific threshold be acquired centrally through the board's purchasing department. Board staff are required to submit an approved requisition to the purchasing department, which would process the requisition, ensuring compliance with the board's purchasing policy. An approved purchase order would then be issued. The involvement of purchasing staff helps to ensure that a board takes advantage of any potential savings from a competitive process, promotes fairness in the selection process, and helps safeguard the board's interests.

We noted several examples at all four boards where departments or staff made relatively large purchases without involving the purchasing department:

- At one board, the paving of a play area at a school was initiated by the plant department

using a work order. The project was to be completed over the 2003 Christmas vacation period. Board staff did not obtain any bids or quotes from the supplier selected before the project started. We were advised that this was due to the perceived urgent nature of the project. Therefore, the board did not know the expected cost. The final cost was \$66,000. While the project was completed and invoiced in January 2004, a purchase order was only issued in March 2004, two months later.

- At one board, teaching staff ordered books worth \$157,000 based on a verbal quote. The staff did not have any documentation of the prices quoted by the supplier. No purchase order was issued for this acquisition. We were advised that this happened because the staff involved in the purchase did not understand the process to be followed.

PURCHASE ORDERS

Once the selection process is finalized, the purchasing department usually issues a purchase order to the supplier specifying the quantity, price, description of goods or services, and the length of the agreement. We noted instances where boards were making purchases after the purchase order had long expired and where purchase orders were issued to extend agreements without obtaining competitive bids. For example:

- In 1999, one board issued a \$20,000 purchase order, expiring in August 2000, for computer maintenance services. The supplier was hired without a competitive process. At the time of our audit in December 2005, the board was still paying invoices against the purchase order, even though it had expired five years earlier. A total of \$73,566 has been invoiced since the purchase order was originally issued.

- In 2001, another board issued an RFP for custodial supplies. The resulting contract was to expire in August 2004. In 2004, purchases under this contract exceeded \$300,000. The term of the agreement was extended to August 31, 2006 without obtaining competitive bids. However, purchases in 2006 included certain custodial supplies that were not part of the 2001 RFP. The board was unable to confirm whether it was receiving any discounts on the items not in the original purchase order. The board indicated that a competitive acquisition process will be implemented for the purchase of custodial supplies.

CONTINUOUS RELIANCE ON CONTRACTORS

At the four boards that we audited, work orders or service contracts were used for day-to-day or minor facility-related projects. For example, a window replacement company on contract with a board would be called to fix broken windows at a school. Individually, these work orders/service contracts were usually less than \$5,000, with the majority being less than \$1,000. The boards' purchasing policies usually do not require a competitive process for individual work orders.

At three boards, we noted several instances where the same contractors were used for a number of years without competitive acquisition. For example:

- One board employed a number of contractors under service contracts to complete work orders. The majority of service contracts were renewed without tendering but based on generic requests for quotes (RFQs). This board paid \$4.1 million under all service contracts in 2005 and \$4.6 million in 2004.

We reviewed the process followed for the awarding of service contracts exceeding \$100,000 each and found the board paid

\$2.8 million in 2004 and \$2.5 million in 2005 to contractors where no competitive process was followed. For example, a contractor that was awarded service contracts for various electrical and other services was paid a total of \$1.1 million between March 2004 and January 31, 2006, the length of the contracts. These contracts were based on generic RFQs rather than a competitive process. In one case, a contractor was awarded a contract for the installation and replacement of glass and was paid a total of \$748,800 between March 2004 and January 2006. Only one other contractor was invited to bid. For the subsequent period, February 2006 to January 2008, the incumbent was the only contractor invited to bid for the installation and replacement of glass.

- At another board, a number of contractors were frequently used for small projects and maintenance. Staff indicated that they generally do not get competitive quotes on purchases under \$1,000 and on some that are over \$1,000. We identified seven such contractors who were paid more than \$30,000 each over the past two fiscal years, with individual purchases generally less than \$1,000. In total, these contractors were paid approximately \$500,000 over the past two fiscal years. This board has used some contractors for more than 10 years. For example, a glass replacement company, which was paid \$170,000 over the past two fiscal years, has worked at the board for the past seven years—with no periodic competitive process in place.

We were pleased to note that, to address the risk of continuous reliance on contractors, one board recently issued a publicly advertised request for proposals to pre-qualified contractors for certain common services, such as glass repair and replacement, heating and ventilation repairs, and electrical, mechanical, and general contracting. These

suppliers were to be selected based on labour rates and materials markup, resources, past experience, and references. The board's goal was to establish a roster of contractors by specialty and rotate work among them.

RECOMMENDATION 1

To better ensure that goods and services are acquired with due regard to economy and that effective purchasing practices are followed consistently throughout the board, school boards should:

- ensure that the purchasing department is consulted on all major purchases;
- ensure that all goods and services are acquired competitively in accordance with board policies;
- use a publicly advertised competitive process for major purchases or where the possibility of a shortage of bidders may exist;
- limit the number of years that a contract can continue without requiring a new competitive acquisition process;
- not permit purchase order expiry dates and limits to be exceeded; and
- periodically obtain bids for ongoing routine services.

SUPPORTING DOCUMENTATION

During our audit, we requested documentation to verify that a competitive process was followed and that quotations were obtained prior to placing an order. In some cases, while the boards indicated that a competitive selection process had been followed, the documentation supporting such decisions was either not kept or not adequately documented to demonstrate that a competitive process had been followed:

- At one board, kindergarten educational supplies costing \$62,000 were purchased from

a supplier that had been identified three years earlier when a committee of teachers reviewed the products of numerous educational suppliers. No documentation about the selection process was retained. Prices from this supplier had not recently been compared to those of other potential suppliers. The board continued to purchase supplies from the supplier and paid it \$518,000 in 2004/05.

- A board acquired a high-speed printer/copier at a cost of \$435,000 without seeking competitive bids. Board staff indicated the printer/copier was a “demo” model offered to the board at a substantial discount by a supplier. However, there was no documentation to substantiate the discount or whether the price paid was competitive vis-à-vis other manufacturers’ products.
- A board purchased music curriculum resources totalling \$75,000 in 2004/05. We were advised that this was based on an evaluation by a teacher task force of similar products from three suppliers. However, no documentation was kept of the task force’s review and decisions, or of the prices of the competing suppliers.
- At another board, staff purchased special education software for \$345,000. A purchase order was requested after the invoice had been received. For this purchase, no documentation was prepared justifying the sole-source acquisition of this specialized product. We were advised that a written quotation had been obtained but could not be located.

RECOMMENDATION 2

To help ensure that due regard for economy can be demonstrated for all purchasing decisions, school boards should prepare and retain appropriate documentation.

CONTROLS OVER PAYMENTS

We found that all four boards generally had good controls over payments to suppliers. However, there were instances where improvements could be made or where payment errors were not detected.

- In August 2005, one board prepaid a competitively acquired supplier approximately \$1.2 million for metered photocopier costs for the period September 2005 to August 2006. Normal practice is to have the supplier obtain monthly usage readings across the board and invoice monthly based on the actual usage, rather than prepaying such a large amount.
- We identified payment errors at one board where the wrong price per unit was paid, resulting in an \$8,000 overpayment, and where a contractor charged GST of \$3,560 twice on the same purchase order. Board staff indicated that, subsequent to our audit, these amounts were recovered.
- At one board that used service contracts for repairs and maintenance, we reviewed the billings from several contractors. We found that, in many cases, the billings could not be reconciled with labour and material rates established in the service contracts. We also noted that several invoices lacked sufficient documentation to verify the rates. The board indicated that, subsequent to our audit, procedures for verifying labour and material rates have been reviewed with the appropriate staff.

RECOMMENDATION 3

To help protect against the risk of not receiving services paid for, school boards should prohibit unnecessary prepayment for services.

PURCHASING CONSORTIA

In *Ontario Budget 2004—Budget Papers*, the Government of Ontario identified purchasing practices in the broader public sector (BPS) as an area where improvements could be made that it anticipated could result in savings of “hundreds of millions of dollars [that] can be channelled back into key frontline public services.” In 2005, the Ministry of Finance established the BPS Supply Chain Secretariat to promote purchasing initiatives, such as purchasing consortia at hospitals, school boards, colleges, and universities. Acquiring goods and services as a group can achieve greater savings or discounts based on higher volumes.

However, we found that the four boards that we audited already participated in group purchasing, to varying degrees, through purchasing consortia with other school boards, hospitals, colleges, universities, other public agencies, and local municipalities. Goods and services that were purchased through consortia included paper, cleaning supplies, video supplies, Internet services, office stationery, and gasoline. The boards also partnered with neighbouring boards to jointly acquire pupil transportation, and classroom, physical education, and art supplies.

In 1998, the six Greater Toronto Area Catholic school boards formed the Catholic School Boards Services Association (CSBSA). This was done to provide opportunities for the member boards (and other interested boards) to reduce costs and improve efficiencies by working co-operatively. Over the past five years, the CSBSA has undertaken approximately 30 projects, including the joint purchasing of paper, employee benefits services, and software products. In 2005, the CSBSA worked with 43 school boards on the joint purchasing of electricity. The CSBSA estimates that, through this initiative, the participating boards had saved approximately \$12 million in electricity costs by June 2006.

Purchasing staff from the four boards indicated that the savings realized from purchasing consortia correlated to the size of the school board. For some items, larger boards would realize fewer savings than smaller boards because their own purchasing volumes would have generated a similar discount as group purchasing. Smaller boards would benefit from participating with larger boards, or with other larger public sector organizations.

Another issue faced by school boards participating in group buying is that goods and services usually need to be delivered directly to schools. Some boards have more than 100 schools—sending small orders to many sites increases costs and reduces potential savings. By comparison, hospitals, universities, and colleges only require shipping to relatively few locations.

PURCHASING-CARD MANAGEMENT

All four boards that we audited have issued purchasing cards, which are charge cards issued by a financial institution, to certain staff to help reduce the administrative cost of buying low-cost goods. The size of each board’s purchasing-card program varied, as shown in Figure 3.

The use of purchasing cards represents a significant change in purchasing methods. Traditionally, managers approved employee

Figure 3: Purchasing-card Expenditures, 2004/05

Source of data: Individual School Boards

Board	# of PCards	PCard Expenditures 2004/05 (\$ million)
Thames Valley District School Board	3,200	5.0
Durham District School Board	170	0.3
York Catholic District School Board	400	0.5
Rainbow District School Board	190	1.2

purchases in advance. Purchasing cards allow individuals to make purchases, often without requiring formal pre-approval. Therefore, it is essential to have appropriate review and approval of statements, where managers verify that purchases are being made properly and only for school board purposes. We found that, except where noted below, each board generally had adequate policies and procedures for purchasing-card usage.

Verification of Transactions

The risks of using charge cards include incorrect postings and duplicate charges. It is therefore crucial to verify transactions on monthly statements on a timely basis to ensure payment is not made for goods and services that were not received.

Each board requires that cardholders account for all purchases and provide supporting detailed receipts for each purchase made. Ideally, supporting documents should clearly identify the name of the purchaser, what was purchased, and the name of the supplier.

Generally, cardholders should verify the validity of each charge on their monthly statements and then forward the statement and supporting receipts on a timely basis for managerial approval. However, we noted instances where no supporting receipts were provided; the receipt lacked sufficient detail; or the receipt was photocopied or faxed. This increases the risk that improper use of purchasing cards will go undetected. Some of the examples we found were as follows:

- An employee at one board had 12 purchasing-card expenditures totalling \$6,000 with no documentation to support these purchases.
- At another board, two employees continually failed to submit supporting documentation for purchases. One employee used the same purchasing-card receipt to claim travel expenses on several occasions, resulting in duplicate reimbursements totalling \$300.

The board has now recovered the duplicate reimbursement. The second employee had eight purchasing-card expenditures totalling approximately \$1,000 with no supporting documentation.

- At one board, over a two-year period, a teacher spent approximately \$52,000 on the purchasing card. A number of the purchases were made during school breaks and/or outside the board area and should have been followed up. For instance, numerous charges totalling approximately \$4,000 were made during the 2005 summer break, while other expenditures included gasoline, newly released DVDs, financial software costing \$150, eyeglasses costing \$170, and Christmas lights costing \$300.
- At the same board, we noted that another employee who spent approximately \$11,000 on the purchasing card over a two-year period had numerous transactions that warranted follow-up. For example, this employee made purchases totalling approximately \$2,800 at three suppliers, buying mainly candies, chocolates, non-prescription drugs, and cleaning and household supplies. In addition, expenditures such as the following, while involving individual amounts that were not significant, were questionable: \$48 for flowers for the employee's own anniversary, which were sent to the employee's home address; and a \$254 purchase from a stained-glass shop during the summer break.

We understand that the boards involved were investigating all questionable expenditures we brought to their attention.

RECOMMENDATION 4

To help ensure that only valid school board expenditures are charged to purchasing cards, school boards should enforce the requirements that proper detailed receipts be submitted to

support all card purchases and that managers follow up on any unusual expenditures.

Employee Recognition and Gift Purchases

The four boards that we audited had no specific policies regarding the use of board funds to purchase gifts to recognize or reward employees. We found that the practices varied significantly among boards and even within the same board. It appeared that the decision whether to use public funds to pay for such items was generally left to the discretion of staff. We noted numerous instances where purchasing cards were used to pay for floral arrangements for staff or family members and for gift cards for staff appreciation. The following are some examples we noted:

- At one board, a cardholder spent \$1,200 on gifts (such as luggage costing \$400) for retiring and former board members. Another cardholder spent \$800 on Christmas gifts for staff. At another board, \$1,400 was spent on restaurant gift certificates, which were given to senior staff at Christmas.
- At three boards, numerous meals and gift cards (for bookstores, department stores and coffee houses) were purchased for staff as rewards. One cardholder spent \$1,000 on meals and gift certificates, while two cardholders spent \$550 on gift certificates for department stores and bookstores, for staff appreciation.
- From February 2004 to September 2005, approximately \$700 was spent on a single purchasing card for flowers for various occasions. At another board, during a one-year period, \$825 was spent on flowers on a single purchasing card. This board advised us that most of the flowers were for funerals.

Again, while the amounts individually were not significant, the overall totals at the four boards

amounted to thousands of dollars. While we acknowledge that in some instances reasonable purchases of this nature may be justified, we believe that, given the examples we noted, there is a need for more formal guidance in this area.

RECOMMENDATION 5

To help ensure that gifts to recognize employees are appropriate and justified, school boards should have clear policies regarding the use of board funds for employee recognition and gift purchases.

Meal Expenditures Using Purchasing Cards

At one board in particular, we noted a number of questionable transactions relating to meal expenses incurred by certain senior staff of the board.

We found that some senior staff at this board charged expensive meals and, although required by board policy, rarely submitted detailed receipts to support meal charges. The staff submitted only credit-card chits. When more than one person attended, the meal costs were usually divided and charged to each individual's purchasing card. We also noted that this was the only board audited that did not prohibit the claiming of alcohol as part of a meal claim. The following examples illustrate some of the concerns that we had regarding meals charged by certain senior staff from this board:

- From September 2003 to April 2005, certain senior staff charged meal expenses totalling approximately \$6,000 at a local restaurant. No detailed receipts were ever submitted for any of the meals. We were advised that these expenses were incurred before meetings of the board. The staff who attended generally split the bill. For example, five senior staff each charged \$109 to their respective purchasing cards for a dinner in January 2005. We were advised by the board that approximately

10 people attended this dinner, resulting in an average cost of \$55 per person. Other senior staff incurred more reasonable meal expenses before board meetings. For instance, the Director of Education and the Executive Superintendent and Treasurer of Business Services typically spent \$15 to \$20 each for dinner before these meetings.

- Several senior board employees attended a three-day conference in Toronto and, on consecutive nights, charged expensive dinners to their purchasing cards. On the first night, five staff charged \$114 each for dinner, at a total cost of \$571. On the following night, six staff (most were also at the first dinner) charged \$172 each for dinner, at a total cost of \$1,036, which also covered the cost of two guests. Detailed receipts were not provided for these meals. One employee who attended both dinners charged a total of \$400 in meal expenses over the three days. In comparison, we noted that two senior board staff from another board that we audited only claimed a total of \$125 each for meals over three days while attending the same conference.
- Two cardholders claimed \$155 each for a dinner costing \$310.
- Five cardholders split a dinner claim of \$375 for six people. One cardholder submitted a detailed receipt, which showed that the meal included \$85 for alcohol.

We also noted numerous meals charged by individual cardholders with no detailed meal receipts or information about the number of people attending. Examples included:

- a charge of \$300 for a principals' Christmas lunch;
- \$351 for an end-of-school vice-principals' function; and
- an individual's dinner claim of \$166 at an expensive restaurant in Toronto.

Subsequent to our audit, a number of staff repaid the board for amounts that were considered excessive.

While not to the same extent, we found similar issues at another board. For example:

- a dinner charge of \$360 for seven superintendents, including \$100 in alcoholic beverages (this board's policies prohibit claiming for alcoholic beverages). Subsequent to our audit, the board recovered the \$100 from the staff involved;
- a dinner charge of \$327 with no information on who attended;
- \$404 for a luncheon for an area team; and
- during a conference in Newfoundland, two dinner charges for eight people of \$365 and \$500, respectively, with no detailed receipts provided.

Travel and Conference Expenditures Using Purchasing Cards

At one school board, purchasing cards were being used for most travel expenditures. In contrast, another board did not allow purchasing cards to be used for travel expenses except by its Director of Education. At the third board, staff used their purchasing cards for travel expenditures, but not extensively. The fourth board issued its senior staff with separate credit cards to pay for travel and other board-related expenses.

At one board, on a number of occasions, senior staff attended conferences (usually three or four days in length) and stayed for a week or more. Management indicated that extended stays are permitted as long as the employee pays all of the additional costs. However, we found that, in some instances, employees charged additional travel costs to their purchasing cards, such as car rental, accommodation, and parking fees related to the extended stays that were not reimbursed to the board. For example:

- Three senior board staff attended a four-day conference held in San Antonio in February 2005. Two staff stayed in San Antonio for seven days, while the third employee first flew to San Francisco for personal reasons. This employee stayed in San Francisco for five nights and flew to San Antonio when the conference started. No expenses for meals or accommodation were charged to the board for the stay in San Francisco. However, this employee charged \$725 for the flights from home to San Francisco, from San Francisco to San Antonio, and from San Antonio to home, whereas the two staff who flew directly to San Antonio charged only \$400 each in total for their flights. We were advised that the employee had reimbursed the board for the difference in flight costs, but the cheque was not cashed by the board. Subsequent to our audit, a replacement cheque was provided to the board. In addition, one employee charged six nights' accommodation. Subsequent to our audit, the employee reimbursed \$550 to the board to cover accommodation costs not related to the conference.
- One senior board employee attended two conferences, each lasting several days. For each conference, the employee charged to the purchasing card a full week's car rental. Total costs for the car rentals were \$635. Subsequent to our audit, this employee repaid the board for the car rentals.
- A board employee attended a conference in New Orleans and charged \$70 to attend an ecotour attraction outside the city. While at another conference, in Orlando, the same employee charged \$185 at the Universal Orlando Resort. No explanation of these charges was provided. Subsequent to our audit, the employee repaid the board for these expenditures.

- Three senior board staff attended a four-day conference in Las Vegas but stayed there for a week. The staff charged \$660 for a one-week car rental, including gas costs for the 450 kilometres driven.
- Three senior board staff attended a three-day conference in San Francisco in February 2004. One employee arrived in San Francisco and then took a 185-kilometre side trip to stay in Monterey, at an additional cost of approximately \$300, which was charged to the purchasing card.

We also noted that three senior staff from the same board used their purchasing cards near the end of the fiscal year to purchase travel gift certificates totalling \$3,700. For example, one employee purchased a \$2,200 travel gift certificate in August 2005 indicating that the gift certificate would be used for a flight to San Diego for a conference in February 2006. The price of the ticket was approximately \$850, leaving an outstanding balance of \$1,350.

RECOMMENDATION 6

To help ensure that meal and travel expenses are appropriate, school boards should ensure that:

- amounts claimed are reasonable;
- any personal expenses are not paid by the board; and
- the purchase of travel gift certificates is prohibited.

Card Utilization

To limit the risk of improper use of purchasing cards, boards should ensure that the cards are issued only to employees who need them to fulfill their duties. Card limits should match the spending needs of each employee.

One board has approximately 3,200 cards. We noted that 15% had no activity for over one year. The board estimated that 25% of the 3,200 cards could be eliminated. At the other three boards, the issuance of an excessive number of purchasing cards was not a concern as they issued far fewer cards.

RECOMMENDATION 7

To help limit the risk of inappropriate expenditures being incurred on purchasing cards, school boards should:

- review the number of purchasing cards that have been issued to staff; and
- cancel unnecessary cards.

SUMMARY OF RESPONSES FROM SCHOOL BOARDS

Recommendation 1

The school boards agreed with the recommendation. One board stated that it would ensure each of the suggestions in the recommendation is reflected in its policies and implemented in its day-to-day operations.

Recommendation 2

The school boards agreed that they should prepare and retain appropriate documentation for all purchasing decisions. One board indicated that it has reinforced to staff the need for documentation on file to support the decision-making rationale and process.

Recommendation 3

The school boards agreed that they should prohibit unnecessary prepayments for services. The board involved in the prepayment stated that it was revising its Purchasing Policy and Procedure, and intended to incorporate a section on prepayment of services. This board also indicated that any future prepayments would have to demonstrate financial benefit, security, and risk assessment, and would require approval from the Trustees.

Recommendation 4

The school boards agreed that they should enforce the requirements that proper detailed receipts be submitted to support all card purchases and that managers follow up on any unusual expenditures. One board indicated that

it has implemented changes to its procedures for purchasing cards. Another stated that its Expense Reimbursement Policy was intended to require detailed receipts. This board planned to revise and strengthen its policy, and indicated that this would be reviewed with all staff authorized to approve board expenditures.

Recommendation 5

The school boards agreed that they should have clear policies regarding the use of board funds for employee recognition and gift purchases. One board stated that it supported the concept of recognizing and rewarding employees in specific circumstances. However, it also stated that it recognized the need for guidance in this area and that it would undertake to develop appropriate guidelines for consideration by Trustees. Another board noted that it did not have a clear policy on employee recognition, but that it would be developing one based on a review of best practices in place at other organizations.

Recommendation 6

The boards agreed with our recommendation. The board with the most examples of questionable transactions stated that it supports the recommendation, as this is the intent of its current policy and procedure. The board has made recoveries from staff where considered appropriate and also indicated that it would revise

and strengthen this policy and procedure, and then communicate it to all staff. In addition, this board has obtained external advice to ensure that it has acted properly to address our concerns. Another board has revised its processes to improve accountability and responsibility for those who hold a purchasing card. Another board stated that procedures regarding the eligibility of expenses, and the requirement for detailed receipts, have been reviewed with cardholders and with staff responsible for processing payment of expenses.

Recommendation 7

The one board where the number of purchasing cards was an issue noted that it had undertaken a review of the number of cards issued during the recent change of purchasing card vendors, and cancelled cards at that time. The board also indicated that it planned to regularly review purchasing-card use with a view to reducing the overall number of cards.

MINISTRY OF EDUCATION RESPONSE

The Ministry of Education fully appreciates the work performed by the Office of the Auditor General in conducting this audit of the acquisition of goods and services at the school boards and the co-operation extended to the Office by the four audited school boards—Durham, Rainbow, Thames Valley, and York Catholic.

The Ministry will continue to work and partner with the school boards to identify better practices to implement and strengthen

their control framework over procurement and expenditure management. The Ministry will be communicating with the boards to reinforce the findings in terms of good practices in procurement and purchasing-card use.

The Ministry will also continue to strengthen its relationships and oversight processes as required so that corrective actions, where necessary, are effected on a timely basis.

Follow-up of Recommendations in the *2004 Annual Report*

It is our practice to make specific recommendations in our value-for-money (VFM) audit reports and ask ministries and agencies to provide a written response to each recommendation, which we include when we publish these audit reports in Chapter 3 of our Annual Report. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken by management with respect to our recommendations.

Chapter 4 provides some background on the value-for-money audits reported on in Chapter 3 of our *2004 Annual Report* and describes the current status of action that has been taken to address our recommendations since that time as reported by management.

As discussed in Chapter 2, for over 90% of the recommendations we made in 2004, management has indicated that progress is being made towards implementing our recommendations, with substantial progress reported for nearly half.

Our follow-up work consists primarily of inquiries and discussions with management and review of selected supporting documentation. This is not an audit, and accordingly, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively. The corrective actions taken or planned will be more fully examined and reported on in future audits and may impact our assessment of when future audits should be conducted.

Chapter 4

Ministry of the Attorney General

Section 4.01

Office of the Public Guardian and Trustee

Follow-up to VFM Section 3.01, *2004 Annual Report*

Background

The Office of the Public Guardian and Trustee's (Office) primary responsibilities include: acting as the guardian of property and/or ensuring the provision of 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 2005/06 fiscal year, the Office had approximately 320 staff (300 staff in 2003/04) and operating expenditures of \$28.8 million (\$27 million in 2003/04). The Office charges fees for its services in accordance with amounts permitted by legislation and based on the value of assets, income, and services required. These fees amounted to \$19.7 million in the 2005/06 fiscal year (\$16.5 million in 2003/04). For the fiscal year ended March 31, 2006, the Office was responsible for the investment and management of approximately \$1.2 billion (\$1 billion in 2003/04) in assets

as trustee for its incapable clients and for other clients from various programs.

In our *2004 Annual Report*, we noted that the Office had made a number of key operational improvements to enhance services to incapable clients since our last audit in 1999. However, our audit did identify areas where improvements were still required. Specifically:

- In the administration of estates, while some progress has been made in locating heirs for estates taken over, a significant backlog still exists.
- Although initial action had been taken to locate all minors who are entitled to assets being held by the Accountant of the Superior Court of Justice once they have become eligible for payment, in a number of cases there was a lack of follow-up action.

In addition, our audit identified the following concerns with respect to the management of the \$1 billion in assets entrusted to the Office at that time for investment under its various programs:

- In selecting fund managers, the Office selected one candidate as its top choice to manage two of its funds 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 one of the funds, the 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.

We made a number of recommendations for improvement and received commitments from the Office that it would take action to address our concerns.

Current Status of Recommendations

According to information received from the Office of the Public Guardian and Trustee, substantial progress has been made in addressing the recommendations in our *2004 Annual Report*, especially those relating to our concerns with respect to the Office's management of its billion-dollar investment portfolio. The current status of action on each of our recommendations is as follows.

ESTATE ADMINISTRATION

Locating Heirs

Recommendation

To properly discharge its duty as estate trustees, the Office should increase its efforts to locate heirs and distribute assets on a more timely basis.

Current Status

According to the Office, many estate files had been closed since the 2004 audit, resulting in significantly fewer estates under administration. Specifically, in the period between December 31, 2003 and March 31, 2006, the Office opened 470 estate files and closed 991 files. Of the closed files, 409 were escheated, 466 were distributed to heirs, and 116 were otherwise closed, primarily because they were transferred to alternative estate trustees for the purpose of distribution to heirs. As of March 31, 2006, the Office had 1,264 outstanding estate files with assets valued at about \$85.7 million under its administration. This number of files outstanding had decreased by about 500, or 28%, since December 2003.

At the time of our follow-up, the Office indicated that it was adding functionalities to its recently developed information system to facilitate better case management, automate routine tasks, and provide better tools to assist with follow-up on estate files. As well, the Office's Business Re-engineering Review was looking at procedures in the estate unit, with a view to introducing efficiencies and improvements.

In order to better evaluate and report on the timeliness of file activities, the Office indicated that it was introducing an additional quality assurance process. The status of every estate file open beyond three years is to be reviewed by supervisors on a quarterly basis to monitor whether all the appropriate steps are being taken in a timely manner.

Accountant of the Superior Court of Justice and Distribution of Assets

Recommendation

To ensure that beneficiaries receive funds when they are legally entitled to them, the Office should initiate more rigorous and timely follow-up action to locate and distribute funds to intended beneficiaries.

Current Status

The Office's tracking system maintains a database of trust accounts for all minors who have money in court and logs searches that have been performed and their outcomes. According to the Office, as of December 2005 there were 1,495 accounts for which beneficiaries had not been located; 86% (1,288) of these had had follow-ups initiated during 2005. The Office indicated that a defect in the tracking software was the main reason there had been no follow-up for the remaining 14% (207) of the accounts. At the time of our follow-up, the software defect was being corrected and follow-up had begun on these accounts.

For beneficiaries who were difficult to locate, several sources were being used to search for them, including address/phone number lookups, the Ministry of Transportation, insurance companies, financial institutions, and Canadian Law List for lawyers.

Where these and other search methods had been unsuccessful, at the time of our follow-up the Office had been seeking access to information held by the Ministry of Health and Long-Term Care (Ministry). Arrangements for the sharing of information were initiated through legislative changes to the *Public Guardian and Trustee Act* to allow the Accountant to collect the information and through enactment of a new regulation under the *Health Insurance Act* to permit the Ministry to disclose the personal information to the Accountant. The Office has initiated steps to enter into a Memorandum of Understanding with the Ministry to obtain the names, addresses, and other non-health-related information of beneficiaries from the Ministry. In

June 2006, the Office indicated that it expects the Memorandum of Understanding to be implemented in the near future.

INVESTMENT OF TRUST ASSETS

Engagement of Investment Advisory Firm

Recommendation

To obtain better value and to avoid continuous reliance on a particular vendor, the Office should establish appropriate mechanisms for attracting more potential vendors for the provision of investment advisory services.

Current Status

A request for proposals was posted on MERX, an electronic tendering system used in the Canadian public sector, in 2005 for a new investment advisor. Ten firms with appropriate expertise were notified of the posting, and six proposals were received. A five-year contract was entered into with the successful bidder in June 2005. The functions of the investment advisor include monitoring the performance of the fund managers and assisting the Public Guardian and Trustee and her Investment Advisory Committee in periodic reviews of the Statements of Policies and Goals for each of the investment funds.

Selection of Diversified Fund Managers and Post-selection Performance—Diversified Fund

Recommendation

The Office should critically evaluate the performance of potential investment managers based on investment returns and ensure that its process for selection of investment managers eliminates candidates that consistently underperform.

Current Status

A request for proposals for the diversified fund was posted on MERX on March 6, 2006 and closed on

April 12, 2006. The Office received 14 proposals. The Office indicated that the investment advisor had outlined many selection criteria for investment management firms and that, with the advisor's assistance, the Office had critically evaluated the past performance of the firms based on annual and annualized returns relative to peer groups, appropriate benchmarks, and risks.

As of July 2006, the Office was in contract negotiations with the two fund managers that were selected following the request for proposals.

Selection of Fixed Income Funds' Managers and Post-selection Performance—Fixed Income Funds

Recommendation

To enhance returns for its clients, when selecting money market investment managers the Office should:

- *use an open, competitive tender process, such as posting requests for proposals for all significant contracts on the public electronic tendering system; and*
- *evaluate candidates based on a combination of performance and fees.*

In addition, the Office should not pay fees higher than those agreed to when the contract was awarded.

Furthermore, the Office should establish appropriate indicators to measure the performance of its fund managers against appropriate investment benchmarks.

Current Status

The Office indicated that a request for proposals for fixed income funds' managers is to be released and posted on MERX in 2006. Candidates are to be evaluated with the assistance of the Office's new investment advisor, and evaluation criteria will include performance and fees.

The Office, in consultation with the new investment advisor and the Investment Advisory Committee, reviewed the benchmarks to establish

appropriate indicators for measuring the performance of fund managers. For the Canadian money market fund, it was decided to retain the benchmark as the Scotia Capital 91-day T-bill Total Return Index. However, it set an objective for the manager to outperform that benchmark on an annualized basis by 10 basis points, recognizing the latitude that the manager has in purchasing corporate paper not included in the index. With respect to the laddered buy-and-hold bond fund, the new benchmark is based on continuous reinvestment of three-year Canada zero coupon bonds, laddered at six-month intervals as determined by the Bank of Canada. The objective set for the manager was to outperform this benchmark on an annualized basis by 20 basis points.

In addition, a review of the investment strategies and mandates surrounding the Office's common funds had been completed with the assistance of the new investment advisor and the Office's Investment Advisory Committee. All investment policies and benchmarks for all funds were reviewed and amended as necessary.

The review also identified the need for a new fund that would provide a mid-term investment horizon that offers higher income than the bond and money market funds with less volatility than the diversified fund. The development of an investment policy statement and benchmark for this new Canadian dividend and income fund has been completed. A request for proposals for the new fund was posted and closed on MERX in June 2006. The Office received 15 proposals and at the time of our follow-up was in the process of evaluating them with the assistance of the investment advisor.

Investing in the Diversified Fund for Individual Clients

Review and Approval Process to Select Clients for Investment

Recommendation

To ensure major investment decisions made for individual clients are appropriate and prudent, a proper process of consultation, review, and approval should be followed.

Suitability of Investing in the Diversified Fund

Recommendation

To minimize the risk of financial losses to clients because of short-term market fluctuations, the Office should improve its review, oversight, and approval processes and ensure that its current investment guidelines are being adhered to.

Asset Allocation

Recommendation

To ensure clients' assets are not exposed to undue risk, the Office should regularly review client portfolios and act on a timely basis on recommendations from financial planners with respect to such portfolios.

Current Status

In July 2005, the Office completed a review of policies and procedures in the financial planning and investment area. Based on the results of the review, the Office indicated that it had implemented significant changes to the system of consultation, review, and approval to ensure that investments in the diversified fund are appropriate to the age, health, and financial circumstances of the individual clients. For example, senior client representatives were required to obtain more thorough and accurate information about the client's health status before deciding whether the client is a suitable candidate for investment in the diversified fund, and they are required to properly document their assessment.

According to the Office, the documentation used in the preparation of the financial plans had also been extensively revised. Several levels of oversight had been put in place to ensure that investment decisions are prudent. Financial planning recommendations were subject to review and approval by supervisors in both the Financial Planning and Client Services departments.

In addition, the Office had developed new criteria for investment in the diversified fund relating to age. No guardianship client aged 75 or over or minor aged 13 or over who has less than five years until payout is eligible for initial investment in the diversified fund. Plans for clients were to be automatically reviewed when the client reached age 80 unless a change in circumstances precipitated divestment at an earlier date. A divestment plan, based on the client's health and financial needs, was to be developed in conjunction with the front-line staff, with the maximum age for total divestment in all cases being 85.

According to the Office, a recent internal review confirmed that the new policies and procedures were being followed, proper documentation was being completed, and all required approvals were being obtained. However, there were not enough financial planners on staff to ensure timely completion and implementation of financial plans. Therefore, management was working to reallocate resources to this area.

CHARITABLE PROPERTIES PROGRAM

Recommendation

To ensure charitable assets are distributed to intended beneficiaries or successor charities, the Office should review the Canada Revenue Agency's reasons for deregistering charities on a timely basis and immediately follow up on any organizations that may represent a higher risk of misusing or misappropriating their charitable donations.

Current Status

In response to our recommendation, the Office entered into discussions with the Charities Directorate of Canada Revenue Agency to determine if it would provide information concerning charities deregistered for cause—that is, for reasons other than administrative breaches. In December 2004, the Charities Directorate agreed to provide the Office with copies of letters sent to Ontario-registered charities whose charitable status had been revoked for cause. The Office did receive some of these letters; however, legislated privacy restrictions imposed on the Canada Revenue Agency meant that limited information could be disclosed.

As a result, the effectiveness of the Office's follow-up action was also limited.

In any case, the Office informed us that a change in practice by the Charities Directorate should address our concern. According to the Office, this change in practice would ensure that charities distribute their remaining property to other qualified charities or that the revocation tax—a tax equal to 100% of the charities' assets—would be levied. The Office indicated that its role in ensuring that the assets of registered charities are properly distributed will be limited given that the Charities Directorate is now taking steps to ensure that this is done.

Chapter 4

Ministry of Government Services

Section 4.02

Human Resource Renewal

Follow-up to VFM Section 3.02, *2004 Annual Report*

Background

Over the past decade, a number of initiatives for government restructuring, service realignment, and third-party service delivery have reduced the size of the Ontario Public Service (OPS) by over 20%. At the time of our 2004 audit, the OPS had about 63,600 full-time-equivalent employees who delivered public services through 30 government ministries and offices. Wages and benefits relating to these employees amounted to some \$4.4 billion annually, or about 7% of total government expenditures.

At the time of our audit in 2004, the Ministry of Government Services (then named Management Board Secretariat) and the Centre for Leadership and Human Resource Management were responsible for human resource management in the OPS (in 2005, the Centre was merged with two other former corporate training units to form OPS Learning and Development).

In 1999, the Ministry developed an HR Strategy aimed at reaffirming the value of public service, building on its strengths, and ensuring future workforce capacity. In our *2004 Annual Report* we noted that the government had not sufficiently implemented the renewal and revitalization strategies

necessary to address the issues identified in this HR Strategy. Downsizing, hiring restrictions, and weak efforts to promote the OPS as an employer of choice had resulted in a workforce that was considerably older than most other Ontario workforces. As well, insufficient progress had been made to ensure that the skills and competencies needed now and in the future were being identified and obtained. At the time of our audit, our major concerns included:

- Despite the intention stated in 1999 to address skill shortages and the aging workforce, aside from an internship program, no initiatives were then in place to hire younger people or provide assurance that employees were receiving the training and development they needed.
- The average age of public-service employees was continuing to rise. While 41% of staff in the senior management group would be entitled to retire within the subsequent 10 years, only one-third of the ministries had completed a succession planning process. We also noted that 249 retirees, representing 18% of total 2002/03 retirements, had been rehired 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, comprised almost 17.7% of the OPS workforce, almost double the rate of a decade previously.

- Our survey of approximately 2,300 OPS employees indicated that one significant source of job dissatisfaction was a lack of career development opportunities. Our work indicated that only one in every 67 employees received a promotion in 2003, suggestive of an employment environment with minimal opportunities for advancement.
- In 2002/03, an estimated 12 days per employee were lost due to absenteeism. The government program directed at working with employees with significant absences could be improved.
- 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.

We made a number of recommendations for improvement and received commitments from the Centre for Leadership and Human Resource Management (Centre) that it would take action to address our concerns.

Current Status of Recommendations

The Ministry of Government Services (Ministry) advised us as of September 2006 on the current status of action taken to address each of our recommendations. We noted that some progress has been made on all of our recommendations, as detailed in the sections that follow. However, more work will still be necessary to fully implement our recommendations, and, given that many of the human

resource issues raised in our report and the initiatives launched to address them are long-term in nature, it may be several years before the success of these initiatives can be fully assessed.

THE OPS WORKFORCE

Identified Skills Shortages, Succession Planning, and Recruitment

Recommendation

To ensure the Ontario Public Service (OPS) has the long-term capacity to continue to provide quality public service:

- *the Centre for Leadership and Human Resource Management should:*
 - *assess the government's long-term staffing needs and develop an action plan to fulfill these needs (this should involve an analysis of the skills needed to manage the current and future work of the OPS and the development of demographic targets for the OPS);*
 - *expand efforts to promote the provincial government as an employer of choice for young people entering the job market and consider the development of an e-recruitment program; and*
 - *work with ministries to expand the Ontario Internship Program or develop other youth recruitment programs; and*
- *ministries should develop comprehensive succession plans that identify all critical positions, the timing of when such positions will need to be filled by new staff, how such positions can and will be filled, and the training and development required to prepare a new generation of staff for these positions.*

Current Status

To address long-term staffing needs, the Ministry advised us that implementation was underway on a number of recommendations arising from an OPS Recruitment Process review. This has resulted in,

for example, the establishment of an Enterprise Recruitment Centre, with staff hired; the launching of an OPS Recruitment Modernization Strategy in January 2006; and planning for the establishment of permanent regional recruitment centres. As well, the periodic publication of print copies of *Jobmart*—a publication detailing available Ontario government jobs—was replaced by the on-line posting of all open and restricted OPS jobs. *Jobmart* responsibilities and staff were transferred to the Enterprise Recruitment Centre in April 2006. Also, a business case for an interim e-recruitment technology was under development.

The Ministry also advised us that it had completed a skills shortages review. The review included an analysis of the most actively advertised OPS occupational areas and projected retirements in these areas and identified common skill sets required to work in these occupations. At the time of our follow-up, the completed report was being shared with senior management and stakeholders.

The Ministry further indicated that, as part of an HR Service Delivery Transformation Project, a Northern Recruitment Pilot was launched in January 2005 to establish a testing ground for the delivery of end-to-end recruitment support to line managers in the North. Under this initiative, 18 ministries that had a Northern presence were serviced, with over 650 competitions being completed and the jobs filled. The Ministry further advised that these jobs were filled on average within 51 days, which compared favourably with an OPS average that ranged from 56 to 121 days. The pilot was extended, pending completion of a final pilot evaluation and approval of a permanent regional recruitment service delivery model.

The Ministry informed us that to attract young people into the OPS, a Youth and New Professionals Secretariat (YNPS) was created in October 2005. It is to provide a government-wide approach to recruiting and retaining future and current generations of OPS employees. The YNPS was staffed

and its strategy launched in August 2006. At the time of our follow-up, it had commenced an OPS work/learn pilot program targeting youth at risk, a French experience program targeting francophone youth, and an Aboriginal Youth Work Exchange Program. The YNPS was also working on an outreach program in partnership with Queen's University's School of Policy Studies. We were informed that in 2005 this partnership resulted in the hiring of 22 of the 56 graduates from that program. As well, the YNPS works with TOPS (Tomorrow's Ontario Public Service), an organization with more than 1,600 members created by young professionals from across the OPS to provide networking, mentoring, and learning opportunities.

We were advised that the Ontario Internship Program (OIP) was expanded to include project management as a new focus area and that a strategic review of all OIP focus areas was underway. A new internship program slated for fall 2006 is to give up to 70 internationally trained professionals work experience in the OPS and its Crown agencies via six-month internship placements. A program review of the OIP was also completed in summer 2006, and changes are underway.

The latest available ministry data, from June 2006, indicated that the average classified employee was 45 years old and that nearly six of 10 senior managers would be eligible for retirement within 10 years. We were informed that an integrated approach to managing talent was launched in 2006, aimed at ensuring that employees have the skills and capabilities required to address future business needs. A web-based system was rolled out in July to assess, develop, and deploy talent, with approximately 2,500 executives and managers in the process of completing their talent assessments. Subsequent phases will focus on analysis of talent against business needs to facilitate talent development and deployment decisions, as well as the design of learning and development programs.

Staff Retention

Recommendation

To improve employee satisfaction and staff retention rates in the Ontario Public Service, the Centre for Leadership and Human Resource Management should:

- *when reviewing existing or developing new human resource initiatives, assess them vis-à-vis the key drivers of employee satisfaction;*
- *determine, based on long-term business needs, which types of positions are best filled via permanent appointments versus temporary contractual appointments and work with the ministries to achieve these objectives;*
- *expand existing programs that support temporary job assignments, lateral transfers, and secondments to provide staff with enhanced career development opportunities;*
- *work with its employee representatives to prioritize and address the prime sources of employee job dissatisfaction;*
- *broaden both formal and informal employee recognition and appraisal programs; and*
- *establish a formal exit interview process and use the results from these interviews to identify opportunities to improve employee satisfaction and retention.*

Current Status

To address job satisfaction and to support benchmarking, an OPS employee survey was conducted in the spring of 2006, following stakeholder consultations and the development of a new employee engagement model. We were also advised that, over the last two years, the government provided \$5 million through 38 project grants to the Innovation Fund, an initiative designed to foster a culture of innovation across the OPS by supporting employee efforts to develop solutions to work issues.

The Ministry informed us that to address the appropriate balance of permanent and tempo-

rary employees, it had also completed a review of its contingent workforce usage and best practices in comparable jurisdictions and assessed its findings against OPS usage and practice. At the time of our follow-up, the Ministry was reviewing its corresponding policies to determine if changes were required and was preparing a report for senior management review on this issue. Tension in this area continued to exist, as evidenced by a number of outstanding grievances filed by the Ontario Public Service Employees Union (OPSEU) and the Association of Managers, Administrative and Professional Crown Employees of Ontario (AMAPCEO) alleging use of agency employees, fee-for-service, and consultants to do bargaining unit work. The Ministry informed us that, as of March 2006, the proportion of unclassified staff had declined to 15.6%, as compared to 16.5% in 2005.

In June 2005, a four-year agreement was reached with OPSEU, which we were advised had been ratified by 91% of OPSEU members. We were also informed that a two-year bridging agreement with AMAPCEO had also been concluded and a new agreement is now being negotiated. In 2006, the Ministry developed a new Labour Relations Strategy that promotes a greater use of disclosure amongst disputing parties, alternative dispute-resolution mechanisms, and training. Consultations on this strategy with stakeholders were completed, and the strategy is to be updated to address concerns arising from these consultations after all pending collective bargaining agreements have been negotiated.

The Ministry further advised us that they have developed a new Labour Relations Strategy focusing on collective bargaining, union-management relations, grievance administration, and developing employee relations staff. A related website is planned for launch later this year. Additionally, a pilot project underway at the Ministry of Community Safety and Correctional Services was addressing its large grievance backlog via such mechanisms

as mediation training and an expedited arbitration protocol.

According to the Ministry, a recognition policy with accompanying guidelines has been approved, and an online corporate informal recognition tool kit was updated. In this regard, an informal recognition training delivery strategy was under development, and programs to provide staff with enhanced career opportunities are to be developed as part of the talent management strategy. We were also informed that a number of new job-evaluation plans were being developed to replace outdated processes, reduce the number of job descriptions, and improve bargaining-agent relationships.

Although no formal exit interview policy or process had been established, we were informed that a number of ministries had implemented processes to collect and use exit data for retention analysis, or were establishing exit interviews for employees leaving specific professional groups.

HUMAN RESOURCE PLANNING AND REPORTING

Recommendation

To track progress in implementing the government's human resource renewal strategy for the Ontario Public Service (OPS), the Centre for Leadership and Human Resource Management should:

- *obtain the commitment of ministry senior management for the achievement of corporate HR strategic goals and develop sufficient accountability mechanisms to ensure this commitment is incorporated into ministry business planning and performance review processes; and*
- *establish benchmarks and targets for performance measures and work with ministries to ensure that measurement data is available and collected and the results are regularly reported on, both at the ministry level and on a corporate, government-wide basis.*

Current Status

The Centre for Leadership and Human Resources Management was established in 2004 to be accountable for the achievement of HR strategic goals. We were advised that new HR accountability structures were also established, such as HR-related accomplishments being included in Deputy Minister and senior management performance contracts. In 2005, a new three-year corporate OPS Human Resources (HR) plan was launched to support an enterprise approach to achieve three key HR priorities: engaging employees, attracting talent, and building capacity. According to the Ministry, at the time of our follow-up, corporate strategies were being developed to support each priority, and a committee of key representatives had been appointed to provide oversight and co-ordination for each priority area. In addition, a project team had been established to review the *Public Service Act* and identify policy options to update it and to embed within it the principles of accountability, transparency, and results delivery.

To address performance reporting against the HR plan (to be fully implemented by 2008), an HR metrics report had also been developed that sets out key results indicators for senior executives to monitor while the plan is delivered. In addition, all Civil Service Commission annual reports up to 2004/05 were completed and tabled in April 2006, and the 2005/06 report was to be tabled in fall 2006.

TRAINING AND DEVELOPMENT

Recommendation

To achieve the vision of the government as a true learning organization, foster the continual development of the government's human resources, and assess and improve on the cost-effectiveness of investments in employee training:

- *the Centre for Leadership and Human Resource Management should:*

- work to ensure management policies on training and development are implemented throughout the government;
- ensure government-wide training programs develop cost-competitive courses that reflect both employee and ministry training needs; and
- consider prescribing that ministries use the Workforce Information Network to record all staff training provided; and
- ministries should:
 - prepare annual corporate training plans that address both the Ministry's corporate priorities and employees' training and development needs; and
 - track and report on the cost, nature, and success of training provided.

Current Status

As part of its work to consolidate and harmonize corporate and generic training across the organization, the Ministry advised us that it had completed the development of a results-based core corporate curriculum. It had also implemented a new on-line course calendar accessible by all levels of staff, along with a learning portal that allows on-line registration and the subsequent tracking and management of corporate training. To improve quality and cost-effectiveness, in July 2005, three former corporate training units—the Modern Controllership Training group, the Learning Solution Group, and the Centre for Leadership—were merged to form one learning centre, called OPS Learning and Development. Training for the information technology group has also been integrated into this centre.

ORGANIZATIONAL WELLNESS

Recommendation

To promote organizational wellness and ensure that productivity is not impeded, the Centre for Leadership and Human Resource Management and ministries should better manage absenteeism by improving

systems to identify and work with employees with high absenteeism rates and by verifying that the requirements of the Attendance Support Program are complied with.

Current Status

The Ministry informed us that it had completed research on best practices in leading organizations and was developing a multi-year organizational health and wellness framework, targeted for completion in 2006/07. In the meantime, it had established improvement targets for both the Attendance Support Program (ASP) and employee absenteeism. The 2005/06 absenteeism targets called for each ministry to achieve a 10% reduction in employees who use more than 20 days of sick leave annually, as well as an overall 5% reduction in each ministry's average sick leave usage compared to the prior year. The Workforce Information Network (WIN) system had been enhanced to enable managers to identify employees needing attention under the ASP, and actual performance against these new reduction targets is being assessed. The Ministry is also establishing an enterprise-wide Workplace Safety Insurance Board claims-management system to help ministries improve the monitoring of absences due to workplace injury and to facilitate earlier return to work. The latest available workforce demographic profile, from June 2006, showed that these recent initiatives have not yet resulted in an improvement in this area, as employees were taking an average of 9.91 sick days annually versus the 2004/05 benchmark of 9.58 days.

OTHER MATTER

Recommendation

To ensure that service quality is not impeded, ministries should monitor the overtime being worked by their employees, set acceptable thresholds for such overtime, and, in areas where these thresholds are being exceeded, take appropriate corrective action.

Current Status

The Ministry advised us that at the time of our follow-up it was reviewing and analyzing overtime throughout the OPS to help identify the drivers of overtime and provide information about how it could be better managed.

Ontario Disability Support Program

Follow-up to VFM Section 3.03, *2004 Annual Report*

Background

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 disability-related applicants must also be assessed to determine if their disability meets the eligibility threshold established by the Ministry.

For the 2005/06 fiscal year, the Ministry's ODSP expenditures totalled approximately \$2.5 billion (also \$2.5 billion in 2003/04), of which approximately \$176 million represented administration costs. The cost of ODSP financial assistance is shared between the province (80%) and the municipalities (20%). Program administration costs are shared equally between the province and municipalities.

In our *2004 Annual Report*, 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 support payments in the amounts they are entitled to on a timely basis. 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—a

private-sector company—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.

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

Current Status of Recommendations

According to information received from the Ministry of Community and Social Services, significant progress has been made in implementing some of the recommendations we made in our *2004 Annual Report*. However, for several other recommendations, additional work is still required, especially with respect to financial- and disability-eligibility reviews. The current status of action taken on each of our recommendations is as follows.

ONTARIO DISABILITY SUPPORT PROGRAM ADMINISTRATION

Eligibility for Benefits

Medical Eligibility—Timing of Disability Decisions, Documenting of Disability Decisions, and Internal Reviews and Decision Monitoring Recommendation

To help ensure that all eligible applicants receive the assistance that they are entitled to, the Ministry should:

- *take the steps necessary to ensure that all initial eligibility determinations are completed within four months, or approximately 80 business days, following the receipt of a completed application;*

- *adequately document the reasons for all eligibility determinations so that they can be demonstrated to be reasonable and fair; and*
- *introduce a regular supervisory review process over both initial eligibility determinations and the outcomes of internal reviews, and address any concerns arising from those supervisory reviews on a timely basis.*

Current Status

The Ministry informed us that the number of cases awaiting adjudication for more than 80 business days was higher at the time of our follow-up than the 2,300 cases we noted at the time of our *2004 Annual Report*. However, due to recent actions, the number had dropped from over 7,000 cases at the beginning of 2006 to less than 5,000 cases in May 2006. This had occurred despite the steady increase in the number of applications received per week during the same period. To help ensure further improvement, the Disability Adjudication Unit created its own database, which the Ministry indicated has increased the speed and efficiency of adjudication documentation and provides managers with real-time reports. The Unit also hired eight more permanent and three temporary adjudicators in July/August 2006. The Ministry advised us that it is committed to reducing the waiting time for medical adjudications to four months or less by the end of 2006.

The Ministry also advised us that it had developed a documentation template and a guideline on the writing of an adjudication summary. A supporting Procedures Manual was expected to be available for use in fall 2006 to help ensure uniformity in deciding eligibility and in documentation.

According to the Ministry, internal reviews of files are addressed in a team environment. In addition, a manager external to the team conducts a random review of files monthly, and, beginning in 2006, the Chief Medical Officer is to review 50 randomly selected files annually for each adjudicator.

Medical Eligibility—Social Benefits Tribunal Appeals

Recommendation

The Ministry should, in consultation with the Social Benefits Tribunal, determine the reasons for the high rate at which the Tribunal overturns ministry eligibility decisions.

Current Status

The Ministry informed us that monthly meetings between the Disability Adjudication Unit and the Social Benefits Tribunal began in July 2005. While there had been a decline in the overturn rate, it continued to be high at the time of our follow-up. The Ministry indicated that it would continue to work with the Social Benefits Tribunal to determine the reasons for the high overturn rate.

Medical Eligibility—Medical Reassessments

Recommendation

To help ensure that only eligible recipients continue to receive benefits, the Ministry should perform the required periodic medical reassessments within a reasonable time frame.

Current Status

The Ministry informed us that, subsequent to our audit, the Disability Adjudication Unit had not been able to conduct medical reassessments due to staffing constraints. As of December 31, 2005, about 36,000 reassessments were overdue (up from 14,000 in 2004), and the number had been growing steadily.

The Ministry refined its reassessment criteria in 2006 and applied that criteria to an automated review of all cases with outstanding reassessments. The Ministry advised us that, based on that review, it was able to close more than 34,000 cases.

Financial Eligibility—Documenting of Financial Eligibility

Recommendation

To help ensure that all recipients are financially eligible to receive Ontario Disability Support Program (ODSP) financial assistance and that the assistance provided is in the correct amount, the Ministry should:

- *reinforce with all relevant ministry staff its requirements for obtaining, documenting, and correctly assessing the required recipient information, including information for those recipients transferred from Ontario Works; and*
- *consider the benefits of including Employment Insurance, where applicable, as a mandatory third-party check during an applicant's initial financial assessment.*

Current Status

The Ministry informed us that an Ontario Disability Support Program training guide that included a section on file-documentation requirements was released in January 2006. The associated training sessions were pilot tested in two regions in February and March 2006 and were rolled out across the province starting in June 2006. In addition, a web-based learning-management system that enables the tracking and reporting of all training taken by staff was developed and implemented in regional offices.

We were advised by the Ministry that a directive update would be issued in the fall of 2006 that will reinforce the requirement to obtain Employment Insurance checks and clarify the process. The Ministry indicated that the *Consolidated Verification Process Reference Guide* also provides direction to staff to review third-party information from the Employment Insurance source.

Financial Eligibility—Financial Eligibility Reassessments

Recommendation

To help ensure that only financially eligible recipients continue to receive benefits, and that benefits are paid in the correct amount, the Ministry should:

- establish appropriate risk-ranking criteria for selecting files for the Consolidated Verification Process (CVP) and incorporate those criteria into the Service Delivery Model system so that the highest-risk cases can be reassessed first; and
- through training and supervisory review, ensure that all required CVP verification procedures are properly completed and documented.

Current Status

The Ministry advised us that risk-ranking criteria were developed following our audit and that it will periodically review and update the risk-ranking criteria. Initially, cases were selected for Consolidated Verification Process (CVP) review based on eight risk factors; later on, from December 2005 to July 2006, the risk factors being used increased to 11. According to the Ministry, from September 2005 to May 2006, over 142,000 CVP cases were reviewed.

Overpayments were identified in about 6% of the CVP reviews. These overpayments amounted to approximately \$12.8 million in the 2004/05 fiscal year and approximately \$23.4 million in the 2005/06 fiscal year.

The Ministry advised us that it would conduct regular reviews to ensure that all required CVP verification procedures are properly completed and documented.

Recovery of Overpayments to Recipients

Recommendation

To help maximize the recovery of overpayments from recipients of Ontario Disability Support Program assistance, the Ministry should:

- determine the reasons why those outstanding balances designated “temporarily uncollectible”

were thus designated, assess whether the reasons are justified, and, if warranted, redesignate the balances as collectible;

- where warranted, actively pursue the recovery of overpayments from inactive clients;
- determine the reasons why approximately one-quarter of active recipients with overpayments are not making repayments through automatic deductions from their current benefits and take appropriate action where necessary; and
- consider whether the practice of deducting only up to 5% of monthly benefits from active recipients is an effective way of recovering overpayments, especially large ones.

Current Status

According to the Ministry, accounts with overpayments that are designated as “temporarily uncollectible” had been reduced from \$210 million at the time of our audit in 2004 to \$139 million as of June 30, 2006.

The Ministry informed us that it established a centralized overpayment recovery unit in October 2004. During the 2005/06 fiscal year, 4,018 inactive accounts with overpayments were referred to it for collection. As a result, 1,194 Voluntary Payment Plans, with a debt value of \$4.8 million, were negotiated. The Ministry indicated that \$1.5 million of that amount had been collected at the time of our follow-up. As well, 3,596 accounts, with a value of \$16.6 million, were registered with the Canada Revenue Agency’s Refund Set-Off Program, resulting in the collection of \$900,000 by the time of our follow-up.

The Ministry advised us at the time of our follow-up that the vast majority of active overpayment cases without recoveries (97%) fell into one of the following categories:

- The overpayment is under \$100.
- The case does not involve a monetary payment (for example, the recipient’s only benefit is a drug card).

- The only monetary payment to the recipient is a personal-needs allowance.
- The debt due was still being validated so recovery was suspended until validation was completed.

The Ministry also advised us that it was reviewing its policies with respect to overpayments, including the percentage of deduction from monthly benefit payments to active recipients.

Case Management

Workload

Recommendation

To ensure that caseworkers can provide an adequate level of service to recipients and effectively carry out their required responsibilities, the Ministry should:

- *set and implement reasonable caseload standards; and*
- *re-assess the allocation of staff in the regions to ensure that staff are assigned in accordance with caseload standards.*

Current Status

The Ministry advised us that the caseload ratio has improved since the 2004 audit due to the increase of approximately 150 caseworkers in the ODSP and that, while these workers are mostly dedicated to the Consolidated Verification Process, this is part of the case-management continuum. Further, the Ministry indicated that the current caseload ratio is approximately 233 cases to one worker, with caseworkers defined as Income Support Specialists and Client Services Representatives for the purposes of this ratio.

Management Activities

Recommendation

To help ensure that only eligible recipients continue to receive Ontario Disability Support Program financial assistance and that assistance is provided in the correct amount, the Ministry should ensure that:

- *tasks that may affect a recipient's eligibility and/or payment amount are followed up in a complete and timely manner by caseworkers and, where warranted, referred for eligibility review investigations;*
- *eligibility review investigations are completed on a timely basis;*
- *complete and accurate management information on the number, status, and outcomes of eligibility review investigations is maintained, monitored to ensure timely action, and evaluated in order to assess the effectiveness of the eligibility investigation process.*

Current Status

The Ministry informed us that, since our 2004 audit, it had conducted approximately 14,400 eligibility reviews. According to the Ministry, many of these reviews resulted in the termination of benefits, voluntary withdrawal, changes in the amount of assistance, and/or identification of overpayments.

At the time of our follow-up, there were discrepancies in the Eligibility Review Performance Reports, which management was in the process of investigating. Consequently, the Ministry indicated it must use ad-hoc reports to reconcile the data.

Cost-sharing between the Province and the Municipalities

Recommendation

To help ensure that municipalities are accurately billed for their fair share of Ontario Disability Support Program (ODSP) benefits, the Ministry should verify the reliability of the monthly ODSP benefit totals in the ODSP Financial Consolidation Report by reconciling them to actual payments made.

Current Status

No manual reconciliation had been completed to verify the accuracy of the ODSP benefit totals used to bill municipalities. The Ministry informed us that the changes to the computer system needed to

produce an ODSP benefit cheque register for conducting the reconciliations were finalized in February 2006 and were being tested at the time of our follow-up. The ODSP cheque register is scheduled to come into production for November 2006.

SERVICE DELIVERY MODEL

Recommendation

To help enable the Ministry to efficiently and effectively administer the Ontario Disability Support Program, the Ministry should:

- *develop and produce accurate and useful performance and operational reports;*
- *provide recipients with more complete information; and*
- *correct known system deficiencies on a more timely basis.*

Current Status

We were advised that staff at the local office level felt that there had been some improvement in the

Service Delivery Model (SDM) computer system since its inception but that further enhancements were still needed to fully meet the information needs of management and staff. This was evidenced by the fact that both the Disability Adjudication Unit and the Overpayment Recovery Unit have their own database alongside the SDM system, while some local offices have their own intake tracking tool.

The Ministry indicated that it reviews, prioritizes, and monitors the status of all changes to the SDM system and releases those changes in a controlled fashion. The Ministry advised us that, since 2004, it has completed approximately 2,700 system changes and enhancements for the SDM system, and that as of June 2006, there were 1,393 outstanding requests for changes to the SDM system.

Air Quality Program

Follow-up to VFM Section 3.04, *2004 Annual Report*

Background

The Ministry of the Environment's mandate is to protect, restore, and enhance the environment to ensure public health, environmental protection, and economic vitality. There are a number of laws and regulations in place to protect Ontario's air quality. Of particular importance is the *Environmental Protection Act*. The Act establishes a general prohibition against the discharge of contaminants into the environment in excess of amounts permitted by regulations and provides the authority for environmental inspections and investigations.

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 was \$10 billion. In the 2005/06 fiscal year, the Ministry spent approximately \$54 million (approximately \$28 million in 2002/03) for programs and activities that relate directly to air quality.

In our *2004 Annual Report*, we observed that the Ministry had implemented several key regulatory and operational initiatives directed at reducing air contaminants since our last audit of the Ministry's Environmental Sciences and Standards Division in 1996. However, we also concluded that further action needed to be taken because, according to

ministry projections, the province would not be able to meet its national and international commitments to achieve cleaner air in Ontario over the next 10 years. Some of our more significant observations included the following:

- Since our 1996 audit of the Ministry's Environmental Sciences and Standards Division, standards for air pollutants had been developed, updated, or reaffirmed for only 18 of 70 air pollutants that had been categorized as high priority for air standards development.
- There were no periodic renewal requirements for Certificates of Approval issued to companies discharging contaminants into the air, and accordingly, many Certificates reflected 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 misrepresented the health risks associated with air pollution in that it did not consider the combined effects of all measured pollutants, and estimated that 92% of the premature deaths and hospitalizations that were attributable to air pollution occurred when air quality was 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 undermined this program's integrity.

- The Ministry's SWAT inspection activities had been successfully identifying numerous non-compliant facilities. However, the Ministry's follow-up procedures for ensuring that identified problems were corrected required improvement.

Current Status of Recommendations

According to information received from the Ministry of the Environment, some progress has been made on all of the recommendations in our *2004 Annual Report*, with substantial progress having been made on several. The current status of actions taken on each of our recommendations is as follows.

PROGRAM POLICY AND PLANNING

Strategic Planning Process

Recommendation

To help ensure cleaner air in Ontario and to meet its agreed-upon national and international commitments, the Ministry should, as a first step, review the effectiveness of its current pollution reduction strategies and develop an overall plan, complete with various alternatives, estimated costs, and timelines.

Current Status

The Ministry advised us that a key component of the overall strategy was to reduce air pollution from sources outside the province, which account for 50% of the smog in Ontario. The Ministry indicated that the key initiative aimed at addressing the issue

of air pollution from outside the province was the release in June 2005 of *Transboundary Air Pollution in Ontario*, a report outlining the geographic origins of air pollutants and the actions proposed for reducing it through such initiatives as the Emissions Reduction Trading Program.

We were advised that the Premier also announced the next steps for dealing with transboundary pollution in 2005 at the first annual Shared Air Summit, attended by representatives of neighbouring provinces and states and by agencies of the Canadian federal government. The Ministry advised us that the second annual Shared Air Summit, in June 2006, provided the opportunity to outline the current status of commitments made by Ontario at the previous summit. According to the Ministry, accomplishments since the first summit included:

- formation of a round table of experts to advise the government of Ontario on ways to clean up the airshed;
- involvement in regulations governing emissions policy in the United States that affect Ontario; and
- creation of working relations with neighbouring jurisdictions to act on clean-air initiatives (for example, in June 2006, the Ontario and Quebec Ministers of the Environment signed the *Ontario-Quebec Agreement Concerning Transboundary Environmental Impacts*).

The Ministry stated that the issue of air pollution from industrial emitters within Ontario was being addressed by the implementation in 2005 of a five-point plan. The first two points in the plan related to the reduction of nitrogen oxide and sulphur dioxide emissions. Ontario Regulation (O. Reg.) 194/05, which came into effect in May 2005, reduced the allowable industrial emissions for these two significant smog-causing pollutants, with further reductions scheduled for subsequent years.

The remaining three points in the plan were addressed by the implementation of O. Reg. 419/05

on local air quality in November 2005. According to the Ministry, the regulation set new standards for many harmful pollutants, will enable greater knowledge of industrial emissions with the use of more accurate air dispersion models, and introduced a faster, risk-based approach for implementing new air standards.

In addition to the five-point plan, the Ministry announced a coal-replacement strategy in June 2005, that set timelines for the closure of Ontario's four remaining coal-fired stations. The coal-fired Lakeview Generating Station was closed in April 2005, but the following year, the projected supply and demand of electricity in Ontario led to a postponement of the closing dates for the four remaining coal-fired plants. No new dates have been set. At the same time, Ontario has been working on the development of cleaner sources of energy, including nuclear power and renewable energy, and on conservation measures.

Regarding vehicle emissions, a further tightening of standards in the Drive Clean program in 2005 reduced allowable emissions by 11.5% for light-duty vehicles and 5% for diesel heavy-duty vehicles. In addition, a regulation was promulgated requiring an annual average 5% ethanol content in gasoline sold in Ontario beginning in 2007.

Air Quality Standards

Recommendation

To protect human health and the environment, the Ministry should:

- *evaluate the results of the pilot project on the implementation of air quality standards and consider implementation of the associated risk management framework;*
- *develop and update its air quality standards and guidelines on a timely basis; and*
- *consider using up-to-date air dispersion models to assess the impact of planned revisions to air quality standards and guidelines.*

Current Status

The Ministry informed us that a new regulation, O. Reg. 419/05, came into effect November 30, 2005, to manage local air emissions and to update the regulatory framework that had been in place in Ontario for more than 30 years. It includes a risk-based process to allow alternative standards for any pollution-emitting facilities having difficulty implementing the new standards or dispersion models. To obtain ministry approval for variance from the standards, facilities must submit information for ministry review that includes the magnitude and frequency of their emissions exceeding air quality standards, an assessment and ranking of technical options available to reduce pollutants, details on economic feasibility, results of consultations with the public, and a timeframe for implementation. This information must demonstrate best efforts by the facility to comply with the standard and must include a continuous improvement toward achieving the standard. Upon assessing this information, along with any other data regarding the facility, the Ministry may allow the approved alternative standards for up to five years, or 10 under extenuating circumstances. The Ministry informed us that it will carry out periodic reviews to ensure continuous improvement.

The Ministry now has updated air standards for 41 of the 70 high-priority substances identified in its 1999 Standards Plan. We were informed that consultation documents for an additional 14 high-priority substances had been posted on the Environmental Bill of Rights Environmental Registry in June 2006. In addition, standards were under review and development for an additional 13 high-priority substances. Standards for the final two of the remaining 70 high-priority substances were being developed by the federal government in consultation with the provinces and were to be considered for implementation in Ontario.

Pursuant to O. Reg. 419/05, regarding Air Pollution and Local Air Quality, pollution emitters will be

required to use up-to-date and improved air dispersion models, which provide a more accurate assessment of health and environmental impacts. These models will be phased in by sector, starting in 2010 and completing in 2020. All new facilities for which construction began after November 30, 2005, must use the new air dispersion models. The Ministry developed three technical guidance documents to support the implementation of the regulation: the *Air Dispersion Modeling Guideline for Ontario*, the *Procedure for Preparing an Emission Summary and Dispersion Modeling Report*, and the *Guideline for the Implementation of Air Standards in Ontario*.

Certificates of Approval

Recommendation

To help ensure that emissions of airborne contaminants are limited to levels that are safe for human health and the environment, the Ministry should:

- *improve its information systems so that a periodic risk-based assessment can be conducted on all Certificates of Approval to determine the extent to which each certificate needs to be updated to reflect significant changes in air quality guidelines;*
- *develop a checklist to help ensure that all new and updated certificates include standard provisions for compliance with regulations, guidelines, government policies, and other requirements; and*
- *strengthen procedures for processing applications in a timely manner.*

Current Status

The Ministry said that it now ranks emitting facilities annually based on risk posed to health and the environment, and inspects those ranked the highest in that same year. In preparing for inspections, ministry staff review a facility's Certificate of Approval. Should they identify a need for updating, staff are required to ensure that the company submits an application to amend the Certificate. This process is

to be integrated into the Ministry's information systems.

In addition, district inspections resulting from public complaints, spills, or other such events will include a review of Certificates of Approval held by the responsible party. Again, inspection staff are required to follow up on needed amendments, and they will address non-compliance by issuing a compliance order to the facility, fining the facility, or referring it to the Investigations and Enforcement Branch for follow-up, including possible legal prosecution. It will be each Certificate holder's responsibility to comply with new standards arising from legislative or regulatory change, and the holder will be required to apply for an amendment to its Certificate of Approval if the Certificate refers to a standard that has been changed.

The Ministry informed us that it had developed and implemented a protocol and checklists for updating Certificates and determining whether changes should be incorporated into a facility's Certificate to meet the requirements of legislation, regulations, standards, policies, guidelines, and operating procedures.

The Ministry informed us that it had taken three steps to process applications in a more timely manner. First, facilities can apply for a Basic Comprehensive Certificate of Approval, which allows them to make changes to their processes up to an approved limit while still meeting legislated emission standards. Each comprehensive certificate issued reduces overall workload, since any changes up to the limits in the certificate do not require certificate modification. The Ministry advised us that, as a result, it has reduced the workload of its Air Approval Unit by about 50%, allowing staff to process other applications for Certificates of Approval more quickly. Second, the Ministry had developed model terms and conditions for the application process to help ensure that necessary information is included in the application, and that the terms and conditions can be defended if the applicant appeals.

Third, the Ministry stated that it had targeted specific sectors to improve application-processing times, and has already improved times for the electricity sector. Proponents of electricity projects can submit technical reports for ministry assessment while undergoing an environmental screening process. This review takes place before the submission of an application for a Certificate of Approval.

AIR QUALITY MONITORING

Air Quality Index

Recommendation

To better inform the public of the health risks associated with air pollution so that vulnerable individuals can take precautionary measures, the Ministry should review the Air Quality Index (AQI) process and consider the following:

- *revising the descriptive ratings so that for all pollutants measured, an air quality rating of poor is imposed at the point where the standard is exceeded;*
- *including the cumulative health impacts associated with simultaneous exposure to the multiple pollutants; and*
- *re-examining the standards for each pollutant in the AQI and incorporate the most current health science regarding the effects of airborne contaminants.*

Current Status

The Ministry completed a review and revision of the descriptive ratings of the province's current Air Quality Index (AQI). Air quality is now described as poor if the level of nitrogen dioxide or sulphur dioxide exceeds air quality standards.

The Ministry had also been working on a project led by the federal government and including other stakeholders to develop a new National Air Quality Index based on health risk. A new index was proposed in January 2006 and subsequently reviewed by an external expert panel. Health Canada was

expected to respond to the review in the current year. Pilot testing of the AQI health-risk-based index in Ontario was to proceed once the science issues raised by the external expert panel in May 2006 were resolved.

The Ministry said that it is working with the federal government to explore ways to shift from an air-standards-based index to one based on the cumulative health effects of pollutants.

Emissions Reduction Trading Program

Recommendation

To help reduce overall emissions of nitrogen oxides and sulphur dioxide and to ensure cleaner air, reduced smog, and reduced acid rain, the Ministry should consider:

- *setting effective emission limits for sulphur dioxide (that is, limits that are below current emission levels);*
- *placing limits on the excessive use of emissions reduction credits; and*
- *imposing emission limits on other sectors that are significant emitters of sulphur dioxide and nitrogen oxides.*

Current Status

The Ministry reported that sulphur dioxide emission reductions for the fossil fuel electricity-producing sector were put into regulation by limiting emissions from that sector to 157.5 kilotonnes in 2002. This limit was to be further reduced in 2007 to 131 kilotonnes, for a total 25% reduction from the 175-kilotonne limit set under the Countdown Acid Rain program in 1994.

Under O. Reg. 194/05, which took effect in 2006, sulphur dioxide emission limits were placed on six more industrial sectors, with additional reductions to the emission limits set for 2007, 2010, and 2015. The total annual allowance of sulphur dioxide emissions under ministry regulation for the electricity sector and the six industrial sectors are

617.1 kilotonnes in 2006, 499.2 kilotonnes in 2007, 477.2 kilotonnes in 2010, and 322.5 kilotonnes in 2015.

The province grants each regulated company/facility a quota of emission allowances, and those that don't use their entire allotment of allowances can sell them to others. Emissions reduction credits are generated by companies that are not regulated under regulations 397 or 194. We questioned the use of emissions reduction credits in our *2004 Annual Report*. The Ministry has confirmed that their use is limited to 33% of allowances used to achieve compliance for nitrogen oxide emissions, and 10% of allowances used to achieve compliance for sulphur dioxide emissions. In addition, the Ministry requires that users of emissions reduction credits retire an additional 10% in credits for the benefit of the environment when they are used to achieve compliance. The Ministry also revised the Ontario Emissions Trading Code in 2005 to help facilitate sulphur-dioxide and nitrogen-oxide emission reductions through the addition of facilities that could participate in the creation of emissions reduction credits. The Ministry said these additions allowed a larger number of emitters to make voluntary reductions that may qualify for the creation of emissions reduction credits. In turn, this was expected to lead to accelerated improvements in the air quality of Ontario and more flexibility for the regulated sectors to meet their emissions limits.

O. Reg. 194/05 also imposes emissions limits on several industrial facilities. The regulation allows 30 emitting facilities to participate in emissions trading, and begins limiting nitrogen oxides and sulphur dioxide in 2006, with progressively lowered emission limits in 2007, 2010, and 2015. By 2015, O. Reg. 194/05 is expected to reduce nitrogen oxides by 21% from 1990 levels and sulphur dioxide by 46% from 1994 levels.

Air Emissions Reporting Process

Recommendation

To provide the public with accurate information on the emission of airborne contaminants sufficient to allow informed decisions about environmental and health impacts, the Ministry should:

- *develop a process for ensuring that all facilities required to submit annual emission reports do so;*
- *follow up on annual emission reports that are incomplete and/or contain anomalies on a timely basis to provide the public with assurance that the information is reasonably reliable; and*
- *consider generating consolidated reports that are sufficiently useful for both public and ministry decision-making purposes.*

Current Status

In early 2006, the Ministry amended the regulation regarding air emission monitoring and reporting to harmonize it with Environment Canada's National Pollutant Release Inventory (NPRI). As part of this harmonization, the Ministry and Environment Canada (EC) have agreed to co-operate on a range of activities to ensure that all facilities submit annual emission reports as required. These joint activities include outreach initiatives to raise the awareness of reporting requirements, reviews of data submitted by emitting facilities for quality assurance and control, use of NPRI data to identify facilities posing human health or environmental risks that should be inspected, and the gathering and dissemination of information by ministry and EC staff. The Ministry said that these co-operative efforts will continue for future reporting years.

The Ministry reported that it had completed quality assurance and quality control reviews for reporting years up to and including 2003. Several criteria were used in the process, such as major changes from previously submitted reports, abnormal quantities of pollution emissions, and comparison of facility data to that of similar facilities

reporting to the NPRI. Facilities were contacted when reports were incomplete or when anomalies were identified, and the Ministry said that these issues had subsequently been resolved. The Ministry was reviewing data received in 2005 for the 2004 reporting year.

The Ministry said that emissions data gathered from Ontario facilities were available from the websites of the Ministry and EC for report generation. A combination of emissions data from the Ministry and from EC has been used to help the Ministry develop policies and regulations. For example, NPRI emissions data, along with other facility data, helped determine the relative priorities of sectors to be included in O. Reg. 419/05, regarding air pollution and local air quality. O. Reg. 194/05, regarding industry emissions of nitrogen oxides and sulphur dioxide, was developed using an existing regulation (O. Reg. 127/01) and NPRI data. The Ministry was also able to analyze progress made on smog reduction from data reported under O. Reg. 127/01, along with other information from mobile and area sources. This resulted in the Clean Air Action Plan report in June 2004, which outlined progress and additional emissions reductions to be made.

Ontario facilities' emissions data for reporting year 2005 was to be reported through the EC information system, called the "One Window to National Environmental Reporting System." These emissions data will be made publicly available through EC's National Pollutant Release Inventory. The Ministry also publishes emissions information in an annual report titled "Air Quality in Ontario," available on the Ministry's website. The report for 2004 was posted on the website in May 2006.

Drive Clean Program

Recommendation

To maintain the integrity of the Drive Clean program and help promote cleaner air and a healthier environ-

ment by reducing pollution caused by motor vehicles, the Ministry should:

- *consider testing vehicles 20 years old and older, as is done for similar programs in most other jurisdictions;*
- *restrict the issuance of conditional passes to light-duty vehicles only;*
- *follow up with the responsible test facility on instances of incorrect emissions tests being conducted; and*
- *program the computer system to reject duplicate emission certificates so that they cannot be accepted for licence plate renewals.*

Current Status

The Ministry completed a review of the Drive Clean program in 2005, and made recommendations that focused on vehicles most likely to pollute. As a result, the Ministry announced that effective January 1, 2006, light-duty vehicles newer than 1987 will require a Drive Clean test regardless of age, but light-duty vehicles from the 1987 and earlier model years will remain permanently exempt from Drive Clean testing.

The Ministry said that Drive Clean's standard operating procedures prohibit the issuance of conditional passes for heavy-duty vehicles. In addition, computers at Heavy Duty Vehicle Facilities do not have the capability to issue conditional passes. A new process was added to the standard operating procedure in January 2006 requiring technicians to test all non-diesel Heavy Duty Vehicles as first-time tests, which will help prevent the inappropriate issuance of conditional passes.

Issuance of a conditional pass to a heavy-duty vehicle can now bring a six-month suspension of a Drive Clean facility's accreditation for a first occurrence, and termination for a second. The Ministry said that it had identified no instance of a deliberate issuance of a conditional pass for heavy-duty vehicles since January 2005. The Ministry said that this issue is addressed on an ongoing basis through training of inspectors and repair technicians, and

through regular data reviews to identify Drive Clean facilities issuing inappropriate conditional passes.

The Ministry reported that it had implemented an Exception Reporting System in August 2004 that identifies Drive Clean facilities suspected of having performed incorrect testing. The Drive Clean Office sends out exception reports to Drive Clean facilities suspected of incorrectly using the two-speed idle test instead of the simulated-motion test that more closely represents normal engine operation and better reflects on-road emissions. The Ministry said that it follows up on all facilities receiving exception reports. In addition, the Ministry had sent out 550 letters to Drive Clean facilities where the number of idle-testing procedures met or exceeded the province-wide average. Eight Drive Clean facilities received suspensions in 2005 for idle-testing infractions.

In 2006, an updated list of vehicles that qualify for the two-speed idle tests was included in the revised Standard Operational Procedures. However, inspectors may still use their judgment regarding the test risk, and use the two-speed idle method to take into account such vehicle features as traction control, four-wheel drive, and minimal ground clearance, or for those vehicles that cannot be safely secured on testing equipment.

In 2005, the Ministry and the OPP investigated Drive Clean fraud, bringing criminal charges against eight individuals for forgery, uttering forged documents, and fraud. As a further precaution, a regulatory change to O. Reg. 361 under the *Environmental Protection Act* was implemented in January 2006 to include stronger fraud prevention measures that make it an offence to create, distribute, or use false Drive Clean certificates. The Ministry, with the co-operation of the Ministry of Transportation, was implementing a security upgrade to Drive Clean software in 2006 that will eliminate the potential for accepting invalid Drive Clean certificates.

Vehicle Emissions Enforcement Unit

Recommendation

To enhance the effectiveness of the Vehicle Emissions Enforcement Unit in reducing airborne pollutants to protect human health and the environment, the Ministry should:

- *reassess the target number of inspections to be performed annually and set more productive inspection targets; and*
- *follow up on violations to ensure that missing or inoperable emissions control equipment is restored or repaired.*

Current Status

According to the Ministry of the Environment, more reliance was placed on private vehicles emissions testing, which led to a reduction in the inspection resources of the Vehicle Emissions Enforcement Unit in December 2004. For 2005/06, the focus of inspections was on high-risk sectors such as taxis, heavy-duty trucks, and other commercial vehicles, instead of privately owned vehicles. It has been found that the risk-based approach takes more time to plan targeted inspections and to perform the associated follow-ups to ensure that the required corrective actions are taken. The number of inspections in 2003/04 and 2004/05, prior to the reduction in resources, was targeted at 6,000 and 7,000, respectively. With reduced inspection resources in 2005/06, the Ministry met its reduced target of 3,500 inspections. The Ministry reviews the inspection target annually using the risk-based approach, and monitors progress made in meeting the target throughout the year.

The Ministry had taken steps to ensure that missing or inoperable emissions control equipment is restored or repaired. Staff are now able to issue Provincial Officer Orders requiring repairs to bring a vehicle into compliance within a specified time. The owner of the ticketed vehicle must confirm in writing to the issuing officer that the work or repairs ordered have been completed.

The compliance-tracking information system was enhanced in March 2005 to automatically track and bring forward matters requiring follow-up by officers, such as those found in compliance orders issued to a vehicle owner. The system also allows the officer to produce inspection reports and issue Provincial Officer Orders at the time of inspection.

COMPLIANCE WITH LEGISLATION AND MINISTRY POLICY

Air Inspections

Recommendation

To ensure that inspections of facilities emitting air contaminants are effective in enforcing environmental legislation, ministry policy, and the terms and conditions of Certificates of Approval, and are effective in protecting human health and the environment, the Ministry should:

- *adopt a formal risk-based approach to selecting facilities for inspection;*
- *distinguish between proactive and reactive inspections in reporting the results of its inspections; and*
- *increase the utilization of its mobile air-monitoring units and improve the turnaround time for reporting their results.*

Current Status

The Ministry implemented a risk-based approach for selecting facilities for planned inspections in 2004/05. Priorities are determined at the district level, where facilities are ranked into three main risk categories that focus on known or potential impacts of a facility on human health or the natural environment, or where the risk was low or unknown. Selection of specific facilities includes informed judgment of district staff, along with an assessment of the type and size of the facility, type and quantity of material or processes on site, past compliance history, and other factors. In addition to planned inspections, the districts respond to en-

vironmental incidents such as spills, unlawful discharges, or odour complaints, and these are ranked by risk to health and the environment.

Based on the findings of planned and responsive inspections, the environmental officers are to take the appropriate abatement action, such as issuing a ticket or Provincial Officer Order, or even referring the case to the Investigations and Enforcement Branch for possible legal action. Inspections results are tracked in the Ministry's Integrated Divisional System and used for planning in subsequent years. Facilities found to pose a risk to human health or the environment, and non-compliant in 2004/05, were either re-inspected in 2005/06 or had their ongoing abatement activities monitored by district staff.

The Ministry said that it now distinguishes between proactive and reactive inspections in its internal tracking systems and uses that information when planning risk-based inspections for the forthcoming fiscal year.

The Ministry informed us that a thorough review had been done to assess the appropriate and effective use of the mobile air-monitoring units in terms of responses to environmental events, regular compliance-monitoring activities, and report writing. The Ministry said that given the current level of resources, the mobile units had reached an optimum level of usage. In 2005, the average turnaround time for issuing a report was 42 days, compared with 160 days in 2003, and 173 days in 2004.

Selected Targets for Air Compliance (STAC) Program

Recommendation

To ensure that the Selected Targets for Air Compliance (STAC) initiative is effective in identifying potentially unsafe concentration levels for air contaminants, the Ministry should:

- *review current air dispersion models to determine whether these models more accurately*

predict pollution levels and, where necessary, consider requiring emitters to use the most appropriate models;

- *review the STAC submission process to help ensure that sufficient information is provided on a timely basis; and*
- *where contaminant levels are predicted to exceed allowable limits, approve compliance plans that outline timely strategies to conform with legislated standards and ministry guidelines.*

Current Status

O. Reg. 419/05, regarding air pollution and local air quality, came into effect in November 2005. It requires the use of the same up-to-date and improved air dispersion models as used by the United States Environmental Protection Agency. These models provide a more accurate assessment of health and environmental impacts.

As a result of the Ministry's review of the STAC program, changes had been and were continuing to be introduced into the Emission Summary Dispersion Modeling (ESDM) report submission and review process. Risk-based procedures had been introduced to focus abatement efforts stemming from reviews on those contaminants with the greatest potential for human health and environmental impacts. In addition, consultations are required between local ministry offices and the companies to explain and clarify program expectations, and enhancements were introduced to the STAC information management system to provide better tracking and internal reporting. The STAC program had been integrated with the new regulation (O. Reg. 419/05), and the Ministry said that it is very prescriptive in terms of the information required for the ESDM report and how that information is developed and refined.

The new regulation also requires that any person who discharges a contaminant from a stationary source in excess of the applicable air quality limits notify the Ministry as soon as possible and

submit an abatement plan within 30 days. Non-compliance with the new regulation is an offence, and the Ministry said that it follows up on these cases. Ministry staff had been trained on the new regulation and received guidance on acceptable time frames for emissions abatement, depending on the severity of the human health and environmental consequences of those emissions, and on the use of available abatement tools such as compliance orders.

Environmental SWAT Team Inspections

Recommendation

To improve the efforts of the Environmental SWAT Team to reduce airborne threats to the environment and human health, the Ministry should:

- *require facilities that receive a compliance order to report back on all actions taken to correct non-compliance;*
- *review input procedures to ensure the accuracy of its inspection database; and*
- *enhance program results reporting by periodically assessing the team's direct impact on emissions reduction.*

Current Status

The Ministry said that when a Provincial Officer Order is issued requiring that a facility's air emissions activities be brought into compliance with the *Environmental Protection Act* and its regulations, the Sector Compliance Branch (formerly the Environmental SWAT Team) now requires written confirmation from the facility owner by a specified date that the ordered work has been completed.

To further ensure completion of follow-up work, an automated flagging system that alerts provincial officers to forthcoming compliance reviews had been developed and was in active use at the time of our follow-up. The data collection system is updated by each officer, who outlines the compliance chronology and status within the file, and this report is attached to each facility's file. The officer

updates the chronology with each report-back, and, when all the required report-backs have been received and deemed satisfactory, the file is closed.

Quality assurance and control mechanisms had been put in place to ensure the accuracy of the Sector Compliance Branch inspection database. Exception reporting is produced on a biweekly basis for supervisory follow-up with the associated officer to correct any issues such as missing data fields or errors. In addition, a data-integrity working group had been established to continuously monitor and address issues associated with the enforcement system. The Ministry had prepared guidance for all staff using the system to ensure consistency and quality in data input.

The Sector Compliance Branch was to be working in partnership with Environment Canada through the 2006/07 fiscal year on a project that would allow the Branch to develop outcome-based performance measures for the Vehicle Emissions Enforcement Unit. This project includes a detailed analysis of potential emissions reductions resulting from maintenance and repairs related to vehicle emissions. The results of such analyses should provide the Branch with the information required to develop and implement outcome-based performance measures for the Unit.

Groundwater Program

Follow-up to VFM Section 3.05, *2004 Annual Report*

Background

Groundwater is defined as water located below the surface in soil, sand, and porous rock formations known as aquifers. Groundwater recharges watersheds, which are networks of rivers and streams that drain into larger bodies of water such as the Great Lakes. Groundwater is the primary source of drinking water for almost three million residents of Ontario. More than 200 municipalities have groundwater-based systems that provide water to residential users as well as for industrial, commercial, and institutional uses. In addition, approximately 500,000 private wells provide 90% of Ontario's rural population with water for drinking, irrigation, and other uses.

As Justice O'Connor notes in the report of the Walkerton Inquiry, the protection of source water is the first step in providing safe drinking water and, as such, is extremely important because "some contaminants are not effectively removed by using standard treatment methods" and some rural residents who do not have access to treated water rely on untreated water from wells for drinking.

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 recommenda-

tions 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. While groundwater expenditures are not separately reported by the Ministry, it was determined that approximately \$18 million was spent in this area in the 2003/04 fiscal year.

In our *2004 Annual Report*, we concluded that the Ministry lacked sufficient information to enable 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 had been carrying out watershed studies since the 1940s, it did not yet have watershed-management plans to ensure groundwater resources were protected. The Ministry estimated that its latest attempt to have conservation authorities develop watershed-based source protection plans would 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. The contaminated water claimed seven lives and caused thousands of illnesses. The farmers of Ontario's 1,200 largest farms were subsequently required to have plans in place for dealing with agricultural waste by July 1, 2005. For an additional 28,500 farms that produced enough waste to pose a potential problem, a process was to be developed by 2008 to phase in nutrient management planning.

- The Ministry had issued over 2,800 permits to take water for a total potential withdrawal of nine 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.

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

Current Status of Recommendations

According to information received from the Ministry of the Environment, some progress is being made in addressing the recommendations we made in our *2004 Annual Report*. However, due to the complexity of many of the issues and involvement of a multitude of stakeholders, full implementation of our recommendations in a number of instances will take three or more years to complete. The current status of action taken on each of our recommendations is as follows.

PLANNING FOR GROUNDWATER MANAGEMENT

Recommendation

To ensure that groundwater resources are protected from existing threats of contamination while new protection measures are put in place, the Ministry of the Environment should:

- *review the existing source protection plans and any other measures in place at each conservation authority and consider developing an overall strategy for protecting the province's groundwater resources from current contamination threats;*
- *establish a clear timetable for the completion of all watershed-based source protection plans and for the implementation of any required protection measures;*
- *consolidate, in a medium such as the Ministry of Natural Resources' geographic information system, information from the groundwater management studies done by municipalities and verify the completeness of each study;*
- *incorporate into its information system and source protection plans the information generated by the Ministry of Northern Development and Mines with respect to its aquifer-mapping project;*
- *develop risk-based inspection procedures to ensure the compliance of farms required to complete a nutrient management plan by July 1, 2005, and consider monitoring farms that do not require a plan until after 2008; and*
- *identify groundwater pollution sources on a timely basis so that remedial action can be taken before serious contamination occurs.*

Current Status

With respect to a groundwater protection strategy and source protection plans, in December 2005, the government introduced Bill 43, the proposed *Clean Water Act, 2005*, for first reading. This bill was tabled to help protect sources of drinking

water from significant threats. The regulations and ministry guidance materials will stipulate that municipalities and conservation authorities are to incorporate and build upon existing studies and strategies. In anticipation of the enactment of this legislation, the Ministry provided \$8.5 million in the 2005/06 fiscal year to municipalities and conservation authorities, in part to map key groundwater resources and to inventory threats to the quality of these water supplies. In addition, conservation authorities have been provided with funding to prepare watershed characterization reports that summarize previously funded groundwater studies and other available information.

If Bill 43 is passed, conservation authorities and municipalities will be required to prepare two significant documents. The first is a final watershed assessment report, which describes the watershed, identifies all existing and planned sources of municipal drinking water and their associated vulnerable areas, identifies all current and future threats and issues in those vulnerable areas, and carries out a risk assessment on those threats and issues. The second document will be a focused source protection plan, which will contain policies and programs designed to ensure that all identified significant risks in these groundwater areas are mitigated. As part of this process, all existing plans, programs, and measures in place will be assessed and incorporated into the source protection plans. It is anticipated that all regulations to the proposed *Clean Water Act, 2005* will be in place by March 2008 and that it will take up to six years to complete the entire process.

With respect to groundwater information systems, as of July 25, 2006, 88 of the 97 groundwater studies conducted by municipalities and conservation authorities and funded by the province had been submitted to the Ministry. Study data are being reviewed by the Ministry to ensure that they are complete and meet provincial data standards. The Ministry informed us that data from completed

groundwater studies were being transferred to the Ministry of Natural Resources to be incorporated into the Land Information Ontario system to make them accessible to water managers throughout Ontario.

With respect to the Ministry of Northern Development and Mines' (MNDM's) aquifer-mapping project, the Ministry was in the process of discussing with MNDM both how it can gain access to MNDM's aquifer-mapping information for use in its source-protection plans and how MNDM can incorporate the Ministry's source-protection-plan information into its aquifer maps. The Ministry noted that such source-protection-plan information includes two major reports it published in October 2004 on Ontario's hydrogeology—that is, on the occurrence, distribution, quantity, and quality of groundwater in Ontario. Due to both differences in the approaches to aquifer mapping and limitations in data availability and quality, it had not been determined at the time of our follow-up if all MNDM information should be incorporated into the source-protection-planning process.

With respect to farm nutrient management plans, a major review of the Nutrient Management Regulation of the *Nutrient Management Act, 2002* was conducted in March 2005. This review resulted in an amended regulation being issued in October 2005. The amendments included changing the date of compliance for the drafting of nutrient management plans for existing farms to December 31, 2005. We were informed that, based on the amended regulation, the Ministry was implementing a revised Nutrient Management Program that includes developing a risk-based inspection program. The risk-based approach provides for the province-wide hiring, in conjunction with a recruitment program, of 10 agricultural environmental officers in addition to the current six. Staff were to be trained over the summer, and risk-based inspections were projected to begin in fall 2006.

With respect to the identification of pollution sources, the source protection plans referred to above as the second key document required under Bill 43 will require that a range of land uses and activities be inventoried and investigated to understand the risk they pose to drinking-water sources, highly vulnerable aquifers, and significant recharge areas. Under a key feature of Bill 43, any imminent risk to drinking water identified is to be reported to the Ministry immediately. Further, the Ministry will be required to promptly decide how to address such imminent risks. If Bill 43 is passed, the *Clean Water Act, 2005* and its regulations may set dates for the identification of these threats and stipulate that source protection plans specify the risk management measures to be taken. We were informed that these plans are to be forwarded to the Minister for consideration by 2010, with implementation after this date.

MONITORING GROUNDWATER QUALITY

Recommendation

To ensure that Ontarians have a groundwater supply that is safe and clean to drink, the Ministry should:

- *verify that the persons installing new wells are licensed well contractors;*
- *randomly inspect new, existing, and abandoned wells to ensure that they are properly installed, maintained, and sealed in order to prevent contaminants from entering the water supply;*
- *consider expanding its monitoring program to include a sample of private wells in high-risk areas and inform potentially affected users in the area of any adverse raw-water test results; and*
- *review the concentrations of high-risk substances, such as E. coli and other fecal coliform bacteria, in raw water; determine the sources of the contamination, and develop remedial strategies to correct the problem.*

Current Status

With respect to well installation and inspection, the Ministry indicated that it was working with an industry association and a community college to help develop and fund training courses and workshops to ensure that individuals and businesses engaged in well construction understand their responsibilities under the *Ontario Water Resources Act*, including the requirement that wells be installed by licensed contractors. A plain-language, industry best-management-practices manual was planned to provide clarity for the well-construction industry.

In addition, the Ministry had initiated a comprehensive review of the wells program aimed at improving program delivery. The Ministry was also considering amendments to, or clarifications of, Regulation 903 under the *Ontario Water Resources Act* (the regulation dealing with the location, construction, maintenance, and decommissioning of wells) based on feedback from stakeholders. As local source protection plans are developed, the Ministry will work with municipalities and other stakeholders to identify the most efficient and effective means to ensure wells are properly maintained and decommissioned.

Notwithstanding the 63 incidents relating to well maintenance and abandonment that ministry staff were involved with in 2005, the Ministry's focus is on education and outreach rather than enforcement. In this regard, the Ministry's help desk fields inquiries and provides information to clients who have concerns about the quality of their drinking water. The Ministry was continuing to rely on complaints to identify well-water concerns and non-compliance with proper well procedures to trigger inspections.

The Ministry indicated that its Sector Compliance Branch began a province-wide, proactive water-well inspection sweep as of July 2006. These inspections focus on well contractors to ensure that they are in compliance with regulatory requirements

and are also to provide information to well owners on the importance of proper well maintenance. Complaint-driven inspections will continue to be addressed by the Ministry's field operations.

With respect to monitoring private wells, areas considered to be at risk from a groundwater point of view should be identified as source protection plans are developed. Education and outreach initiatives built into the source protection plans should help communicate this information to well owners, who would then be expected to take an active role in monitoring their water quality. In addition, the Ministry's Provincial Groundwater Monitoring Network, which monitors ambient groundwater conditions, can identify trends in water quality and groundwater levels on a regional scale. Thus, while this process does not monitor the water quality in individual private wells, it can result in the identification of areas where enhanced monitoring should be considered. Finally, the Ministry indicated that source protection planning might include the monitoring of private wells as a means of evaluating issues in vulnerable areas.

With respect to the monitoring of high-risk substances, the Groundwater Monitoring Network's water-quality program has undertaken the first round of comprehensive water-quality sampling in 429 of the currently operating 454 monitoring wells. The results of this sampling identified 65 wells having a chemical concentration for a particular health-related parameter (listed in Regulation 169 of the *Safe Drinking Water Act, 2002*) above the Ontario Drinking-Water Quality Standard. These findings were communicated to local conservation authorities and the local Medical Officers of Health. The Ministry indicated that it was continuing to work with local agencies to assess the significance of these findings. Where significant contamination issues are identified, the Ministry intends to take all necessary steps to ensure that the cause is identified and protective measures are taken.

MANAGING GROUNDWATER FOR SUSTAINABILITY

Recommendation

To help ensure the sustainable use of groundwater resources, the Ministry should:

- *enhance its assessment and evaluation process for applications for permits to take water by:

 - *ensuring that it receives and retains the required hydrogeologic studies for new permit applications;*
 - *evaluating the relevance of dated hydrogeologic studies for permit renewals; and*
 - *assessing the cumulative impact on the ecosystem that could result from the taking of groundwater by multiple users;**
- *monitor the actual amounts of water taken by permit holders to verify that permit holders are not extracting more water than they are entitled to;*
- *follow up on expired permits to take water to determine whether former permit holders are still extracting groundwater; and*
- *establish a province-wide framework for monitoring water takings so that continuously drawing down, or "mining," of aquifers is prevented.*

Current Status

The Water Taking and Transfer Regulation (O. Reg. 387/04) under the *Ontario Water Resources Act* took effect January 1, 2005. Under the regulation, the factors the Ministry must consider when assessing water-taking applications have been strengthened and include the protection of ecosystems, minimum stream flow, sustainable aquifer yield, and the cumulative impact of groundwater takings. If a water taking has a high risk of impact or interference, it is to receive a full scientific review by the Ministry, and the new permit-applicant's guide and the Permit To Take Water Manual clearly identify that technical studies must be submitted and reviewed before the Ministry issues permits

for high-risk water takings (takings with a lower risk will receive a “screening level” of review). The reviews of these technical studies are now structured in a document-management system that identifies the reports and technical issues that were considered. Technical reviewers go beyond the information submitted with a permit application and consult in-house resources, such as maps, well records, and air photos of land use. (Identifying other water users through this research is important for cumulative impact assessment, which in turn is necessary information for deciding how much water can be safely permitted for withdrawal.)

The new regulation also requires that permit holders collect and record data on the volume of water taken daily and report this information annually to the Ministry. The volume must either be measured using a flow meter or calculated using a method acceptable to the Ministry. The monitoring requirements are to be implemented in three phases over the period July 1, 2005 through January 1, 2007. By March 31, 2008, all permit holders are to be reporting their water-taking data to the Ministry. The Ministry developed an Internet-based Water Taking Reporting System that allows permit holders to report their water-taking data electronically.

A risk-based strategy to identify inspection targets for the Permit To Take Water Program was implemented in the 2005/06 fiscal year and has been enhanced for 2006/07. One risk factor considered in selecting inspection targets was permits that have expired within the previous two years for which no new permit has been issued. These inspections are to determine if the former permit holder is still taking water. Follow-up action is to compel the former permit holder to apply for a permit, where required.

The Ministry indicated that it began an inspections sweep of unpermitted takings in July 2006. The subjects of these inspections included former permit holders, permit applications that were with-

drawn, cancelled, or denied, and selected sites from industry or commercial lists where water taking is normally conducted.

There are three components to the Ministry’s overall process to guard against aquifer depletion:

- the Provincial Groundwater Monitoring Network, which collects baseline groundwater-level information;
- the Water Taking and Transfer Regulation, which is phasing in the requirement that permit holders report the volume of water taken daily for monitoring by the Ministry; and
- Bill 43, the proposed *Clean Water Act, 2005*, which, if passed, will ensure that communities have the authority to investigate and identify potential risks to their supply of drinking water and take action to reduce or eliminate these risks.

ENFORCING COMPLIANCE WITH LEGISLATION

Inspections

Recommendation

To more effectively identify incidents of non-compliance with environmental legislation and threats to human health and the environment, the Ministry should:

- *review the results of its proactive inspections to determine why they have not been as effective as inspections conducted by the “Environmental SWAT Team” in identifying threats to the environment and human health; and*
- *develop and implement a more effective risk-based model for its proactive inspection program to target areas that have the most potential for detrimental environmental impact if not corrected.*

Current Status

The Ministry indicated to us that, because proactive inspections are not limited to high-risk facilities

(as inspections conducted by the “Environmental SWAT Team”—now known as the Sector Compliance Branch—are), proactive inspections are not expected to identify as many threats to the environment and human health as the inspections targeting high-risk facilities do.

In 2004/05, a risk-based model was implemented to select priorities for the Ministry’s proactive inspections. For the purposes of inspection planning, facilities were grouped into three main risk categories: those with known impacts on human health or the natural environment; those with potential impacts; and those whose impact was not well known or unknown. The risk-ranking of a facility was conducted as part of the annual inspection-planning process and was based on criteria such as the informed judgment of district staff, the type and size of the facility, the type and quantity of material or processes on site, past compliance history, past or recent abatement activity, and frequency of environmental events such as pollution incident reports, unlawful discharges, and spills. The Ministry advised us that, in 2005/06, risk-rankings were improved with the introduction of a web-based tool that allows the Ministry to achieve more consistent risk-ranking results for similar facilities across the province. In addition to inspection results, the anticipated risk of a facility, based on the planning process, and the actual risk, based on the results of the inspection, are tracked in a document-management system and used to inform future planning cycles. Facilities that were deemed to be a risk to human health or the environment and then found to be non-compliant in 2004/05 were either re-inspected in 2005/06 or monitored for ongoing abatement activity (activity to diminish or eliminate non-compliance).

Investigations and Prosecutions

Recommendation

To help ensure the timely disposition of cases of serious environmental violations, the Ministry should:

- *review and, where necessary, adjust current procedures for sending referral reports to the Investigations and Enforcement Branch;*
- *take the necessary steps to lay charges and start proceedings within the two-year time frame required by legislation; and*
- *review the operations of its agency to determine the reasons for incidents of non-compliance and work with the agency to correct the situation.*

Current Status

We were informed that the Ministry’s Investigations and Enforcement Branch (Branch) completed a review of incident-referral procedures in January 2005. As a result, a new investigative intake process that identifies factors to be considered when evaluating the seriousness of a violation was implemented at the end of March 2005. This process is intended to support the timely assessment of whether to investigate, as well as timely assignment and prioritization of investigations. In addition, a risk-assessment methodology prioritizing cases was developed. This methodology was implemented in June 2005 for all referrals.

The Branch’s review of incident-referral procedures was undertaken in part to expedite the laying of charges for serious environmental offences. A focused investigation methodology for the most serious offences, based on the Major Case Management system used by Ontario’s police services, was developed and began to be implemented in March 2005. The Major Case Program Manual was finalized in June 2005. We were also informed that a process was implemented that requires that ministry managers identify investigations that are nearing two years of age and reassign resources if a significant file is at risk of being closed because of statute limitations.

The Ministry stated that it was continuing to assist the Ontario Clean Water Agency (Agency) in ensuring that it has the tools needed to be compliant. It also stated that, since 2003, the Agency has implemented refocused compliance strategies, such as hiring additional staff to meet the requirements of the *Safe Drinking Water Act, 2002*, implementing new compliance training, and enhancing facility audit programs. The Agency's business plan for 2006 to 2008 indicates that the number of compliance-related incidents in 2005 was significantly down from the number in 2004 and that the Agency is committed to continuous improvement of its compliance record.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Recommendation

To help promote accountability, the Ministry should identify desired outcomes for its groundwater program and develop performance measures that would enable it to assess the extent to which program outcomes are being met and be more effective in ensuring the restoration, protection, and sustainability of groundwater resources.

Current Status

The Ministry indicated to us that it had developed a number of performance measures, including one

relating to source protection, that would help enable it to ensure the protection and sustainability of groundwater resources. The measure for source protection is the percentage of source protection "priority components" completed, and the expected result is for all source protection milestones to be achieved by the end of the 2007/08 fiscal year. The priority components include:

- the establishment of Watershed Planning Areas and Source Protection Planning Committees; and
- the submission by Watershed Planning Areas of the initial technical assessments required under source protection legislation (for example, water budgets and wellhead protection studies).

The Ministry also indicated that it had identified specific outputs aimed at ensuring the quality of groundwater. These outputs include:

- an improvement in public access to data from water-monitoring networks;
- the co-ordination of technical studies with conservation authorities;
- the development of a provincial source protection framework based on reports and recommendations from advisory committees;
- the approval of first-generation source protection plans; and
- the completion of legislation and regulations.

Land Transfer Tax Program

Follow-up to VFM Section 3.06, *2004 Annual Report*

Background

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. In 2004, up to the first \$2,000 in land transfer tax could be waived or refunded for first-time homebuyers of newly constructed homes who met prescribed conditions.

During the 2005/06 fiscal year, approximately 470,000 transfers in interest in land—which is about the same number as in the 2003/04 fiscal year—were reported to the Municipal Property Assessment Corporation for property assessment purposes. The total land transfer tax collected in 2005/06 was approximately \$1.13 billion (approximately \$1 billion in 2003/04).

In our *2004 Annual Report*, we concluded that, given that 97% of land transfer tax is not collected directly by the Ministry of Finance (Ministry) 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 trans-

fer tax owing. We noted that 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 by the Ministry.
- 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 had not ensured 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 had increasingly been on lower-risk transactions. This was likely one of the reasons why the dollar value of audit assessments had declined by 75% over the previous few years.

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

Current Status of Recommendations

According to information received from the Ministry of Finance, progress is being made in implementing all of the recommendations we made in our *2004 Annual Report*. The current status of action taken on each of our recommendations is as follows.

SUPPORT FOR DECLARED VALUE OF CONSIDERATION AND EXEMPTIONS

Collecting Land Transfer Tax Based on Value of Consideration, and Referring Matters to the Ministry

Recommendation

To help ensure that the value of consideration used to determine the amount of land transfer tax payable includes all aspects of taxable consideration and that Land Transfer Tax Affidavits (LTT Affidavits) and claims for exemptions that warrant further follow-up are referred to the Ministry, the Ministry should:

- *provide in its educational materials—including the Guide for Real Estate Practitioners—a comprehensive list of the items that are to be included in the determination of taxable value of consideration;*
- *consider requiring that land registry offices (LROs) obtain, especially for higher-valued properties, additional documentation—such as agreements of purchase and sale and statements of adjustments—in order to substantiate the taxable value of consideration;*

- *consider changing the LTT Affidavit form to clearly request the inclusion of taxable purchase price adjustments in the determination of total taxable value of consideration; and*
- *work with LRO staff to ensure they are aware of the need to flag and submit to the Ministry those LTT Affidavits that contain any of the factors identified by the Ministry as high risk.*

Current Status

The Ministry informed us that it believes that greater emphasis on educating taxpayers and their lawyers through bulletins, guides, instruction amendments, and electronic newsletters on the Teranet website is the most effective means of ensuring that the value of consideration declared includes all aspects of taxable consideration. The Ministry also advised us that greater focus on selecting transactions for audit after their completion will help assess compliance with these requirements.

To address common errors in the reporting of taxable value of consideration, the Ministry released two bulletins: *Calculating Land Transfer Tax*, released in September 2005, and *Determining the Value of Consideration for the Transfer of New Homes*, released in March 2006. The latter bulletin provides examples of factors to be taken into account in determining the value of consideration.

Given the emphasis it puts on taxpayer education and on selecting transactions for audit after their completion, the Ministry has decided not to ask land registry offices (LROs) to collect additional information.

For paper registrations, which represent about 15% of all registrations, the LTT Affidavit instructions have been revised to identify certain adjustments that need to be made in calculating the total taxable value of the consideration. For electronic registrations, which represent about 85% of all registrations, the Ministry decided not to revise the instructions but to inform taxpayers and lawyers through bulletins, guides on the Tax Revenue

Division website, and electronic newsletters on the Teranet website.

With respect to LROs flagging and submitting LTT Affidavits that contain factors identified by the Ministry as high risk, the Ministry informed us that, in most cases, this is no longer necessary for electronic registrations because the Ministry can now identify those same transactions electronically for further review and follow-up. In the case of paper registrations, at the time of our follow-up the Ministry was in the process of negotiating with the Ministry of Government Services—which had become responsible for LROs—a new Memorandum of Understanding that is to include a requirement to refine the flagging requirements.

ENFORCEMENT ACTIVITIES

Audit Coverage

Recommendation

To help meet its objective of assessing whether additional taxes are owed as well as to promote broad-based voluntary compliance with legislation, the Ministry should use a more risk-based approach in selecting land transfer transactions for audit and establish reasonable audit coverage goals.

To improve audit effectiveness, the Ministry should assess the costs and benefits of hiring additional staff with the qualifications to identify and audit higher-risk land transfer transactions.

Current Status

We were informed that the Ministry now uses electronic land transfer tax and land registration information for data-matching and audit-selection purposes. Risk-based audit-selection criteria have been developed and implemented. As of December 31, 2005, the Ministry was evaluating the available preliminary pilot data. The results of this evaluation are also to be used for projecting audit recoveries and establishing reasonable audit coverage goals. The Land Transfer Tax Section is also partici-

pating with the Tax Revenue Division's other audit programs in the Risk-based Audit Selection project announced in the *2004 Ontario Budget*.

The Ministry also informed us that 25 additional staff positions were approved in 2005 to establish two new audit units in the Land Transfer Tax Section. By March 2006, all staff had been hired and training was initiated.

First-time Homebuyer Refunds and Exemptions

Recommendation

In order to ensure that first-time homebuyer refunds and exemptions are provided only to eligible purchasers and that all refund and exemption transactions are recorded for possible audit selection or further review, the Ministry should ensure that:

- *audits of first-time homebuyer claims establish the eligibility of the homebuyer for receiving a refund/exemption; and*
- *all information on refunds and exemptions claimed is entered into the Refund Affidavit Database.*

Current Status

The Ministry indicated that, at the time of this follow-up, it was including all hard copies of evidence verifying eligibility for the refund/exemption in the audit file. We were informed that all staff had been trained on the new procedures by July 2005.

Changes to the *Land Transfer Tax Act* in December 2004 permitted refund claims to be made electronically. According to the Ministry, at the time of our follow-up, over 95% of refunds were being claimed electronically. In these cases, the refund database is updated automatically. In the case of paper-based refund claims, the database continues to be updated manually. We were informed that the significantly reduced volume of paper-based claims allows the Ministry to better manage and control the Refund Affidavit Database.

AUDITS OF TERANET AND LAND REGISTRY OFFICES

Recommendation

To help ensure all land transfer tax revenue collected by Teranet and land registry offices (LROs) is transferred to the Ministry's Consolidated Revenue Fund, the Ministry should ensure that:

- *an annual independent audit of the Teranet system is performed and any deficiencies or errors that relate to the submission and reporting of land transfer tax to the Ministry are identified and corrected on a timely basis; and*
- *the risk associated with auditing every LRO only once every 10 to 11 years is reconsidered and that the audits, when completed, are received and reviewed to determine whether they provide sufficient assurance that LROs have collected and transferred the correct amount of tax.*

Current Status

According to the Ministry, changes to the *Land Transfer Tax Act* in December 2004 clarified the Minister of Finance's authority to designate Teranet as a "collector" of land transfer tax and provided for the Ministry to audit it. The Ministry's internal audit service has tabled its terms of reference with Teranet, and the audit fieldwork commenced in January 2006. The Ministry informed us that its internal audit service has allocated time in its annual audit and consulting plan to continue reviews of Teranet through 2008.

We were advised that, in the case of Land Registry Offices, the Ministry of Government Services Internal Audit Branch completed 10 LRO audits in the 2004/05 year and concluded that controls were

adequate. It also completed 13 LRO audits in the 2005/06 fiscal year and identified no significant concerns in these audits. It plans to conduct four LRO audits in 2006/07.

We were informed that the decision to decrease the number of LRO audits was due in part to significantly decreased numbers of physical transactions conducted at these sites since the introduction of electronic registration. Ministry statistics show that the number of electronic registrations increased from 1.4 million in 2004 to 1.8 million in 2006, while the number of paper registrations fell from 612,000 to 371,000 in the same period.

OBJECTIONS AND APPEALS

Recommendation

To improve the timeliness of objection decisions, the Ministry should:

- *develop a flagging system to identify files on which no recent action has been taken;*
- *follow up with the appropriate officers to determine the reasons for delays in taking action; and*
- *determine the actions required to expedite resolution of the files.*

Current Status

The Ministry informed us that, on the 15th of each month, a report is generated for each manager of the Tax Appeals Branch that lists all inactive files from the past six months. The managers are to review these files with the responsible appeals officers to determine the reasons for any delays and to establish any necessary corrective actions.

Community-based Services

Follow-up to VFM Section 3.07, 2004 Annual Report

Background

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 (\$1.9 billion in the 2005/06 fiscal year), allocated as shown in Figure 1.

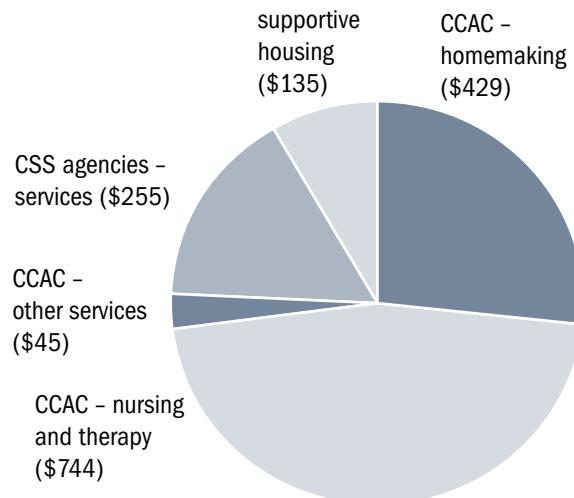
In our *2004 Annual Report*, we acknowledged that the Ministry was in the process of implementing a number of initiatives to better ensure that CCACs and CSS agencies were meeting the Ministry's expectations in a cost-effective manner; nevertheless, we noted a number of concerns that mirrored concerns we had previously raised in our *1998 Annual Report*. These included the need for a funding formula that more fully allocates funds based on assessed needs; measures to demonstrate that clients are in fact receiving quality care; and an information system to collect client-level service

and costing data. In particular, we found the following:

- The formula used by the Ministry to determine the level of funding to be provided to CCACs and CSS agencies still did not assess the need for services or ensure equitable province-wide access to services. An independent review concluded that this resulted in some CCACs receiving significantly less money than they would have received if service levels were being applied consistently throughout Ontario.

Figure 1: Community-based Services Expenditures, 2003/04 (\$ million)

Source of data: Ministry of Health and Long-Term Care



- 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 requirements were being complied with.
- The Ministry acknowledged in 1998 that the development of a new information system was a high priority. While some progress had been made, the information needed to effectively monitor and manage community-based services was not yet available.

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

Current Status of Recommendations

At the time of our follow-up, the Ministry of Health and Long-Term Care had initiated a process to reorganize the 42 Community Care Access Centres (CCACs) into 14 CCACs whose boundaries are aligned with the 14 Local Health Integration Networks, which will assume oversight responsibility for CCACs. The realignment is expected to be completed by January 2007 and may impact the

future implementation of some of our recommendations. We nevertheless obtained information from the Ministry between March and June 2006 as to the current status of our recommendations, and, according to this information, some progress has been made in addressing almost all of the recommendations in our *2004 Annual Report*. The current status of our recommendations is as follows.

PROGRAM FUNDING

Funding Based on Identified Needs

Recommendation

To help ensure that people with similar needs living in different areas of the province have equitable access to a similar level of community-based services, the Ministry should ensure that:

- *funding is allocated based on assessed need, using current data; and*
- *the formula for allocating regional funding to Community Care Access Centres and to community support service agencies takes into account the need for different types of services.*

Current Status

The Ministry indicated that a Funding and Budget Planning Committee for Community Care Access Centres had been established in March 2004. The Committee oversees the allocation of new funds, monitors the impact of funding allocations, and reviews and plans for improvements in the funding formula. In addition, four criteria for assessing need were used to reallocate funds from Community Care Access Centres with surpluses to those with deficits, for the fiscal years ending March 31, 2005, and March 31, 2006. The criteria were the extent to which nursing and personal support workers are used; the cost per visit for nursing and personal support workers; the percentage of the budget assigned to direct service care; and the percentage increase in new funding for the 2005/06 fiscal year.

The Ministry also indicated that funding to expand community support services was allocated based on a formula that takes into consideration population and geography, which the Ministry believes adequately reflects the needs of the people in the area.

Cost Containment Measures—CCACs

Recommendation

To help ensure that the impact of any future cost containment or enhancement strategies employed by Community Care Access Centres can be assessed, the Ministry should:

- *monitor the extent of significant changes in services provided to individuals to ensure that the changes are being made in accordance with legislation and ministry guidelines; and*
- *formally evaluate the impact of significant cost containment initiatives on service recipients and on other parts of the health-care system.*

Current Status

The Ministry indicated that one significant change was an increase in the number of individuals receiving home care services, brought about by additional funding provided to Community Care Access Centres for this purpose in the 2004/05 and 2005/06 fiscal years. During this period, about \$160 million was allocated to serve an additional 66,000 clients. While information on increased client volumes was obtained to ensure that service targets were met, no additional monitoring of service enhancements was considered necessary.

We were also informed that, although there had not been any new ministry-initiated cost containment measures since our 2004 audit, the Ministry had informed Community Care Access Centres that service reduction decisions should only be based on an appropriate reassessment of a client's needs.

Waiting Lists

Recommendation

To help ensure that access to community-based services is provided on an equitable basis across the province, the Ministry should:

- *establish consistent policies and procedures for maintaining waiting lists; and*
- *collect and analyze waiting list and waiting time information and use that information as part of its funding allocation process.*

Current Status

The Ministry informed us that its draft Community Care Access Centre Policy Manual includes policies and procedures for maintaining and managing waiting lists. In addition, it states that Community Care Access Centres must maintain a separate waiting list for each service, as required under the *Long-Term Care Act*, and monitor the lists to address whether changes in needs require changes in priorities. The draft manual had been reviewed by the Ontario Association of Community Care Access Centres and was expected to be finalized by fall 2006.

The Ministry also indicated that waiting-list information is being collected for each service and that waiting-list information is also used to validate in-year funding requests from Community Care Access Centres.

Acquisition of Services by Community Care Access Centres

Recommendation

To help ensure that the request-for-proposals process is meeting the Ministry's objective of acquiring high-quality services at the best price, the Ministry should:

- *obtain reliable information to enable it to assess not only the cost of the services being provided but also the quality of service; and*

- *monitor the overall impact on the supply of available service providers, particularly in areas where there are few suppliers.*

Current Status

In October 2004, the government announced an independent review of the competitive bidding process used by Community Care Access Centres to select service providers. The review was completed in May 2005 and made 70 recommendations, including recommendations for establishing common key performance indicators, disseminating best practices, reporting on client outcomes, and simplifying the request-for-proposal process and facilitating contracts for low-volume providers to encourage new entrants to the market. The Ministry's May 2006 response to the report indicated that the Ministry had accepted and was taking action on all but two of the recommendations.

Also in October 2004, Community Care Access Centres were issued interim contract-management guidelines, which generally required that current contracts be extended where possible and requests for proposals not be issued unless absolutely necessary. The Ministry informed us at the time of our follow-up that procurement policies and procedures were being revised as necessary to align with the recommendations in the May 2005 review. It was anticipated that revised policies and procedures would be issued to Community Care Access Centres by the end of 2006, with guidelines to support the resumption of an improved competitive bidding process to better ensure that high-quality services are obtained at the best possible price.

COMMON ASSESSMENT TOOL

Recommendation

To help ensure that client care needs are assessed in a consistent manner across the province, the Ministry should monitor the effectiveness of the common assessment tool in providing consistent levels of service for similar clients across the province.

Current Status

According to the Ministry at the time of our follow-up, the common assessment tool for adults requiring services for more than 59 days had been implemented in all Community Care Access Centres. The Ministry indicated as well that Community Care Access Centres use quarterly reports to monitor their key performance indicators for these clients and compare performance to other quarters as well as province-wide to ensure consistent levels of services. The Ministry stated that it also monitors the Community Care Access Centres' key performance indicators through the quarterly reports, which it receives from the centres.

In addition, by June 2006, the Ministry had initiated a pilot project at three Community Care Access Centres to assess the effectiveness of a common assessment tool for intake and adult short-term clients. The Ministry informed us that this assessment tool includes a streamlined intake process to gather key client information and can better ensure that clients are consistently triaged for similar services across Ontario. The tool also uses standard definitions and processes to capture client assessment information. An evaluation of the pilot was expected to be completed by the end of summer 2006.

MONITORING OF CCACS AND CSS AGENCIES

Service Agreements and Financial Reporting

Recommendation

To help ensure that the funding and reconciliation processes promote timely and consistent monitoring and evaluation of an agency's use of resources, the Ministry should develop performance standards for the regional processing of annual reconciliation reports and expedite the review and approval of annual budgets.

Current Status

At the time of our follow-up, the Ministry indicated that, although it had not established specific guidelines for the processing of annual reconciliation reports received from Community Care Access Centres, general practice was to plan to process the prior year's annual reconciliation report before reviewing the current year's budget. Notwithstanding this practice, however, the Ministry had determined that there was a backlog in the regional processing of reconciliation reports, and additional staff had been hired to clear the backlog. In addition, the Ministry was monitoring the processing of the annual reconciliation reports on a monthly basis and expected the backlog to be cleared by the end of the 2006/07 fiscal year.

Ministry documents indicated that the approval of Community Care Access Centres' annual budgets should be completed within 10 weeks of receipt of the budget. The Ministry informed us that, generally, it was reviewing and approving the annual budgets within about eight weeks of receipt.

Monitoring of Service Providers

Recommendation

To help ensure that clients are receiving effective and high-quality community services, the Ministry should:

- *develop a formal process that records the receipt and resolution of all complaints at regional offices;*
- *monitor the complaints processes at Community Care Access Centres (CCACs) and community support service agencies to ensure consistency;*
- *require that CCACs and other community service agencies periodically submit summary information on the number and types of complaints they have received and their resolutions; and*
- *develop a risk-based process for conducting periodic inspections of service providers and visits to selected clients.*

Current Status

The Ministry indicated that a policy was issued to community support service agencies in April 2004 to help ensure the consistent handling of complaints and the annual reporting of complaint information to the Ministry.

In addition, in May 2005, the Ministry issued a policy to Community Care Access Centres dealing with the receipt and resolution of complaints, as well as with the periodic submission of summary information to the Ministry on the number and the type of complaints received and resolved.

Complaints that the Ministry received that had not been previously addressed by Community Care Access Centres or community support services were being forwarded to the Centres or services for follow-up and tracking. Other complaints received by the Ministry were generally being dealt with on a case-by-case basis, but there was no formal monitoring by the Ministry of the receipt and resolution of these complaints.

Furthermore, the Ministry revised the annual business plan requirements for Community Care Access Centres to include information on the number and percentage of client complaints received about Community Care Access Centre decisions and about the quality of services provided by Community Care Access Centres and service-provider agencies.

The Ministry also advised us that it had established a Community Care Access Centre risk-monitoring working group to validate risk indicators and develop a strategy to monitor Community Care Access Centres. As well, the Ministry developed a draft risk-based monitoring tool to determine whether Community Care Access Centres were complying with ministry expectations. The Ministry has provided the work completed to date to a Local Health Integration Network working group. However, work on the risk indicators and monitoring tool has been put on hold pending the implementation of the Local Health Integration Networks,

whose responsibilities are to include monitoring Community Care Access Centres.

INFORMATION SYSTEMS

Common Information System for CCACs

Recommendation

To help ensure that the new Integrated Management System will provide appropriate information to both the Ministry and Community Care Access Centres (CCACs) for planning, monitoring, and decision-making, the Ministry should:

- implement effective project management controls; and
- knowledgeably monitor whether the ongoing development, both at the ministry level and at the CCACs, is meeting planned implementation goals.

Current Status

The Ministry informed us that it established a Continuing Care Project Management Office in March 2005 whose responsibilities include ensuring effective project management controls. In addition, the Ministry indicated that projects are to be managed in accordance with the Human Services Information and Information Technology Cluster's Best Practices for Project Management. These include maintaining tight control of project costs, deliverables, scope changes, issues, and risks.

The Ministry also informed us that by June 2005, specific modules of the Integrated Management System had been implemented, including Information and Referral, Financial and Statistical Management, and Long-stay Assessment. According to the Ministry, these modules were being managed with close attention to the steadily changing business requirements of the continuing-care health sector.

Effective April 1, 2006, responsibility for the ongoing support of this system was transferred to the Ontario Association of Community Care Access Centres.

Business Case and Implementation Plan

Recommendation

In future, to help ensure that information systems of the magnitude and complexity of the Integrated Management System are developed and implemented in an efficient and economical manner, the Ministry should:

- ensure that all business requirements are defined in detail and reflected in project deliverables;
- prepare a proper business case containing estimated costs for developing, implementing, and maintaining the system; and
- obtain appropriate approval for the project's funding in advance of committing funds.

Current Status

No equally large and complex information systems, to which this recommendation could be applied, have been developed or implemented in the area of community-based health since our 2004 audit.

The Ministry maintained at the time of our follow-up, as it did in its 2004 response to this recommendation, that it viewed the Integrated Management System as a series of multiple projects. It informed us that, accordingly, the projects were being managed with close attention to the steadily changing business requirements of the continuing-care health sector; project costs were being controlled through the business-case approval process; and the Ministry had obtained approval prior to committing funds to projects.

Implementation of Guidelines for Management Information Systems

Recommendation

To assist both the Ministry and Community Care Access Centres in better managing budgets and resources, the Ministry should assess the benefits of implementing:

- the enhanced modules of the Financial and Statistical Management System (FSMS); and

- *the FSMS in larger community support service agencies.*

Current Status

The Ministry indicated at the time of our follow-up that the benefits of the enhanced modules of the Financial and Statistical Management System (FSMS) had been reviewed and that the enhanced modules (consisting of human resources, payroll, and scheduling modules) would be implemented in Community Care Access Centres over an 18-month period ending in January 2008.

The Ministry also indicated that expanding the use of the FSMS beyond Community Care Access Centres to larger community support service agencies was being considered, but no decision had been reached at the time of our follow-up.

ELIGIBILITY FOR COMMUNITY-BASED SERVICES

Recommendation

To help ensure that community-based services are provided only to eligible individuals, the Ministry should ensure that Community Care Access Centres are verifying whether individuals receiving services are covered by the Ontario Health Insurance Plan.

Current Status

According to the Ministry, all 42 Community Care Access Centres have implemented a system for verifying, prior to providing services, that individuals are covered by the Ontario Health Insurance Plan. As well, the Ministry has provided Community Care Access Centres with revised procedures to assist in registering homeless and mentally ill individuals who lack documents to confirm eligibility for services.

ACCOUNTABILITY AND PERFORMANCE REPORTING

Accountability

Recommendation

To ensure compliance with the Long-Term Care Act, the Ministry, before designating a community support service (CSS) agency as an approved agency under the Act, should assess whether the agency can comply with the relevant provisions of the Act.

If CSS agencies are to be permitted to charge fees for certain services, the Ministry should make the necessary changes to the regulations under the Act.

Current Status

The Ministry informed us that no process for designating a community support service (CSS) agency as an approved agency under the *Long-Term Care Act* had been developed at the time of our follow-up because there were no plans at that time to have new CSS agencies provide services. All services, including new ones introduced through service expansion, are to be provided by currently designated agencies only, and these agencies are subject to ministry monitoring to ensure compliance with the *Long-Term Care Act*.

The Ministry also indicated that it wanted to change the regulations under the *Long-Term Care Act* to clarify that CSS agencies could charge fees for certain services, such as meals delivered to a client's home. However, given the large number of health initiatives currently on the legislative agenda, the Ministry was unable to determine when the changes could be made.

Performance Measurement and Reporting

Recommendation

To better ensure that community-based services are provided in a consistent, equitable, and cost-effective manner, the Ministry should:

- *develop key performance measures and targets for all programs; and*

- ensure that appropriate information is gathered and that the right information is reported to enable management to monitor services provided and the costs thereof.

Current Status

The Ministry indicated at the time of our follow-up that, as part of the business-plan process for the 2004/2005 fiscal year through to the 2006/07 fiscal year, the Ministry had developed some specific performance indicators relating to the achievement of specific service-level targets by Community Care Access Centres. The performance indicators include the number of clients waiting for service, client satisfaction, and the number of circumstances that occurred that could have caused harm or damage. The Ministry also indicated that its Health Results Team for Information Management had drafted a health-system scorecard and that the scorecard would likely be released in the next fiscal year. The scorecard includes performance indicators that Community Care Access Centres can use to show their contribution to the success of health-system strategies. However, the Ministry also indicated that, while the health-system scorecard may help monitor and manage parts of community-based services, it is not a community services scorecard and does not cover all programs or enable management to fully monitor community services and costs.

In addition, the Ministry indicated that a process was initiated in the 2004/2005 fiscal year to ensure that the right information is gathered and reported by the Community Care Access Centres. This process identified key information to be reported and was also expected to reduce reports by about one-third.

TRAINING AND SCREENING WORKERS

Training and Qualifications

Recommendation

To help determine whether the Personal Support Worker (PSW) Training Program is a cost-effective

approach for ensuring that home care workers have the necessary training, the Ministry should:

- evaluate whether the PSW Training Program is meeting its objectives; and
- work with the Ministry of Education to ensure that the Training Program's curriculum meets the sector's needs and is being implemented in a consistent manner by all training institutions.

Current Status

Our recommendation to evaluate the Personal Support Worker (PSW) Training Program was repeated in May 2005 in the independent review of the competitive bidding process used by Community Care Access Centres to select service providers. While the Ministry accepted the recommendation in its May 2006 response to the review and stated that its goal was to have a home care workforce that is appropriately trained, it did not provide any details on an evaluation of the PSW Training Program.

The Ministry stated that the Ministry of Training, Colleges and Universities had made changes to lengthen and include more clinical experience in the PSW Training Program and that monitoring of the PSW education curriculum is the responsibility of the Ministry of Training, Colleges and Universities. The Ministry did, nevertheless, in conjunction with the Ministry of Training, Colleges and Universities, release an updated PSW vocational standard in December 2004, effective for classes beginning in September 2005, in order to increase the consistency of PSW training in community colleges. The Ministry of Training, Colleges and Universities was working to encourage the adoption of the updated standard by private institutions as well.

Screening of Employees Providing Care

We noted in our *2004 Annual Report* that the Ministry expected Community Care Access Centres and community support service agencies to follow the Ministry's draft guidelines for the screening of all workers who provide care. At the time of our

follow-up, the Ministry indicated that all service providers (that is, providers of nursing, physiotherapy, occupational therapy, speech-language pathology, dietetics, social work, and personal support services) were required to be screened. Screening includes verification of the service providers' credentials and a computer background check by the Canadian Police Information Centre. These requirements are detailed in contracts with the service providers. Since the contracts are to be monitored by Community Care Access Centres, the Ministry does not do any further monitoring to ensure compliance with its screening guidelines.

Independent Health Facilities

Follow-up to VFM Section 3.08, *2004 Annual Report*

Background

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, ultrasound, nuclear medicine, pulmonary function studies, and sleep studies that can be helpful in diagnosing various medical conditions. Typically, such a facility performs the requested tests and forwards the results to the requesting physician. At the time of our audit in 2004 there were also 24 facilities that provided surgical and therapeutic services, such as dialysis, abortions, and cataract, vascular, and plastic surgeries.

Technical fees, also known as “facility fees,” are paid to facilities to cover the costs of providing services, such as the cost of medical equipment and administrative and occupancy costs. They do not include medical professional fees, which are billed by radiologists and other physicians directly to the Ontario Health Insurance Plan. In the 2005/06 fiscal year, technical fee payments to diagnostic facilities totalled approximately \$293 million (\$257 million in 2003/04), and fees paid to facilities providing surgical and therapeutic services

totalled approximately \$30 million (\$16 million in 2003/04). Figure 1 breaks down these payments by type of service over a recent five-year period.

In our *2004 Annual Report*, 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 of, 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

Figure 1: Technical Fees Paid to Independent Health Facilities, 1999/2000–2003/04 (\$ 000)

Source of data: Ministry of Health and Long-Term Care

Service Provided	1999/2000	2000/01	2001/02	2002/03	2003/04
Diagnostic facilities					
radiology	96,215	96,339	98,303	102,678	106,140
ultrasound	68,941	73,717	79,011	88,730	96,202
nuclear medicine	17,310	18,813	20,513	24,369	29,287
sleep studies	16,911	20,270	25,058	23,449	21,296
pulmonary function	2,229	2,043	1,934	1,978	1,924
MRI/CT*	–	–	–	–	2,282
	201,606	211,182	224,819	241,204	257,131
Surgical/therapeutic facilities					
dialysis	7,120	7,305	8,226	8,209	8,154
abortions	4,838	5,093	5,961	6,025	5,341
vascular surgery	803	798	1,111	967	729
plastic surgery	772	718	731	796	898
ophthalmology	458	450	438	434	855
laser surgery	359	359	359	359	359
	14,350	14,723	16,826	16,790	16,336

* First introduced in 2003/04.

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.

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

Current Status of Recommendations

According to information received from the Ministry of Health and Long-Term Care between March and May 2006, some progress has been made in addressing most of the recommendations in our *2004 Annual Report*. The current status of action taken on each of our recommendations is as follows.

REASONABLENESS OF FACILITY FEES

Recommendation

To help ensure that facility fees paid to independent health facilities are reasonable, the Ministry should:

- objectively determine the current cost of providing each type of service; and

- *examine the relationship between the volume of services provided and the costs of providing services.*

Current Status

The Ministry advised us at the time of our follow-up that the Diagnostic Services Committee began meeting in November 2005. The Committee's responsibilities include developing and establishing procedures for evaluating, compensating, and administering the technical component of diagnostic services (that is, the facility fee). This responsibility includes establishing a costing methodology and an ongoing review process to ensure that reimbursement is based on actual costs and current service volumes. To help address this responsibility, the Diagnostic Services Committee is setting up a Task Force on Technical Compensation, which is to review and make recommendations on the costing methodology and assess the adequacy of current fees. However, the Ministry anticipated that this review would not be finalized until fall/winter 2007, although the actual completion date could vary depending on the Committee's priorities and work schedule, which had not been finalized at the time of our follow-up.

DISTRIBUTION OF SERVICES

Diagnostic Services and Surgical/Therapeutic Services

Recommendation

To help ensure that the services provided under the Independent Health Facilities Act are reasonably accessible to all Ontarians, the Ministry should:

- *assess the need for each service by region and determine what actions are required to meet its commitment to provide services where and when needed; and*
- *assess the implications—from a financial and waiting-list perspective—of licensing more than*

one independent health facility to provide cataract surgeries.

The Ministry should also determine what legislative or other actions should be taken regarding unlicensed facilities that are performing surgical and other procedures that are generally performed in hospitals or licensed independent health facilities.

Current Status

The Ministry advised us at the time of follow-up that the previously mentioned Diagnostic Services Committee will also be addressing service needs by region. In addition, the Ministry anticipated that the Local Health Integration Networks would have a role in defining service needs by region.

In January 2006, a new independent health facility was opened to perform 6,700 routine cataract surgeries annually. The Ministry informed us that the licensing of any additional facilities would be co-ordinated with its Wait Times Strategy, which is to implement a plan to increase access and reduce waiting times for five major health services, including cataract surgery.

The Ministry also indicated that a legislative review of the *Independent Health Facilities Act* was initiated in fall 2004. This process includes a review of the scope of facilities to be regulated under the Act, as well as of the potential to impose quality-assurance controls on unlicensed facilities, such as facility assessments of the quality of services provided (these quality assurance controls are already a requirement for licensed independent health facilities). However, according to the Ministry, further work on the legislative review had been deferred pending a decision on how the *Independent Health Facilities Act* would be integrated with the planning process established for Local Health Integration Networks (even though independent health facilities are initially exempt from this planning process).

Waiting Lists

Recommendation

To help determine the severity of regional service-level fluctuations, the Ministry should:

- *develop and implement a waiting list management system; and*
- *monitor and analyze waiting times.*

Current Status

Since fall 2005, the Ministry has posted on its public website waiting-time information from hospitals receiving funding under the Wait Time Strategy that pertains to five services: cataract surgeries, hip and knee total joint replacements, MRI hours of operation, cancer surgeries, and cardiac services. The Wait Time Strategy also includes a plan to have an information system in place by December 2006 to track waiting times at about 50 hospitals that represent about 80% of total services in these five areas. One independent health facility performing cataract surgery will report waiting times through this initiative.

The Ministry indicated that there are no other initiatives in place to track, monitor, and analyze waiting times for services performed by independent health facilities. Although waiting times are to be reviewed whenever an existing independent health facility applies for an expansion or relocation of its services, this review is to help determine whether to approve the facility's application as opposed to being part of a larger determination of regional waiting lists and service-level fluctuations.

Service Planning

Recommendation

To help ensure that independent health facilities are being appropriately used to meet the health care needs of the public, the Ministry should implement a process for determining whether particular services should be provided by hospitals or by licensed independent health facilities.

Current Status

At the time of our follow-up, the Ministry indicated that there had been no overall analysis of the services that could appropriately be provided by independent health facilities. It did state, nevertheless, that any service that could safely be performed in a non-hospital setting and did not require an overnight stay by the patient would be appropriate to perform in an independent health facility. The Ministry relies on the College of Physicians and Surgeons of Ontario to provide advice on the relative safety of services performed in independent health facilities.

While the Ministry has not determined overall which services should be provided by hospitals and which by independent health facilities, the Ministry indicated that it undertakes a certain amount of analysis in this regard before issuing a request for proposals to establish a new independent health facility. Specifically, it assesses the rationale for establishing an independent-health-facility service as opposed to a hospital-based service, which generally includes comparing the cost of providing the service in a hospital to its cost at an independent health facility, assessing the complexity of the service, and considering quality assurance issues, including the College of Physicians and Surgeons of Ontario's advice on how providing the service in a non-hospital setting may affect patient safety.

ASSESSMENTS AND INSPECTIONS

The Assessment Process and Time Frames for Submitting Assessment Information

Recommendation

To help ensure that the College of Physicians and Surgeons is meeting the Ministry's expectations regarding the assessment process and the development of clinical practice parameters and facility standards, the Ministry should regularly update its agreement with the College in a signed Memorandum of Understanding.

To help provide assurance that independent health facility services comply with clinical practice parameters and facility standards, some assessments should be performed without advance notice.

To help improve the effectiveness of the assessment process, the Ministry should establish time frames for:

- *the submission of assessment reports by the College of Physicians and Surgeons of Ontario to the Director of the Independent Health Facilities Program; and*
- *the forwarding of information from independent health facilities to the College that provides assurance that any required corrective action has been taken on a timely basis.*

Current Status

The Ministry indicated at the time of our follow-up that a draft Memorandum of Understanding, which sets out the Ministry's expectations and processes relating to inspections, assessments, and the development of clinical practice parameters and facility standards, had been discussed with the College of Physicians and Surgeons of Ontario. The Ministry expects the Memorandum of Understanding to be implemented for the 2006/07 fiscal year.

Effective January 31, 2006, the Ministry announced that the College of Physicians and Surgeons of Ontario would begin performing assessments without advance notice. According to the Ministry, policies, procedures, and communication material for unannounced assessments were jointly developed by the Ministry and the College. This process initially targeted facility follow-up assessments, assessments arising from complaints, and assessments of facilities with past problems. The Ministry and the College plan to jointly evaluate the unannounced assessment process at the end of the 2006/07 fiscal year to determine whether to continue or expand these assessments in subsequent years.

In addition, the following policies had been developed with respect to turnaround times for the College's submission of its assessment reports and

facilities' forwarding of information regarding their plans for addressing deficiencies: the College must provide the Ministry with its assessment report of a facility within three to 20 days of the assessment (the greater the potential impact of concerns noted, the faster the report should be submitted); and facilities generally must contact the College within 15 days of the date of the report (indicated on an accompanying letter) and provide a written action plan within 30 days.

Licence Suspensions and Reassessments

Recommendation

To help improve the effectiveness of the process for assessing independent health facilities and to help ensure that quality standards are met, the Ministry should:

- *have a formal policy on suspending facilities with serious quality assurance issues, especially when the same issues arise on reassessment; and*
- *consider charging facilities for reassessments.*

To help protect the public, the Ministry should consider appropriate public disclosure of serious quality assurance problems at independent health facilities.

Current Status

The Ministry informed us at the time of our follow-up that a policy establishing the licensing action to be taken against independent health facilities with repeat quality assurance problems would be developed and implemented in the 2006/07 fiscal year in consultation with the College of Physicians and Surgeons of Ontario.

The Ministry also indicated that option papers would be prepared in the 2006/07 fiscal year, also in consultation with the College, on charges for repeat assessments and public disclosure of serious quality assurance problems at independent health facilities. The timing of the implementation of any changes will depend on the options selected.

Assessment Methodology

Recommendation

To help ensure effective assessment of the quality of services provided by independent health facilities, the Ministry should work with the College of Physicians and Surgeons of Ontario to ensure that:

- the sample of services to be assessed is sufficient to reach a conclusion and is selected from a complete listing of all services rendered to patients; and
- the sample is selected independently by the College or by the Ministry.

Current Status

The Ministry, in consultation with the College of Physicians and Surgeons of Ontario, developed a policy on the size of the sample of services to be assessed and the selection of the sample. The policy was implemented in November 2005. Under the policy, the College independently selects a minimum sample from a list of the services that an independent health facility renders to patients on specified dates.

Assessment Tracking Systems

Recommendation

To help ensure that decision-makers have access to all relevant information when assessing independent health facilities, the Ministry should ensure that its management information system is structured to link all data relating to a specific facility.

Current Status

The Ministry indicated at the time of our follow-up that revisions to the management information system were not a high priority and other information-system projects had higher priority. Therefore, the recommendation would not be fully implemented unless resources became available. However, as discussed above in relation to time frames for submitting assessment information, the Ministry has

modified the system to facilitate the tracking of timeliness of the assessment reports.

UNLICENSED TECHNICAL SERVICES

Recommendation

To help ensure the consistent quality of medical services in Ontario and to help minimize the risk to patients, the Ministry should assess which diagnostic and surgical services performed outside of hospitals and licensed independent health facilities should be covered by the Independent Health Facilities Act.

Current Status

The Ministry informed us at the time of our follow-up that the expansion of services under the *Independent Health Facilities Act* had only occurred in response to specific proposals from the Ontario Medical Association and from within the Ministry and to unsolicited proposals from individuals interested in establishing an independent health facility. Furthermore, there were no plans to expand the scope of the *Independent Health Facilities Act* to include diagnostic services where the facility fee component of the service is currently funded through the *Health Insurance Act*. When a service not covered by the *Independent Health Facilities Act* is performed outside a public hospital, the service is still not subject to the Act's quality assurance process.

SLEEP STUDIES

Recommendation

To help ensure that new facilities that are brought under the Independent Health Facilities Act in future meet quality standards, the Ministry should:

- inspect all such facilities on a timely basis; and
- follow up on problems identified on a timely basis to verify that corrective action has been taken.

Current Status

The Ministry indicated at the time of our follow-up that, although it had no plans to expand the scope of services regulated under the *Independent Health Facilities Act*, where a facility or service not under the Act is later brought under the Act, time frames to complete the licensing process—including time frames to verify that corrective action is taken on problems noted during pre-licensing inspection—would be established. The Ministry would also assess staffing requirements to ensure that licensing can be achieved in a timely manner.

Chapter 4

Ministry of Labour

Section 4.09

Employment Rights and Responsibilities Program

Follow-up to VFM Section 3.09, 2004 Annual Report

Background

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 of Labour's Employment Rights and Responsibilities Program (Program).

During the 2005/06 fiscal year, the Ministry investigated over 15,770 complaints from employees (15,000 in 2003/04) and carried out approximately 2,560 proactive inspections of payroll records and workplace practices (150 in 2003/04). For the 2005/06 fiscal year, the Ministry's expenditures for the Program totalled approximately \$21.6 million (\$22.4 million in 2003/04), of which about 75% was spent on salaries and benefits for about 224 staff members (220 in 2003/04), located at the Ministry's head office in Toronto and at regional and district offices throughout the province.

In our 2004 Annual Report, 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 our specific concerns mirrored those identified during our last audit of this Program in 1991 and 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 with respect to 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.

- The Program relied on a mix of paper and computer information systems that were not integrated. Information useful for enforcement was not easily accessible to enforcement officers.
- Significant control weaknesses existed over the Ministry's administration of its \$11-million trust fund for employee claimants. We found examples of money collected as far back as 1995 that had not been sent to claimants, of duplicate payments being made, of numerous accounting errors, and a lack of essential reconciliation and supervisory controls.

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

Current Status of Recommendations

Based on information obtained from the Ministry of Labour, the Ministry has made progress on many of the recommendations we made in our *2004 Annual Report*, with significant progress being made on several, including the expedited development of a new computer system and improved administration of the Program's trust fund. The current status of action taken on each of our recommendations is as follows.

ENFORCEMENT

Extending Investigation Activity and Proactive Inspections

Recommendation

To more effectively enforce the Employment Standards Act, 2000, and better protect the rights of currently employed workers, the Ministry should:

- *expand investigations when individual violations are found and increase the number of proactive inspections in higher risk industries; and*
- *assess the impact—both on enforcement and as a deterrent—to making employers found in violation of the Act responsible for the costs of investigations and inspections.*

Current Status

In the 2004/05 fiscal year, the Ministry established a Dedicated Inspection Team and committed to conduct more proactive inspections (2,000 in 2004/05 and 2,500 in each of the following two years) in high-risk sectors. From the information the Ministry provided, 2,355 and 2,560 proactive inspections were conducted in 2004/05 and 2005/06, respectively. These inspections have resulted in a total issuance of 567 tickets and recovery of over \$2.3 million on behalf of employees since the beginning of the 2004/05 fiscal year. By comparison, 151 proactive inspections were completed and \$102,000 was recovered for employees in the 2003/04 fiscal year. The data for the past two years will now be used as benchmarks upon which to establish future targets and measure program effectiveness.

With respect to expanding investigations when individual violations are found, the Ministry indicated that processes had been developed and implemented so that violations that may also affect other employees of the same organization are referred to the Dedicated Inspection Team for consideration of a workplace inspection. At the time of our follow-up, approximately 800 such referrals had been made since 2004. However, the number of

Figure 1: Notices of Contravention and Prosecutions Under the *Provincial Offences Act* (Act), 2001/02–2005/06

Source of data: Ministry of Labour

	2001/02	2002/03	2003/04	2004/05	2005/06
notices of contravention issued	4	56	291	350	332
tickets issued under Part I of Act	0	0	0	262	305
prosecutions under Part III of Act	4	1	7	25	16

actual expanded investigations completed had not increased significantly since our 2004 audit. According to the Ministry, this was due to the amount of resources needed to address the Ministry's complaint-driven workload. The Ministry indicated that it would endeavour to complete more of these investigations in the 2006/07 and 2007/08 fiscal years.

The recommendation to consider making employers found in violation of the Act responsible for paying the full cost of investigations and inspections was not implemented. The Ministry indicated that the option would be considered as part of any future program review or legislative amendment, as any changes in this matter would require amendment to the *Employment Standards Act, 2000*.

Prosecuting Violators

Recommendation

To ensure that its enforcement efforts are effective in promoting employers' compliance with the Employment Standards Act, 2000, the Ministry should provide better direction to employment standards officers regarding the appropriate use of enforcement measures, including notices of contravention and prosecutions, and better monitor the use of these measures for consistency of application.

Current Status

The Ministry's prosecution policy, which identifies criteria for initiating and guidelines for conducting prosecutions, was updated in July 2004 and communicated to staff.

Enforcement measures include issuing notices of contravention with fines ranging from \$250 to \$1,000; prosecutions under Part III of the *Provincial Offences Act* for serious offences, which can result in large fines and imprisonment; and, since July 1, 2004, issuing tickets to employers for violations under Part I of the *Provincial Offences Act*. The Ministry indicated that issuing tickets with a set fine of \$295 is an efficient means of prosecuting violators for less serious offences.

Figure 1 illustrates the number of notices of contravention and prosecutions for the fiscal years 2001/02 to 2005/06.

In addition, on December 1, 2004, the Ministry updated and communicated to employment standards officers the procedures to follow in issuing formal orders to pay against corporate directors, who can be fined and made liable for amounts owed by a corporation for employment standards violations.

At the time of our follow-up, the Ministry was piloting an initiative to more effectively prosecute employers for failures to comply with orders to pay, and a number of cases had been prepared for court. This initiative is to be rolled out across the province by the end of the 2006/07 fiscal year.

The Ministry had also begun posting on its website information about its targeted enforcement activities, including a list of convicted employers and their violations.

According to the Ministry, all activities of employment standards officers are now being tracked on a regular basis and officers' use of the enforcement measures available is being monitored

for extent and consistency and to determine where additional training may be warranted.

Collecting for Claimants

Recommendation

To effectively collect amounts owed to employees, the Ministry should implement more timely and vigorous enforcement measures. In addition, it should better monitor the success of those enforcement efforts.

Current Status

The Ministry has since our 2004 Annual Report made changes to the timing of its initiation of enforcement activities. When an order to pay has been issued, there is a statutory time limit of 30 days for either party (employer or claimant) to file an appeal with the Ontario Labour Relations Board (Board). Once that period has elapsed without either compliance with the order or filing of an application for review at the Board, the order is considered in default and the Ministry now sends the file to a collection agency within 10 business days instead of the previous 30 days.

As of January 2006, the Ministry had entered into new service contracts with two private sector collection agencies. The service contracts were rewritten to improve monitoring of their performance.

A collection-improvement strategy covering the 2006/07 and 2007/08 fiscal years had also been developed to explore a number of options, including:

- using credit bureaus for consumer searches and notifying credit bureaus of unpaid directors' orders to pay;
- filing writs of enforcement registered with the courts against employers for amounts owing;
- considering legislative changes to raise administrative fees to fund internal costs; and
- developing a chronic violator strategy with other ministries that would require compliance with orders to pay—for example, prior to renewing a liquor licence.

Implementation of the Program's new computer system, as described below, is expected to further improve the Ministry's ability to monitor the timeliness and success of enforcement activities by providing managers with real-time data on all enforcement activities.

INFORMATION SYSTEMS

Recommendation

To ensure that staff and management of the Ministry's Employment Rights and Responsibilities Program have access to accurate, relevant, and timely information for decision-making, the Ministry should:

- *obtain the required approvals for the development of its new computer system from the Management Board of Cabinet; and*
- *expedite the development of the new system to meet the needs of all users.*

Current Status

On June 16, 2005, the Ministry obtained the required approval to develop and implement a new information technology (IT) computer system. At the time of our follow-up, the Ministry informed us that clients would soon be able to file claims and obtain information electronically using the Internet. The system will collect real-time data to track and monitor province-wide compliance and enforcement efforts, produce employer profiles for targeting of enforcement activities, and provide the type of information needed to make more informed decisions on compliance. The system will also automatically assign files across the province to equalize workflow and improve the timeliness of enforcement, while reducing the amount of time required for manual tasks such as reporting.

The detailed requirements for building the system were completed in November 2005. At the time of our follow-up, the Ministry was working with its IT group to complete the development and implementation stages of the project. According to

the Ministry, the filing of electronic claims is now being implemented, with rollout of the first phase expected by January 2007.

QUALITY ASSURANCE

Recommendation

To ensure that the quality of information pertaining to claims made under the Employment Standards Act, 2000, is adequate for enforcement and for management decision-making, the Ministry should:

- *improve its documentation of claims and investigations to ensure the completeness and accuracy of information; and*
- *expand quality assurance procedures to include verifying that information contained in ministry databases is also complete and accurate.*

Current Status

At the time of our follow-up, the Ministry had developed and implemented an annual quality assurance audit for claims investigations and proactive inspections. The audits are based on a questionnaire applied to a random sample of completed employment standards case files. Files are reviewed with respect to the specific investigation and decisions made, as well as whether required procedures were properly followed. Files are also reviewed for post-investigation activities such as the issuance of orders and collection efforts.

If a criterion was complied with less than 80% of the time, it is identified as an area of weakness. All regions provide their audit results to head office for a provincial compilation and summary. According to the Ministry, the results of the first provincial quality assurance audit were reviewed by senior management, and individual results were shared with individual officers. The Ministry indicates that the audits were useful for identifying individual and province-wide training needs.

The Ministry further indicated the results to date showed that significant improvements had been achieved; however, some improvement was

still required in the completeness of the investigation reports.

MEASUREMENT OF AND REPORTING ON PROGRAM EFFECTIVENESS

Recommendation

To help ensure the openness and accountability of the Employment Rights and Responsibilities Program and to assist management in making decisions affecting program direction and resource allocation, the Ministry should develop and implement more comprehensive indicators to measure and report on the Program's effectiveness.

Current Status

The Ministry indicated it had developed and communicated outcome-based performance measures to its staff in the 2004/05 fiscal year. The program measures include conducting 2,500 targeted inspections per year of high-risk employers (for example, restaurants, retail, and business-management services); achieving an 80% compliance rate in targeted sectors by the 2007/08 fiscal year; and achieving an 80% overall customer satisfaction rate by 2007/08.

Measures at the operational level to support the achievement of program objectives were also developed and incorporated into staff performance contracts. These include adherence to the Program's Code of Professionalism and resolving 75% of claims within 40 business days of assignment.

In the 2004/05 fiscal year, 200 random workplace inspections were completed in the restaurant sector to determine an initial benchmark level of compliance with employment standards. The Ministry had met with the Ontario Restaurant, Hotel and Motel Association to share these results and is working in partnership with it to increase compliance in this sector. In 2005/06, 200 random inspections were completed in the retail sector. At the time of our follow-up, the Ministry had contacted the Retail Council of Canada and indicated that it

would be working with the council to increase compliance also in that sector.

The Ministry also noted that, since the Program is in transition, it is difficult to measure customer satisfaction. The Ministry indicated that, once the transformation has been completed, the Program will develop an appropriate performance measure to better reflect its effectiveness in this area.

FINANCIAL CONTROLS

Trust Fund

Recommendation

To ensure employee claimants receive the money they are entitled to under the Employment Standards Act, 2000 on a timely basis and to adequately safeguard assets held in trust, the Ministry should:

- *review all the trust fund accounts for errors and omissions and, where warranted, take necessary corrective action;*
- *improve controls over the administration of the trust fund and monitor the use of these controls on an ongoing basis;*
- *establish improved procedures for locating and paying claimants; and*
- *involve internal audit in ensuring that discrepancies and completion of the required reconciliations are appropriately investigated and resolved.*

Current Status

According to the Ministry, additional staff was hired in August 2004 by the Trust Fund Unit to assist in verifying trust fund accounts, making deposits, and locating and paying missing claimants. Dedicated staff were assigned to locate claimants whose addresses were no longer current, using data from the Internet and the Ministry of Transportation.

In February 2005, a new manager with a professional accounting designation was hired to oversee all functions and processes related to the management and administration of the Trust Fund Unit, including establishment of adequate internal controls.

The verification procedure for transactions sent to the bank used by the fund was enhanced effective November 2005. A draft contract with the bank has been developed and a Service Level Agreement is to be developed in conjunction with the contract.

An internal audit review of Trust Fund Unit activities was undertaken in March 2006. The review concluded that management of the Trust Fund Unit had addressed the recommendations made in our *2004 Annual Report*. For instance, the internal audit report stated that the Ministry had reviewed 290 old balances totalling \$639,000 and had taken follow-up action. As of March 2006, 35% of the balances were distributed to the people who were owed the money. The remaining 65% are in the process of being resolved.

Occupational Health and Safety Program

Follow-up to VFM Section 3.10, *2004 Annual Report*

Background

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 provide 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 2005/06 fiscal year, expenditures for the Program totalled approximately \$69.3 million (\$52 million in 2003/04), of which approximately 72% was for salaries and benefits. As of March 31, 2006, the Ministry had about 360 inspectors (230 inspectors in 2003/04) and planned to increase that to 430 inspectors by the end of 2006/07. The Ministry has a Memorandum of Understanding with the Workplace Safety and Insurance Board (WSIB) that calls for the WSIB to assume the full costs associated with administering the Act.

In our *2004 Annual Report*, we concluded that the Ministry's systems and procedures for enforcing occupational health and safety legislation had improved in some areas since our previous 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 workplaces that had not been registered with the Ministry as required.
- 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, when the Ministry used 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.

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

Current Status of Recommendations

Based on information obtained from the Ministry of Labour, the Ministry has made progress on all of the recommendations we made in our *2004 Annual Report*, with significant progress being made on several, such as conducting the required inspections of high-risk workplaces and issuing more contravention orders—due in large part to the increased number of inspectors and better monitoring by management of inspectors' activities. The current status of action taken on each of our recommendations is as follows.

ENFORCING THE ACT AND REGULATIONS

Identifying Workplaces for Inspection

Recommendation

To help ensure that all workplaces are identified for possible inspection, the Ministry should:

- *consider adopting the practices of some districts, such as using municipal building permits to*

identify unregistered workplaces, on a province-wide basis;

- *develop ways to maintain a more complete inventory of workplaces that are candidates for inspection, including, where possible, establishing formal arrangements with other organizations to obtain information useful to inspectors for planning their inspections; and*
- *enhance monitoring practices to ensure that construction contractors submit Notices of Project as required and that the required information about subcontractors working on the project is provided.*

Current Status

The Ministry stated that, since spring 2004, it had been meeting with the Ministry of Municipal Affairs and Housing and municipal representatives to discuss opportunities for sharing building-permits information to help identify unregistered and high-risk workplaces. One initiative being considered was allowing construction companies to apply electronically through a “one-window” method for all needed permits, including building permits. Such an approach would help ministries and municipalities to share information easily. However, at the time of our follow-up, the implementation of this initiative was delayed because several issues were unresolved, such as legal issues over the sharing of building permit information and the challenge of municipalities having IT systems that were not entirely compatible with each other.

At the time of our follow-up, the Ministry indicated that the passage of a new piece of legislation, the *Regulatory Modernization Act*, would better enable staff from 13 ministries and agencies (including the Ministry of Labour) to work together and share detailed compliance information. The Act received its first reading in June 2006.

In addition, to help ensure all workplaces were identified for possible inspection, we were informed that the Ministry implemented a data- and information-sharing agreement with the Workplace

Safety and Insurance Board (WSIB) in spring 2004. The WSIB is providing the Ministry with a new registration list on a quarterly basis. The Ministry is using this information to help target its enforcement activities and identify more unregistered workplaces. As a result, the number of registered organizations had increased significantly, from approximately 13,400 in 2003/04 to 28,200 in 2005/06.

With respect to ensuring that construction contractors submit Notices of Project as required, the Ministry advised us that it had re-enforced its zero-tolerance approach, particularly in the construction sector. The Ministry reported that the number of orders issued for failing to submit a Notice of Project had increased significantly as a result (from 1,394 in 2003/04 to 1,788 in 2005/06), as had those issued for failing to register as an employer (from 1,167 in 2003/04 to 2,365 in 2005/06).

Prioritizing Inspections

Recommendation

To help ensure that high-risk employers are inspected, the Ministry should:

- *establish a more formal process for monitoring whether the required inspections of high-risk workplaces are being carried out; and*
- *assess the need for allocating a portion of inspector resources for targeting inspections during evenings and weekends.*

Current Status

As of March 31, 2006, the Ministry had hired and trained an additional 131 inspectors since 2003/04 to ensure the required inspections of high-risk workplaces are carried out. The Ministry informed us that it was in the process of hiring an additional 69 inspectors, whom it expected to be in the field by January 2007. In order to increase effective oversight of these inspections and improve overall quality assurance, the Ministry reported that it had implemented a number of processes, including the establishment of a Divisional Diagnostic Unit to

develop a targeted enforcement strategy; dedicated regional support to inspectors; dedicated regional management of high-risk inspection activities; and, jointly with the WSIB, establishment of reporting and data-analysis processes that include formal quarterly tracking and reporting on the targeted inspections of high-risk workplaces.

The Ministry also reported that, to ensure program results are clearly understood and achieved, performance expectations had been documented in annual performance plans of inspectors, regional support staff, and managers.

With respect to allocating inspector resources for targeting inspections during evenings and weekends, the Ministry indicated that all 131 new inspectors had extended hours as part of their work agreement. It informed us that it was negotiating with the Ontario Public Service Employees Union to implement a similar formalized work arrangement for all inspectors in the 2006/07 fiscal year.

At the time of our follow-up, the Ministry's information system did not specifically track which inspections were conducted during the evenings. The Ministry indicated it was in the process of making changes to its information system to permit such tracking.

Advancing the Internal Responsibility System

Recommendation

To help enhance workplace safety, the Ministry should require that its inspectors address whether an effective internal responsibility system is in place at each workplace inspected or investigated, and whether it appears to be operating effectively.

Current Status

In February 2005, the Director of the Program issued a directive reminding all ministry staff that ministry policy and procedures require that inspectors promote the internal responsibility system (IRS), including the requirement to have joint

health and safety committees with both management and worker representatives, hold the parties accountable through the issuance of appropriate orders, and include a summary of their discussions and interactions in the inspection report. The directive explicitly instructed inspectors to record their IRS findings in their reports.

In addition, the Ministry advised us that it had developed and delivered IRS training to all new inspectors. At the time of our follow-up, training to remaining staff was expected to be completed by June 2006. The *Policies and Procedures Manual* had been updated to reflect the information contained in the training modules and the directive issued by the Director. As well, criteria had been established in the manual to provide guidance on how an organization could be taken off the high-risk list due to a well-operating IRS.

According to the Ministry, inspectors issued approximately 12,000 orders pertaining to the IRS in the 2005/06 fiscal year, compared to 6,305 orders in 2004/05.

Issuing and Monitoring Compliance with Orders

Recommendation

To help ensure that contraventions are consistently dealt with and that corrective action is taken on identified health and safety hazards, the Ministry should monitor inspectors' activities to make sure that:

- *orders are issued for all health and safety contraventions, as required by ministry policy; and*
- *orders are cancelled only after the inspector has received sufficient confirmation that the unsafe workplace practice has been rectified.*

Current Status

In October 2004, the Ministry engaged a consultant to undertake a comprehensive review of the existing Quality Assurance/Quality Control program. The consultant made a number of recommendations for monitoring field activities to ensure existing

procedures were being followed. According to the Ministry, the consultant's recommendations were implemented via new processes and systems, which included ongoing monitoring of inspection data and orders issued, auditing of inspection files—including the writing and cancellation of orders—and tabling of quality-assurance reports to management on a quarterly basis.

In addition, the Ministry confirmed that managers had been instructed to actively monitor field activities and randomly accompany inspectors to observe and ensure inspections and investigations were performed according to the *Occupational Health and Safety Act*. At the time of our follow-up, all managers had quality assurance/control targets in their performance agreements.

The Ministry advised us that the requirement to issue orders for all contraventions and monitor outstanding orders is regularly re-affirmed with inspectors by managers and regional program coordinators. New reports have also been created to give managers and regional program co-ordinators the tools to ensure regular monitoring of outstanding orders. As a result, the number of orders issued had more than doubled since the 2003/04 fiscal year, to almost 159,000 from 78,000. The number of inspections in which inspectors follow up on orders issued (required where no response is received from the employer by the compliance date to provide proof that the contravention has been corrected) had increased by 23%, from 9,398 in the 2003/04 fiscal year to 11,515 in 2005/06.

Prosecuting Violators

Recommendation

To help ensure that the Ministry's enforcement efforts are both timely and effective in achieving compliance and in deterring future violations, the Ministry should:

- *take more aggressive action to prosecute violators who fail to comply with ministry orders or*

who are repeatedly found to have unsafe workplace practices; and

- consider introducing more expeditious and effective enforcement tools, including scheduled offences for the industrial and mining sectors and administrative monetary penalties for violations that do not warrant criminal prosecution.

Current Status

The Ministry informed us that it had revised its prosecution policy to re-enforce and strengthen the zero-tolerance approach for employers that are non-compliant.

With respect to introducing more expeditious and effective enforcement tools, the Ministry confirmed that, effective January 15, 2005, a regulation was made under the *Occupational Health and Safety Act* that prescribed two new schedules for the issuance of Part I tickets with set fine amounts for 81 contraventions of the *Regulation for Industrial Establishments*. The schedules focus on contraventions that pose an immediate and potential serious hazard to a worker.

According to the Ministry, the policy of issuing Part I tickets in the mining sector was also reviewed, including the set fine schedule of offences for mining regulations. To bring the fine limits in line with those of the industrial and construction sectors, the Ministry plans, in consultation with the Ministry of the Attorney General, to bring forward a proposal in early 2007 as part of a package to amend the mining regulations.

The Ministry indicated that, at the time of our follow-up, it was not considering administrative monetary penalties because the above tools were seen to be more effective.

Monitoring Enforcement Efforts

Recommendation

To strengthen support for enforcement efforts aimed at reducing workplace injuries and illnesses, the Ministry should:

- review and improve its systems and procedures for measuring and monitoring the deployment of staff resources on enforcement activities to ensure the allocation of staff is based on relative workload and risk;
- improve its reporting of inspection results to ensure that important documents are kept, that the information is complete and accurate, and that the quality of inspections complies with ministry policies and procedures;
- build on its quality assurance initiative by taking action to ensure that it is effective and consistent between regions and that concerns and best practices noted are appropriately communicated to staff and management; and
- consider implementing periodic rotation of inspectors to different geographic areas.

Current Status

The Ministry advised us that, in 2004, it developed methodologies and procedures to focus inspection resources on high-risk workplaces based on the severity of the injury and the number of injuries. Regions were restructured in order to address workload levels, and a new management structure was implemented to ensure consistency in the quality of inspections and inspection reports, as well as completeness of files. In addition, a Divisional Diagnostic Unit was established to track the trends of workplace injuries and, with the Workplace Safety and Insurance Board, to recommend best practices for addressing high-risk hazards and workplaces. Best practices had been documented and communicated to staff and management at the time of our follow-up.

The Ministry also advised us that it had provided training to inspectors to help improve the quality of reports being produced and developed Quality Assurance Audit Templates in accordance with its policies and procedures to ensure that the quality-assurance initiative is effective and consistent among regions. Operations Division managers are required through performance contracts to carry out regular,

ongoing quality-assurance reviews. Regional program co-ordinators support and contribute to these reviews by using the templates to bring forward key quality-assurance concerns for review and remedial action with respect to the inspector involved. When the review suggests a possible broader implication, the issues are brought forward by managers to their directors and, where appropriate, to senior management of the Ministry.

The Ministry had not designed a system of rotating inspectors through different work units. The Ministry informed us that fiscal constraints, collective agreements, and staff-relations issues make rotation of staff problematic. In some regions, geographic issues may also make rotation difficult and costly.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Recommendation

To help ensure the accountability of the Occupational Health and Safety Program and to assist the Legislature in making decisions affecting program direction and resource allocation, the Ministry should develop, in accordance with appropriate performance-reporting principles, more comprehensive indicators

for measuring and publicly reporting on the Program's effectiveness.

Current Status

The Ministry advised us that more comprehensive and challenging program-outcome targets were developed in conjunction with the Workplace Safety and Insurance Board (WSIB). These include a commitment to a 20% reduction in lost-time injury rate from 2.2 per 100 workers in 2003 to 1.8 by the 2007/08 fiscal year, and 20,000 fewer lost-time injuries annually by 2007/08. We were informed that processes were also established with the WSIB to collaboratively report on annual performance targets, including key public messaging. The Ministry further informed us that it was tracking enforcement activities specifically related to the high-risk initiatives it had implemented.

According to the Ministry, the Divisional Diagnostic Unit has been producing weekly, monthly, and quarterly reports on performance measures and outcomes. Also, since June 28, 2004, statistics for the past 10 years on key activity measures—including the number of workplaces inspected and investigated, total field visits, and orders issued and prosecutions initiated for violations—have been posted on the Ministry's website.

Purchasing Cards

Follow-up to VFM Section 3.11, *2004 Annual Report*

Background

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 charge card) is not to be used for travel and travel-related expenses, payment of salary and wages (although PCards can now be used to pay temporary help agencies), 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 2005/06 fiscal year, an average of 14,800 PCards (14,600 in 2003/04) were held by government employees, and approximately 778,000 transactions (720,000 in 2003/04) totalling \$173 million (\$144 million in 2003/04) were processed.

We audited PCard transactions at four ministries—Community Safety and Correctional Services; Health and Long-Term Care; Natural Resources; and Transportation—which together accounted for about 60% of total annual PCard expenditures. We also conducted work at the Ministry of Government Services (at the time of our audit named Management Board Secretariat). In

conducting our audit, we used various computer-assisted auditing techniques to select the PCards to be audited at each ministry and to analyze PCard transaction data and statistics.

In our *2004 Annual Report*, we noted 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 inadequate. We believed 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 existed that any inappropriate PCard transactions would not be detected.

The exceptions noted during our 2004 audit included 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, both of which were contrary to government directives.
- 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 in 2004 that the Ministry of Government Services followed a fair, transparent, and competitive process.

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

Current Status of Recommendations

Information obtained from the Ministry of Government Services indicates that progress has been made in addressing all of the recommendations made in our *2004 Annual Report*. However, until planned compliance audits have been completed, ministries cannot be fully assured that the improved control environment is working as intended. The current status of action taken on each of our recommendations is as follows.

VERIFICATION OF TRANSACTIONS

Recommendation

To help ensure that only valid expenditures are charged to purchasing cards (PCards) and that PCards are used in accordance with government policies, Management Board Secretariat should work with ministries to reinforce with PCard holders and their managers that:

- *proper detailed receipts must be submitted to support all PCard purchases on employees' monthly statements;*
- *billings should be reconciled with purchases on a monthly basis, and any discrepancies must be promptly followed up on;*
- *PCards from employees who habitually do not provide receipts for purchases should be cancelled; and*
- *all PCard statements and supporting receipts must be reviewed and approved monthly by the appropriate managers.*

To help ensure that all monthly statements are reviewed and approved, Management Board Secretariat should ensure that managers are provided with monthly reports that identify which of their employees have PCards and whether they have used their cards.

To help ensure that practices are consistent among ministries and are in accordance with government expectations, Management Board Secretariat should provide some guidance regarding the expenditure of public funds on employee recognition and gifts for official visitors and speakers at ministry events.

Current Status

According to the Ministry of Government Services, all ministry controllers were requested to regularly remind managers and cardholders of their obligations with respect to the use of PCards. In addition, the internal government online employee portal, MyOPS, now includes a tutorial for the current directives, with fact sheets relating to the PCard. According to the Ministry, this is to assist managers

and cardholders in meeting their obligations with respect to the proper and effective use of PCards.

In addition, in early 2006, more than 200 managers from across the Ontario Public Service participated in refresher training for managers. According to the Ministry, the training reinforced the need for proper receipts, monthly reconciliations, and monthly review and approval by managers. For managers who missed the training sessions, a course package is available online.

With respect to the need for guidelines in areas such as gifts, the Ministry informed us that:

- an Employee Recognition Policy and Guide-line for the Ontario Public Service was approved in August 2006; and
- a new Travel, Meal and Hospitality Expenses Directive issued in November 2004 provided guidance on the use of public funds for gifts of appreciation. For instance, according to this Directive, token gifts of appreciation, valued at up to \$30, may be given to persons who are not attached to government in exchange for pro bono services; an immediate supervisor must approve gifts valued at above \$30.

MANAGEMENT OF CARD ISSUANCE AND SPENDING LIMITS

Split Purchases

Recommendation

To help ensure that purchasing-card limits are properly adhered to and are functioning effectively as a key control, Management Board Secretariat should reinforce with ministries the need to:

- *flag and follow up on purchases that monthly statements or other documents indicate may have been split into multiple transactions; and*
- *remind employees that they must obtain a temporary exemption when transaction limits need to be exceeded.*

Current Status

The Ministry informed us that, to strengthen controllership of PCards, it developed and issued a PCard Self-Assessment Toolkit to assist management in ensuring proper and effective use of PCards. The Toolkit included online access to a suite of monthly reports to allow ministries to identify and review potential transgressions relating to the PCard. The reports included information on split payments, duplicate payments, limits that have been exceeded, and purchases of computer software.

Review of Card Utilization and Limits

Recommendation

To help limit the risk of inappropriate purchases being made on purchasing cards, Management Board Secretariat should require that all ministries regularly assess:

- *whether any cards should be cancelled;*
- *whether any card limits should be adjusted; and*
- *whether cards are being cancelled on a timely basis where cardholders have left the program.*

Current Status

According to the Ministry, the Self-Assessment Toolkit it has developed has helped the ministries manage PCard usage and determine if the cards were being used effectively, whether card limits required adjustment, and if cards needed to be cancelled.

Effectiveness of Card Limits

Recommendation

To help ensure that transaction limits are adhered to, Management Board Secretariat should, with the purchasing-card service provider, investigate why the system is processing purchases that exceed employees' transaction limits when employees have not obtained appropriate approvals.

Current Status

The Ministry informed us that it had reviewed the system with the PCard service provider to ensure that effective system controls are in place. We were advised that these controls are now embedded in the coding on every card. An online verification tool, implemented in June 2006, allows managers to confirm that the electronic statement used to pay PCard invoices matches the paper statement that cardholders provide to their manager for approval. The online verification is to be completed after the employee has reconciled his or her statement and attached the necessary receipts.

MINISTRY MONITORING OF PURCHASING-CARD TRANSACTIONS

Recommendation

To promote responsible and compliant purchasing-card usage and to identify weaknesses in controls, Management Board Secretariat should:

- *help ministries develop standardized procedures for periodically reviewing and reporting on purchasing-card transactions; and*
- *work with the purchasing-card service provider to make available to ministries the detailed information that would enhance the review process.*

Current Status

As mentioned earlier, the Ministry indicated that the PCard Self-Assessment Toolkit it developed was assisting Ontario Public Service managers ensure the proper and effective use of PCards. A component of the Toolkit is an online statement verification tool, which was made available to all ministries

in June 2006. According to the Ministry, this tool allows managers to view all the PCard transactions done by their staff. The Ministry also indicated it has followed up with ministry controllership offices to ensure a sound understanding of the available reports and widespread use of these reports. It also informed us that it intended to continue to follow up and communicate with the controllership offices to ensure that the reports are used for maximum benefit.

In addition, the Ministry advised us of the following:

- Subsequent to our audit, it had provided the four audited ministries with transgression reports identifying specific PCard infractions. The ministries were requested to take appropriate action to address identified infractions. The Ministry indicated that, as of December 31, 2005, the four ministries had confirmed that all identified infractions had been appropriately addressed.
- To confirm that ministries were taking the necessary steps to address the results of our audit, Ontario Internal Audit is reviewing PCard controls as part of its 2006/07 audit plan.
- The Ministry was initiating a procurement process to select a new PCard provider in 2006/07. It stated that one of the key requirements of the service to be provided would be online access to detailed reporting—including manager and cardholder access to a listing of transactions and alerts regarding potential transgressions in card usage.

Chapter 4

Ministry of Government Services

Section 4.12

Travel and Other Related Expenditures

Follow-up to VFM Section 3.12, *2004 Annual Report*

Background

The Ministry of Government Services—at the time of our audit named 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. Individual ministries are responsible for ensuring that corporate policies are being complied with by all ministry staff. Information provided by ministries indicates that for the 2005/06 fiscal year, the government processed about 500,000 travel and other related claims (400,000 in 2002/03) and directly billed invoices and expended about \$121 million on travel and other related expenditures (about \$117 million in 2002/03—the four ministries we audited accounted for over 50% of this amount).

In our *2004 Annual Report*, 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. There were numerous instances where claims submit-

ted by employees were approved and paid even though these claims had either no support or inadequate support, including a number of examples of excessive expenditures. 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 that the Ministry 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.

We made one comprehensive recommendation addressing a number of areas and received a commitment from the Ministry that it would take action to address our concerns.

Current Status of Recommendations

According to information from the Ministry of Government Services, substantial action has been taken to address our concerns. However, until the planned compliance audits have been completed, ministries cannot be fully assured that the improved control environment is working as intended. The current status of action taken on our recommendation is as follows.

Overall Recommendation

To ensure that inappropriate expense claims, although relatively infrequent, are detected, Management Board Secretariat (MBS) should work with ministries to ensure expense claims—whether paper or electronically filed—have the required supporting documentation and an adequate level of review. This will be particularly important with the planned adoption of an electronic claims processing system in all ministries early in the 2005/06 fiscal year. To this end, MBS should establish, in conjunction with the ministries, a cost-effective process that provides assurance that ministries are complying with the Travel Management and General Expenses Directive. This process could include:

- *adopting a government-wide policy, perhaps based on a dollar limit or type of claim, where supporting documentation must be submitted to the individual approving any claims filed electronically;*
- *conducting an annual government-wide review, perhaps by the Internal Audit Division, of a sample of expense claims and centrally billed accounts paid during the year to ensure they are supported by receipts and other required documentation; and*
- *communicating clearly to employees the consequences of not following established procedures*

and, where exceptions are found, holding the responsible employee accountable.

To better ensure that the costs of travel and other related expenditures are practical and economical and that processes are in place across all government ministries for the fair and consistent treatment of all government employees who are required to travel, MBS should:

- *require that ministries obtain Management Board of Cabinet's approval for any significant departures from the Directive that ministries make;*
- *in consultation with the ministries, identify and establish common government-wide guidelines for: employee recognition functions; travel-related, long-distance, computer dial-up charges; the issuance and cancellation of employees' corporate-travel charge cards; and the education of corporate-travel charge cardholders on the appropriate use of the travel card;*
- *evaluate the benefits of establishing maximum reimbursement amounts for government employees who choose to use their personal vehicles on government business;*
- *identify the travel information that would help ministries better manage their travel functions and work with the corporate travel agency and corporate-travel charge card provider to obtain this information;*
- *in the next competitive process for a corporate card provider, obtain competitive rebates that are based on a reasonable level of travel card spending and reconsider current requirements for deliverables on the travel card and gather information on the cost and benefits of alternative criteria and deliverables; and*
- *better monitor that the corporate travel agency is meeting its commitment to provide the most economical travel arrangements.*

Current Status

The Ministry of Government Services provided the ministries that were covered by the audit with details of specific infractions noted during the audit. At the time of our follow-up, the Ministry had received confirmation that these infractions had been appropriately addressed, that disciplinary action had been taken as required, and that ministries had reviewed their controls.

The first half of our recommendation dealt with expense claims—their supporting documentation and their review—and compliance with the *Travel Management and General Expenses Directive*. In 2004, a new *Travel, Meal and Hospitality Expenses Directive*, approved by Management Board of Cabinet, was issued.

With respect to supporting documentation for expense claims, the new directive requires that receipts be submitted with all claims unless explicitly exempted. Managers must ensure that appropriate record retention arrangements are in place for claims documentation.

With respect to reviewing expense claims and centrally billed accounts (including reviews by Ontario Internal Audit) to ensure that they are supported by receipts and other required documentation, the Ministry informed us of the following:

- To provide assurance that the necessary steps had been taken to address the issues identified in our *2004 Annual Report*, Ontario Internal Audit, at the Ministry's request, has been conducting reviews of the effectiveness of the Ministry of Government Services' corporate-travel charge card controls and processes as part of its 2006/07 Audit Plan.
- The new directive places responsibility on managers and employees to ensure compliance with the directive. Managers are further obligated to conduct spot checks, or compliance audits, as part of regular compliance monitoring. The Ministry has consulted with the majority of ministry controllers on the

status of such compliance audits. Although audits on the *Travel, Meal and Hospitality Expenses Directive* were not conducted during the 2005/06 fiscal year, ministries had been conducting audits on travel expenses based on the requirements of the previous travel directive. The Ministry stated that it would work with Ontario Internal Audit to identify the appropriate level of compliance audits that ministries need to perform.

- As of March 2006, all ministries are using iExpenses, the government's new electronic expense-management system. Over 35,000 employees are registered on the system. The use of iExpenses is mandatory for all employees who have access to the province's employee intranet (MyOPS). We were advised by the Ministry that improvements introduced by iExpenses include the retention of electronic records of expense submissions and approvals for managerial and audit review. As well, a new hard-copy form has been implemented for employees who are unable to access iExpenses.

With respect to communicating to employees regarding compliance and accountability, the Ministry informed us that, following the launch of the new directive, it conducted classroom and computer-based training for managers and employees. MyOPS contains an on-line tutorial for staff, current directives, fact sheets, and related supplementary information to assist managers and staff in meeting their obligations with respect to the directive. Monitoring to ensure that the control requirements of the corporate-travel charge card are met is to be achieved through the controllership function within each ministry. Staff at ministry controllership offices have access to the corporate-travel charge card provider's on-line reporting system and have all attended workshops relating to control requirements.

The second half of our recommendation dealt with ensuring that travel and other related

expenses incurred are practical and economical and that processes are in place for the fair and consistent treatment of employees required to travel.

With respect to departures from the directive, the Ministry informed us that all ministries and classified agencies must obtain approval from the Management Board of Cabinet to be exempted from all or part of the directive. At the time of our follow-up, we were advised that no exemption requests had yet been considered by the Management Board of Cabinet.

With respect to the need for guidelines in areas such as gifts, travel-related expenses, and the issuance, use, and cancellation of travel cards, the Ministry informed us, first, that an Employee Recognition Policy for the Ontario Public Service has been approved. Also, the Ministry indicated that the new directive includes guidelines governing:

- gifts of appreciation—token gifts of appreciation, valued at up to \$30, may be extended to persons who are not attached to government in exchange for *pro bono* services; and gifts valued above \$30 must be approved by an immediate supervisor; and
- several types of business expenses—employees should use the least expensive means available when incurring long-distance charges, computer-access charges, and other incidental expenses.

In addition, a new travel-card program was launched in November 2005 that includes new guidelines approved by the Office of the Provincial Controller. All travel cards have a maximum limit that is determined by the approving manager. As part of the rollout of the new card, a comprehensive communication program was undertaken. Also, MyOPS contains new travel-card information that includes a fact sheet, guidelines, an on-line train-

ing module, and supplementary information on the obligations of management and cardholders. In November 2005, approximately 4,000 travel cards (20% of existing cards) were cancelled due to little or no regular usage.

With respect to mileage reimbursement to staff using a personal vehicle for business travel, the Ministry informed us that reimbursement rates have been increased. As was the case with the old directive, the new directive sets per-kilometre reimbursement rates that decrease as total annual accumulated mileage increases. The directive also requires that managers investigate lowest-cost options where an employee travels more than 200 km in one day or 1,600 km annually. The Ministry reviewed and revised rates in 2006.

With respect to obtaining information to assist in the management of the travel function, the Ministry informed us that it will be introducing on-line travel-booking functionality for all employees. This should enable employees to compare costs and options from their desktop at the time of booking.

With respect to obtaining competitive rebates in the next competitive process for a corporate card provider, the Ministry informed us that the new travel-card contract, effective from April 2004 to April 2008, contains an enhanced rebate program that is based on annual aggregated expenditure volumes and the speed of payment by ministries and cardholders.

Finally, with respect to monitoring the corporate travel agency, the Ministry informed us that the current travel-agency agreement allows for audits to ensure that the agency is meeting its obligation to provide the lowest fares at the time of booking. The Ministry was to initiate its first audit of the travel agency in 2006.

Chapter 4

Section 4.13

Ontario Media Development Corporation and
Ministries of Culture and Finance

Media Tax Credits

Follow-up to VFM Section 3.13, *2004 Annual Report*

Background

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 \$590 million in credits have been issued to qualifying corporations for eligible expenditures. Of the six types of credits, the film and television credit and the production services credit together represent over 90% of total credits and are both based on reimbursing a portion of eligible Ontario labour expenditures incurred.

In our *2004 Annual Report*, 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:

- About one-half of the sample of files we reviewed were approved by the OMDC more than six months after the application had been received, with about half of these being approved by the OMDC more than 12 months after receipt. We were advised that this resulted from an increasing volume of applications, limited staff resources, and incomplete applications. The OMDC’s delays 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.
- Both the OMDC and the Ministry of Finance needed to adopt more risk-based approaches to claims-review and audit processes.
- While the three parties responsible for the Media Tax Credits had developed some general high-level performance measures, more specific indicators of economic and cultural performance were needed to better measure the effectiveness of the Media Tax Credits in achieving their objectives.

We made a number of recommendations for improvement and received commitments from the OMDC and the ministries of Culture and Finance that they would take action to address our concerns.

Current Status of Recommendations

According to information received from the OMDC and the ministries of Culture and Finance, significant progress has been made on the recommendations we made in our *2004 Annual Report*, with the exception of our recommendation regarding enhanced program performance measures, the implementation of which is in process. The current status of action taken on each of our recommendations is as follows.

OMDC'S ASSESSMENT OF ELIGIBILITY

Recommendation

To better manage the risk of non-compliance and improve the turnaround time for applications, the Ontario Media Development Corporation (OMDC) should:

- *consider each application's complexity and the risk of non-compliance when assigning assessment staff to review applications; and*
- *expedite the claim-review and approval process without sacrificing the key verification and approval processes.*

Current Status

With respect to the consideration of complexity and risk when assigning staff to review applications, the OMDC informed us about two initiatives it had undertaken. First, it implemented a risk-assessment system in the 2004/05 fiscal year whereby the level of risk can be assigned at the start of a review. The system aims to ensure that high-risk issues are being addressed and helps to streamline reviews, with time spent on low-risk issues being minimized. The OMDC is also considering the possibility of reducing coverage when reviewing low-risk claims for eligibility. The second initiative aims to ensure that all business officers reviewing appli-

cations have the necessary skills and knowledge to assess the most complex and high-risk claims. Business officers are now required to complete an annual assessment of their skills and knowledge. This assessment is incorporated into a learning plan approved by the OMDC's Director of Tax Credits.

To expedite the claim review and approval process, the OMDC indicated that, in September 2004, it launched a new database to collect information on and monitor tax credit activity. According to the OMDC, use of the database improves the agency's ability to compile aggregate information on the applications the OMDC receives and the certificates of eligibility it issues and has contributed to a decrease in turnaround time. For the period ending December 31, 2005, the OMDC reported an average turnaround time for all credits of 13.9 weeks, an improvement over the 19-week average turnaround period at the time of our audit and approaching industry expectations of 12 weeks.

MINISTRY OF FINANCE'S PROCESSING OF CLAIMS

Timeliness of Processing

Recommendation

To enhance the efficiency and effectiveness of the Media Tax Credits and to encourage corporations that depend on cultural media tax credits to invest in Ontario-based productions, the Ministry of Finance should ensure that eligible claims are processed in a more timely manner.

Current Status

The Ministry of Finance's primary responsibility is to ensure claims comply with legislation and are paid on a timely basis. The Ministry of Finance and the OMDC have modified review procedures for claims for film and television production tax credits, allowing for concurrent reviews to expedite refunds. In other words, Ministry of Finance Corporation Tax audit staff do not wait for the OMDC's

certification procedure to be completed prior to beginning their audit work on an eligible corporation's tax return.

The Ministry of Finance and the OMDC also informed us that OMDC staff and field- and desk-audit staff in the Specialty Assessment Unit of the Ministry of Finance meet regularly to review processes and any issues arising from the review process. We were also informed that the OMDC and the Ministry of Finance have established procedures to eliminate duplication in the review of claims and to share information. The OMDC also meets twice annually with the Canadian Audio Visual Certification Office (CAVCO) and Canada Revenue Agency (CRA), which administer federal film and television tax credit programs, to share information and discuss common issues. In addition to scheduled meetings, agency and ministry staff communicate with each other whenever issues arise.

For the 2005/06 fiscal year, the Ministry of Finance reported an average turnaround time of 13 weeks to issue full refunds. At the time of our audit, about 65% of the claims we reviewed had not received the full refund more than six months after they had been filed.

Audit Selection

Recommendation

To enhance the effectiveness of the Ministry of Finance's audit function, the Ministry should ensure that:

- *claims are selected for audit based on assessed documented risk and stated ministry policy; and*
- *the results of audits are summarized to assist with the identification of possible trends warranting increased vigilance.*

Current Status

The Ministry of Finance informed us that it had implemented a formalized risk assessment process for audit selection for managers in the Specialty Assessment Unit. We were advised at the time of

our follow-up that a preliminary risk-assessment form was being placed in all files to document this audit-selection process. Management was using the formalized risk assessment procedures to allocate audit resources to the different types of tax credits. The procedures direct management to consider various factors and, if changes in these factors so necessitate, reallocate available audit resources to the higher-risk areas.

The Ministry indicated that the results of Media Tax Credit field audits conducted in the 2004/2005 fiscal year had been summarized and analyzed for trends. Where required, field audit programs had been modified to more effectively focus on high-risk areas. The Ministry also indicated that it would continue to record and analyze audit results for the current and future fiscal years and use these data to refine its audit-selection procedures.

PERFORMANCE MEASUREMENT

Recommendation

In order to ensure that the Media Tax Credits are achieving their objectives, the Ontario Media Development Corporation, the Ministry of Culture, and the Ministry of Finance should work collaboratively to:

- *develop specific performance standards and targets for the Media Tax Credits; and*
- *update the Memorandum of Understanding to more clearly define each party's responsibilities with respect to performance measurement and obtaining the information needed to monitor and report on performance.*

Current Status

The OMDC, the Ministry of Culture, and the Ministry of Finance reported that they had worked and would continue to work jointly to monitor the performance and the effectiveness of the Media Tax Credits. For example, the OMDC indicated that it made improvements to its aforementioned new tax-credit database in February 2005 to facilitate the collection of data that can be used for policy

development and analysis. Several indicators have been established that could be used as measures of performance and are in the process of being implemented.

We were advised that the relationships and responsibilities between the parties involved with the Media Tax Credits had been refined in a draft revised Memorandum of Understanding. At the time of our follow-up, a final Memorandum of Understanding had been executed by the three parties that outlines the relationships and responsibilities of the OMDC, the Ministry of Culture, and the Ministry of Finance with regard to updating and public reporting on media-sector performance as follows:

- In accordance with the *Fiscal Transparency and Accountability Act, 2004*, the Minister of Finance shall gather information on the estimated cost of the Media Tax Credit claims and shall publish this information by November 15 annually or as otherwise required by that Act.
- The OMDC shall gather information on an annual basis on the number of tax-credit applications received, the number of tax-credit certificates issued, and the number of media products certified each fiscal year and their value. This information is to be published on the OMDC's website by November 15 annually. In addition to tax-credit certification information, the OMDC shall also gather information on an annual basis on film and television production activity occurring in Ontario each calendar year. This information is to be published on the OMDC's website by March 31 annually.
- The parties agree to share the above information and to do so in a timely manner. The parties also agree to use this information for the purpose of monitoring the progress of the Media Tax Credits.

Chapter 4

Ministry of Transportation

Section 4.14

Maintenance of the Provincial Highway System

Follow-up to VFM Section 3.14, *2004 Annual Report*

Background

The Ministry of Transportation is responsible for maintaining the province's highways and bridges, which the Ministry estimates have a current replacement value of approximately \$40 billion (\$39 billion in 2003/04). In managing the highway system, the Ministry's primary goals are to contribute to economic development by maximizing highway capacity, efficiency, and safety and to protect highway infrastructure. To accomplish these objectives, the Ministry has organized highway programs into three major categories of work—maintenance, minor capital projects, and major capital projects, as described in Figure 1. In the 2005/06 fiscal year, the Ministry spent \$248 million on routine maintenance (\$241 million in 2003/04), such as snow removal and de-icing, and \$71.6 million on minor capital projects (\$62 million in 2003/04), such as filling and sealing pavement cracks. Most highway system maintenance activities are performed by private-sector contractors hired by the Ministry.

Our *2004 Annual Report* focused on maintenance and minor capital projects, since major capital projects had been recently examined by the

Ministry's Internal Audit Services. Our audit concluded 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 the prevention and preservation projects that ministry engineers had identified for immediate attention were able to be done each year;

Figure 1: Maintaining the Highway System

Source of data: Ministry of Transportation

Maintenance
Moving people and goods safely and efficiently
<ul style="list-style-type: none"> Ongoing maintenance activities include snow and ice control (plowing, salting, sanding, and anti-icing), shoulder grading, line painting, grass cutting, filling in potholes, bridge and culvert cleaning and minor repairs, cleaning up after accidents and spills, and repairing guiderails after accidents.
Minor Capital Projects (less than \$1 million)
Protecting roads and bridges in order to prolong their useful lives
<ul style="list-style-type: none"> <i>Prevention:</i> work that is done before the asset value reaches a threshold. These planned strategies extend the life of the asset or enhance its service potential. Work is undertaken on a small section or component of an asset. <i>Holding:</i> action taken when the value of an asset reaches a threshold, but full rehabilitation/reconstruction is not undertaken. This will maintain acceptable levels of functionality or safety and prolong the life of the asset.
Major Capital Projects (\$1 million and more)
Maintaining and expanding the highway system's capacity and improving safety
<ul style="list-style-type: none"> <i>Rehabilitation:</i> work done to renew the life of an asset when the threshold value of the asset has been reached (at the end of the asset's anticipated service life). This work restores serviceability and improves an asset to a condition of structural or functional adequacy. <i>Reconstruction:</i> work performed at the end of the anticipated service life, but typically after two or three rehabilitation cycles. This work generally involves the complete or major removal and replacement of an asset. <i>Expansion:</i> capital improvement that improves an asset's performance or capacity.

- did not adequately ensure that all bridges, both provincially and municipally owned, were inspected at least once every two years as required by legislation; 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.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns. We also noted that, in a 2003 internal-audit 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.

Current Status of Recommendations

Based on information we obtained from the Ministry of Transportation, significant progress has been made in addressing our recommendations and those relating to highway construction administration made by the Ministry's Internal Audit Services and included in our *2004 Annual Report*. However, it will take two to three years to fully implement a

few of the recommendations. The current status of action taken on each recommendation is as follows.

MANAGING MAINTENANCE

Inspecting Maintenance Work, Measuring Contractor Performance, Signing the Code of Conduct, and Managing the Sanctions Process

Recommendation

In order to manage maintenance contractors more effectively, the Ministry should:

- *provide co-ordinators with more specific guidelines to assist them in performing inspections effectively;*
- *implement systems for managing and analyzing data regarding inspections, violations, complaints from and claims for damages by highway users, and service levels achieved;*
- *require staff to annually sign a code of conduct governing their relationship with the contractors that they manage; and*
- *take steps, such as reviews of regional procedures and records by head office, to ensure fairness and consistency throughout the province in the sanctions applied to contractors for violations.*

Current Status

With respect to this recommendation, the Ministry:

- provided us with a copy of the revised monitoring manual for area maintenance contracts that now includes guidance to co-ordinators on matters such as sampling size, frequency of inspections, documentation, and reporting; the Ministry advised us that a revised monitoring manual for managed outsourcing contracts would be completed by September 2006;
- advised us that it was in the process of designing a training program for contract co-ordinators on the revised procedures, with training to begin during the 2006/07 fiscal year;

- advised us that it had initiated a three-phase project, the Maintenance Program Information Project (MPIP), to improve the collection, retention, documentation, and reporting of maintenance data in order to provide the Ministry with better information for decision-making and for monitoring and managing maintenance operations (the Ministry provided us with the Phase 1 report on MPIP, which identified sources of data and set the scope of the project, and informed us that Phase 2 on system design and Phase 3 on building, testing, and implementing were expected to be completed in August 2008);
- advised us that it considers the procedures in place to ensure compliance with the conflict-of-interest provisions of the *Public Service Act* to be sufficient to address any potential conflict-of-interest risks; and
- advised us that a sanction-monitoring process and database had been developed and pilot-tested; the production database would be implemented as part of MPIP.

Monitoring the Impact of Salt on the Environment

Recommendation

In order to identify and better manage the impact of salt use on the environment, the Ministry should take steps to acquire the information and develop the analytical tools necessary to properly monitor salt use and work with the Ministry of the Environment to establish ongoing testing and tracking of the impact of changes in salt use on the local environment.

Current Status

The Ministry advised us that in order to implement this recommendation it had:

- taken several steps to improve the quality of the information generated by its Automatic Vehicle Location system, such as more accurate measuring of salt usage and improved reporting from operators;

- initiated a project to develop a Winter Security Index to enable the Ministry to monitor salt usage, taking weather conditions into account, as well as participating in a national Winter Index study supported by the Transportation Association of Canada; and
- studied, in co-operation with the Ministry of the Environment, the feasibility of establishing a program capable of measuring the impact of a 20% reduction in salt use on the environment (the study suggested that a control test, having an estimated cost of \$150,000, be considered, but the decision whether to conduct this test had not yet been made).

PRIORITIZING CAPITAL EXPENDITURES

Recommendation

In order to make the best use of available capital funds, the Ministry's prioritization process should allow preservation and prevention projects to compete with all other projects for the available funding based on a full analysis of their costs and benefits.

Current Status

The Ministry advised us that several actions were underway to address this recommendation:

- The five regional offices had started developing 25-year Corridor Investment Plans, which set out the life-cycle costs, for the approximately 52 distinct highway corridors (comprising 315 sub-corridors) that they manage. All Corridor Investment Plans are to be completed by 2010.
- The Ministry provided us with the draft request for proposals for a new system, the Provincial Highways Investment Management Suite (PHIMS), that would replace existing information systems. PHIMS will integrate pavement, bridge, and traffic data to support Corridor Planning and other decision-making processes. The project is to be awarded by the

end of 2006 and designed, built, tested, and implemented by 2009.

- Two analytical tools were being developed—the Trade-Off Analysis process and the Prioritized Economic Analysis Tool (PEAT). The Ministry advised us that the Trade-Off Analysis process, which is expected to be ready in 2007, will enable investment decisions regarding competing needs such as preservation, rehabilitation, and expansion to be made across corridors, programs, and regions. The Ministry provided us with the user guide for PEAT, which allows designers and planners to review and compare the benefit/cost ratio of various alternatives and their timing. PEAT will be incorporated into PHIMS.

INSPECTING BRIDGES

Recommendation

In order to meet its responsibilities for complying with and enforcing the regulation of the Public Transportation and Highway Improvement Act dealing with inspections of bridges, the Ministry should:

- ensure that its Bridge Management System (BMS) contains complete and accurate information needed for the inspection of each bridge—including details of recent structural and maintenance work done and the key aspects of each structure that must be inspected;
- ensure that the BMS can automatically generate reports on overdue inspections for management's attention; and
- take steps, perhaps in conjunction with stakeholders, to obtain adequate assurance that local governments have appropriate systems and procedures in place, including reliable bridge inventories, to comply with the regulation requiring bridges to be inspected every two years.

Current Status

The Ministry advised us that the BMS database had been reconciled to the Ministry's paper records

and legacy system databases, and the inventory for bridges had been verified. This work would also be completed for culverts by autumn 2006.

The Ministry also provided us with a status report for the next release of the BMS, scheduled for autumn 2006, which would allow details of structural and maintenance work to be recorded on the system and for the system to report when biennial inspections are due.

With respect to municipal bridges, while the Ministry maintains its position that municipalities are responsible for accurately inventorying their bridges and performing any required maintenance, the Ministry has taken the following steps to address the recommendation:

- The application form for Canada-Ontario Municipal Rural Infrastructure program funding now highlights the regulation requiring bridges to be inspected every two years.
- A memorandum of understanding (MOU) with the Ontario Good Roads Association (OGRA), representing Ontario's 445 municipalities, was signed in June 2005 for the development of an accurate inventory of municipal roads and bridges. The Ministry provided us with a copy of the MOU, which called for the Ministry to provide OGRA with \$50,000 in funding on completion of certain project deliverables. The Ministry also advised us that it had made the BMS available to municipalities at no cost.

The Ministry also noted that the 2006 Ontario Budget provided \$400 million to municipalities for bridge and road repair.

MEASURING AND REPORTING ON PERFORMANCE

Recommendation

To better support decision-making and strengthen accountability to the public the Ministry should:

- *implement performance measures dealing with the condition of assets under management and the cost-effectiveness with which resources have been employed in managing the province's highway system and report annually on the results; and*
- *ensure that proposals for expansion projects contain information on the costs of maintaining the new highways.*

Current Status

The Ministry advised us that it had adopted a performance measurement strategy that would cover preservation of pavement and structures, safety, mobility, and accessibility and had taken the following actions:

- The Ministry had implemented three performance measures that address system conditions: Average Time Taken to Regain Bare Pavement (implemented in 1997/98); Percentage of Highway Pavement in Good Condition (implemented in 2005/06); and Percentage of Bridges in Good Condition (implemented in 2004/05). Studies were underway to develop appropriate performance measures for safety and mobility (travel time and reliability of travel time), which the Ministry expected to complete in 2008.
- Cost-efficiency measures were being investigated. In the meantime, the Percentage of Highway Capital Spent on Actual Construction, Highway Asset Value, and the ratio of Current Asset Value to Replacement Value were being tracked.
- The second point in the recommendation was being addressed through the Corridor Investment Plans, which identify the full life-cycle cost including ongoing maintenance of highways. Also, these life-cycle costs were considered during the design phase of expansion projects and were included with expansion project proposals in the Ministry's annual Infrastructure Plan.

INTERNAL AUDIT OF HIGHWAY CONSTRUCTION

In our *2004 Annual Report* we noted that the Ministry's Internal Audit Services had made a number of significant recommendations relating to the Ministry's highway construction practices. We indicated that we would follow up on the Ministry's progress in addressing these recommendations in our 2006 follow-up work.

Quality of Work by Design Consultants

Internal Audit Services recommended that the Ministry revise its management processes governing project design and cost estimation in order to reduce the need for change orders and additions.

Current Status

The Ministry advised us that it had taken a number of steps to improve management processes for project scoping, scheduling, and costing:

- An Engineering Management System is to be implemented in 2006 that is to enable the Ministry to allocate adequate time to project-development and design work and ensure that all steps are completed.
- Cost estimation is to be improved through enhancements to the Highway Costing System that is to be completed in 2006 and delivered, through better training, via a new course.
- A tracking system for change orders had been implemented to identify any trends or recurring problems that needed to be addressed at the design stage.
- Work was proceeding, in conjunction with the Consulting Engineers of Ontario, on a quality-control review process for project designs.

Quality of Work by Contract Administrators

Internal Audit Services recommended that the Ministry require proper documentation and checklists

from contract administrators to ensure that it is receiving value for money.

Current Status

The Ministry advised us that revisions to the manual for contract administrators to clarify documentation and data-capture requirements were completed in 2005.

Testing the Quality of New Pavement

Internal Audit Services recommended that the Ministry conduct a comprehensive review of the effectiveness of laboratory testing procedures and the accuracy of test results.

Current Status

The Ministry advised us that it had conducted a review of the effectiveness of laboratory testing procedures and the accuracy of test results in autumn 2005 and had formed working groups to review each of the recommendations. The working groups would report in summer 2006.

Construction Warranties

Internal Audit Services recommended that the Ministry strengthen the wording of warranty provisions in its construction contracts, implement procedures for ensuring consistency in warranty administration throughout the province, and pilot-test the use of extended warranties.

Current Status

The Ministry advised us that it had issued guidelines for staff to follow in administering warranties and had reviewed the wording of warranty provisions in contracts. The Ministry also advised us that it was pilot-testing seven-year warranties in two 2006 construction contracts.

Public Accounts of the Province

Introduction

The Public Accounts for each fiscal year, ending March 31, are prepared under the direction of the Minister of Finance, as required by the *Ministry of Treasury and Economics Act* (Act). The Public Accounts comprise the province's annual report, including the province's consolidated financial statements, and three supplementary volumes.

The consolidated financial statements of the province are the responsibility of the government of Ontario. This responsibility encompasses ensuring that the information in the statements, including the many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that a system of control, with supporting procedures, is in place to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

Our Office audits the consolidated financial statements of the province. The objective of our audit is to obtain reasonable assurance that the government's financial statements are free of material misstatement—that is, that they are free of significant errors or omissions. The financial statements, along with our Auditor's Report on them, are included in the province's annual report.

The province's annual report contains, in addition to the province's consolidated financial

statements, a discussion and analysis section that provides additional information regarding the province's financial condition and its fiscal results. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1, which contains the ministry statements and a number of schedules providing details of the province's revenues and expenses, its debts and other liabilities, its loans and investments, and other financial information.
- Volume 2, which contains the audited financial statements of significant provincial Crown corporations, boards, and commissions whose activities are included in the government's consolidated financial statements, as well as other miscellaneous financial statements.
- Volume 3, which contains detailed schedules of ministry payments to vendors and transfer-payment recipients.

Our Office reviews the information in the annual report and in Volumes 1 and 2 of the Public Accounts for consistency with the information presented in the consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its annual

report to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. The three supplementary volumes must be submitted to the Lieutenant Governor in Council before the 240th day after the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Assembly or, if it is not in session, make the information public and then, when the Assembly resumes sitting, lay it before the Assembly on or before the 10th day of that session.

In its 2006 Budget, the government announced its intention to improve the timeliness of the province's financial reporting. This included a plan to advance the date of the tabling of the 2005/06 Annual Report and Consolidated Financial Statements.

The government's 2005/06 Annual Report, which includes the Consolidated Financial Statements, was tabled along with the three Public Accounts supplementary volumes on August 24, 2006. This is about a month earlier than in any other year in the last decade, which represents a significant step forward—especially in light of the fact that this was achieved in the same fiscal year that hospitals, school boards, and colleges were included in the province's statements for the first time. However, as discussed later in this chapter, we believe timeliness can be further improved by implementing certain changes in the consolidation process.

The Province's 2005/06 Consolidated Financial Statements

The *Auditor General Act* requires that the Auditor General report annually on the results of the Auditor's examination of the province's consolidated financial statements. I am pleased to report that my Auditor's Report to the Legislative Assembly on the consolidated financial statements for the year

ended March 31, 2006, is clear of any qualifications or reservations and reads as follows:

To the Legislative Assembly of the Province of Ontario

I have audited the consolidated statement of financial position of the Province of Ontario as at March 31, 2006 and the consolidated statements of operations, change in net debt, and cash flow for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2006, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[signed]

Toronto, Ontario
August 2, 2006

Jim McCarter, CA
Auditor General

The Government Reporting Entity

INCLUSION OF HOSPITALS, SCHOOL BOARDS, AND COLLEGES

The province's consolidated financial statements include considerably more than just government ministries. In fact, numerous other Crown agencies, Crown corporations, and other organizations are also included. The "government reporting entity" refers, collectively, to all of these organizations whose activities are included in the government's statements. Inclusion in the reporting entity essentially means that an organization's operating results and its assets and liabilities are consolidated with or otherwise incorporated into the government's financial statements, so that they form part of both the government's annual deficit or surplus and its accumulated deficit or surplus.

The government's consolidated financial statements reflect the accounting standards recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). In August 2003, PSAB revised its standard related to the government reporting entity for fiscal years beginning on or after April 1, 2005. Under the new standard, the decision whether to include an organization in the government reporting entity is based on one overall consideration: the extent of government control over the organization's activities. In essence, if a government controls an organization, the organization should be included as part of the government reporting entity.

As we indicated last year, the government completed an analysis of the impact of this new standard and, in the 2004 Ontario Budget, announced its intention to add the province's 155 hospitals, 105 school boards and school authorities, and 24 colleges—collectively referred to as Broader Public

Sector (BPS) organizations—to its reporting entity in the 2005/06 fiscal year.

2005/06 CONSOLIDATION RESULTS

Accordingly, in its 2005/06 consolidated financial statements, the government for the first time consolidated these BPS organizations. This change resulted in an increase in the province's 2005/06 annual surplus of \$449 million and, reflecting the inclusion of the net assets of these organizations for the first time, a decrease in the province's accumulated deficit of \$16.7 billion. Without the addition of these BPS organizations, the province's reported surplus of \$298 million would have been a deficit of \$151 million, and its reported accumulated deficit of \$109.2 billion would have increased to \$125.9 billion, as summarized in Figure 1.

The consolidation of the BPS organizations into the province's 2005/06 consolidated financial statements was a significant achievement given the magnitude of the exercise. Under the direction of the Ministry of Finance, the consolidation of the 284 organizations required the co-operation of finance officials in hospitals, school boards, and colleges, as well as staff in the ministries of Health and Long-Term Care; Education; and Training, Colleges and Universities.

Understandably, as this was the first time that the BPS was consolidated into the province's consolidated financial statements, the process was not without its challenges. During our audit, we identified several consolidation issues that will need to be addressed in future years to enable the government to continue to make progress on its stated goal of improving the timeliness of the province's financial reporting.

Figure 1: Impact of BPS Consolidation on Annual and Accumulated Deficits

Prepared by the Office of the Auditor General of Ontario

2005/06 Annual Deficit Impact	(\$ million)	2005/06 Accumulated Deficit Impact	(\$ million)
Province's Annual Deficit	298	Province's Accumulated Deficit	(109,155)
Impact of BPS Consolidation:		Impact of BPS Consolidation:	
School Boards and School Authorities	88	School Boards and School Authorities	(7,340)
Colleges	(78)	Colleges	(1,647)
Hospitals	(459)	Hospitals	(7,752)
Total	(449)	Total	(16,739)
Province's Annual Surplus excluding impact of BPS consolidation	(151)	Province's Accumulated Deficit excluding impact of BPS consolidation	(125,894)

CONSOLIDATION INFORMATION REQUIREMENTS

Much of the consolidation work is carried out by the ministries responsible for the new sectors being consolidated—that is, the ministries of Health and Long-term Care; Education; and Training, Colleges and Universities—under the direction of the Ministry of Finance, which has overall responsibility for the production of the consolidated financial statements.

We noted a number of instances in which the Ministry of Finance's consolidation instructions were not fully understood or fully executed by the sector ministries, leading to incomplete consolidation information initially being obtained. This made it necessary for sector ministries to request additional financial information from the organizations being consolidated, resulting in delays.

The Ministry of Finance will need to continue to work with the sector ministries over the next year to ensure that they fully understand the consolidation process, clarify the information they need to gather from the consolidated entities, and improve account reconciliation and data analysis. Equally importantly, the sector ministries will need to continue to work with the various BPS organizations to ensure that the information each organization submits is accurate, complete, and consistent with the organization's own audited financial statements.

CONSOLIDATION TIMELINE

We believe that, if the tabling date of the Public Accounts is to be moved up in future years, the government must reconsider the existing timelines for submission of the BPS consolidation information. Specifically:

- Sector ministries require adequate time to conduct a thorough review of the submitted consolidation information. We noted that, in some cases, they were unable to perform this review adequately within the time frames allocated.
- In some cases, sector ministries were unable to provide information in a timely manner on issues or questions we raised because many of these issues required time to follow up with the ministries' BPS organizations.

USE OF SPECIFIC REVIEW PROCEDURES

The school boards' August 31 year-end does not coincide with the province's March 31 fiscal year-end. As well, under their present accounting practices, school boards do not record capital assets in their financial statements. Nevertheless, school boards were required to submit financial information for the same fiscal period as the province and to provide information on their capital expenditures. The auditors of each school board

performed specific review procedures on this additional information, and we relied upon these procedures in conducting our consolidation work. We encourage the continued use of these additional review procedures, at least until school boards include their own capital assets in their audited financial statements.

LOOKING AHEAD

Under the new reporting entity standard, PSAB permits governments to consolidate the BPS on a modified equity basis of accounting until the 2008/09 fiscal year. Under this treatment, the BPS organizations' net assets are included as a single line—"net assets of Broader Public Sector Organizations"—on the province's Consolidated Statement of Financial Position, and their annual surplus or deficit is included on a sector basis under the expenses category of the province's Consolidated Statement of Operations.

For all fiscal years that commence on or after April 1, 2008, PSAB will require BPS organizations to be fully consolidated. Under full consolidation, the government will have to ensure, for consolidation purposes, that the financial statements of BPS organizations are prepared using the same accounting policies as the province and that each revenue and expense item, as well as each of an organization's assets and liabilities, are combined with the corresponding item in the province's consolidated financial statements. One key consequence of this line-by-line approach will be that the \$27.5 billion in BPS tangible capital assets and the \$11.8 billion of net debt will then be included and reported as being part of the province's capital assets and net debt respectively.

The Ministry of Finance has indicated that it is not convinced that line-by-line consolidation of the BPS provides better transparency and accountability. We understand that the Ministry believes that the current one-line consolidation approach

meets the province's need to reflect both the overall financial impact of the BPS on the province's financial statements and the greater autonomy that these BPS organizations have compared to the organizations the province currently fully consolidates. The Ministry has indicated its intention to pursue this matter with both PSAB and our Office.

Nevertheless, we believe it would be prudent for the Ministry to begin reviewing what additional information would be required to make line-by-line consolidation possible, ensure conformity with the province's accounting policies, and deal with a number of presentation and disclosure issues.

In addition, we recommend that the government reassess whether there have been any changes in circumstances indicating that other entities within the broader public sector might now meet the control criteria for inclusion in the province's financial statements.

Stranded Debt of the Electricity Sector

In previous Annual Reports, we have discussed the electricity sector and the government's efforts to retire its stranded debt. The stranded debt was a result of a restructuring of the electricity sector effective April 1, 1999, when Ontario Hydro was split into several companies, all of which are fully owned subsidiaries of the province. They include the Ontario Electricity Financial Corporation (OEFC), which is responsible for managing and paying down the debt and certain other liabilities of the former Ontario Hydro. The portion of this debt and other liabilities that was in excess of the market value of OEFC's assets was called the "stranded debt." In essence, the term "stranded debt" refers to the amount of debt and other liabilities of Ontario Hydro that could not be serviced in a competitive environment.

The government has developed a long-term plan to retire the stranded debt solely from dedicated revenue streams from the electricity sector, including Ontario Power Generation and Hydro One. The plan is updated annually, based on current information and assumptions. The government estimates that the OEFC's obligations will likely be retired in the years ranging from 2012–2020. During the 2005/06 fiscal year, there was a significant reduction in the amount of stranded debt for the first time since the inception of the OEFC, as shown in Figure 2.

There were several underlying reasons for this reduction. First, a higher market price of electricity contributed to higher revenues from the electricity sector. The average wholesale market price of electricity increased from 5.17 cents/kwh in 2004/05 to 7.06 cents/kwh in 2005/06. This contributed to Ontario Power Generation earning higher profits during 2005/06, which, through payments in lieu of taxes (PILs), were flowed to the OEFC to service the stranded debt. The OEFC's 2006 PIL revenues of \$949 million were \$438 million higher than those of the previous year.

Secondly, effective January 1, 2005, the OEFC started to receive actual contract prices for power sold under long-term power-purchase contracts entered into by the old Ontario Hydro. Originally, a \$4 billion liability had been recorded to reflect the OEFC's commitment under these contracts to purchase power at prices expected to exceed market prices. The government determined that the most cautious and prudent accounting decision was to eliminate this liability over time. For the 2005/06 fiscal year, the combination of the amortization of this liability and the selling of the power at contract cost resulted in revenue increases of almost \$366 million over the previous year.

For comparative purposes, it should also be noted that, effective January 1, 2005, responsibility for managing the province's program to provide electricity to designated low-volume consumers

Figure 2: Electricity Sector Stranded Debt, 1999–2005/06

Source of data: Ontario Electricity Financial Corporation

Fiscal Year End	(\$ billion)
at April 1, 1999	19.4
1999/2000	20.0
2000/01	20.0
2001/02	20.1
2002/03	20.2
2003/04	20.6
2004/05	20.4
2005/06	19.3

at fixed prices was transferred from the OEFC to a newly created agency, the Ontario Power Authority (OPA). In carrying out this responsibility, the OPA incurred costs of \$377 million, owing to the market price of electricity being higher than the fixed price.

Multi-year Funding

In prior years' Annual Reports, we have stated our concerns regarding the government's accounting and accountability for multi-year funding. Our position on this issue is that the annual operating statements of government should reflect the revenues and expenditures related to the fiscal period being measured. When this practice is not followed, distortions can be significant and users of financial statements may not be able to properly evaluate a government's fiscal performance for the year vis-à-vis its budget, assess its revenues earned vis-à-vis its expenditures on government programs, or make useful comparisons of such information between jurisdictions or between past and future periods.

Again this fiscal year, we continue to have concerns, specifically regarding the relaxing of normal controls—shortly before the fiscal year-end—for unplanned transfers that the government makes to its service-delivery partners. We note, however,

that this issue has no impact on our audit opinion on the government's financial statements, since the year-end transfers in question and the consolidated financial statements comply with generally accepted accounting principles. Specifically, under the CICA's current accounting standards, unconditional government transfers, even if they provide funding to be used to deliver services to the public in future periods, can be recorded as a current-year expense by the government providing the transfer.

By way of background, the government normally provides transfers to its service-delivery partners on an as-needed basis rather than in advance of their expenditure needs. For instance, operating transfers are generally provided over the course of the year as such funds are required to finance operations, and capital funds are normally provided on a cost-recovery basis as the transfer-payment recipient completes specific stages of a pre-approved capital project. However, just prior to or on March 31, 2006, the government entered into a number of transfer-payment arrangements and expensed the amounts involved, thereby reducing the surplus for the year by almost \$1.6 billion more than otherwise would have been the case. None of these transfers were originally planned for; that is, none had been included in the government's Budget for the 2005/06 fiscal year, and in many cases, normal accountability and control provisions were reduced or eliminated to ensure the transfers would qualify for immediate expensing prior to the March 31, 2006, fiscal year-end.

The following provides details of the most significant of these multi-year funding transactions, all of which were recorded as expenditures in the 2005/06 fiscal year:

- The amount of \$670 million was advanced to the Move Ontario Trust on March 27, 2006. These funds were eventually to be paid to the City of Toronto and York Region for new subway construction. However, at the completion of our audit in August 2006, the funding

still remained in the trust, and none of these multi-year construction projects was under way.

- The amount of \$400 million was paid just prior to the fiscal year-end to municipalities outside the Greater Toronto Area for future investments in municipal roads and bridges.
- The amount of \$200 million was paid just prior to year-end to the City of Toronto to support subway operations, and \$168 million in total was also provided to Brampton, Mississauga, York Region, and Scarborough for future improvements to their transit systems.
- The amount of \$114 million was paid prior to the year-end to 48 municipalities for new buses and bus refurbishments, pending the development of a new municipal bus-replacement program.
- Less significant year-end transfers without specific terms and conditions were also provided to certain agencies whose accounts and, therefore, operating results were also not consolidated into the government's financial statements. For example, on or near March 31, the Ontario Media Development Corporation received \$20 million, almost three times its historic annual funding, which its board decided to allocate to strategic priorities over the next three years.

For all of the above transfers, the transfer agreements did not set out specific conditions for the use of the funds. None of the transfers resulted in any investments in capital assets or infrastructure or in delivery of services to the public during the 2005/06 fiscal year; rather, the funds will be spent in future years. However, the financial statements of the province reported these multi-year advances as expenditures in the 2005/06 fiscal year. Accordingly, readers of the statements could well assume that the government spent \$1.6 billion during the year to provide the public with services when none of this money was in fact spent. As well, and as

noted previously, the normal accountability controls were relaxed to ensure that these end-of-year transfers qualified as expenditures under CICA accounting standards.

The CICA has recognized that its current transfer accounting standard requires review and has created a task force to study the issue. The task force has heard the concerns we have expressed, and its work is nearing completion. We are hopeful that, once approved by the CICA's Public Sector Accounting Board, the revised standard will provide valuable guidance to both financial-statement preparers and auditors in accounting for future government transfers of this nature (we discuss this issue further below, in the section Government Transfers).

Accounting for Capital Assets

GOVERNMENT CAPITAL ASSETS

In January 2003, the CICA's Public Sector Accounting Board (PSAB) revised a 1997 standard setting out rules for the recognition, measurement, amortization, and presentation of capital assets in a government's financial statements. Until recent years, most governments, including that of Ontario, had charged 100% of the cost of capital assets as an expense in the year such assets were acquired or constructed. The revised standard recommends that, in a manner similar to the approach taken in the private sector, the cost of capital assets be recorded as assets in government financial statements and be amortized to expense over their estimated useful lives.

The government phased in its adoption of these PSAB recommendations beginning in the 2002/03 fiscal year by valuing and capitalizing the province's land holdings, buildings, and transportation infrastructure. As a result, in 2003 the government recognized for the first time over \$13 billion of net

capital investments. These account for an estimated 90% or more of the government's total tangible capital assets.

Although no specific timetable has been set, the government has indicated that, over the next several years, it intends to adopt this PSAB standard for Ontario's remaining tangible capital assets, such as its computer systems, vehicles and equipment, and other smaller-value capital items. We encourage the government to complete its capitalization project as soon as possible and to include these assets and related amortization in its financial statements.

SCHOOL BOARD CAPITAL ASSETS

The Ontario government has included the financial results of school boards, colleges, and hospitals for the first time in its 2005/06 consolidated financial statements. The province capitalizes its investments in land, buildings, and public infrastructure, as indicated above, but Ontario's school boards and school authorities do not. Rather, they expense capital expenditures immediately on their Consolidated Statement of Financial Activities. Accordingly, to ensure that accounting policies upon consolidation continued to conform to those of the province, this year the government completed a project to establish historical cost values for tangible capital assets owned by school boards and school authorities in Ontario. The purpose of this project was to establish historical costs and opening net book values for school and administration buildings and sites owned by the various school boards and school authorities within the province. The remaining tangible capital assets of the boards and authorities were to be included in later years.

Three primary methods were used to establish the values for the buildings and sites owned by the school boards and authorities:

- actual historical cost provided by school boards and authorities;

- estimated historical cost using 1997 benchmark data (these data had been previously used by the Ministry of Education for a number of years as the basis for school board funding of their new school construction projects); and
- historical cost estimated by accredited appraisers contracted by the Ontario Realty Corporation.

The Ministry of Education identified over 10,500 buildings and sites to be valued by one of the above methods. Once values were established, they were entered into the Book Value Calculator (BVC), a software program developed by the federal government and used by the province in its initial capitalization exercise in 2003. The BVC in turn estimated the amortization, betterments, and net book values for each asset as at April 1, 2005.

We reviewed the Ministry's Capital Asset Project (CAP) as it evolved, suggested improvements in the process, held discussions with Ontario Realty Corporation (ORC) staff and appraisers on the CAP team, and performed work on a sample of buildings and sites to ensure that the values arrived at were reasonable. In addition, for a sample of buildings and sites, we obtained documentation from the school boards supporting historical cost values.

Whenever estimates are used to determine financial statement amounts, it is possible that different estimation approaches could yield different results. However, based on our audit work on the valuation process used by the government, we concluded that the values arrived at are reasonable. In future years the accuracy of the school board capital-asset information will steadily improve as all capital assets are recorded, the opening book values are amortized, and assets are gradually replaced.

New and Proposed Accounting Standards

Accounting standards specify how transactions and other events are recognized, measured, presented, and disclosed in government financial statements. The objective of such standards is to meet the needs of users of financial statements by providing, in a consistent manner, the information needed for accountability and decision-making.

The CICA's Public Sector Accounting Board (PSAB) is an independent body with the authority to set accounting standards for the public sector in Canada. It also works to serve the public interest by providing guidance for financial and other performance information reported by the public sector. The government of Ontario prepares its consolidated financial statements in accordance with PSAB standards.

The more significant issues PSAB has been dealing with over the last year that will or may affect the province's financial statements and reporting practices in future years are briefly outlined below.

FINANCIAL INSTRUMENTS

Financial instruments or derivatives, such as foreign-exchange forward contracts, swaps, futures, options, and other instruments, are typically used to manage financial risks. Currently, PSAB guidance on accounting for derivative financial instruments is limited to their application in hedging foreign currency items, such as a debt payable in a foreign currency. However, derivative financial instruments are increasingly being used by governments, including the Ontario government, to manage other financial exposures, such as interest-rate risk. For instance, the province may get the best terms on the issuance of debt by agreeing to pay interest at a variable rate. Through the use of financial instruments,

the variable rate debt can be converted to fixed-interest-rate debt to limit the province's exposure to future interest-rate fluctuations.

In January 2005 the CICA's Accounting Standards Board approved three new Handbook sections relating to this area: Financial Instruments, Comprehensive Income, and Hedges. While these are private-sector standards—and governments are not required to apply the recognition and measurement provisions set out in them—these developments have underscored the need to address these issues from a public-sector perspective. Accordingly, PSAB recently created a task force to consider government accounting for financial instruments and the applicability of hedge accounting to governments. PSAB expects to approve a Statement of Principles on Financial Instruments later this year, followed by an Exposure Draft in 2007. It hopes to have a new PSA Handbook section on financial instruments ready for release in 2008.

In March 2006, PSAB issued a related statement of principles on the recognition and measurement of derivatives that would establish key definitions and principles in the area of hedge accounting. A key issue PSAB is addressing is the need for any new hedging standard not only to be consistent with PSAB's conceptual framework, which sets out overall definitions for assets and liabilities, but also to recognize and make allowance for the unique characteristics of governments. Some jurisdictions—such as the United States—that have developed accounting standards in this area based on the conceptual framework require that derivatives be revalued annually at year-end fair value. This annual revaluation significantly increases the potential for volatility in reported annual results for governments, like that of Ontario, with significant derivative holdings. However, given that governments generally enter into derivatives to actually mitigate risks, hedge-accounting standards recognize management's efforts to limit volatility

through specific hedging transactions and effective qualifying relationships with financial counterparties.

As part of the financial instrument project, PSAB staff are currently asking governments for input on any use of financial instruments for hedging purposes that can be attributed to the unique characteristics of governments, and, flowing from that, whether there are specific reasons that the eventual hedge-accounting standard for government should vary from the standard applicable to the private sector.

DISCLOSURE OF INFORMATION ON BUSINESS SEGMENTS

In January 2006, PSAB approved a new standard on segment disclosures requiring governments to define the business segments they are in and to provide a number of supplementary financial disclosures along these segment lines. These disclosures include the government revenues and expenses attributable to each segment. This project arose because of concerns about the level of aggregation in government summary financial statements, particularly with the recent expansions in the reporting-entity in many jurisdictions under the new reporting entity standard, and the reduced level of detail that may be provided when these statements are presented on a fully consolidated basis.

GOVERNMENT TRANSFERS

As discussed previously in this chapter, PSAB is working on amendments related to government transfers to address a number of application and interpretation issues raised by the government community. These issues include the following: the need to resolve an ongoing debate over the appropriate accounting for multi-year funding provided by governments; clarifying the nature and extent

of the authorization needed for a transfer to be recognized; clarifying the degree to which stipulations imposed by a transferring government should impact the timing of recognition of a transfer by both the transferor and the recipient governments; and addressing the appropriate accounting for capital transfers received when a recipient uses expense-based accounting.

Given that billions of dollars are involved in such government transfers, these amendments have the potential to significantly impact the reporting of government financial results.

A variety of views have been expressed on these issues. It has been difficult to build a consensus for revisions that adhere to PSAB's underlying accounting conceptual framework while addressing the view that some transfers give rise to governmental assets and liabilities. PSAB issued an Exposure Draft for comment in June 2006 that called for the immediate recognition as an expense (for the transferor) and revenue (for the recipient) of all transfers, provided the transfer has been authorized and any eligibility criteria have been met. PSAB is in the process of reviewing responses to the Exposure Draft and expects to approve a final PSB handbook release in late 2006.

PERFORMANCE REPORTING

Given the complexities of governments and the importance of providing information to citizens about what they plan to do and have achieved with the resources entrusted to them, performance reporting can help improve a government's performance by serving as a means of monitoring results against expectations and making it possible to adjust and revise activities to accomplish its goals.

In June 2006, PSAB approved a final Statement of Recommended Practice SORP-2, Public Performance Reporting, to promote consistency and comparability in reporting outside of a government's financial statements. This statement complements

SORP-1 on Financial Discussion and Analysis, approved in June 2004, in recognizing that a government's financial statements alone cannot be expected to fulfill all the needs of government information users. It sets out recommended practices for reporting performance information in a public-performance report, addresses such a report's non-financial performance information and the linkage of financial and non-financial performance information, and encourages governments to provide information about governance practices in order to give a comprehensive, balanced, and clear picture of a government's performance.

ENVIRONMENTAL LIABILITIES

Currently, Canadian accounting standards do not specifically address environmental liabilities. In recognition of the need to do so, PSAB in its June 2006 meeting approved a project proposal on environmental liabilities.

Although, in the current absence of an accounting standard, the governments of Ontario and most other Canadian jurisdictions have not developed accounting policies on environmental liabilities, the Ontario government does record environmental liabilities as it does any other liabilities. That is, it records them when the government has little or no discretion to avoid future costs or payments resulting from past transactions or events and when the liability can be measured in dollars.

The federal government, however, has adopted an explicit accounting policy to provide for the expected costs and liabilities that the government would be obligated—or would likely be obligated—to incur to manage and remediate sites when environmental contamination occurs. Such costs might be incurred in order, for example, to ensure public health or safety, satisfy contractual commitments, or meet standards set in legislation or regulation. To obtain the cost information necessary to implement this accounting policy, the

federal government instituted the Federal Contaminated Sites Assessment Initiative, under which government departments assessed sites under their various domains and provided these assessments to the Treasury Board to enable the government to develop an overall environmental liability estimate.

Given the CICA's decision to review the need for an accounting standard in this area, we encourage the government of Ontario to consider whether a similar exercise in the province would be beneficial. We also encourage the government to develop an accounting and disclosure policy for such contingencies once the CICA has completed its environmental liabilities project.

For instance, one area warranting review was discussed in a recent value-for-money audit we conducted of the province's Mines and Minerals program. At the time of this audit, the Ministry of Northern Development and Mines had information on more than 5,600 abandoned mine sites, and had estimated that approximately 250 of these sites posed possible environmental risks due to the potential for the leaching of minerals and other contaminants from mine tailings. Since the province is primarily responsible for these abandoned mines, costs arising from environmental damage or costs to remediate these sites so that environmental damage does not occur would likely be a provincial responsibility. However, until additional data are collected, there is insufficient information to determine if a liability exists and, if it does, the amount thereof.

CAPITAL ASSETS

PSAB has approved revisions to Section PS 3150 on Tangible Assets focused primarily on local governments, calling for the recognition and amortization of all their tangible capital assets for fiscal years beginning on or after January 1, 2009. Revisions affecting all governments include the clarification of the definition of "cost" to stop the netting of capital grants received against tangible capital assets

costs, the provision of additional guidance on when to start and stop the capitalization of carrying costs, and the removal of a 40-year amortization cap.

TAX REVENUE

In March 2006, PSAB approved an Invitation to Comment (ITC) on Tax Revenues that proposes to adopt for tax revenues in Canada the definitions and standards in the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft on Revenues from Non-Exchange Transactions (including Taxes and Transfers). This is the first Canadian project running concurrently with an IPSASB project and is an outgrowth of the strategic direction of the CICA to converge Canadian and international accounting rules.

FUTURE PROJECTS

In June 2006, PSAB approved a number of future projects. In addition to the project on environmental liabilities mentioned earlier, projects have also been launched to address infrastructure deficits, accounting for trusts, and foreign-currency translation.

Other Matter

The Auditor General is required under section 12 of the *Auditor General Act* to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, under section 91 of the *Legislative Assembly Act*, the Auditor General is required to report on any transfers of money between items within the same vote in the Estimates of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

Shortly after presenting its budget, the government tables in the Legislature detailed Expenditure Estimates outlining each ministry's spending proposals on a program-by-program basis. The Standing Committee on Estimates reviews selected ministry estimates and presents a report on them to the Legislature. The estimates of those ministries that are not selected for review are deemed to be passed by the Committee and are reported as such to the Legislature. Orders for Concurrence for each of the estimates reported on by the Committee are debated in the Legislature for a maximum of three hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving a *Supply Act*, which stipulates the amounts that can be spent by ministry programs as set out in the estimates. Once the *Supply Act* is approved, the individual program expenditures are considered to be Voted Appropriations. The *Supply Act* pertaining to the fiscal year ended March 31, 2006, received Royal Assent on March 31, 2006. When we compared the estimates of each ministry to the voted appropriations in the *Supply Act*, we noted that an amount totalling \$12,130,000 included in the Estimates under the Ministry of Citizenship and Immigration had been omitted from the *Supply Act*. To rectify this omission, the Ministry of Finance obtained an Order-in-Council in fall 2006 approving the amount.

Ministry programs usually require funds before the *Supply Act* is passed, and the Legislature authorizes these payments by means of motions for interim supply. For the 2005/06 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- April 1, 2005, to June 30, 2005—passed March 8, 2005;
- July 1, 2005, to December 31, 2005—passed June 2, 2005; and
- January 1, 2006, to March 31, 2006—passed December 13, 2005.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because, for instance, the Legislature is not in session, section 7(1) of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council approved by the Lieutenant Governor on the recommendation of the government.

There were no special warrants issued for the fiscal year ended March 31, 2006.

TREASURY BOARD ORDERS

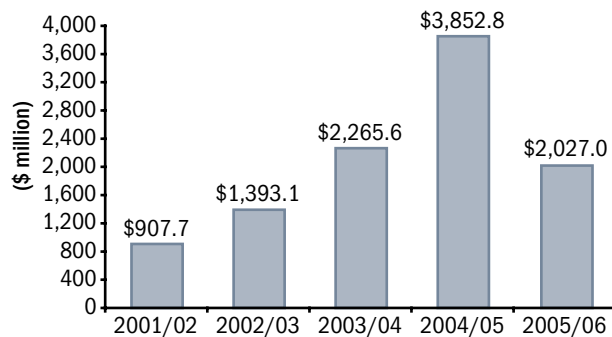
Section 8(1) of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any Voted Appropriation that is insufficient for the purpose for which it was made. Such an order can be made provided that the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the audit of the books of the government of Ontario for the fiscal year is completed.

Figure 3 is a summary of the total value of Treasury Board orders issued for the past five fiscal years. Figure 4 summarizes Treasury Board orders for the 2005/06 fiscal year by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to

Figure 3: Total Value of Treasury Board Orders Issued, 2001/02–2005/06

Source of data: Treasury Board



be printed in *The Ontario Gazette*, together with explanatory information. The most recent Orders printed in the *Gazette* were those issued for the 2004/05 fiscal year. A detailed list of 2005/06 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 3 of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, section 91 of the *Legislative Assembly Act* requires that the Auditor General make special mention of the transfer(s) in the Annual Report.

With respect to the 2005/06 Estimates, the following transfer was made within Vote 201:

From:	Item 10	Members' Office Support Services	\$80,000
To:	Item 9	Members' Compensation and Travel	\$80,000

UNCOLLECTIBLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts

Figure 4: Treasury Board Orders by Month of Issue, 2005/06

Source of data: Treasury Board

Month of Issue	#	Authorized (\$)
June 2005–February 2006	39	462,410,700
March 2006	44	1,293,234,600
April 2006	6	271,402,700
Total	89	2,027,048,000

any amount due to the Crown that is deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2005/06 fiscal year, receivables of \$171 million due to the Crown from individuals and non-government organizations were written off (in 2004/05, the comparable amount was \$208.5 million). The major portion of the write-offs related to the following:

- \$46.9 million for uncollectible retail sales tax;
- \$46.7 million for uncollectible corporate taxes;
- \$26.7 million for uncollectible fuel taxes;
- \$10.6 million for uncollectible receivables under the Student Support Program;
- \$9.7 million for uncollectible employer health taxes;
- \$7.9 million for uncollectible receivables under the Ontario Disability Support Program;
- \$6.1 million write-down of an infrastructure loan made by the Province related to the purchase of the Ottawa Senators Hockey Club; and
- \$5.2 million for uncollectible receivables under the Motor Vehicle Accident Claims Fund.

Volume 2 of the 2005/06 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the audited

financial statements of the province, a provision for doubtful accounts is recorded against accounts receivable balances. Accordingly, most of the write-offs had already been expensed in the audited financial statements. However, the actual deletion from the accounts required Order-in-Council approval.

The Auditor General's Review of Government Advertising

Introduction

This chapter constitutes my first report to the Legislative Assembly on my new duties and responsibilities under the *Government Advertising Act, 2004* (Act) (reproduced in Exhibit 5), which came into full force on January 30, 2006. This report on government advertising satisfies the annual reporting requirements to the Speaker, as outlined in subsections 9(1) and (2) of the Act as well as subsection 12(2)(g) of the *Auditor General Act*. It is intended:

- to provide a means for publicly discussing matters relating to the exercise of the Auditor General's powers and duties under the Act [subsection 9(1)];
- to report any contraventions to the mandatory requirements set out in the Act [subsection 9(2)]; and
- to report on expenditures for advertisements, printed matter, and messages that were reviewed by the Office of the Auditor General under the Act during the period November 21, 2005 (the initial date of partial proclamation of the Act) to March 31, 2006 [subsection 12(2)(g) of the *Auditor General Act*].

Legislative History

The idea of having the Auditor General involved in reviewing government advertising can be traced back to the mid- to late 1990s, when legislators expressed concerns over the appropriateness of a government's use of public funds for advertising that furthered partisan political aims. An advertisement can be considered to do so if it promotes the governing party's interests by fostering a positive impression of the government or a negative impression of opponents of the government. This concern was the subject of much debate in the Legislative Assembly during the period 1996–2003, resulting in the introduction of the following four private members' bills on the subject:

- Bill 17, *Taxpayer Protection Act (Government Advertising Standards)*, 1999;
- Bill 107, *Preventing Partisan Advertising Act*, 2001;
- Bill 115, *Propaganda Accountability Act*, 2001;
- Bill 91, *Preventing Partisan Advertising Act*, 2003.

The thrust of each bill was to legislate guidelines and standards for taxpayer-funded government advertising that would prevent partisan advertising by government. Three of the bills proposed that the Auditor General (then the "Provincial Auditor")

be assigned the function of reviewing government advertising to determine whether ads were meeting legislated guidelines and standards intended to ensure that government advertising paid for with public funds was not partisan. As is typical with the vast majority of private members' bills, all of the above bills died on the Order Paper, with only two, bills 91 and 107, advancing to second reading but no further.

Shortly after the commencement of the 38th Parliament, the government chose to deal with the issue of partisan messaging in government advertising by introducing Bill 25, entitled "An Act respecting government advertising," for first reading in the Legislature on December 11, 2003. Following legislative debate on Bill 25 during the First Session of the 38th Parliament, the Bill was passed by the Legislative Assembly and received Royal Assent on December 9, 2004, as the *Government Advertising Act, 2004*.

The Act was proclaimed to come into force in two stages, the first on November 21, 2005, and the second on January 30, 2006. The brief period between the two stages was intended to allow for transition before full proclamation. During this period, government offices, although required to submit all reviewable advertising items to the Auditor General's Office for review, were not legally prohibited from using government-approved items that were already in the pipeline for distribution. However, as of January 30, 2006, the Act was fully proclaimed, which meant that a government office could no longer use an item that was subject to the Act (even those already in the pipeline) until and unless the Auditor General had reviewed and approved it.

Overview of the Government Advertising Function

Under the Act, the Auditor General is responsible for reviewing specified types of government advertising to ensure that they meet the legislated standards and that, above all, they do not feature content that is or may be interpreted as being partisan. The Act states that "an item is partisan, if, in the opinion of the Auditor General, a primary objective of the item is to promote the partisan political interest of the governing party."

ENTITIES SUBJECT TO THE ACT

The Act applies to government offices, which the Act defines as a ministry, Cabinet Office, the Office of the Premier, and such other entity as may be designated by regulation. The Act requires that each government office submit advertising, printed matter, or prescribed messages that are *reviewable* (defined below) to the Auditor General's Office for a determination of whether they meet the standards required by the Act.

ADVERTISING THAT MUST BE REVIEWED

The Act requires that the Auditor General review each advertisement or printed matter where a government office proposes to pay:

- for the advertisement to be published in a newspaper or magazine, displayed on a billboard, or broadcast on radio or television; and/or
- for the printed matter to be distributed to households in Ontario either by bulk mail or by another method of bulk delivery.

Items meeting one of the above definitions are known as reviewable items.

The Act applies to items in all languages.

Exceptions

The Act specifically excludes from review any advertisement or printed matter that is:

- a notice to the public that is required by law;
- a job advertisement;

or that concerns:

- the provision of goods and services to a government office; or
- an urgent matter affecting public health or safety.

The following are not mentioned in the Act as being specifically excluded, although it is understood that they are not subject to the Act:

- electronic advertising/communications via the government's own websites or any public site except web pages promoted in a reviewable item through the use of their Uniform Resource Locator (URL) (see subsection entitled Websites, later in this chapter); and
- printed matter or materials such as brochures, pamphlets, newsletters, news releases, consultation documents, reports, and other similar publications.

REQUIREMENTS FOR SUBMISSION AND USE OF ADVERTISING ITEMS

Sections 2, 3, 4, and 8 of the Act require that:

- a government office submit a copy of the proposed advertisement, printed matter, or message to the Auditor General's Office for review;
- a government office not publish, display, broadcast, distribute, or disseminate the submitted item:
 - before the head of that office receives notice, or is deemed to have received notice, of the results of the review; or
 - if the head has received notice from the Auditor General that the item does not meet the standards required by the Act;

- when a government office proposes to use a revised version of a rejected item, the revised version be submitted to the Auditor General's office for a further review; and
- a government office not use the revised version:
 - before the head of that office receives notice, or is deemed to have received notice, of the results of the review; or
 - if the head has received notice from the Auditor General that the revised version does not meet the standards required by the Act.

REVIEW PERIOD AND NOTIFICATION OF THE AUDITOR GENERAL'S DECISION

The Act requires that the Auditor General notify the head of a government office of the results of his review of a submitted item within seven business days of receiving the item in its finished form (the seven days being prescribed by regulation). If notice is not given within the prescribed seven business days, the head of the government office is deemed to have received notice that the item meets the standards required by the Act.

In cases where a finished item submitted for review does not meet the standards required by the Act, the government office may submit a revised version for a further review. As with the initial review, my office has seven business days after receiving the revised item to notify the government office of the results of its review. If the notice is not given within that time, the head of the office is deemed to have received notice that the revised version meets the standards required by the Act. Under the Act, the Auditor General's decision is final.

STATUTORY STANDARDS TO BE MET BY REVIEWABLE ITEMS

In conducting our review, my office first determines whether a reviewable item meets all of the standards required by the Act, as follows:

- The item must be a reasonable means of achieving one or more of the following purposes:
 - to inform the public of current or proposed government policies, programs, or services available to them;
 - to inform the public of its rights and responsibilities under the law;
 - to encourage or discourage specific social behaviour, in the public interest; and/or
 - to promote Ontario or any part of Ontario as a good place to live, work, invest, study, or visit, or to promote any economic activity or sector of Ontario's economy.
- The item must include a statement that it is paid for by the government of Ontario.
- The item must not include the name, voice, or image of a member of the Executive Council or a member of the Legislative Assembly (unless the primary target audience is located outside of Ontario, in which case the item is exempt from this standard).
- The item must not have as a primary objective the fostering of a positive impression of the governing party or a negative impression of a person or entity that is critical of the government.
- The item must not be partisan; that is, in the opinion of the Auditor General, a primary objective of the item cannot be to promote the partisan political interests of the governing party.

OTHER FACTORS CONSIDERED

In addition to the specific statutory standards described above, the Act allows the Auditor General

to consider additional factors he or she considers appropriate to determine whether a primary objective of an item is to promote the partisan political interests of the governing party (subsection 6(4)).

In determining what such additional factors should be, my staff consulted with Advertising Standards Canada and took into consideration the results of international research on principles for government advertising that was carried out by the Victoria Auditor General's Office in Australia. In general, the additional factors we have incorporated into our review process relate to how a message is likely to be received or perceived—that is, the general impression conveyed by the advertisement or printed matter. As a guide for determining whether an item may be perceived or received as partisan, we consider whether the advertising item includes certain desirable characteristics and avoids certain undesirable characteristics, as follows:

- Each item should:
 - contain subject matter that is relevant to government responsibilities (that is, specific matters dealt with should be ones in which the government has direct and substantial responsibilities);
 - present information objectively, in tone and content, with facts expressed clearly and accurately using unbiased and objective language;
 - emphasize facts and/or explanations, not political merits of proposals; and
 - enable the audience to distinguish between fact on the one hand and comment, opinion, or analysis on the other.
- Items should not:
 - use colours, logos, and/or slogans commonly associated with any recognized political party in the Legislative Assembly of Ontario;
 - inappropriately personalize (for instance, by personally attacking opponents or critics);

- directly or indirectly attack, ridicule, or criticize the views, policies, or actions of others who are critical of government;
- aim primarily at rebutting the arguments of others;
- intentionally promote, or be perceived as promoting, party-political interests (to this end, consideration is also given to whether matters such as timing, targeting, and the overall environment in which the message is to be communicated serve party-political motives);
- deliver self-congratulatory or political-party image-building messages;
- deal with matters (such as a policy proposal) on which a decision has not yet been made, unless the item provides a balanced explanation of both the benefits and the impacts;
- present pre-existing policies, products, services, or activities as if they were new ones; or
- direct readers, viewers, or listeners, using a Uniform Resource Locator (URL), to a web page or pages with content that may not meet the standards required by the Act (see subsection titled Websites, in the next section of this chapter).

OTHER REVIEW PROTOCOLS

In the months leading up to and following the implementation of the Auditor General's review of government advertising, additional protocols were developed to address circumstances not covered in the Act.

Websites

Although websites associated with an advertisement are technically not reviewable under the Act, by agreement between the Auditor General and the

Deputy Minister of Government Services, if an item submitted to the Auditor General's Office for review contains one or more website URLs that direct the reader, viewer, or listener to further information on a website or websites, the Auditor General's Office will consider the content and context of the corresponding web page. The Auditor General's Office restricts its review in this regard to the page accessed by the "first click" made using the URL noted in the item. Other web pages or materials accessed beyond the first click will not be considered by my office in determining whether the item meets the standards under the Act.

The first-click web page is considered to be a continuation of the reviewable message—the Auditor General will review it for any information or messages that may not meet the standards set out in the Act. For example, a first-click web page must not include a Minister's name, voice, or photograph, nor deliver self-congratulatory, party image-building messages, or messages that attack the policies, opinions, and/or actions of others.

Public-event Programs and Payments In Kind

With respect to ads in event programs made available at public events (for instance, the Royal Agricultural Winter Fair), the Auditor General's Office has determined that, because such programs usually look like magazines and serve a similar purpose, government advertising placed in such programs should also be subject to the Act.

It should be noted that advertising space in event programs is at times provided to a government office free of charge. If the government office has otherwise made a financial contribution to or financially sponsored the public event, the apparently free advertising is considered by the Auditor General's Office to have been indirectly paid for. Consequently, the item contained in the space provided in the event program is reviewable

under the Act and must be submitted for review. In considering this matter, the following question was asked: Would the free advertising space be granted to the government office if it did not make a financial contribution or sponsor the public event? In our experience, the answer would often be no. Government officials have concurred with the foregoing treatment for ads in public event programs.

Third-party Advertising

Recognizing that government funds are sometimes spent on advertising by third parties, the Auditor General's Office decided that where a third party (not a government office) pays all or part of the cost of an advertising item, the government office must submit the item to the Auditor General for review only if it meets all three of the following criteria:

- a government office provides, to a third party, funds that are intended to pay, in whole or in part, the costs of publishing, displaying, broadcasting, or distributing the item; *and*
- the government of Ontario grants permission for the use of the Ontario logo or another official provincial visual identifier in the item; *and*
- the government office approves the content of the item.

Pre-reviews and Consultations

A pre-review is available to government offices that wish to have the Auditor General's Office look at a provisional version of an item so that any necessary revisions can be made before a finished version is submitted for review. Such a provisional version can be a script or storyboard, provided that it reasonably and accurately reflects the item as it is intended to appear when completed. Pre-reviews should help limit the investment of significant time and money on developing items that may incorporate material or presentations that are objectionable under the Act.

If material submitted for pre-review appears to meet the standards set out in the Act, the Auditor General's Office so advises the government office. However, before the item can be published, displayed, broadcast, printed, or otherwise disseminated, the government office must still submit the finished item for review to confirm that it meets the standards set out in the Act.

If the pre-review material appears to violate any of the Act's standards, explanatory comments are provided to the government office.

A pre-review is strictly voluntary on the part of the Auditor General's Office and is outside the statutory requirements of the Act.

Training and Guideline Relating to Government Advertising Review

To prepare for the successful implementation of the Act, the Auditor General's Office, together with the Ministry of Government Services, sponsored half-day training workshops in mid-November 2005. The workshops were very well attended by government communications practitioners and their creative agency personnel.

Attendees were given an in-depth review of the requirements of the Act and the administrative procedures that the Auditor General's Office established for the submission, review, and approval of items that are subject to the Act.

Prior to holding the training workshops, the Auditor General's Office developed a *Guideline on the Review of Government Advertising*. The guideline was prepared to assist government offices in meeting the standards required by the Act and contains detailed information on, for instance, the criteria applied in determining which advertisements must be submitted for review and whether an advertisement that has been submitted meets the standards

set out in the Act. It also explains in detail the submission, review, and approval process.

The guideline was made available to workshop attendees and was also distributed throughout the government's communications community.

Engagement of External Advisors

Under the *Auditor General Act*, the Auditor General can appoint an Advertising Commissioner to assist the Auditor in fulfilling the requirements of the *Government Advertising Act, 2004*. However, instead of appointing an Advertising Commissioner, I held an open competition in 2005 for advisors to assist and advise on the implementation of the Act and in the ongoing review of items submitted for review under the Act. The competition resulted in the engagement of two experts in the field:

- Rafe Engle is a Toronto lawyer who specializes in advertising, marketing, communications, and entertainment law. He is also the outside legal counsel for Advertising Standards Canada. Before studying law, Mr. Engle acquired a comprehensive background in media and communications while working in the advertising industry.
- Jonathan Rose is Associate Professor of Political Studies at Queen's University. He is a leading Canadian academic with interests in political advertising and Canadian politics. Professor Rose has authored a book on government advertising in Canada and a number of articles and chapters on the way in which political parties and governments use advertising.

Both these advisors provided invaluable assistance as the office undertook its new responsibilities.

2005/06 Advertising Review Activity and Results

REVIEWS CONDUCTED

During the period commencing with the initial proclamation of the *Government Advertising Act* on November 21, 2005, through to March 31, 2006, the Auditor General's Office received and reviewed 79 submissions comprising 295 individual items. Of these 295 items, 28 were single items and 267 were part of 26 larger, multi-item campaigns.

It should be noted that for many submissions, we were in ongoing contact and communication with the submitting government offices. In many instances, we provided immediate feedback to the government office to ensure that each item being reviewed would meet the standards set out in the Act as well as the additional criteria developed by the Auditor General's Office. This approach resulted in changes being made to many submitted items that would otherwise not have been approved. It is also worth noting that, while the majority of the legislated standards are relatively straightforward in their application, the standards and additional factors relating to identifying partisanship in advertising require a high degree of judgment and interpretation. The degree of interpretation required was more than anticipated and necessitated the further elaboration of our review criteria, as well as ongoing communication with government offices.

As previously noted, the Act requires that the Auditor General notify the government office of the results of his review of an item within seven business days after receiving it. We are pleased to report that, for all items received for review, a decision was provided within the statutory seven-day time period. The length of time that a submission takes for review and decision can vary and depends for the most part on the complexity of the message

contained in the item(s) and other work priorities of the Auditor General's review panel members. For the period covered, the average number of turnaround days for statutory submissions reviewed was between two and three days.

The Office also received and reviewed 16 pre-review submissions that were at a preliminary stage of development, most often at the script or storyboard level. As already mentioned, conducting a pre-review is strictly voluntary on the part of the Office and is outside the statutory requirements of the Act; thus, pre-review items are a second priority behind finished items. Nevertheless, every attempt is made to complete the review of items received for pre-review within a reasonable period of time. The average turnaround time for pre-review submissions received during the period was between five and six days.

EXPENDITURES ON ADVERTISEMENTS AND PRINTED MATTER

The *Auditor General Act* requires that the Auditor General report annually to the Legislative Assembly on expenditures for each item that has been submitted for review under the *Government Advertising Act, 2004*.

Figure 1 at the end of this chapter contains the required expenditure information by campaign, including media-buy costs; agency creative costs and fees; third-party production, talent, and distribution costs; and other third-party costs such as translation. This information was compiled by government offices and provided to the Auditor General's Office by the Ministry of Government Services.

In order to test the completeness and accuracy of the advertising expenditures reported to us, we performed a review of randomly selected payments to suppliers and supporting documentation at selected ministries.

CONTRAVENTIONS OF THE ACT

Subsection 9(2) of the Act requires that the Auditor General annually report any contraventions to sections 2, 3, 4, and 8, which relate to submission requirements and prohibitions on the use of items pending the Auditor General's review and to items not meeting the standards set out in the Act. When we visited selected government offices to verify reported expenditure information, we also performed compliance procedures with respect to the requirements of sections 2, 3, 4, and 8 of the Act.

Based on our work during the year and our review of randomly selected payments to creative agencies and for media buys and their supporting documentation, we are able to report that, as of the date on which this report went to press, we had encountered no violations of the Act.

MATTERS OF SPECIAL IMPORTANCE

Subsection 9(1) of the Act provides the Auditor General with the authority to report on matters relating to the powers and duties of the Auditor General under the Act. I wish to draw attention to two matters relating to those powers and duties.

Compliance with Required "Paid for by" Standard

All the items contained in the 79 submissions received for review during the period November 21, 2005, to March 31, 2006 ultimately met the standards set out in the Act and, accordingly, received the Auditor General's approval.

Notwithstanding, we raised an issue that emerged in many items with regard to compliance with the requirement that each item include a statement that it is paid for by the government of Ontario. Although all items included the statement, in many instances the statement was placed or sized such that it was not clearly visible and legible. In fact, in many instances, we felt it necessary

to request that the government office increase the size of the “paid for by” statement. We believe that the statement should be visible and legible and should be seen as communicating additional essential information to the viewer or reader rather than functioning solely as fine print to satisfy a legal requirement. Therefore we ask that government offices pay particular attention to the size and placement of the “paid for by” statement in their advertising items to ensure that it clearly visible, legible, and connected to the message being conveyed.

Government Advertising Before an Election

Now that the date of future general elections in Ontario is fixed at every fourth year—with the next election to be held on Thursday, October 4, 2007 (unless a general election is held sooner because the Lieutenant Governor has dissolved the Legislature)—it is an opportune time to consider how publicly funded government advertising should be dealt with in the context of a pre-election period.

In this context, we would give consideration to the following potential circumstances:

- The members of the Executive Council and the party of a sitting government may, during the

run-up to a general election, be perceived as benefiting from government advertising in the months before an election at public expense.

- Similarly, any increase in the volume of government advertising in the period before a general election may be perceived as calculated to give the governing party an advantage.
- It is possible that advertising material that has been previously approved by the Auditor General as meeting the standards required by the Act in the year before an election may, because of timing and changing political circumstances, be found to be partisan during a pre-election period.

Given the heightened risk of partisanship being ascribed to government advertising in a pre-election period, I have indicated to the current government that, in my review of advertising items during this period, my staff and I, as well as our external advisors, will not only consider the content of the advertising item but also the current political circumstances and the timing of the planned publication or dissemination of the item.

Figure 1: Expenditures for Reviewable Advertisements and Printed Matter Under the *Government Advertising Act, 2004*, November 21, 2005–March 31, 2006

Source of data: Ontario government offices

Ministry/Campaign Title and Medium	# of Submissions	# of Items	Agency Costs (\$)	
			Fees	Creative
Agriculture, Food and Rural Affairs				
Foodland Ontario—Potatoes—TV	1	1	20,000	—
Attorney General				
Notice of Increase in Value of Goods Exempt from Seizure—Print	1	1	1,325	—
Citizenship and Immigration				
Leveraging Our Diversity—TV	4	22	212,822	3,326
Order of Ontario—Print	2	12	—	—
Community Safety and Correctional Services				
RIDE Program—TV	1	10	—	—
Economic Development and Trade				
Summer Company 2006—Radio	1	1	—	24,603.00
Innovate or Die—Print	1	1	34,286	15,870
Invest Ontario—Print, TV	5	17	—	—
Energy				
Our Energy, Our Future—Householder	2	2	2,348	—
Our Energy, Our Future Consultation—Print	1	2	4,485	1,500
PowerWISE—Print, TV	1	8	130,943	—
Finance				
2006 Budget Announcement—Print	2	20	11,234	—
Government Services				
Service Ontario—Birth Certificates—Print, TV	4	4	— ¹	— ¹
Health and Long-Term Care				
Baby Vaccinations—TV	2	22	3,150	36,440
Hepatitis C—Billboard, Print, TV	2	22	—	39,955
Infection Control—Billboard, Print, TV	1	13	—	14,950
Newborn Screening—Print, Radio	3	14	—	15,530
Nurses in Ontario—Print, Radio	1	5	163,271	71,950
Telehealth—Householder, TV	2	3	—	5,400
Wait Times Website—Print	1	8	51,680	79,840
Trillium Gift of Life Network—Billboard, Radio	1	3	—	—
Health Promotion				
Smoking Cessation—Print, Radio, TV	8	29	131,775	100,100
Labour				
Minimum Wage Increase—Print	1	11	4,488	—

1. No expenditures in 2005/06. Expenditures to be reported in 2006/07.

Production	Third-party Costs (\$)			Media Costs (\$)	Total (\$)
	Talent	Distribution	Other		
–	–	–	–	153,236	173,236
–	–	–	65	–	1,390
277,251	48,650	–	16,449	1,306,260	1,864,758
–	–	–	–	91,341	91,341
540	6,105	–	–	660,927	667,572
–	–	–	–	288,408	313,011
–	–	–	–	4,660	54,816
–	–	–	–	3,378,265	3,378,265
542,101	–	556,729	–	–	1,101,178
–	–	296	–	33,809	40,090
349,805	54,590	–	–	3,157,371	3,692,709
4,112	–	3,250	7,653	149,246	175,495
– ¹	– ¹	– ¹	– ¹	– ¹	– ¹
200,581	45,697	–	12,055	1,352,197	1,650,120
167,589	–	–	2,000	1,342,632	1,552,176
92,080	–	–	223	241,312	348,565
31,630	–	–	39,203	221,118	307,481
536,380	127,330	1,500	4,650	581,653	1,486,734
458,899	–	474,230	3,500	26,406	968,435
20,800	5,700	–	108	175,997	334,125
–	–	–	–	212,812	212,812
1,198,268	62,435	6,480	72,142	1,723,545	3,294,745
–	–	–	12,100	110,184	126,772

Ministry/Campaign Title and Medium	# of Submissions	# of Items	Agency Costs (\$)	
			Fees	Creative
Municipal Affairs and Housing				
Modification Development Plan Central Pickering—Print	1	1	—	—
Intergovernmental Action Plan for Simcoe, Barrie, and Orillia—Print	1	2	—	—
Natural Resources				
Bay of Quinte Fisheries Management Plan—Print	1	1	—	—
2006 Outdoors Card Renewal—Print	1	1	—	78
Ontario Parks Travel Discoveries—Print	1	2	—	288
Fisheries Management Zones—Print	1	1	—	824
Squeers Lake Controlled Winter Fishery—Print	1	1	—	—
Bickford Oak Woods Conservation Reserve—Print	1	1	—	—
Woodland Caribou Signature Site—Print	1	1	— ²	— ²
Family Fishing Weekend—Print	1	1	—	175
Balsam Lake Vegetation Stewardship Plan—Print	1	1	—	—
Heritage Perth 2006 Guide—Print	1	3	—	—
Trout Lake Conservation Resource Management Plan—Print	1	1	—	—
Goose Island Provincial Park—Print	1	1	—	—
Silver Lake Provincial Park—Print	1	1	— ²	— ²
Local Citizens Advisory Committee—Print	1	1	—	—
Muskoka River Water Management Planning Process—Print	1	1	—	—
Bronte Creek Maple Syrup Festival—Print	1	5	— ²	— ²
Conservation Reserves—Print	1	2	—	—
Ontario Parks NW Zone—Print	1	1	—	—
Ontario Parks—Print	1	1	—	77
Bonnechere, Bonnechere River, Foy, Amendments—Print	1	1	— ¹	— ¹
Seasonal Leasing of Campsites—Print	1	1	— ¹	— ¹
Notice of Minor Amendment Seine River Water Plan—Print	1	1	—	—
Temagami Parks—Print	1	1	— ¹	— ¹
Burning Regulations—Print	1	1	— ²	— ²
Northern Development and Mines				
Northern Ontario Heritage Fund Corporation—Print	1	2	—	—
Training, Colleges and Universities				
Apprenticeship Training/Skilled Trades—Radio, TV	1	24	76,851	265,519
Apprenticeship Opens Doors Skills Competition—Print	1	1	—	—
Career and Training Fair in Toronto—Print	1	1	—	—
Career and Training in Kitchener/Waterloo—Print	1	1	— ¹	— ¹
Total	79	295	848,658	676,425

1. No expenditures in 2005/06. Expenditures to be reported in 2006/07.

2. Ad was cancelled.

Production	Third-party Costs (\$)			Media Costs (\$)	Total (\$)
	Talent	Distribution	Other		
140	—	—	—	14,566	14,706
165	—	—	—	3,392	3,557
—	—	—	—	1,462	1,462
—	—	—	—	—	78
—	—	—	—	—	288
—	—	—	—	—	824
—	—	—	—	482	482
—	—	—	—	642	642
— ²	— ²	— ²	— ²	— ²	— ²
—	—	—	—	—	175
—	—	—	—	382	382
—	—	—	—	1,075	1,075
—	—	—	—	408	408
—	—	—	—	258	258
— ²	— ²	— ²	— ²	— ²	— ²
—	—	—	—	210	210
—	—	—	—	2,552	2,552
— ²	— ²	— ²	— ²	— ²	— ²
—	—	—	72	2,379	2,451
—	—	—	—	—	—
—	—	—	—	—	77
— ¹	— ¹	— ¹	— ¹	— ¹	— ¹
— ¹	— ¹	— ¹	— ¹	— ¹	— ¹
—	—	—	—	466	466
— ¹	— ¹	— ¹	— ¹	— ¹	— ¹
— ²	— ²	— ²	— ²	— ²	— ²
—	—	—	—	3,000	3,000
—	—	—	15,270	1,508,275	1,865,915
—	—	—	—	—	—
—	—	—	—	4,287	4,287
— ¹	— ¹	— ¹	— ¹	— ¹	— ¹
3,880,341	350,507	1,042,485	185,490	16,755,215	23,739,121

The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario is committed to promoting accountability, economy, efficiency, and effectiveness in government and broader public-sector operations for the benefit of the citizens of Ontario. The Office provides objective information and advice to the Legislative Assembly of Ontario on the results of our independent value-for-money and financial audits and reviews. In so doing, the Office assists the Assembly in holding the government, its administrators, and grant recipients accountable for the quality of their stewardship of public funds and for the achievement of value for money in the delivery of services to the public. The work of the Office is performed under the authority of the *Auditor General Act*.

Auditor General Act

The *Auditor General Act* came about with the passage on November 22, 2004, of Bill 18, the *Audit Statute Law Amendment Act*, which received Royal Assent on November 30, 2004. The purpose of Bill 18 was to make certain amendments to the *Auditor General Act* to enhance the ability of the Office to serve the Legislative Assembly. The most significant amendment contained in Bill 18 was the expansion of the Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants.

The effective date of the expanded value-for-money audit mandate was April 1, 2005. Since this date fell in the middle of our previous year's audit cycle and was not retroactive to cover grants provided before November 30, 2004, the earliest we could perform any value-for-money audits related to our expanded audit mandate was during our 2005/06 audit cycle. Accordingly, the results of our initial value-for-money work related to the expanded mandate are included in this *2006 Annual Report*.

Appointment of Auditor General

The Auditor General is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Auditor General on and with the advice of the Executive Council (the Cabinet). The appointment is made “on the address of the Assembly,” meaning that the appointee must be approved by the Legislative Assembly. The *Auditor General Act* also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information on the Committee, see Chapter 8).

Independence

The Auditor General and staff of the Office are independent of the government and its administration. This independence is an essential safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy—an all-party legislative committee that is independent of the government’s administrative process—reviews and approves the Office’s budget, which is subsequently laid before the Legislative Assembly. As required by the *Auditor General Act*, the Office’s expenditures relating to the 2005/06 fiscal year have been audited by a firm of chartered accountants, and the audited financial statements of the Office are submitted to the Board and are subsequently required to be tabled in the Legislative Assembly. The audited statements and related discussion of results are presented at the end of this chapter.

Audit Responsibilities

We audit the financial statements of the province and the accounts of many agencies of the Crown. However, most of our work relates to our value-for-money audits of the administration of government programs, including broader public-sector activities involving government grants and carried out under government policies and legislation. Our responsibilities are set out in the *Auditor General Act (Act)*, which is reproduced in Exhibit 4.

The Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Auditor General should not be deferred until the Annual Report. We also assist and advise

the Standing Committee on Public Accounts in its review of the Office’s Annual Report.

It should be noted that our audit activities include examining the actual administration and execution of the government’s policy decisions as carried out by management. However, the Office does not comment on the merits of government policy, since the government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies through questions during legislative sessions and through reviews of legislation and expenditure estimates.

We are entitled to have access to all relevant information and records necessary to the performance of our duties under the Act. Out of respect for the principle of Cabinet privilege, the Office does not seek access to the deliberations of Cabinet. However, the Office can access virtually all other information contained in Cabinet submissions or decisions that we deem necessary to fulfill our auditing and reporting responsibilities under the Act.

ONTARIO’S CONSOLIDATED FINANCIAL STATEMENTS AND PROGRAMS/ ACTIVITIES FUNDED BY TAXPAYERS

The Auditor General, under subsection 9(1) of the Act, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, whether held in trust or otherwise. To this end, and in accordance with subsection 12(3), the Office carries out an annual attest audit to enable the Auditor General to express an opinion on whether the province’s consolidated financial statements are fairly presented. As well, the Office carries out cyclical value-for-money audits of programs and activities funded by taxpayers (see the “Value-for-money Audits” and “Attest Audits” sections later in this chapter for details on these two types of audits).

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Auditor General, under subsection 9(2) of the Act, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 1, Part 1 lists the agencies that were audited during the 2005/06 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of a number of these agencies on the Office's behalf.

Exhibit 1, Part 2 and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2005/06 audit year. Subsection 9(2) of the Act requires that public accounting firms that are appointed auditors of certain agencies of the Crown perform their audits under the direction of the Auditor General and report their results to the Auditor General. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of their report of their findings and recommendations to management (contained in a management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the Act, the Auditor General may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires that the Auditor General undertake special assignments requested by the Assembly, by the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor General's other duties. The Auditor General can decline an assignment referred by a minister if, in his or her opinion, it conflicts with other duties.

During the period of audit activity covered by this Annual Report (October 2005 to September 2006), the Office was involved in the following assignment under section 17: the Ministry of Energy requested that the Auditor General review the refurbishment agreement for the Bruce A nuclear facility. It is expected that the report on the review will be transmitted to the Minister of Energy in fall 2006.

Audit Activities

TYPES OF AUDITS

Value-for-money, attest, and compliance audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. The following are brief descriptions of each of these audit types.

Value-for-money Audits

Subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the *Auditor General Act* (Act) require that the Auditor General report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of programs. In other words, our value-for-money work assesses the administration of programs, activities, and systems by management, including major information systems. This value-for-money mandate is exercised through the auditing of various ministry and Crown-agency programs and, starting in the 2005/06 audit year, the mandate also includes value-for-money audits of selected grant recipients' activities. We refer to the government bodies and publicly funded entities that we audit as our auditees. Value-for-money audits constitute about two-thirds of the work of the Office.

The results of our value-for-money audits performed between October 2005 and September 2006 are reflected in Chapter 3.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of the auditee's management. However, the Office is responsible for reporting instances where it has noted that the auditee has not carried out these functions satisfactorily.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ adequate processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. Some of these processes and the degree of assurance they enable us to provide are described below.

Selection of Programs and Activities for Audit

Major programs and activities administered by a ministry, an agency, a corporation, or a grant-recipient organization are audited at approximately five-to-seven-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include the results of previous audits and related follow-ups; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; recent significant changes in program operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a

preliminary survey of the auditee and its programs and activities.

We also consider the work completed or planned by the auditee's internal auditors. The relevance, timeliness, and breadth of scope of work done by internal audit can have an impact on the timing, frequency, and extent of our audits. By having access to internal-audit work plans, working papers, and reports, and by relying, to the extent possible, on internal-audit activities, the Office is able to avoid duplication of effort.

Objectives and Assurance Levels

The objective of our value-for-money work is to meet the requirements of subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the Act by identifying and reporting significant value-for-money issues. We also include in our reports recommendations for improving controls, obtaining better value for money, and achieving legislated objectives. Management responses to our recommendations are included in our reports.

The specific objective(s) for each audit or review conducted are clearly stated in the "Audit Objective(s) and Scope" section of each audit report—that is, each value-for-money section of Chapter 3.

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by interviewing management and analyzing the information it provides; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance is the highest reasonable level of assurance that the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including the limitations of testing as a means of

gathering information from which to draw conclusions; the inherent limitations of control systems (for example, management/staff often have some ability to circumvent the controls over a process or procedure); the fact that much of the evidence available for concluding on our objectives is persuasive rather than conclusive in nature; and the need to exercise professional judgment in, for example, interpreting information.

Infrequently, for reasons such as the nature of the program or activity, limitations in the Act, or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information it provides; and only limited examination and testing of systems, procedures, and transactions.

Criteria

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations are made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by extensively researching sources such as recognized bodies of experts; applicable laws, regulations, and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed with the senior management responsible for the program or activity at the planning stage of the audit or review.

Communication with Senior Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management throughout the audit or review. Before beginning the work, our staff meet with management to discuss the objective(s) and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with senior management. Management provides written responses to our recommendations, and these are discussed and incorporated into the final draft report. The Auditor General finalizes the draft report (on which the Chapter 3 section of the Annual Report will be based) with the deputy minister or head of the agency, corporation, or grant-recipient organization responsible, after which the report is published in the Annual Report.

Attest Audits

Attest (financial statement) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity, as reflected in its financial statements, have been fairly presented in compliance with appropriate accounting policies, which in most cases are Canadian generally accepted accounting principles. The Office conducts attest audits of the consolidated financial statements of the province and of numerous Crown agencies on an annual basis.

With respect to reporting on attest audits of agencies, agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s)

responsible. Our Office also provides copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Treasury Board.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, discussed with the agency's audit committee and issued to the agency head.

Compliance Audits

Subsection 12(2) of the Act also requires that the Auditor General report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs, activities, agencies, corporations, or grant-recipient organizations being examined or that the management is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable

assurance that management has complied with legislation and authorities in all significant respects.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the Act, the Auditor General has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Auditor General normally reports to the authority that initiated the assignment.

CONFIDENTIALITY OF WORKING PAPERS

In the course of our reporting activities, we prepare draft audit reports and management letters that are considered to be an integral part of our audit working papers. It should be noted that these working papers, according to section 19 of the Act, are not required to be laid before the Assembly or any of its committees. As well, because our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, our reports and audit working papers, which include all information obtained during the course of an audit from the auditee, cannot be accessed from our Office, thus further ensuring confidentiality.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. The Code is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code

provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations. All employees are required to complete an annual conflict-of-interest declaration.

Office Organization and Personnel

The Office is organized into portfolio teams—a framework that attempts to align related audit entities and to foster expertise in the various areas of audit activity. The portfolios, which are loosely based on the government's own ministry organization, are each headed by a Director, who oversees and is responsible for the audits within the assigned portfolio. Assisting the Directors and rounding out the teams are a number of audit Managers and various other audit staff (see Figure 1).

The Auditor General, the Deputy Auditor General, the Directors, and the Manager of Human Resources make up the Office's Senior Management Committee.

Canadian Council of Legislative Auditors

This year, Prince Edward Island hosted the 34th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Charlottetown, PEI, from September 10–12, 2006. This annual gathering has, for a number of years, been jointly held with the annual conference of the Canadian Council of Public Accounts Committees. It brings together legislative auditors and members of the Standing

Committees on Public Accounts from the federal government and the provinces/territories and provides a useful forum for sharing ideas and exchanging information.

International Exchanges

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with delegations from abroad to discuss the roles and responsibilities of the Office and to share our value-for-money and other audit experiences with them. During the audit year covered by this report, the Office received delegations of legislators/parliamentarians and auditors from Vietnam, Russia, Singapore, and the state of Victoria, Australia.

The Auditor General and the Chair of the Standing Committee on Public accounts were also invited to Russia in June 2005 to provide advice to several Russian state Auditor General offices and legislators on value-for-money auditing and the role of Ontario's Public Accounts Committee. The costs of this visit were funded by the Canadian and Russian governments.

Financial Accountability

The following highlights and financial statements outline the Office's financial results for the 2005/06 fiscal year.

FINANCIAL HIGHLIGHTS

The 2005/06 fiscal year was the first year that we were able to take advantage of our expanded value-for-money audit mandate under the *Auditor General Act* (Act) and our new responsibilities under

Figure 1: Office Organization, September 30, 2006

Auditor General	Human Resources	Operations	
Jim McCarter	Annemarie Wiebe, Manager	John Sciarra, Director	
Deputy Auditor General	Professional Practices	Administration	
Gary Peall	David Lee, Manager	Shanta Persaud, Financial and Administrative Services Maureen Bissonnette, Accounts Payable Clerk Nicole Dirickx, Bilingual Receptionist Sohani Myers, Administrative Clerk Christine Wu, Administrative Assistant	
	Research	Communications and Government Advertising Review	
	Mark Hancock Michael Radford	Andréa Vanasse, Manager of Corporate Communications and Government Advertising Review Tiina Randoja, Editorial and Communications Co-ordinator Mariana Green, Desktop Publisher/Internet Communications Assistant	
Audit Portfolios and Staff			
Health	Transportation, Infrastructure, and Municipal Affairs		Crown Agencies
Rudolph Chiu, Director Denise Young, Manager Sandy Chan Oscar Rodriguez Pasha Sidhu Celia Yeung Gigi Yip	Andrew Cheung, Director Gus Chagani, Manager Teresa Carello Kim Cho Fiona Mak Alexander Truong		John McDowell, Director Walter Allan Tom Chatzidimos Jasmine Chen Mary Romano
Education and Training	Community and Social Services, and Revenue		Health and Long-Term Care Facilities
Nick Mishchenko, Director Michael Brennan, Manager Fraser Rogers, Manager Ariane Chan Zahra Jaffer Mythili Kandasamy Emanuel Tsikritsis Dora Ulisse Brian Wanchuk Oksana Wasylyk	Walter Bordne, Director Wendy Cumbo, Manager Johan Boer Constantino De Sousa Isabella Ho Maria Molotkova Angela Schieda Aldora Sequeira Nick Stavropoulos		Susan Klein, Director Laura Bell, Manager Naomi Herberg, Manager John Landerkin, Manager Kevin Aro Sally Chang Ted D'Agostino Veronica Ho Gloria Tsang
Public Accounts, Finance, and Information Technology	Economic Development, Environment, and Natural Resources		Justice and Regulatory
Paul Amodeo, Director Rita Mok, Manager Bill Pelow, Manager Suzanna Chan Cherry Chau Chia-Ming Chou Marcia DeSouza Jindong Fu Ben Lau Gawah Mark Lukasz Markowski Ruchir Patel Gajalini Ramachandran	Gerard Fitzmaurice, Director Vanna Gotsis, Manager Tony Tersigni, Manager Izabela Beben Tino Bove Mark Burnes Jason Hung Roger Munroe Catherine Porter Mark Smith Ellen Tepelenas		Vince Mazzone, Director Rick MacNeil, Manager Howard Davy Kandy Fletcher Linda Fung Rachel Ho Anat Ishai Alfred Kiang Myuran Palasandiran Vivian Sin

the *Government Advertising Act*. However, taking full advantage of our expanded mandate to audit organizations in the broader public sector proved particularly challenging due to continuing difficulties in hiring and retaining experienced staff in the face of high market demand and compensation for professional auditors. Specifically, we continued to be severely constrained by the requirement under the Act to use public-service salary-classification pay levels, which are not competitive for professional auditors in the Greater Toronto Area job market.

Nevertheless, the hard work and dedication of our staff allowed us to conduct the first-ever value-for-money audits in a good cross-section of public-sector entities—school boards, hospitals, colleges, Children’s Aid Societies, Ontario Power Generation, and Hydro One, along with a number of ministry audits and work relating to the Bruce Power Refurbishment Implementation Agreement for the Minister of Energy. As well, we successfully met our attest audit responsibilities, which this year included auditing the first consolidation of school boards, hospitals, and community colleges into the province’s consolidated financial statements.

Figure 2 provides a comparison of our approved budget and expenditures over the last four years. Figure 3 presents the major components of our spending for 2005/06 and shows that 73% of our

spending related to salary and benefit costs for our staff, while services and rent constituted most of the remainder. Contract and agent auditor professional services and professional-accreditation costs are the largest components of the more than 17% we spent on services. The proportions shown in Figure 3 have remained relatively consistent throughout the four-year period.

Our overall expenses increased by 12.1% over last year but were significantly under budget. This continued the historical trend of under-spending our approved budget: over the last decade, the Office has returned \$6.4 million in unspent appropriations, principally because the Office has historically faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market, given public-service salary ranges. A more detailed discussion of the changes in our expenditures and related challenges follows.

Salaries and Benefits

Expenditures on salaries and benefits have risen only slightly faster than total spending. The 29% increase over the four-year period resulted from a 9% rise in the average number of staff, a significant reduction in the proportion of junior staff relative to more experienced staff to better match

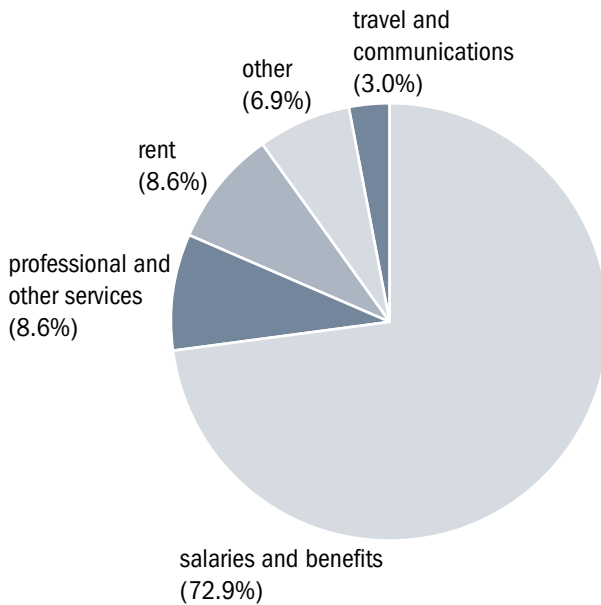
Figure 2: OAGO Four-year Comparison of Spending (Accrual Basis)

Prepared by the Office of the Auditor General of Ontario

	2002/03 (\$ 000)	2003/04 (\$ 000)	2004/05 (\$ 000)	2005/06 (\$ 000)
Approved budget	9,363	9,870	10,914	12,552
Actual spending				
salaries and benefits	6,244	6,943	7,261	8,047
rent	918	914	891	951
professional and other services	654	794	877	951
travel and communications	170	205	290	324
other	665	679	533	767
Total	8,651	9,535	9,852	11,040
Returned to province	684	406	1,201	1,609

Figure 3: OAGO Spending by Major Expenditure Category, 2005/06

Prepared by the Office of the Auditor General of Ontario



experience to the increasing complexity of our work, rising earned but unpaid vacation and severance entitlements, and annual salary and promotional increases in accordance with Ontario Public Service compensation policies.

As Figure 4 shows, there is an increasing gap between the staffing level that we believe we need in order to deliver on our expanded mandate—the level that the Board of Internal Economy has approved—and the actual staff that we have been able to attract and retain. The competition for experienced audit staff has recently become even more challenging because salaries for qualified accountants continue to increase more rapidly than the public-sector salary increases that we are restricted to paying. For example, according to national survey results for the Chartered Accountant (CA) profession reported in October 2005 by the Ontario Institute of Chartered Accountants:

[a]verage compensation for a new CA is \$65,382 but rises steadily each year. It jumps to \$113,140 for CAs with five years

experience as a CA, and to \$250,758 for those who have been a CA for 25–29 years.

The survey also found that for CAs:

the provinces with the highest (average) compensation are Alberta (\$166,373) and Ontario (\$167,807).

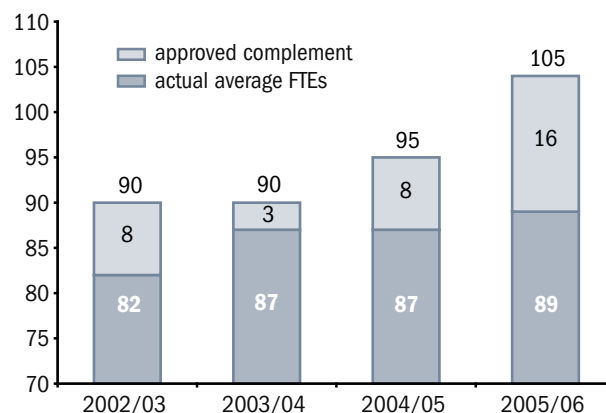
For CAs with more than a couple of years of experience, these salary levels are significantly above what we can offer under existing public-service salary classifications.

Under the *Auditor General Act*, our salary levels must be comparable to the salary ranges of similar positions in the government, and these ranges remain uncompetitive with the salaries that the private sector and the broader public sector can offer for professional accountants. Improving our compensation relative to the market is even more critical if we are to successfully achieve our goals and expectations under our newly expanded mandate.

Benefit costs rose 27% this year with the retroactive adoption of accrual accounting for employees' earned vacation and severance entitlements, as discussed in Note 3 to our financial statements. Recognition of these costs in our financial statements has resulted in an accumulated deficit that will continue to be funded from future voted appropriations as the benefit costs are due. This liability is growing

Figure 4: OAGO Staffing, 2002/03–2005/06

Prepared by the Office of the Auditor General of Ontario



faster than our staffing levels because staffing shortages drive increases in unused vacation entitlements while our more-experienced-staff mix means that an increasing number of our staff qualify to earn these benefits. Also, with the increasing complexity of our work, we have, whenever possible, been employing more experienced staff than in the past. Junior staff constituted about 18% of our staff in 2005/06, down from 29% in 2004/05 and 38% in 2003/04. This shift has increased both average salaries and benefit costs.

Rent

Our accommodation costs have remained relatively stable until 2006, when we added the remaining space on our floor to accommodate the 10% increase in our approved complement. However, these costs continue to decline as a percentage of total spending.

Professional and Other Services

Spending on agent auditors and contract professionals constitutes the largest component of these services, and market conditions have driven up both the cost of acquiring these services and our need for them over the last few years. Since actual staffing has not grown as quickly as planned, we have had to rely increasingly on contracted professionals to supplement our own staff.

Travel and Communications

Although this component constitutes only 3% or less of our total spending, we are encountering

increased costs in this area due to travel relating to our expanded mandate to audit organizations in the broader public sector, the need to provide all travelling staff with secure remote access to Office systems and resources, and the gradual increase in the number of auditors we employ.

Other

Other costs include asset amortization (primarily computers and software), training costs, and statutory expenses. Statutory expenses increased by about \$242,000 over 2004/05 for the following reasons:

- We incurred costs relating to the implementation of our responsibilities under the *Government Advertising Act, 2004*, which was fully proclaimed in January 2006.
- We obtained expert advice and assistance to establish a process and guidance for ministries and advertising firms submitting advertising items and to address issues as they arose.
- We required specialist assistance relating to our review of the Bruce Power Refurbishment Implementation Agreement for the Minister of Energy.
- Since the former Acting Auditor General was officially appointed in December 2004, the 2004/05 statutory expenses included only three and a half months of his salary—but 12 months' salary are included in the 2005/06 expenses.

FINANCIAL STATEMENTS



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General for the year ended March 31, 2006 are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian generally accepted accounting principles.

To ensure the integrity and objectivity of the financial data, management maintains a system of internal controls including an appropriate code of conduct and an organizational structure that effectively segregates duties. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded and financial information is reliable and accurate.

The financial statements have been audited by the firm of Allen & Miles LLP, Chartered Accountants. Their report to the Board of Internal Economy, stating the scope of their examination and opinion on the financial statements, appears on the following page.

Jim McCarter, CA
Auditor General

Gary R. Peall, CA
Deputy Auditor General

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AUDITORS' REPORT TO THE BOARD OF INTERNAL ECONOMY OF THE LEGISLATIVE ASSEMBLY OF ONTARIO

We have audited the statement of financial position of the Office of the Auditor General of Ontario as at March 31, 2006 and the statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of the Office of the Auditor General of Ontario. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Ontario as at March 31, 2006 and the results of its operations and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information is unaudited and not considered as part of the financial statements on which we have expressed our opinion.

Chartered Accountants

Toronto, Canada
 August 3, 2006



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Office of the Auditor General of Ontario

Statement of Financial Position

As at March 31, 2006

	2006 \$	2005 \$ (Restated Note 3)
Assets		
Current		
Cash	175,192	225,864
Due from Consolidated Revenue Fund	526,452	340,368
	<u>701,644</u>	<u>566,232</u>
Capital Assets (Note 4)	555,748	278,435
Total assets	<u>1,257,392</u>	<u>844,667</u>
Current Liabilities		
Accounts payable and accrued liabilities	1,305,644	916,232
Accrued employee benefits obligation [Notes 3 and 5(B)]	1,810,000	1,690,000
	<u>3,115,644</u>	<u>2,606,232</u>
Net assets (Accumulated deficit)		
Investment in capital assets (Note 4)	555,748	278,435
Accumulated deficit [Note 2(B)]	<u>(2,414,000)</u>	<u>(2,040,000)</u>
	<u>(1,858,252)</u>	<u>(1,761,565)</u>
Total liabilities and accumulated deficit	<u>1,257,392</u>	<u>844,667</u>

Commitment (Note 6)

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:



Jim McCarter
Auditor General



Gary Peall
Deputy Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit

For the Year Ended March 31, 2006

	2006 Budget \$	2006 Actual \$	2005 Actual \$ (Restated Note 3)
Revenue			
Consolidated Revenue Fund			
Voted appropriation (Note 8)	12,552,200	12,552,200	10,914,000
Less: returned to the Province	—	(1,608,914)	(1,200,536)
Net revenue	12,552,200	10,943,286	9,713,464
Expenses			
Salaries and wages	7,427,300	6,426,221	5,986,968
Employee benefits (Note 5)	1,695,900	1,620,989	1,274,166
Office rent	1,000,000	961,877	891,105
Professional and other services	1,233,300	951,197	877,415
Amortization of capital assets	—	217,047	207,234
Travel and communication	235,100	323,719	289,964
Training and development	207,600	113,555	117,509
Supplies and equipment	428,000	75,621	100,016
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>Auditor General Act</i>	230,000	233,337	57,352
<i>Government Advertising Act</i>	45,000	66,410	—
Total expenses	12,552,200	11,039,973	9,851,729
Deficiency of revenue over expenses	—	96,687	138,265
Accumulated deficit, beginning of year		1,761,565	1,623,300
Accumulated deficit, end of year		1,858,252	1,761,565

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows

For the Year Ended March 31, 2006

	2006 \$	2005 \$ (Restated Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenue over expenses	(96,687)	(138,265)
Amortization of capital assets	217,047	207,234
Accrued employee benefits obligation	120,000	149,000
	<u>240,360</u>	<u>217,969</u>
Changes in non-cash working capital		
Decrease (increase) in due from Consolidated Revenue Fund	(186,084)	159,758
Increase in accounts payable and accrued liabilities	389,412	22,485
	<u>203,328</u>	<u>182,243</u>
Investing activities		
Purchase of capital assets	(494,360)	(196,969)
Net increase (decrease) in cash position	(50,672)	203,243
Cash position, beginning of year	<u>225,864</u>	<u>22,621</u>
Cash position, end of year	<u>175,192</u>	<u>225,864</u>

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

1. Nature of Operations

In accordance with the provisions of the *Auditor General Act* and various other statutes and authorities, the Auditor General conducts independent audits of government programs, of institutions in the broader public sector that receive government grants, and of the fairness of the financial statements of the Province and numerous agencies of the Crown. In doing so, the Office of the Auditor General promotes accountability and value-for-money in government operations and in broader public sector organizations.

Additionally, under the *Government Advertising Act, 2004*, the Auditor General is required to review specified types of advertising, printed matter or reviewable messages proposed by government offices to determine whether they meet the standards required by the Act.

Under both Acts, the Auditor General reports directly to the Legislative Assembly.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(A) ACCRUAL BASIS

These financial statements are accounted for on an accrual basis whereby expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

(B) VOTED APPROPRIATIONS

The Office is funded through annual voted appropriations from the Province of Ontario. Unspent appropriations are returned to the Province's Consolidated Revenue Fund each year. As the approved appropriation was prepared on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting, including the capitalization and amortization of capital assets and the recognition of employee benefit costs earned to date but that will be funded from future appropriations.

(C) CAPITAL ASSETS

Capital assets are recorded at historical cost less accumulated amortization. Amortization of capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	5 years
Leasehold improvements	The remaining term of the lease

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

2. Significant Accounting Policies (Continued)

(D) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Change in Accounting Policy

In prior years, the Office did not record the liabilities pertaining to the legislated severance and unused vacation entitlements components of its future employee benefit costs because these liabilities had been determined and recognized by the Province in its financial statements. While the Province continues to accrue for these costs each year and to fund them when due through the Office's annual appropriations, the Office has decided that it is appropriate to also recognize the liability for these costs in these financial statements. This change in accounting policy was implemented in the current year and has been applied retroactively. The effect of this change is as follows:

	2005	Increase	2005
	Previously	(Decrease)	Restated
	stated		
	\$	\$	\$
Accounts payable	566,232	350,000	916,232
Accrued employee benefits obligation	–	1,690,000	1,690,000
Employee benefit costs	1,146,166	128,000	1,274,166
Deficiency of revenue over expenses	(10,265)	(128,000)	(138,265)
Net assets (accumulated deficit)	278,435	(2,040,000)	(1,761,565)
Net assets (accumulated deficit April 1, 2004)	288,700	(1,912,000)	(1,623,300)

4. Capital Assets

	2006			2005
	Cost	Accumulated	Net Book	Net Book
	\$	Amortization	Value	Value
	\$	\$	\$	\$
Computer hardware	594,666	364,243	230,423	207,179
Computer software	203,616	134,778	68,838	71,256
Furniture and fixtures	176,288	17,629	158,659	–
Leasehold improvements	106,721	8,893	97,828	–
	1,081,291	525,543	555,748	278,435

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

4. Capital Assets (Continued)

Investment in capital assets represents the accumulated cost of capital assets less accumulated amortization and disposals.

5. Obligation For Future Employee Benefits

Although the Office's employees are not members of the Ontario Public Service, under provisions in the *Auditor General Act*, the Office's employees are entitled to the same benefits as Ontario Public Service employees. The future liability for benefits earned by the Office's employees is included in the estimated liability for all provincial employees that have earned these benefits and is recognized in the Province's consolidated financial statements. These benefits are accounted for as follows:

(A) PENSION BENEFITS

The Office provides pension benefits for its full-time employees through participation in the Public Service Pension Fund (PSPF), which is a multi-employer defined benefit plan established by the Province of Ontario. This plan is accounted for as a defined contribution plan as the Office has insufficient information to apply defined benefit plan accounting. The pension expense represents the Office's contributions to the plan for current service of employees during this fiscal year and any additional employer contributions for service relating to prior years. The Office's contributions related to the pension plan for the year were \$497,853 (2005 – \$472,729) and are included in employee benefits in the Statement of Operations and Accumulated Deficit.

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

The costs of any legislated severance and unused vacation entitlements earned by employees are recognized when earned by eligible employees. These costs for the year amounted to \$374,000 (2005 – \$128,847) and are included in employee benefits in the Statement of Operations and Accumulated Deficit.

(C) OTHER NON-PENSION POST-EMPLOYMENT BENEFITS

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

6. Commitment

The Office has an operating lease to rent premises for an 11-year period, which commenced November 1, 2000. The minimum rental commitment for the remaining term of the lease is as follows:

	\$
2006-07	515,032
2007-08	525,369
2008-09	525,369
2009-10	525,369
2010-11	525,369
2011-12	306,465

7. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of \$100,000 in calendar year 2005.

Name	Position	Salary	Taxable
		\$	Benefits \$
McCarter, Jim	Auditor General	179,432	4,502
Peall, Gary	Deputy Auditor General	132,992	215
Amodeo, Paul	Director	112,609	188
Bordne, Walter	Director	113,793	188
Cheung, Andrew	Director	113,793	188
Fitzmaurice, Gerard	Director	112,609	188
Klein, Susan	Director	103,646	168
McDowell, John	Director	112,609	188
Mishchenko, Nicholas	Director	112,609	188

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

8. Reconciliation to Public Accounts Volume 1 Basis of Presentation

The Office's Statement of Expenses presented in Volume 1 of the Public Accounts of Ontario was prepared on a basis consistent with the accounting policies followed for the Province's financial statements, under which purchases of computers and software are expensed in the year of acquisition rather than being capitalized and amortized over their useful lives. Volume 1 also excludes the accrued employee future benefit costs recognized in these financial statements as well as in the Province's summary financial statements. A reconciliation of total expenses reported in volume 1 to the total expenses reported in these financial statements is as follows:

	2006 Actual \$	2005 Actual \$
		(Restated Note 3)
Total expenses per Public Accounts Volume 1	10,943,286	9,713,464
Less: purchase of capital assets	(494,360)	(196,969)
Add: amortization of capital assets	217,047	207,234
accrued future employee benefit costs	374,000	128,000
Total expenses per audited financial statements	<u>11,039,973</u>	<u>9,851,729</u>

9. Financial Instruments

The carrying amounts of cash, due from Consolidated Revenue Fund and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The fair value of the accrued employee benefits obligation has not been determined. Information regarding this financial instrument is provided in Note 5.

The Standing Committee on Public Accounts

Appointment and Composition of the Committee

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts. The Committee is appointed for the duration of the Parliament (that is, the period from the opening of the first session immediately following a general election to the end of a government's term and the calling of another election).

The membership of the Committee reflects proportionately the representation of parties in the Legislature. All members except for the Chair are entitled to vote on motions; the Chair's vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on June 17, 2004, for the duration of the 38th Parliament. The membership of the Committee when the House adjourned for the summer recess on June 22, 2006, was as follows:

Norm Sterling, Chair, Progressive Conservative
Julia Munro, Vice-chair, Progressive Conservative
Lisa MacLeod, Progressive Conservative
Shelley Martel, New Democrat
Deb Matthews, Liberal

Bill Mauro, Liberal
John Milloy, Liberal
Richard Patten, Liberal
David Zimmer, Liberal

Role of the Committee

The Committee examines, assesses, and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, pursuant to its terms of reference in the Standing Orders of the Assembly, the Committee reviews the Auditor General's Annual Report and the Public Accounts and reports to the Legislature its observations, opinions, and recommendations. Under the Standing Orders, the documents are deemed to have been permanently referred to the Committee as they become available.

As well, under sections 16 and 17 of the *Auditor General Act*, the Committee may request the Auditor General to undertake a special assignment in an area of interest to the Committee.

AUDITOR GENERAL'S ADVISORY ROLE WITH THE COMMITTEE

In accordance with section 16 of the *Auditor General Act*, the Auditor General and senior staff attend committee meetings to assist the Committee in its review and hearings relating to the Auditor General's Annual Report and the Public Accounts.

Committee Procedures and Operations

GENERAL

The Committee meets weekly when the Legislature is sitting. The Committee can also meet during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard (the official verbatim report of debates in the House, speeches, other proceedings in the Legislature, and all open-session sittings of standing and select committees).

The Committee selects matters from the Auditor General's Annual Report and the Public Accounts for hearings. The Auditor General, along with the Committee's researcher, briefs the Committee on these matters, and the Committee then requests senior officials from the auditee to appear and respond to questions at the hearings. Since the Auditor General's Annual Report and the Public Accounts deal with administrative and financial rather than policy matters, ministers rarely attend. Once the hearings are completed, the Committee reports its comments and recommendations to the Legislature.

The Committee also follows up on when and how those ministries and Crown agencies not selected for detailed review will address the concerns raised

in the Auditor General's Annual Report. This process enables each auditee to update the Committee on activities undertaken since the completion of the audit, particularly any initiatives taken to address the Auditor General's recommendations.

MEETINGS HELD

The Committee was very active and met 22 times during the October 2005–September 2006 period to review the following items from the Auditor's 2004 and 2005 *Annual Reports* and to write reports thereon.

Auditor's 2005 Annual Report

- Ministry of Children and Youth Services—Child Care Activity;
- Ministry of Government Services—Charitable Gaming;
- Ministry of Health and Long-Term Care—Ambulance Services—Air, and Ambulance Services—Land;
- Ministry of Transportation—Driver and Vehicle Private Issuing Network; and
- Follow-up of the recommendations contained in the *2003 Annual Report*:
 - Ministry of Children and Youth Services—Children's Mental Health Services;
 - Ministry of Economic Development and Trade—Business and Economic Development Activities;
 - Ministry of the Environment—Environet; and
 - Ministry of Training, Colleges and Universities—Ontario Student Assistance Program.

Auditor's 2004 Annual Report

- Ontario Media Development Corporation and Ministries of Culture and Finance—Media Tax Credits;

- Ministry of the Attorney General—Office of the Public Guardian and Trustee; and
- Ministry of the Environment—Groundwater Program.

- *Groundwater Program*;
- *Long-Term Care Facilities Activity*;
- *Media Tax Credits*; and
- *Office of the Public Guardian and Trustee*.

Reports of the Committee

GENERAL

The Committee issues its reports to the Legislature. These reports summarize the information reviewed by the Committee during its meetings, together with comments and recommendations.

All committee reports are available through the Clerk of the Committee (or online at www.ontla.on.ca/committees/reports.htm), thus providing the public with full access to the findings and recommendations of the Committee.

After the Committee tables its report in the Legislative Assembly, it requests that ministries or agencies respond to each recommendation either within 120 days or within a time frame stipulated by the Committee.

During the period from October 2005 to September 2006, the Committee submitted the following reports to the Legislative Assembly:

- *Ambulance Services—Air*;
- *Ambulance Services—Land*;
- *Children's Mental Health Services*;

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken on the Committee's recommendations by ministries or agencies. The Office of the Auditor General reviews responses from ministries and agencies and, in subsequent audits, follows up on reported actions taken.

OTHER COMMITTEE ACTIVITIES

Canadian Council of Public Accounts Committees

The Canadian Council of Public Accounts Committees (CCPAC) consists of delegates from federal, provincial, and territorial public accounts committees from across Canada. CCPAC meets at the same time and place as the Canadian Council of Legislative Auditors (CCOLA) to provide an opportunity to discuss issues of mutual interest. The 27th annual meeting of CCPAC was hosted by Prince Edward Island and was held in Charlottetown from September 10 to 12, 2006.

Exhibit 1

Agencies of the Crown

1. Agencies whose accounts are audited by the Auditor General

AgriCorp	Ontario Development Corporation
Algonquin Forestry Authority	Ontario Educational Communications Authority
Cancer Care Ontario	Ontario Electricity Financial Corporation
Centennial Centre of Science and Technology	Ontario Energy Board
Chief Election Officer, <i>Election Finances Act</i>	Ontario Exports Inc.
Election Fees and Expenses, <i>Election Act</i>	Ontario Financing Authority
Financial Services Commission of Ontario	Ontario Food Terminal Board
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans, Wheat, and Canola	Ontario Heritage Trust
Investor Education Fund, Ontario Securities Commission	Ontario Housing Corporation (December 31)*
Legal Aid Ontario	Ontario Immigrant Investor Corporation
Liquor Control Board of Ontario	Ontario Media Development Corporation
Livestock Financial Protection Board, Fund for Livestock Producers	Ontario Mortgage Corporation
Northern Ontario Heritage Fund Corporation	Ontario Northland Transportation Commission
North Pickering Development Corporation	Ontario Place Corporation
Office of the Assembly	Ontario Racing Commission
Office of the Children's Lawyer	Ontario Realty Corporation
Office of the Environmental Commissioner	Ontario Securities Commission
Office of the Information and Privacy Commissioner	Ontario Strategic Infrastructure Financing Authority
Office of the Ombudsman	Ontario Tourism Marketing Partnership Corporation
Ontario Clean Water Agency (December 31)*	Owen Sound Transportation Company Limited
	Pension Benefits Guarantee Fund, Financial Services Commission of Ontario
	Province of Ontario Council for the Arts
	Provincial Judges Pension Fund, Provincial Judges Pension Board
	Public Guardian and Trustee for the Province of Ontario
	Toronto Area Transit Operating Authority
	TVOntario Foundation

Note:

* Dates in parentheses indicate fiscal periods ending on a date other than March 31.

2. Agencies whose accounts are audited by another auditor under the direction of the Auditor General

Motor Vehicle Accident Claims Fund
Niagara Parks Commission (October 31)*
Ontario Mental Health Foundation
St. Lawrence Parks Commission
Workplace Safety and Insurance Board
(December 31)*

Notes:

* Dates in parentheses indicate fiscal periods ending on a date other than March 31.

Changes during the 2005/06 fiscal year:

Addition:

Ontario Mortgage Corporation

Deletion:

Ontario Superbuild Corporation

Exhibit 2

Crown-controlled Corporations

Corporations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers, and other related documents

Access Centre for Community Care in Lanark, Leeds and Grenville

Access Centre for Hastings and Prince Edward Counties

Algoma Community Care Access Centre

Art Gallery of Ontario Crown Foundation

Baycrest Hospital Crown Foundation

Board of Funeral Services

Brant Community Care Access Centre

Brock University Foundation

Canadian Opera Company Crown Foundation

Canadian Stage Company Crown Foundation

Chatham/Kent Community Care Access Centre

Cochrane District Community Care Access Centre

Community Care Access Centre (CCAC) – Oxford

Community Care Access Centre for Huron

Community Care Access Centre for Kenora and Rainy River Districts

Community Care Access Centre for the Eastern Counties

Community Care Access Centre Niagara

Community Care Access Centre of Halton

Community Care Access Centre of London and Middlesex

Community Care Access Centre of Peel

Community Care Access Centre of The District of Thunder Bay

Community Care Access Centre of Waterloo Region

Community Care Access Centre of York Region

Community Care Access Centre Perth County

Community Care Access Centre Simcoe County

Community Care Access Centre Timiskaming

Community Care Access Centre Wellington-Dufferin

Deposit Insurance Corporation of Ontario

Durham Access to Care

East York Access Centre for Community Services

Education Quality and Accountability Office

Elgin Community Care Access Centre

Etobicoke and York Community Care Access Centre

Foundation at Queen's University at Kingston

Greater Toronto Transit Authority

Grey-Bruce Community Care Access Centre

Haldimand-Norfolk Community Care Access Centre

Haliburton, Northumberland and Victoria Long-Term Care Access Centre

Hamilton Community Care Access Centre

Hydro One Inc.

Kingston, Frontenac, Lennox and Addington Community Care Access Centre

Manitoulin-Sudbury Community Care Access Centre

McMaster University Foundation

McMichael Canadian Art Collection

Metropolitan Toronto Convention Centre Corporation

Mount Sinai Hospital Crown Foundation

National Ballet of Canada Crown Foundation

Near North Community Care Access Centre

North York Community Care Access Centre	St. Clair Parks Commission
North York General Hospital Crown Foundation	Stratford Festival Crown Foundation
Northern Ontario Grow Bonds Corporation	Sunnybrook Hospital Crown Foundation
Ontario Family Health Network	The Peterborough Community Access Centre Incorporated
Ontario Foundation for the Arts	Toronto Community Care Access Centre
Ontario Lottery and Gaming Corporation	Toronto East General Hospital Crown Foundation
Ontario Pension Board	Toronto Hospital Crown Foundation
Ontario Power Generation Inc.	Toronto Islands Residential Community Trust Corporation
Ontario Trillium Foundation	Toronto Waterfront Revitalization Corporation
Ottawa Community Care Access Centre	Toronto Symphony Orchestra Crown Foundation
Ottawa Congress Centre	Trent University Foundation
Renfrew County Community Care Access Centre	Trillium Gift of Life Network
Royal Botanical Gardens Crown Foundation	University of Ottawa Foundation
Royal Ontario Museum	Walkerton Clean Water Centre
Royal Ontario Museum Crown Foundation	Waterfront Regeneration Trust Agency
Sarnia/Lambton Community Care Access Centre	Windsor/Essex Community Care Access Centre
Scarborough Community Care Access Centre	Women's College and Wellesley Central Crown Foundation
Science North	
Shaw Festival Crown Foundation	
Smart Systems for Health Agency	
Stadium Corporation of Ontario Limited	

Notes:

Changes during the 2005/06 fiscal year:

Additions:

Northern Ontario Grow Bonds Corporation
Toronto Waterfront Revitalization Corporation
Trillium Gift of Life Network

Deletions:

Carleton University Foundation
Lakehead University Foundation
Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
University of Guelph Foundation
University of Windsor Foundation

Exhibit 3

Treasury Board Orders

Under subsection 12(2)(e) of the *Auditor General Act*, the Auditor General is required to annually report all orders of the Treasury Board made to authorize payments in excess of appropriations,

stating the date of each order, the amount authorized, and the amount expended. These are outlined in the following table.

Amounts Authorized and Expended Thereunder Year Ended March 31, 2006

Ministry	Date of Order	Authorized (\$)	Expended (\$)
Agriculture and Food	Jun. 16, 2005	500,000	—
	Nov. 17, 2005	1,118,400	—
	Mar. 23, 2006	25,000,000	21,926,931
		26,618,400	21,926,931
Attorney General	Dec. 1, 2005	31,916,300	26,724,767
	Dec. 1, 2005	150,000	—
	Mar. 23, 2006	1,353,700	248,895
		33,420,000	26,973,662
Children and Youth Services	Jun. 16, 2005	33,100,000	29,721,093
	Nov. 17, 2005	34,700,000	32,243,886
	Feb. 10, 2006 ¹	—	—
	Mar. 9, 2006	1,300,000	—
	Mar. 23, 2006	1,000,000	—
	Mar. 23, 2006	3,000,000	—
		73,100,000	61,964,979
Citizenship and Immigration	Sep. 1, 2005	234,200	234,200
	Dec. 1, 2005	5,864,600	3,086,600
	Apr. 6, 2006	4,729,200	4,152,289
		10,828,000	7,473,089

1. A Treasury Board Order for \$15,000,000 was issued on February 10, 2006, for the Ministry of Children and Youth Services, but subsequently rescinded on April 6, 2006.

Ministry	Date of Order	Authorized (\$)	Expended (\$)
Community and Social Services	Jun. 16, 2005	12,000,000	10,592,687
	Feb. 23, 2006	10,700,000	9,544,695
	Mar. 9, 2006	6,500,000	—
	Mar. 23, 2006	3,030,000	2,927,993
		32,230,000	23,065,375
Community Safety and Correctional Services	Aug. 11, 2005	12,833,000	10,774,751
	Sep. 1, 2005	8,623,400	8,623,400
	Jan. 4, 2006	7,000,000	—
	Mar. 9, 2006	34,985,400	33,737,300
	Mar. 9, 2006	48,893,300	39,137,967
		112,335,100	92,273,418
Consumer and Business Services	Nov. 17, 2005	2,760,000	2,303,541
	Mar. 23, 2006	4,090,900	1,958,383
		6,850,900	4,261,924
Culture	Nov. 17, 2005	1,000,000	1,000,000
	Mar. 23, 2006	38,000,000	38,000,000
	Mar. 23, 2006	34,618,300	34,391,078
	Mar. 30, 2006	5,500,000	5,448,630
	Apr. 6, 2006	391,000	346,760
		79,509,300	79,186,468
Economic Development and Trade	Mar. 23, 2006	77,921,600	75,964,390
	Mar. 23, 2006	10,100,000	—
	Mar. 30, 2006	5,500,000	—
	Mar. 30, 2006	1,723,000	236,633
		95,244,600	76,201,023
Education	Mar. 23, 2006	6,744,400	3,490,479
	Mar. 30, 2006	18,000,000	—
		24,744,400	3,490,479
Energy	Oct. 27, 2005	700,000	700,000
	Oct. 27, 2005	3,000,000	78,818
	Nov. 17, 2005	300,000	—
	Feb. 10, 2006	400,000	7,269
		4,400,000	786,087
Environment	Mar. 23, 2006	8,801,700	8,801,699

Ministry	Date of Order	Authorized (\$)	Expended (\$)
Finance	Jan. 19, 2006	38,362,800	38,362,800
	Mar. 23, 2006	64,000,000	64,000,000
	Mar. 30, 2006	1,000,000	1,000,000
	Apr. 6, 2006	5,043,500	5,043,499
		108,406,300	108,406,299
Health and Long-Term Care	Apr. 6, 2006	229,825,100	228,520,938
	Mar. 30, 2006	120,044,500	93,565,577
		349,869,600	322,086,515
Intergovernmental Affairs	Oct. 11, 2005	1,000,000	1,000,000
	Jan. 4, 2006	1,000,000	1,000,000
	Mar. 9, 2006	575,000	541,988
		2,575,000	2,541,988
Labour	Mar. 9, 2006	426,000	—
Management Board Secretariat	Jun. 16, 2005	1,080,000	1,080,000
	Jun. 16, 2005	32,000,000	27,644,338
	Jun. 22, 2005	5,000,000	3,279,000
	Mar. 9, 2006	227,350,000	—
	Mar. 23, 2006	83,113,900	—
	Mar. 23, 2006	4,476,400	3,559,826
		353,020,300	35,563,164
Municipal Affairs and Housing	Mar. 9, 2006	10,800,000	10,749,217
	Mar. 23, 2006	2,900,000	—
	Mar. 30, 2006	1,700,000	—
		15,400,000	10,749,217
Natural Resources	Aug. 11, 2005	64,100,000	53,081,607
	Dec. 1, 2005	4,141,500	3,693,238
	Jan. 19, 2006	28,000,000	27,099,294
		96,241,500	83,874,139
Northern Development and Mines	Jun. 16, 2005	5,000,000	5,000,000
	Mar. 9, 2006	600,000	50,283
	Mar. 23, 2006	7,500,000	7,334,327
		13,100,000	12,384,610
Office of Francophone Affairs	Sep. 1, 2005	285,000	285,000
	Mar. 9, 2006	384,000	324,291
		669,000	609,291

Ministry	Date of Order	Authorized (\$)	Expended (\$)
Ontario Native Affairs Secretariat	Jun. 2, 2005	30,168,900	30,168,900
	Sep. 1, 2005	1,248,000	1,248,000
	Sep. 22, 2005	75,000	75,000
	Oct. 27, 2005	1,849,600	1,848,673
	Mar. 30, 2006	2,140,100	1,060,885
		35,481,600	34,401,458
Public Infrastructure Renewal	Jul. 27, 2005	13,500,000	—
	Dec. 1, 2005	7,200,000	—
	Mar. 9, 2006	110,425,300	—
		131,125,300	—
Tourism and Recreation	Oct. 27, 2005	2,500,000	2,500,000
	Dec. 1, 2005	1,000,000	1,000,000
	Mar. 9, 2006	400,000	400,000
	Mar. 23, 2006	3,000,000	836,084
	Mar. 23, 2006	28,000,000	14,019,059
	Mar. 23, 2006	313,500	162,507
		35,213,500	18,917,650
Training, Colleges and Universities	Mar. 23, 2006	17,235,900	16,855,387
	Mar. 30, 2006	2,000,000	2,000,000
	Apr. 6, 2006	18,721,900	4,978,834
		37,957,800	23,834,221
Transportation	Aug. 11, 2005	58,000,000	—
	Mar. 23, 2006	200,000,000	180,058,022
	Mar. 23, 2006	16,100,000	12,000,000
	Mar. 30, 2006	52,687,700	28,764,232
	Apr. 6, 2006	12,692,000	12,228,666
		339,479,700	233,050,920
Total Treasury Board Orders		2,027,048,000	1,292,824,606

Exhibit 4

Auditor General Act

R.S.O. 1990, Chapter A.35

Amended by: 1999, c. 5, s. 1; 1999, c. 11; 2004, c. 8, s. 46; 2004, c. 17, ss. 1-30; 2004, c. 20, s. 13; 2006, c. 15.

Definitions

1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

(a) whose accounts the Auditor General is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(b) whose accounts are audited by the Auditor General under any other Act or whose accounts the Auditor General is appointed by the Lieutenant Governor in Council to audit,

(c) whose accounts are audited by an auditor, other than the Auditor General, appointed by the Lieutenant Governor in Council, or

(d) the audit of the accounts of which the Auditor General is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor General under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*; (“organisme de la Couronne”)

“audit” includes a special audit; (“vérification”, “vérifier”)

“Board” means the Board of Internal Economy referred to in section 87 of the *Legislative Assembly Act*; (“Commission”)

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council; (“société contrôlée par la Couronne”)

“fiscal year” has the same meaning as in the *Ministry of Treasury and Economics Act*; (“exercice”)

“grant recipient” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body that receives a reviewable grant directly or indirectly; (“bénéficiaire d’une subvention”)

“public money” has the same meaning as in the *Financial Administration Act*; (“deniers publics”)

“reviewable grant” means a grant or other transfer payment from the Consolidated Revenue Fund, from an agency of the Crown or from a Crown controlled corporation; (“subvention susceptible d’examen”)

“special audit” means an examination with respect to the matters described in subclauses 12 (2) (f) (i) to (v). (“vérification spéciale”) R.S.O. 1990, c. A.35, s. 1; 2004, c. 17, s. 2.

References to former names

1.1 A reference in an Act, regulation, order in council or document to a person or office by the former title of that person or the former name of that office set out in Column 1 of the following Table or by a shortened version of that title or name shall be deemed, unless a contrary intention appears, to be a reference to the new title of that person or the new name of that office set out in Column 2:

Column 1/Colonne 1	Column 2/Colonne 2
Former titles and names/ Anciens titres et anciennes appellations	New titles and names/ Nouveaux titres et nouvelles appellations
Assistant Provincial Auditor/vérificateur provincial adjoint	Deputy Auditor General/ sous-vérificateur général
Office of the Provincial Auditor/Bureau du vérificateur provincial	Office of the Auditor General/Bureau du vérificateur général
Provincial Auditor/vérificateur provincial	Auditor General/ vérificateur général

2004, c. 17, s. 3.

Office of the Auditor General

2. The Office of the Auditor General consists of the Auditor General, the Deputy Auditor General, the Advertising Commissioner and such employees as the Auditor General may require for the proper conduct of the business of the Office. 2004, c. 17, s. 4; 2004, c. 20, s. 13 (1).

Auditor General

3. The Auditor General shall be appointed as an officer of the Assembly by the Lieutenant Governor or in Council on the address of the Assembly after consultation with the chair of the standing Public Accounts Committee of the Assembly. R.S.O. 1990, c. A.35, s. 3; 2004, c. 17, s. 5.

Term of office

4. (1) The term of office of the Auditor General is 10 years and a person is not eligible to be appointed to more than one term of office. 2004, c. 17, s. 6.

Reappointment after resignation

(1.1) Despite subsection (1), if an Auditor General resigns before the expiry of his or her term of office, he or she may be appointed for a second term of office that expires no later than at the expiry of the original term of office. 2006, c. 15, s. 1.

Same

(2) The Auditor General continues to hold office after the expiry of his or her term of office until a successor is appointed. 2004, c. 17, s. 6.

Removal

(3) The Auditor General may be removed from office for cause, before the expiry of his or her term of office, by the Lieutenant Governor in Council on the address of the Assembly. 2004, c. 17, s. 6.

Salary of Auditor General

5. (1) The Auditor General shall be paid a salary within the highest range of salaries paid to deputy ministers in the Ontario civil service and is entitled to the privileges of office of a senior deputy minister. R.S.O. 1990, c. A.35, s. 5 (1); 1999, c. 5, s. 1 (1); 1999, c. 11, s. 1 (1); 2004, c. 17, s. 7.

Same

(2) The salary of the Auditor General, within the salary range referred to in subsection (1), shall be determined and reviewed annually by the Board. 1999, c. 11, s. 1 (2); 2004, c. 17, s. 7.

Idem

(3) The salary of the Auditor General shall be charged to and paid out of the Consolidated Revenue Fund. R.S.O. 1990, c. A.35, s. 5 (3); 2004, c. 17, s. 7.

Appointment of Deputy Auditor General

6. The Deputy Auditor General shall be appointed as an officer of the Assembly by the Lieutenant Governor in Council upon the recommendation of the Auditor General. R.S.O. 1990, c. A.35, s. 6; 2004, c. 17, s. 8.

Duties of Deputy Auditor General

7. The Deputy Auditor General, under the direction of the Auditor General, shall assist in the exercise of the powers and the performance of the duties of the Auditor General and, in the absence or inability to act of the Auditor General, shall act in the place of the Auditor General. R.S.O. 1990, c. A.35, s. 7; 2004, c. 17, s. 9.

Qualifications

8. The persons appointed as Auditor General and Deputy Auditor General shall be persons who are licensed under the *Public Accounting Act, 2004*. R.S.O. 1990, c. A.35, s. 8; 2004, c. 8, s. 46; 2004, c. 17, s. 10.

Appointment of Advertising Commissioner

8.1 (1) Subject to the approval of the Board, the Auditor General may appoint a person to act as Advertising Commissioner. 2004, c. 20, s. 13 (2).

Duties

(2) The Advertising Commissioner may exercise such powers and shall perform such duties as the

Auditor General may delegate to him or her under subsection 24 (2). 2004, c. 20, s. 13 (2).

Audit of Consolidated Revenue Fund

9. (1) The Auditor General shall audit, on behalf of the Assembly and in such manner as the Auditor General considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. R.S.O. 1990, c. A.35, s. 9 (1); 2004, c. 17, s. 11.

Audit of agencies of the Crown

(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor General shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor General and such other auditor shall report to the Auditor General. R.S.O. 1990, c. A.35, s. 9 (2); 2004, c. 17, s. 11.

Audit of Crown controlled corporations

(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor General, the person or persons performing the audit,

- (a) shall deliver to the Auditor General forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;
- (b) shall make available forthwith to the Auditor General, when so requested by the Auditor General, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;

- (c) shall provide forthwith to the Auditor General, when so requested by the Auditor General, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation. R.S.O. 1990, c. A.35, s. 9 (3); 2004, c. 17, s. 11.

Additional examination and investigation

(4) Where the Auditor General is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor General may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor General considers necessary. R.S.O. 1990, c. A.35, s. 9 (4); 2004, c. 17, s. 11.

Special audits

Grant recipients

9.1 (1) On or after April 1, 2005, the Auditor General may conduct a special audit of a grant recipient with respect to a reviewable grant received by the grant recipient directly or indirectly on or after the date on which the *Audit Statute Law Amendment Act, 2004* receives Royal Assent. 2004, c. 17, s. 12.

Exception

(2) Subsection (1) does not apply with respect to a grant recipient that is a municipality. 2004, c. 17, s. 12.

Crown controlled corporations, etc.

(3) The Auditor General may conduct a special audit of a Crown controlled corporation or a subsidiary of a Crown controlled corporation. 2004, c. 17, s. 12.

Examination of accounting records

9.2 (1) The Auditor General may examine accounting records relating to a reviewable grant received directly or indirectly by a municipality. 2004, c. 17, s. 12.

Same

(2) The Auditor General may require a municipality to prepare and submit a financial statement setting out the details of its disposition of the reviewable grant. 2004, c. 17, s. 12.

Duty to furnish information

10. (1) Every ministry of the public service, every agency of the Crown, every Crown controlled corporation and every grant recipient shall give the Auditor General the information regarding its powers, duties, activities, organization, financial transactions and methods of business that the Auditor General believes to be necessary to perform his or her duties under this Act. 2004, c. 17, s. 13.

Access to records

(2) The Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by a ministry, agency of the Crown, Crown controlled corporation or grant recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this Act. 2004, c. 17, s. 13.

No waiver of privilege

(3) A disclosure to the Auditor General under subsection (1) or (2) does not constitute a waiver of solicitor-client privilege, litigation privilege or settlement privilege. 2004, c. 17, s. 13.

Power to examine on oath

11. (1) The Auditor General may examine any person on oath on any matter pertinent to an audit or examination under this Act. 2004, c. 17, s. 13.

Same

(2) For the purpose of an examination, the Auditor General has the powers that Part II of the *Public Inquiries Act* confers on a commission, and that Part applies to the examination as if it were an inquiry under that Act. 2004, c. 17, s. 13.

Stationing a member in a ministry, etc.

11.1 (1) For the purpose of exercising powers or performing duties under this Act, the Auditor General may station one or more members of the Office of the Auditor General in any ministry of the public service, agency of the Crown, Crown controlled corporation or grant recipient. 2004, c. 17, s. 13.

Accommodation

(2) The ministry, agency, corporation or grant recipient, as the case may be, shall provide the accommodation required for the purposes mentioned in subsection (1). 2004, c. 17, s. 13.

Prohibition re obstruction

11.2 (1) No person shall obstruct the Auditor General or any member of the Office of the Auditor General in the performance of a special audit under section 9.1 or an examination under section 9.2 and no person shall conceal or destroy any books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property that the Auditor General considers to be relevant to the subject-matter of the special audit or examination. 2004, c. 17, s. 13.

Offence

(2) Every person who knowingly contravenes subsection (1) and every director or officer of a cor-

poration who knowingly concurs in such a contravention is guilty of an offence and on conviction is liable to a fine of not more than \$2,000 or imprisonment for a term of not more than one year, or both. 2004, c. 17, s. 13.

Penalty, corporation

(3) If a corporation is convicted of an offence under subsection (2), the maximum penalty that may be imposed on the corporation is \$25,000. 2004, c. 17, s. 13.

Annual report

12. (1) The Auditor General shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor General should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session. R.S.O. 1990, c. A.35, s. 12 (1); 2004, c. 17, s. 14 (1).

Contents of report

(2) In the annual report in respect of each fiscal year, the Auditor General shall report on,

- (a) the work of the Office of the Auditor General and on whether, in carrying on the work of the Office, the Auditor General received all the information and explanations required;
- (b) the examination of accounts of receipts and disbursements of public money;
- (c) the examination of the consolidated financial statements of Ontario as reported in the Public Accounts;

- (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
- (e) all orders of the Treasury Board made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
- (f) such matters as, in the opinion of the Auditor General, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter relating to the audit or examination of the Crown, Crown controlled corporations or grant recipients or any cases where the Auditor General has observed that,
 - (i) accounts were not properly kept or public money was not fully accounted for,
 - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
 - (iii) money was expended other than for the purposes for which it was appropriated,
 - (iv) money was expended without due regard to economy and efficiency, or
 - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor General, the established procedures were not satisfactory;
- (g) expenditures for advertisements, printed matter and messages that are reviewable under the *Government Advertising Act, 2004*. R.S.O. 1990, c. A.35, s. 12 (2); 2004, c. 17, s. 14 (2-7); 2004, c. 20, s. 13 (3).

Opinion on statements

(3) In the annual report in respect of each fiscal year, the Auditor General shall express his or her opinion as to whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles and the Auditor General shall set out any reservations he or she may have. 2004, c. 17, s. 14 (8).

Report re government advertising

(4) In the annual report, the Auditor General may report on expenditures for government advertising generally. 2004, c. 20, s. 13 (4).

13., 14. REPEALED: 2004, c. 17, s. 15.

Proviso

15. Nothing in this Act shall be construed to require the Auditor General,

- (a) to report on any matter that, in the opinion of the Auditor General, is immaterial or insignificant; or
- (b) to audit or direct the audit of or report on the accounts of a body not referred to in this Act in the absence of such a requirement in any other Act in respect of the body. R.S.O. 1990, c. A.35, s. 15; 2004, c. 17, s. 16.

Attendance at standing Public Accounts Committee of the Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor General and any member of the Office of the Auditor General designated by the Auditor General shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor General; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor General,

and the Auditor General shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee. R.S.O. 1990, c. A.35, s. 16; 2004, c. 17, s. 17.

Special assignments

17. The Auditor General shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor General under this Act and the Auditor General may decline an assignment by a minister of the Crown that, in the opinion of the Auditor General, might conflict with the other duties of the Auditor General. R.S.O. 1990, c. A.35, s. 17; 2004, c. 17, s. 18.

Power to advise

18. The Auditor General may advise appropriate persons employed in the public service of Ontario as to any matter that comes or that may come to the attention of the Auditor General in the course of exercising the powers or performing the duties of

Auditor General. R.S.O. 1990, c. A.35, s. 18; 2004, c. 17, s. 18.

Audit working papers

19. Audit working papers of the Office of the Auditor General shall not be laid before the Assembly or any committee of the Assembly. R.S.O. 1990, c. A.35, s. 19; 2004, c. 17, s. 19.

Staff

20. Subject to the approval of the Board and to sections 22, 25 and 26, the Auditor General may employ such professional staff and other persons as the Auditor General considers necessary for the efficient operation of the Office of the Auditor General and may determine the salary of the Deputy Auditor General and the salaries and remuneration, which shall be comparable to the salary ranges of similar positions or classifications in the public service of Ontario, and the terms and conditions of employment of the employees of the Office of the Auditor General. R.S.O. 1990, c. A.35, s. 20; 2004, c. 17, s. 20.

Oath of office and secrecy and oath of allegiance

21. (1) Every employee of the Office of the Auditor General, before performing any duty as an employee of the Auditor General, shall take and subscribe before the Auditor General or a person designated in writing by the Auditor General,

- (a) the following oath of office and secrecy, in English or in French:

I,, do swear (or solemnly affirm) that I will faithfully discharge my duties as an employee of the Auditor General and will observe and comply with the laws of Canada and Ontario and, except as I may be legally required, I will not disclose or give to any person any information or document that comes to my

knowledge or possession by reason of my being an employee of the Office of the Auditor General.

So help me God. (Omit this line in an affirmation)

- (b) the following oath of allegiance, in English or in French:

I,, do swear (or solemnly affirm) that I will be faithful and bear true allegiance to Her Majesty Queen Elizabeth the Second (or *the reigning sovereign for the time being*), her heirs and successors according to law.

So help me God. (Omit this line in an affirmation)

R.S.O. 1990, c. A.35, s. 21 (1); 2004, c. 17, s. 21 (1).

Idem

(2) The Auditor General may require any person or class of persons appointed to assist the Auditor General for a limited period of time or in respect of a particular matter to take and subscribe either or both of the oaths set out in subsection (1). R.S.O. 1990, c. A.35, s. 21 (2); 2004, c. 17, s. 21 (2).

Record of oaths

(3) A copy of each oath administered to an employee of the Office of the Auditor General under subsection (1) shall be kept in the file of the employee in the Office of the Auditor General. R.S.O. 1990, c. A.35, s. 21 (3); 2004, c. 17, s. 21 (3).

Cause for dismissal

(4) The failure of an employee of the Office of the Auditor General to take and subscribe or to adhere to either of the oaths required by subsection (1) may be considered as cause for dismissal. R.S.O. 1990, c. A.35, s. 21 (4); 2004, c. 17, s. 21 (3).

Benefits

22. (1) The employee benefits applicable from time to time under the *Public Service Act* to civil servants who are not within a unit of employees established for collective bargaining under any Act

apply or continue to apply, as the case may be, to the Auditor General, the Deputy Auditor General and to the full-time permanent and probationary employees of the Office of the Auditor General and the Board or any person authorized by order of the Board may exercise the powers and duties of the Civil Service Commission and the Auditor General or any person authorized in writing by the Auditor General may exercise the powers and duties of a deputy minister under that Act in respect of such benefits. R.S.O. 1990, c. A.35, s. 22 (1); 2004, c. 17, s. 22 (1).

Pension plan

(2) The Deputy Auditor General is a member of the Public Service Pension Plan. 2006, c. 15, s. 2.

Same, Auditor General

(3) Subject to subsections (4) and (5), the Auditor General is a member of the Public Service Pension Plan. 2006, c. 15, s. 2.

Notice re pension plan

(4) Within 60 days after his or her appointment takes effect, the Auditor General may notify the Speaker in writing that the Auditor General elects not to be a member of the Public Service Pension Plan. 2006, c. 15, s. 2.

Same

(5) If the Auditor General gives notice of his or her election to the Speaker in accordance with subsection (4), the election is irrevocable and is deemed to have taken effect when the appointment took effect. 2006, c. 15, s. 2.

Expert assistance

23. Subject to the approval of the Board, the Auditor General from time to time may appoint one or more persons having technical or special knowledge of any kind to assist the Auditor General for a limited period of time or in respect of a particular

matter and the money required for the purposes of this section shall be charged to and paid out of the Consolidated Revenue Fund. R.S.O. 1990, c. A.35, s. 23; 2004, c. 17, s. 23.

Delegation of authority

24. (1) The Auditor General may delegate in writing to a person employed in the Office of the Auditor General the Auditor General's authority to exercise any power or perform any duty other than his or her duty to report to the Assembly. 2004, c. 17, s. 24.

Same

(2) The Auditor General may delegate in writing to the Advertising Commissioner or to a person employed in the Office of the Auditor General any of the Auditor General's powers and duties under the *Government Advertising Act, 2004* and may impose conditions and restrictions with respect to the delegation. 2004, c. 20, s. 13 (5).

Political activities of employees of the Office of the Auditor General

25. (1) An employee of the Office of the Auditor General shall not,
- (a) be a candidate in a provincial or federal election or in an election for any municipal office including a local board of a municipality within the meaning of the *Municipal Affairs Act*;
 - (b) solicit funds for a provincial, federal or municipal party or candidate; or
 - (c) associate his or her position in the Office of the Auditor General with any political activity. R.S.O. 1990, c. A.35, s. 25 (1); 2004, c. 17, s. 25.

Cause for dismissal

(2) Contravention of any of the provisions of subsection (1) may be considered as cause for dismissal. R.S.O. 1990, c. A.35, s. 25 (2).

Conduct of business and employee discipline

26. (1) The Auditor General may make orders and rules for the conduct of the internal business of the Office of the Auditor General and, subject to this section, may for cause suspend, demote or dismiss an employee of the Office or may release such an employee from employment. 2004, c. 17, s. 26.

Suspension, etc., of employee

(2) Subject to subsection (3), if the Auditor General for cause suspends, demotes or dismisses an employee of the Office of the Auditor General or if the Auditor General releases such an employee from employment, the provisions of the *Public Service Act* and the regulations made under it that apply where a deputy minister exercises powers under section 22 of that Act apply, with necessary modifications. 2004, c. 17, s. 26.

Same

(3) For the purposes of subsection (2), the *Public Service Act* and the regulations under it apply as if the Auditor General were a deputy minister, but the requirement that a deputy minister give notice to, or obtain the approval of, the Civil Service Commission does not apply. 2004, c. 17, s. 26.

Grievances

(4) An employee whom the Auditor General for cause suspends, demotes or dismisses may file a grievance with respect to the Auditor General's decision. 2004, c. 17, s. 26.

Same

(5) The provisions of the regulations made under the *Public Service Act* that apply in relation to grievances authorized by those regulations apply

with necessary modifications to a grievance authorized by subsection (4) as if the Auditor General were a deputy minister. 2004, c. 17, s. 26.

Proceedings privileged

27. (1) No proceedings lie against the Auditor General, the Deputy Auditor General, the Advertising Commissioner, any person employed in the Office of the Auditor General or any person appointed to assist the Auditor General for a limited period of time or in respect of a particular matter, for anything he or she may do or report or say in the course of the exercise or the intended exercise of functions under this or any other Act, unless it is shown that he or she acted in bad faith. R.S.O. 1990, c. A.35, s. 27 (1); 2004, c. 17, s. 27 (1); 2004, c. 20, s. 13 (6).

(2) REPEALED: 2004, c. 17, s. 27 (2).

Duty of confidentiality

27.1 (1) The Auditor General, the Deputy Auditor General, the Advertising Commissioner and each person employed in the Office of the Auditor General or appointed to assist the Auditor General for a limited period of time or in respect of a particular matter shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her employment or duties under this Act. 2004, c. 17, s. 28; 2004, c. 20, s. 13 (7).

Same

(2) Subject to subsection (3), the persons required to preserve secrecy under subsection (1) shall not communicate to another person any matter described in subsection (1) except as may be required in connection with the administration of this Act or any proceedings under this Act or under the *Criminal Code* (Canada). 2004, c. 17, s. 28.

Same

(3) A person required to preserve secrecy under subsection (1) shall not disclose any information or

document disclosed to the Auditor General under section 10 that is subject to solicitor-client privilege, litigation privilege or settlement privilege unless the person has the consent of each holder of the privilege. 2004, c. 17, s. 28.

Confidentiality of personal information

27.2 (1) No person shall collect, use or retain personal information on behalf of the Auditor General unless the personal information is reasonably necessary for the proper administration of this Act or for a proceeding under it. 2004, c. 17, s. 28.

Same

(2) No person shall collect, use or retain personal information on behalf of the Auditor General if other information will serve the purpose for which the personal information would otherwise be collected, used or retained. 2004, c. 17, s. 28.

Retention of information

(3) If the Auditor General retains personal information relating to the medical, psychiatric or physiological history of the individual or information relating to the individual's health care or well-being, the Auditor General shall,

- (a) remove all references in the information to the name of the individual and to other identifying information;
- (b) retain the information by using a system of identifiers, other than the name of the individual and the other identifying information mentioned in clause (a); and
- (c) ensure that the information is not,
 - (i) easily identifiable by a person who is not authorized to have access to it,
 - (ii) used or disclosed for purposes not directly related to the Auditor General's duties under this Act,

- (iii) published, disclosed or distributed in any manner that would allow the information to be used to identify the individual or to infer the individual's identity, or
- (iv) combined, linked or matched to any other information that could identify the individual, except if the Auditor General finds it necessary to do so to fulfil his or her duties under this Act. 2004, c. 17, s. 28.

Definition

(4) In this section,

“personal information” has the same meaning as in the *Freedom of Information and Protection of Privacy Act, 2004*, c. 17, s. 28.

Examination of accounts of Office of the Auditor General

28. A person or persons, not employed by the Crown or the Office of the Assembly, licensed under the *Public Accounting Act, 2004* and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor General and shall report thereon to the Board and the chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next session. R.S.O. 1990, c. A.35, s. 28; 2004, c. 8, s. 46; 2004, c. 17, s. 29.

Estimates

29. (1) The Auditor General shall present annually to the Board estimates of the sums of money that will be required for the purposes of this Act. R.S.O. 1990, c. A.35, s. 29 (1); 2004, c. 17, s. 30.

Review by Board

(2) The Board shall review and may alter as it considers proper the estimates presented by the Auditor General, and the chair of the Board shall cause the estimates as altered by the Board to be laid before the Assembly and the Assembly shall refer the estimates laid before it to a committee of the Assembly for review. R.S.O. 1990, c. A.35, s. 29 (2); 2004, c. 17, s. 30.

Notice

(3) Notice of meetings of the Board to review or alter the estimates presented by the Auditor General shall be given to the chair and the vice-chair of the standing Public Accounts Committee of the Assembly and the chair and the vice-chair may attend at the review of the estimates by the Board. R.S.O. 1990, c. A.35, s. 29 (3); 2004, c. 17, s. 30.

Money

(4) The money required for the purposes of this Act, other than under sections 5 and 23, shall be paid out of the money appropriated therefor by the Legislature. R.S.O. 1990, c. A.35, s. 29 (4).

Exhibit 5

Government Advertising Act, 2004

S.O. 2004, Chapter 20

No Amendments.

Interpretation

1. (1) In this Act,

“government office” means a ministry, Cabinet Office, the Office of the Premier or such other entity as may be designated by regulation; (“bureau gouvernemental”)

“item” means a reviewable advertisement, reviewable printed matter or a reviewable message, as the case may be; (“document”)

“prescribed” means prescribed by a regulation made under this Act. (“prescrit”) 2004, c. 20, s. 1 (1).

Head of an office

(2) For the purposes of this Act, the deputy minister of a ministry is the head of the ministry, the Secretary of the Cabinet is the head of Cabinet Office and the head of the Office of the Premier, and the regulations may specify the person who is the head of such other government offices as are designated by regulation. 2004, c. 20, s. 1 (2).

Requirements re advertisements

Application

2. (1) This section applies with respect to any advertisement that a government office proposes to

pay to have published in a newspaper or magazine, displayed on a billboard or broadcast on radio or on television. 2004, c. 20, s. 2 (1).

Submission for review

(2) The head of the government office shall give a copy of the advertisement to the Office of the Auditor General for review. 2004, c. 20, s. 2 (2).

Prohibition on use pending review

(3) The government office shall not publish, display or broadcast the advertisement before the head of the office receives notice, or is deemed to have received notice, of the results of the review. 2004, c. 20, s. 2 (3).

Prohibition

(4) The government office shall not publish, display or broadcast the advertisement if the head of the office receives notice that, in the Auditor General’s opinion, the advertisement does not meet the standards required by this Act. 2004, c. 20, s. 2 (4).

Non-application

(5) This section does not apply with respect to a notice to the public that is required by law, an advertisement about an urgent matter affecting public health or safety, a job advertisement or an advertisement about the provision of goods or services to a government office. 2004, c. 20, s. 2 (5).

Requirements re printed matter

Application

3. (1) This section applies with respect to printed matter that a government office proposes to pay to have distributed to households in Ontario either by bulk mail or by another method of bulk delivery. 2004, c. 20, s. 3 (1).

Submission for review

(2) The head of the government office shall give a copy of the printed matter to the Office of the Auditor General for review. 2004, c. 20, s. 3 (2).

Prohibition on use pending review

(3) The government office shall not distribute the printed matter before the head of the office receives notice, or is deemed to have received notice, of the results of the review. 2004, c. 20, s. 3 (3).

Prohibition

(4) The government office shall not distribute the printed matter if the head of the office receives notice that, in the Auditor General's opinion, it does not meet the standards required by this Act. 2004, c. 20, s. 3 (4).

Non-application

(5) This section does not apply with respect to a notice to the public that is required by law or printed matter about an urgent matter affecting public health or safety or about the provision of goods or services to a government office. 2004, c. 20, s. 3 (5).

Interpretation

(6) For the purposes of this section, printed matter is distributed by bulk mail or another method of bulk delivery if, when it is distributed, it is not individually addressed to the intended recipient. 2004, c. 20, s. 3 (6).

Requirements re additional classes of messages

Application

4. (1) This section applies with respect to such additional classes of messages as may be prescribed that a government office proposes to convey to the public in such circumstances as may be prescribed. 2004, c. 20, s. 4 (1).

Submission for review

(2) The head of the government office shall give a copy of the message to the Office of the Auditor General for review. 2004, c. 20, s. 4 (2).

Prohibition on use pending review

(3) The government office shall not convey the message before the head of the office receives notice, or is deemed to have received notice, of the results of the review. 2004, c. 20, s. 4 (3).

Prohibition

(4) The government office shall not convey the message if the head of the office receives notice that, in the Auditor General's opinion, the message does not meet the standards required by this Act. 2004, c. 20, s. 4 (4).

Non-application

(5) This section does not apply with respect to a message that is a notice to the public that is required by law, that concerns an urgent matter affecting public health or safety, that is a job advertisement or that concerns the provision of goods or services to a government office. 2004, c. 20, s. 4 (5).

Review by the Auditor General

5. (1) When an item is given to the Office of the Auditor General for review, the Auditor General shall review it to determine whether, in his or her opinion, it meets the standards required by this Act. 2004, c. 20, s. 5 (1).

Decision

(2) The decision of the Auditor General is final. 2004, c. 20, s. 5 (2).

Required standards

6. (1) The following are the standards that an item is required to meet:

1. It must be a reasonable means of achieving one or more of the following purposes:
 - i. To inform the public of current or proposed government policies, programs or services available to them.
 - ii. To inform the public of their rights and responsibilities under the law.
 - iii. To encourage or discourage specific social behaviour, in the public interest.
 - iv. To promote Ontario or any part of Ontario as a good place to live, work, invest, study or visit or to promote any economic activity or sector of Ontario's economy.
2. It must include a statement that the item is paid for by the Government of Ontario.
3. It must not include the name, voice or image of a member of the Executive Council or a member of the Assembly.
4. It must not be partisan.
5. It must not be a primary objective of the item to foster a positive impression of the governing party or a negative impression of a person or entity who is critical of the government.
6. It must meet such additional standards as may be prescribed. 2004, c. 20, s. 6 (1).

Advertising outside Ontario

(2) Paragraph 3 of subsection (1) does not apply with respect to an item for which the primary target audience is located outside of Ontario. 2004, c. 20, s. 6 (2).

Partisan advertising

(3) An item is partisan if, in the opinion of the Auditor General, a primary objective of the item is to promote the partisan political interests of the governing party. 2004, c. 20, s. 6 (3).

Same

(4) The Auditor General shall consider such factors as may be prescribed, and may consider such additional factors as he or she considers appropriate, in deciding whether a primary objective of an item is to promote the partisan political interests of the governing party. 2004, c. 20, s. 6 (4).

Notice of results of review

7. (1) The Office of the Auditor General shall notify the head of the government office of the results of the review within the prescribed number of days after receiving an item for review. 2004, c. 20, s. 7 (1).

Deemed notice

(2) If the notice is not given within that period, the head shall be deemed to have received notice that the item meets the standards required by this Act. 2004, c. 20, s. 7 (2).

Submission of revised version

8. (1) If the head of a government office is notified that an item does not meet the standards required by this Act and if the government office proposes to use a revised version of it, the head shall give the revised version to the Office of the Auditor General for a further review. 2004, c. 20, s. 8 (1).

Prohibition on use pending review

(2) The government office shall not use the revised version before the head of the office receives notice, or is deemed to have received notice, of the results of the review. 2004, c. 20, s. 8 (2).

Prohibition

(3) The government office shall not use the revised version if the head of the office receives notice that, in the Auditor General's opinion, the revised version does not meet the standards required by this Act. 2004, c. 20, s. 8 (3).

Review of revised version

(4) Sections 5 and 6 apply with respect to the review. 2004, c. 20, s. 8 (4).

Notice of results of review, revised version

(5) The Office of the Auditor General shall notify the head of the results of the further review within the prescribed number of days after receiving the revised version. 2004, c. 20, s. 8 (5).

Deemed notice

(6) If the notice is not given within that period, the head shall be deemed to have received notice that the revised version meets the standards required by this Act. 2004, c. 20, s. 8 (6).

Reports to the Assembly

Annual report

9. (1) Each year, the Auditor General shall report to the Speaker of the Assembly about such matters as the Auditor General considers appropriate relating to his or her powers and duties under this Act. 2004, c. 20, s. 9 (1).

Same

(2) In the annual report, the Auditor General shall notify the Speaker about any contraventions of section 2, 3, 4 or 8. 2004, c. 20, s. 9 (2).

Special report

(3) The Auditor General may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor General should not be deferred until the annual report. 2004, c. 20, s. 9 (3).

Tabling of reports

(4) The Speaker shall lay each annual report or special report of the Auditor General before the Assembly forthwith if it is in session or, if not, not later than the 10th day of the next session. 2004, c. 20, s. 9 (4).

Access to records

10. The Auditor General may examine the records of a government office at any time for the purpose of determining whether section 2, 3, 4 or 8 has been contravened, and the Auditor General or his or her designate shall be given access to such records as he or she considers necessary for that purpose. 2004, c. 20, s. 10.

Immunity

11. (1) No action or other proceeding shall be brought against a person who publishes, displays or broadcasts a reviewable advertisement on the sole ground that, under this Act, a government office was not permitted to use it to communicate with the public. 2004, c. 20, s. 11 (1).

Same

(2) No action or other proceeding shall be brought against a person who distributes reviewable printed matter on the sole ground that, under this Act, a government office was not permitted to distribute it. 2004, c. 20, s. 11 (2).

Same

(3) No action or other proceeding shall be brought against a person who conveys to the public on behalf of a government office a reviewable

message on the sole ground that, under this Act, a government office was not permitted to convey it to the public. 2004, c. 20, s. 11 (3).

Regulations

12. The Lieutenant Governor in Council may make regulations,

- (a) designating an entity or class of entities as a government office and specifying who is the head of the government office for the purposes of this Act;
- (b) prescribing additional classes of messages and circumstances for the purposes of subsection 4 (1);
- (c) prescribing additional standards for the purposes of paragraph 6 of subsection 6 (1);

- (d) prescribing additional factors for the purposes of subsection 6 (4);
- (e) prescribing a number of days for the purposes of subsection 7 (1) and for the purposes of subsection 8 (5). 2004, c. 20, s. 12.

13. OMITTED (AMENDS OR REPEALS OTHER ACTS). 2004, c. 20, s. 13.

14. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS ACT). 2004, c. 20, s. 14.

15. OMITTED (ENACTS SHORT TITLE OF THIS ACT). 2004, c. 20, s. 15.



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