

# Overview, Value-for-money Audit Summaries, and Special Reports

## Overview

### ANOTHER BUSY YEAR

In this, my sixth Annual Report to the Legislative Assembly, I first want to provide an overview of the work done by my Office over the past year, which has been an extremely busy one.

As an audit organization, we are somewhat atypical in that the focus of our work has less to do with financial audits than with what we call value-for-money auditing. The objective of this work is to assess whether public services are being reliably delivered in a cost-effective manner consistent with best practices established both within Ontario and in other jurisdictions. Our work is conducted in government ministries, Crown agencies, and, in the last few years, in broader-public-sector organizations such as school boards, hospitals, colleges, universities, community social service providers, and other organizations that are funded by the government.

Last year, I reported that over the past decade our Office had completed an average of 12 value-for-money audits each year. This year, my Office completed 14 value-for-money audits, the results of which are reported on in Chapter 3. In addition, we conducted audit work that resulted in three special reports being issued during the past year—two of which were specifically requested by a Minister. The third was an audit on hospital-acquired infections that I reported on in fall 2008 rather than waiting

to include it in our Annual Report—as the normal practice would be under the requirements of the *Auditor General Act*. I did so because the Standing Committee on Public Accounts requested that we consider tabling the results of this audit as soon as it was complete.

Our auditing of the province’s consolidated financial statements and the financial statements of numerous Crown agencies is an essential element in “closing the accountability loop” to ensure that the Legislature and Ontarians receive credible financial information. The results of our audit of the province’s financial statements, along with a number of observations related to our financial audit work, are reported on in Chapter 2.

Each year, our work also includes following up on actions taken to implement our recommendations from value-for-money audits completed two years ago. The results of this work are reported on in Chapter 4.

I am pleased to report that we fulfilled our responsibilities under the *Government Advertising Act, 2004* as discussed in Chapter 5. Under this Act, we are required to review proposed government advertising intended for television, radio, newspapers, magazines, and billboards, as well as those to be delivered to households by bulk mail delivery. The purpose of our review is to ensure that such advertisements do not have as a primary objective promoting the partisan political interests of the governing party.

I would also like to acknowledge the work done during the year by the Legislature's Standing Committee on Public Accounts. This all-party committee held hearings on a number of value-for-money audits reported on in my *2007 Annual Report*. Without a doubt, the work of the Committee enhances the accountability of ministries, agencies, and broader-public-sector organizations to the Legislature and the citizens of the province.

## THE IMPORTANCE OF OVERSIGHT

In reviewing the results of this year's 14 value-for-money and three special reports, I was reminded of comments I made three years ago when summing up the results of our 2005 value-for-money audit work. Specifically, I noted how important it was to have rigorous management oversight to ensure that services to the public are delivered economically, efficiently, and effectively. I also noted at that time that this oversight must be in place not only for services delivered directly by government staff but also for services that are delegated to other organizations or municipalities to deliver on the government's behalf.

These and other observations that I make every year concerning deficiencies and weaknesses in the delivery of publicly funded services may seem disconnected from the everyday lives of Ontarians, but in fact, nothing could be further from the truth. This summer's tragic propane explosion in Toronto was a powerful reminder of the importance of proper oversight, and the risks this oversight is meant to safeguard against.

My first Annual Report to the Legislative Assembly in 2003 contained several observations relating to the Technical Standards and Safety Authority (TSSA), the not-for-profit, industry-funded organization with the delegated responsibility for safety and inspections of a variety of industries, one of which is propane facilities. Although we did not have the authority to directly audit the TSSA, it was apparent to us then, based on what work we could do, that the Ministry of Consumer and Commercial

Relations (now the Ministry of Small Business and Consumer Services) did not exercise adequate oversight over delegated authorities, of which the TSSA was one of the largest. More specifically, we concluded that "the Ministry did not have adequate assurance that public safety and consumers were properly protected by industry oversight organizations" and that its "monitoring of inspections, investigations, and other enforcement activities undertaken by delegated authorities in response to violations they identified was inadequate."

We do not know the full extent to which these concerns of ours from five years ago were, or were not, addressed. However, this real-life example shows the risks involved and makes abundantly clear the importance of adequate oversight.

Again this year, on a number of audits, we concluded there was insufficient oversight. Often, this was because the ministry with oversight responsibility or that was providing the funding had insufficient information to assess whether the level of service being provided was adequate. In a number of instances, the delivery of services or responsibilities had been delegated to others.

I acknowledge that finding the right balance between appropriate high-level oversight on the one hand, and micro-managing on the other, is often not easy, particularly when government services or programs are delivered by the broader public sector or other organizations. Organizations must be allowed the autonomy to run their day-to-day operations without constant meddling from ministry managers; but ministry management must ensure that an effective accountability relationship is in place and that sufficient, useful, and credible information is being received and assessed to ensure that the public is getting the appropriate level of service in a cost-effective and timely way. On a number of audits this year where service delivery had been delegated to others, we found that the right balance has not yet been struck, most notably in the following areas:

### Addiction Programs

The Ministry of Health and Long-Term Care has recently delegated the responsibility for overseeing community-based addiction treatment agencies to the 14 Local Health Integration Networks (LHINs). However, the LHINs have neither the information nor the resources yet to know whether these agencies are ensuring that people with addictions are being identified and are receiving the treatment they need.

### Child and Youth Mental Health Agencies

The Ministry of Children and Youth Services gave little direction to child and youth mental health agencies as to what kind of services should be provided, had minimal waiting-list data, and generally lacked information about what results were achieved for the funding provided to these agencies. Accordingly, the Ministry could not make an informed assessment of whether children and youth with mental health needs were getting the care and treatment they needed in a timely manner.

### Community Mental Health

As they do with addiction service providers, the LHINs now have oversight responsibility to ensure that people with mental illness are receiving the level of care they need from community-based service providers to lead fulfilling lives in the community. We found in this audit (as we had in our 1997 and 2002 audits of this program when it was delivered directly by the Ministry of Health and Long-Term Care) that there is insufficient information available to know whether this is being achieved. Given the recent significant reduction in the number of mentally ill people in institutions, it is absolutely critical that adequate community-based support systems be in place if these people are to be able to cope effectively once they are residing in the community.

### Employment and Training Division

Meeting Ontario's labour-market demand for skilled tradespeople will only be possible if apprentices successfully complete their training programs; yet over one-half did not. The Ministry of Training, Colleges and Universities did not have enough information to explain why this was happening. As well, the Ministry did not know whether those clients funded through the skills development program remained employed in the fields they were trained for, nor whether self-employment program clients were able to sustain the new businesses the Ministry helped them start.

## LACK OF PROGRESS IN AREAS PREVIOUSLY AUDITED

Some of this year's audits examined programs that we have previously audited as part of our cyclical audit approach. In a number of these audits we noted that, although some progress had been made to address issues we had raised in our last audit, there are still critical issues, some of which could affect public safety, that had not yet been adequately addressed. For example:

### Adult Institutional Services

The Ministry of Community Safety and Correctional Services continues to have a serious problem with absenteeism among correctional officers. While our follow-up in 2002 indicated that the average number of sick days had declined slightly to 14 days from the 16 reported in our *2000 Special Report on Accountability and Value for Money*, our current audit found that the average has risen to over 32 days and is now costing the Ministry \$20 million annually in overtime and contract staff costs.

### Commercial Vehicle Safety and Enforcement

Despite a number of good initiatives by the Ministry of Transportation to improve commercial vehicle safety since our last audit in 1997, over

9% of all collisions in Ontario still involve a commercial vehicle. Procedures to ensure that high-risk operators are targeted for vehicle and facility inspections, and for enforcement action, needed further strengthening. For instance, only three of every 1,000 commercial vehicles were subject to roadside inspections in 2007.

### Court Services

The backlog of criminal charges in Ontario's courts has continued to grow. A Supreme Court of Canada decision noted that eight to 10 months is a reasonable time frame within which criminal cases should go to trial. It is therefore of particular concern that there was a growing backlog of about 106,000 criminal charges pending for more than eight months. One of the main causes for the increased backlog is a 50% increase in the past decade in the average number of court appearances before a case goes to trial—from 5.9 appearances in 1997 to 9.2 appearances in 2007. Even though this is a key cause of the increasing backlog, the Ministry of the Attorney General does not have adequate information on the reasons for this significant increase.

### Food Safety

Our 2001 audit noted weaknesses in the inspection of abattoirs and dairy distributors by the Ministry of Agriculture, Food and Rural Affairs that had still not yet been fully addressed at the time of this year's audit. Continuing weaknesses in the monitoring of provincially licensed abattoirs, dairy processing plants, and meat processors (for which the Ministry assumed responsibility in 2005) suggest that a number of plants may have sanitation problems. While the Ministry indicated there was no immediate health risk, we would have expected a more rigorous and risk-based inspection regime to have been implemented in certain instances.

### Gasoline, Diesel-fuel, and Tobacco Tax

Overall, the Ministry of Revenue's current policies, procedures, and information technology systems are still inadequate to ensure that the correct amounts of tobacco, gasoline, and diesel-fuel taxes are being declared and paid. We were particularly concerned by the potential size of the tobacco tax gap, which is the difference between the amount of tax that should be collected on tobacco products and the amount that is collected. This gap has increased significantly since our 2001 audit and may well be in the \$500 million range.

### Special Education

Although progress has been made since our last audit in 2001, the Ministry of Education and the school boards we visited this year still do not have sufficient information on students with special education needs, including the effectiveness of the education programs provided to them. This is especially important given that special education funding has increased by over 50% since 2001/02 while the number of students served has increased by only about 5%.

### Conclusion

Given the complexities and competing priorities involved in planning and managing the programs and services highlighted above, we do not expect improvements to occur overnight. However, it has been six years since our last audit of most of these programs, and significant problems remain in several key areas. Clearly, improvements in these areas are needed.

## THE PROVINCE'S FINANCIAL STATEMENTS

The *Auditor General Act* requires that I report annually on the results of my examination of the province's consolidated financial statements. I am

pleased to report that, in my opinion, the province's financial statements for the fiscal year ended March 31, 2008, fairly reflect the province's financial position and the operating results. In Chapter 2, I also acknowledge that significant progress has been made by successive Ontario governments in their financial reporting practices over the last 15 years as a result of their applying the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

However, as further discussed in Chapter 2, I am especially concerned about one issue that arose during the past year relating to certain provisions in the *Investing in Ontario Act, 2008* (Act) that became law on May 14, 2008. These provisions require that all transactions under the Act be recorded in the consolidated financial statements as expenses of the province (regardless of whether or not they would qualify as expenses under generally accepted accounting principles as established by PSAB). When the Act was introduced, I wrote to the Deputy Minister of Finance and Secretary of Treasury Board, with a copy to the Minister, and also wrote to the Chair of the Standing Committee on Finance and Economic Affairs, urging them to remove these provisions. I offered to appear before the Committee to discuss my concerns, but the government majority on the Committee voted down a motion to allow me to appear before the Committee. The legislation was passed shortly thereafter without my concerns, being addressed. I do not support the establishment of accounting principles through legislation because I believe the government should follow generally accepted accounting principles established for governments by PSAB, an independent standard-setting body, to determine how all transactions of the government should be accounted for.

## 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, agencies, and organizations in the broader public sector that they would take action to address our concerns.

### 3.01 ADDICTION PROGRAMS

More than 150 service providers offer addiction treatment services across the province. Prior to the passage of the *Local Health System Integration Act, 2006*, these providers were directly accountable to the Ministry of Health and Long-Term Care's (Ministry) seven regional offices. With the passage of the legislation, the Ministry transferred responsibility for these providers to 14 Local Health Integration Networks (LHINs) across the province. The Ministry still retains ultimate accountability for the health-care system. It is responsible for ensuring that the LHINs are held accountable for the performance of their local health system and that people across Ontario have access to a consistent set of health-care services.

For the fiscal year ended March 31, 2007, the Ministry provided \$129 million in addiction transfer payments to combat substance abuse and problem gambling. This \$129 million represented an increase of \$31 million, or 32%, since our last audit in 1999. We found that there is still significant work to be done to ensure that people with addictions are being identified and are receiving the services they need in a cost-effective manner. As well, at least in the short term, most LHINs will be challenged in effectively assuming responsibility for overseeing local service providers. Some of our more significant observations were as follows:

- More than 90% of the population that the Ministry estimated as needing addiction treatment has not been identified as needing treatment or has not actively sought treatment, or the treatment services were not available.
- The majority of the addiction service providers did not, as required, report wait times for some or all of their services. For those that did, there were significant wait times and large variances between service providers. For example, youths seeking help for substance abuse could wait for as little as one day or as long as 210 days, with an average wait time of 26 days, to receive an initial assessment.
- Although one ministry objective is to provide addiction treatment as close as possible to the client's home, over the years from 2004/05 to 2007/08, about 200 youths seeking help for addictions were sent out of country for treatment at an average cost of about \$40,000 each.
- Addiction funding was based on historical levels rather than assessed needs. Ministry analysis showed that per capita funding across the 14 LHINs ranged from about \$3 per capita to more than \$40 per capita. This can result in clients with similar addiction needs receiving significantly different levels of service, depending on where in Ontario they live.
- Most of the service providers we visited advised us that, despite increased demand, they were forced to reduce their staff numbers and substance-abuse services because funding had not kept pace with inflationary increases.
- We noted wide variations in caseloads and costs among service providers for similar addiction treatments. For example, problem-gambling guidelines for service providers suggested a caseload of 50 to 60 clients per year for the first counsellor and 100 to 120 clients per year for each additional counsellor. However, almost half of the service providers served fewer than 50 clients per year per counsellor, while one service provider served

only three clients per counsellor, at a cost of \$26,000 per client for the year.

### 3.02 ADULT INSTITUTIONAL SERVICES

The Adult Institutional Services (AIS) division of the Ministry of Community Safety and Correctional Services (Ministry) operates 31 correctional institutions for incarcerated adults in Ontario, including convicted offenders serving sentences of less than two years and accused persons remanded in custody awaiting bail or trial. In the 2007/08 fiscal year, AIS incurred \$575 million in operating expenditures, primarily for the cost of 5,500 staff, to incarcerate about 8,800 inmates.

Over the last decade, it has had to respond to significant changes in its inmate population, including an 11% increase in the number of inmates and a doubling of the number of inmates remanded in custody and requiring maximum security. This is one reason that, although it has invested more than \$400 million in capital infrastructure renewal over the past decade, it has been unable to meet its commitment to significantly reduce the average cost of incarcerating inmates.

Some of our more significant observations include the following:

- The Ministry set a target to have one of the lowest operating costs for correctional institutions in Canada, but Ontario still ranks highest when compared to the other larger provinces.
- The Ministry's transformation strategy, launched in 2004/05 with plans to eliminate 2,000 beds by 2007/08 and save \$60 million annually, has not produced the anticipated results. AIS now has almost 1,000 more inmates than when the strategy was introduced, and Ontario's correctional institutions currently operate at 100% capacity. They are overcrowded and at increased risk for inmate disturbances, labour-relations issues, and health-and-safety problems for staff and

inmates. The Ministry predicts that it may be short 2,000 beds by 2010/11.

- The Ministry's intent since 2003 has been for up to 1,300 offenders to serve their sentences in the community using electronic devices to monitor their whereabouts. However, fewer than one-third that number actually serve their sentences in this way.
- The Ministry has made progress in establishing programs to divert people with mental disorders from the criminal justice system and correctional facilities. However, it did not have sufficient information on inmates' mental-health status and did not know whether it was providing adequate and appropriate treatment and care for inmates with mental illness and special needs.
- AIS had neither adequate information nor rigorous detection practices, such as random drug testing, to determine the extent and impact of the use of alcohol and illicit drugs in its facilities.
- AIS continues to have a serious problem with absenteeism among correctional officers, including the abuse of sick leave and overtime provisions. Based on an eight-hour day, correctional officers took an average of 32.5 sick days per year, which cost AIS about \$20 million annually in replacement and overtime costs. With overtime, some correctional officers made over \$140,000 a year—more than double their annual base salary.

The Ministry is taking a lead role in an inter-provincial and territorial task force to study the changing characteristics of the adult inmate population and to identify opportunities to improve co-operation in the delivery of correctional services in Canada. We believe this is a good initiative that could help to address some of the above issues.

### 3.03 BRAMPTON CIVIC HOSPITAL PUBLIC-PRIVATE PARTNERSHIP PROJECT

In August 2003, William Osler Health Centre (WOHC) reached an agreement with a private-sector consortium for the development of a new 608-bed hospital in Brampton using the Public-private Partnership (P3) approach, one of the first Ontario hospitals to do so. Under this arrangement, the consortium would design, construct, and finance the new hospital as well as provide certain non-clinical services. In return, WOHC agreed to pay the consortium a monthly payment over the 25-year service period of the arrangement.

It was not until after the government of the day directed WOHC to follow the P3 approach that WOHC was directed to compare the estimated costs for the government to build and provide the non-clinical services under the traditional procurement approach to having the private sector deliver them under P3. We concluded that the assessment was not based on a full analysis of all relevant factors and was done too late to allow any significant changes or improvements to be made to the procurement process.

Over the approximately three-year construction period from 2004 to 2007, the total cost came to \$614 million, comprising \$467 million in design and construction costs for the hospital, which was built on a reduced scale; \$63 million primarily for facility modifications mainly to accommodate equipment installation; and \$84 million in financing costs.

Our audit identified a number of issues that indicated that the all-in cost could well have been lower had the hospital and the related non-clinical services been procured under the traditional procurement approach. For instance:

- A consulting firm engaged by WOHC estimated in September 2000 that the cost for the government to design and build a new hospital would be approximately \$357 million (updated to \$381 million in October 2001). A

second consulting firm was engaged in January 2003 and estimated a cost of \$507 million (updated in November 2004 to \$525 million). We questioned the large difference in the two estimates.

- The cost estimates for the government to construct the new hospital and to provide the non-clinical services the traditional way over 25 years were significantly overstated, in that depreciation was inappropriately included as a non-clinical service cost, as were utilities and property insurance—which WOHC would be responsible for regardless of who provided the non-clinical services.
- WOHC added to the estimates for the government to design and build a new hospital an estimated \$67 million, or 13% of the estimated total design and construction cost, in risks of cost overruns transferred to the private sector. We questioned the inclusion of such a large amount because a properly structured contract under a traditional procurement agreement could have mitigated many of the risks of cost overruns.
- The province's cost of borrowing at the time the agreement was executed was cheaper than the weighted average cost of capital charged by the private-sector consortium—yet the impact of these savings was not included in the comparison costs between the traditional procurement and the P3 approach.

As with any new process, there are inevitably lessons to be learned. In responding to our recommendations for future P3 projects, Infrastructure Ontario—the Crown agency now responsible for managing most government infrastructure projects—and its ministry partners indicated that most of the issues we raised are now being handled differently to better ensure the cost-effectiveness of current projects.

### 3.04 CHILD AND YOUTH MENTAL HEALTH AGENCIES

The Child and Youth Mental Health program of the Ministry of Children and Youth Services (Ministry) provides funding to transfer payment agencies that provide a broad range of services and supports to children and youth up to the age of 18 who have mental health needs or disorders. In the 2007/08 fiscal year, expenditures under this program were approximately \$502 million, of which \$434 million or 86% was paid to transfer payment agencies.

We last audited the Ministry's administration of this program in 2003, but this year's value-for-money audit focused on four specific agencies providing these services. This was made possible by the expansion of the mandate of the Office of the Auditor General, effective April 1, 2005, to include value-for-money audits of organizations in the broader public sector receiving transfer payments. This was our first such audit of the agencies delivering this program.

Typical services and supports provided under the Child and Youth Mental Health program include intake and assessment; group, individual, and family counselling; residential or day treatment programs; and crisis intervention. The majority of the expenditure is for programs and services that are delivered in a non-residential setting. Because this program is not mandated in legislation, services can be provided only up to the system's existing capacity, which is determined largely by the amount and allocation of ministry funding rather than by need.

Several of our audit observations were similar to those identified during the ministry audit in 2003. We found that agencies needed to:

- jointly improve their assessment and referral procedures across the province to prevent situations where:
  - a parent has a child with a mental health issue and does not know where to call to get help or may have to make many calls to different agencies to try to determine what



services are available, what services would best serve the child's needs, and what process to follow to get that service for the child; and

- a child with less severe or urgent needs is being treated while no services are available for a child with more severe or urgent needs.
- develop reasonable case-management standards for the provision of a broad range of non-residential services, and implement an internal quality-assessment or peer review process to assess whether those standards are being adhered to; and
- capture and report more meaningful information with regard to the number and type of services rendered for funds received, and the outcomes achieved with these funds.

In addition, the agencies advised us that, since there have been few or no annual funding increases for their core programs—including their administrative activities—over the last 10 years, they have had considerable difficulty in maintaining their core services and to do so have often had to “rob Peter to pay Paul”—that is, use funding other than for the purpose for which it was originally intended. Current funding constraints notwithstanding, agencies need to be more vigilant to ensure that they receive, and can demonstrate that they received, value for money spent. In this regard, we made several recommendations, including that agencies should:

- establish and/or adhere to competitive purchasing practices and ensure that all paid invoices contain sufficiently detailed information to establish the reasonableness of the amounts billed and are appropriately approved before payment;
- acquire vehicles for staff use only when it is economical to do so, and strengthen the controls over reimbursements to staff for use of personal vehicles for work; and

- establish reasonable workload benchmarks that would enable all providers to compare their overall staffing levels.

### 3.05 COMMERCIAL VEHICLE SAFETY AND ENFORCEMENT PROGRAM

The Road User Safety Division of the Ministry of Transportation (Ministry) focuses on improving safety and security for Ontario road users. Its activities include the regulation of commercial vehicles operating in the province and enforcement of safety standards. In the 2007/08 fiscal year, the Ministry spent over \$39 million on its commercial-vehicle enforcement program.

Initiatives undertaken by the Ministry have contributed to a reduction in both the rate of fatalities involving commercial vehicles and the rate of collisions per 1,000 kilometres driven by commercial vehicles. However, as 9.2% of all collisions in Ontario still involve a commercial vehicle, the Ministry must increase its efforts to identify high-risk operators and strengthen its enforcement activities and its oversight of private-sector motor-vehicle-inspection stations. Our more significant observations included:

- The Ministry implemented a number of safety initiatives targeting commercial vehicles and drivers, including limits on driver hours of operation, legislated reductions to commercial vehicle speeds, impounding vehicles with critical defects, and implementing a new operator-safety rating system.
- While the Ministry relies on the Commercial Vehicle Operator's Registration (CVOR) system to track operator safety records, some 20,600 operators that have been involved in collisions, convicted, or pulled over for a roadside inspection in Ontario do not have the required CVOR certificate, and the Ministry initiates little follow-up action. The Ministry also does not know the number of operators currently on the road because there is no

requirement for CVOR certificates to be periodically renewed.

- The number of roadside inspections conducted by the Ministry has dropped by 34% since 2003/04 to approximately 99,000 annually. In 2007, only three out of every 1,000 commercial vehicles were subject to such inspections.
- A disproportionate percentage (65%) of roadside inspections was conducted between 6:00 a.m. and 2:00 p.m. Although 21% of commercial-vehicle trips occur at night, only 8% of inspections were conducted at night.
- We noted that enforcement officers were averaging only one to two roadside inspections per day. Inspections were not being done consistently across Ontario, and standards for issuing safety certifications to commercial vehicles were outdated.
- More than 140 bus terminal inspections were overdue, with some terminals not having been inspected for more than four years. In fact, 76 terminals had never been inspected, including four with over 100 buses each.
- The available impoundment facilities were inadequate, and inspectors often could not retrieve operator safety records from the CVOR system quickly enough to use them in deciding which vehicles warranted a full inspection.
- We noted 18,000 United States collisions or roadside inspections involving Ontario operators that had not been included in Ontario operator records as required by the federal *Motor Vehicle Transport Act*.
- Ministry interventions against high-risk operators have been declining since 2003, and the most serious interventions, such as suspension or revocation of an operator's CVOR certificate, dropped by 40%. As well, two-thirds of 740 operator facility audits required by ministry policy for higher-risk operators were cancelled by ministry staff.
- Meeting the goals of the Canadian national road safety plan will be challenging. While the

number of fatal collisions involving commercial vehicles has been gradually dropping and the serious injury rate has declined by 9.7% over a four-year period, both are still well short of the 20% reduction by 2010 called for under the plan.

### 3.06 COMMUNITY MENTAL HEALTH

The Ministry of Health and Long-Term Care (Ministry) provides transfer payments to 14 Local Health Integration Networks (LHINs) that, in turn, fund and manage about 330 community-based providers of mental-health services. In the 2007/08 fiscal year, funding to community-mental-health services in Ontario was about \$647 million.

Recent studies showed that one in five Ontarians will experience a mental illness in some form and to some degree in their lifetime; about 2.5% of them are categorized as seriously mentally ill. Mental-health policy in Ontario has been moving from institutional care in psychiatric hospitals to community-based care in the most appropriate, effective, and least restrictive setting. Our audit found that, while progress has been made in reducing the number of mentally ill people in institutions, the Ministry, working with the LHINs and its community-based partners, still has significant work to do to enable people with serious mental illness to live fulfilling lives in their local community. We identified the following key issues:

- The Ministry was still far from achieving its target of spending 60% of mental-health funding on community-based services. In the 2006/07 fiscal year, the Ministry spent about \$39 on community-based services for every \$61 it spent on institutional services.
- While some progress has been made, the LHINs and service providers we visited acknowledged that many people with serious mental illness in the community were still not receiving an appropriate level of care. Of those people in hospitals, many could be discharged into

the community if the necessary community-mental-health services were available.

- There were lengthy wait times for community-mental-health services, ranging from a minimum of eight weeks to a year or more, and about 180 days on average.
- Formal co-ordination and collaboration among stakeholders, including community-mental-health service providers, relevant ministries, and LHINs, was often lacking.
- The Ministry transferred responsibility for delivery of community-mental-health services to the LHINs on April 1, 2007, but the LHINs still face challenges in assuming responsibility for effectively overseeing and co-ordinating community-based services.
- Community-mental-health service providers were significantly challenged in their ability to maintain service levels and qualified staff, given an average annual base funding increase of 1.5% over the last few years.
- Funding of community-mental-health services continued to be based on past funding levels rather than on actual needs. Historical-based funding resulted in significant differences in regional average per capita funding, ranging from a high of \$115 to a low of \$19.
- There was a critical shortage of supportive housing units in some regions, with wait times ranging from one to six years. Housing units were unevenly distributed, ranging from 20 units per 100,000 people in one LHIN to 273 units per 100,000 people in another. While some regions had shortages, others had significant vacancy rates, which were as high as 26% in the Greater Toronto Area.
- While the Ministry has implemented two new systems to collect data for the community-mental-health sector, this initiative will only be successful if the data is complete, accurate, and useful.

### 3.07 COURT SERVICES

The Court Services Division (Division) of the Ministry of the Attorney General (Ministry) supports the operations of the courts system, including more than 225 courthouses and office facilities, with 3,000 support staff. The Division's expenditures for the 2007/08 fiscal year were \$405 million, including \$156 million to operate judges' offices and for salaries and benefits of provincially appointed judges and justices of the peace, and another \$249 million on staffing and other court operating costs. In addition, the Ministry spent about \$77 million on capital projects to improve court buildings.

In our 1997 and 2003 audits, we reported that serious court backlogs were growing—particularly for criminal cases in the Ontario Court of Justice—and that more successful solutions were needed to eliminate these backlogs. Over the last five years, the Ministry has undertaken a number of initiatives, worked collaboratively with the Judiciary, and increased operating funding for courts. Despite these efforts, the backlogs have continued to grow and, at the time of our audit, were at their highest levels in 15 years.

Our more significant observations were as follows:

- Over the last five years, criminal charges pending in the Ontario Court of Justice grew by 17%, to over 275,000, while the number of charges pending for more than eight months increased 16%. Ministry initiatives to address criminal-case backlogs in certain courthouses were insufficient to handle the growth in new criminal charges. Backlogs for family-law cases, including those relating to child protection, also continued to grow.
- The Ontario Court of Justice may not have sufficient judicial resources to meet the increased demand for judicial decisions. To be comparable to other provinces, Ontario would have to hire significantly more judges and justices of the peace, as well as provide additional court facilities and support staff.

- The Ministry does not yet have adequate information on the reasons for an over 50% increase over the last decade in the number of court appearances before a case goes to trial, despite this being one of the main causes of the growing backlog.
- Qualifying low-income defendants experienced difficulties and delays in obtaining Legal Aid Ontario funding, leading to court delays and more frequent court appearances.
- The Ministry has made little progress in implementing new technologies to improve the efficiency of the courts, especially for handling criminal cases.
- The Ministry has not formally assessed the significant differences in court operating costs in the various regions of the province. For example, it cost up to 43% more to dispose of a case in the Toronto Region than elsewhere.
- There continues to be no minimum standard applied for security in court locations across the province.
- The Ministry had not appointed a sufficient number of justices of the peace to preside over municipally administered courts, leading to court closures and lost revenues for municipalities until late 2007, when additional justices of the peace were made available.

In June 2008, the Ministry for the first time announced publicly stated targets for reducing the provincial average of days and court appearances needed to complete criminal cases: it aims to reduce these by 30% over the next four years.

### 3.08 EMPLOYMENT AND TRAINING DIVISION

The Employment and Training Division (Division) of the Ministry of Training, Colleges and Universities (Ministry), its local offices, and some 1,200 service providers offer programs and services to train skilled labour, prepare unemployed Ontarians to enter or re-enter the workforce, help students find summer employment, and assist workers facing

business closures or other workforce adjustments. Since the signing of the Labour Market Development Agreement with Canada, effective January 1, 2007, the Ministry became responsible for the federal programs referred to as Ontario Employment Benefits and Support Measures. Canada provided more than \$529 million for these programs in the 2007/08 fiscal year and \$53 million for administration, including salaries and benefits for over 500 staff.

These programs are to be integrated with the Division's existing employment and training programs, increasing spending to more than \$900 million annually to provide improved labour market and re-employment services. Our audit focused on two pre-existing ministry programs and two transferred federal programs, which together accounted for over \$400 million in Division expenditures in the 2007/08 fiscal year.

With respect to the two pre-existing ministry programs, Apprenticeship Training and Literacy and Basic Skills, we found that, although the Ministry has made improvements and has increased apprenticeship opportunities and registrations, fewer than half of apprentices successfully complete their training. Also, half of all apprentices fail their final certification exams. The Ministry also needed to establish funding policies that further reduce inequities among Literacy and Basic Skills service providers and improve client outcomes.

With respect to the two programs transferred from the federal government, Skills Development and Self-Employment, we found that the Ministry needed to take further steps to ensure their consistent and fair delivery across the province. Some of our other observations included the following:

- Apprenticeship training consultants at the field offices we visited were unable to conduct more than a few, if any, monitoring visits to employers and in-class training providers. They also noted excessive emphasis on meeting registration targets rather than increasing the number who successfully become certified.

- The Ministry had no strategy to increase apprenticeship registrations in high-demand skilled trades. Most of the recent increase has been in the service sector.
- Most of the responsibility to ensure that only certified individuals work in trades that are restricted for safety reasons has been delegated to Ministry of Labour inspectors. Enforcement activity has increased since our last audit, particularly in the construction industry. However, the Ministry has not adequately co-ordinated its efforts with the Ministry of Labour and other bodies to ensure effective enforcement in sectors such as motive power (vehicle and equipment servicing).
- We found, and internal ministry reviews confirmed, inconsistencies in how local offices decide how much support to provide to clients of the Skills Development and Self-Employment Programs: clients in similar financial circumstances may receive quite different amounts.
- We found some individual client training agreements in the Skills Development Program that cost the Ministry more than \$50,000 and were not necessarily in line with program objectives. Agreement costs were subsequently capped at \$28,000.
- The Ministry did not have adequate information on whether clients remained employed in the fields they were trained for and whether self-employment clients were able to sustain their new businesses.

### 3.09 FOOD SAFETY

The Ministry of Agriculture, Food and Rural Affairs (Ministry) administers a number of statutes aimed at minimizing food safety risks. To help achieve compliance with legislation, the Ministry has systems and procedures for licensing, inspecting, and laboratory-testing various food groups produced and sold exclusively in Ontario. In the 2007/08

fiscal year, total expenditures on food safety were approximately \$48 million. Our more significant findings with respect to meat, dairy, and foods of plant origin were as follows:

- The Ministry is to conduct annual licensing audits of provincial abattoirs (which account for about 10% of all animals slaughtered in Ontario) and freestanding meat processors. We noted that licensing audits found significant deficiencies at a number of plants, some plants had a deficiency rate of close to 30% for the standards examined, and many deficiencies were repeat violations from previous audits. To better ensure the safety of meat and meat products, the Ministry needs to ensure that timely corrective action is taken when significant violations are found.

In addition, we noted that there had been a lack of systemic follow-up or corrective action to address adverse results from the Ministry's laboratory tests for microbial organisms (bacteria) and chemical substances in meat and meat products. For example, a study of 48 newly licensed freestanding meat processors in the Greater Toronto Area in 2006 to determine the prevalence of pathogens and contamination on equipment and food-contact surfaces found high rates of bacteria. Although the Ministry advised us that a high count of microbial indicators does not, in itself, pose an immediate public health risk, the results could indicate a lapse in sanitation or a process failure that increases the risk of food-borne illness.

- The Ministry has delegated the responsibility for administering and enforcing various quality and safety provisions of the legislation for cow's milk to the Dairy Farmers of Ontario. Laboratory tests are also performed routinely for bacterial content, somatic cell counts (an indicator of infection in the udder), and antibiotic residues, and there are severe financial penalties for non-compliance.

However, we noted weaknesses in the Ministry's inspection of dairy processing plants and distributors, such as licences being renewed before an inspection has been completed, minimal inspections of distributors, and inadequate documentation of the inspection results. In addition, results from the testing of fluid milk and cheese products showed instances of bacterial counts that suggested a number of processing plants were having difficulty maintaining adequate sanitation standards in their plants.

- For foods of plant origin, there are limited enforceable provincial food safety standards. Nevertheless, the Ministry, on its own initiative, has been collecting samples of fruits, vegetables, honey, and maple syrup and having them tested. In the 2007/08 fiscal year, the Ministry conducted over 2,400 tests and found adverse results for 2% of the samples. The contaminants included lead in processed honey and maple syrup, chemical residues in fruits and vegetables exceeding Health Canada's maximum allowable limit, and microbial contaminants (listeria and salmonella) in minimally processed vegetables. When non-compliance was detected, the Ministry collected additional samples from the same producers for further testing; the non-compliance rate on those second samples has been about 20%. While the Ministry could notify and educate the producers regarding its findings, its enforcement authority is too limited for further action.

Finally, we noted that to manage food safety risks better, the Ministry needs to develop a more comprehensive risk-based strategy to guide its priorities and activities.

### 3.10 GASOLINE, DIESEL-FUEL, AND TOBACCO TAX

In the 2007/08 fiscal year, the Ministry of Revenue (Ministry) collected taxes on tobacco, gasoline, and

diesel fuel totalling \$4.3 billion, which accounted for about 6.2% of the province's total taxation revenue from all sources.

We believe that the tax gap—which is the difference between the amount of tax that should be collected and the amount that is collected—has increased significantly with respect to tobacco since our 2001 audit of tobacco-tax collection. In fact, we believe that the tax gap with respect to tobacco, on the basis of tobacco tax rate increases, could well be in the \$500-million range in the 2006/07 fiscal year, the estimated decrease in consumption since 2001 notwithstanding.

Regulations under *Ontario's Tobacco Tax Act* limit the total number of tax-free cigarettes a First Nations reserve may purchase; however, we understand that there are a number of manufacturers/wholesalers that have operations on reserves that sell significant quantities of cigarettes to reserves over and above the bands' existing allocations.

The Ministry is one of just three jurisdictions in Canada—Nunavut and the Yukon are the others—that do not limit sales of untaxed cigars on First Nations reserves. It is our view, as well as the Ministry's, that the tax forgone on cigar sales to and from reserves is significant.

Significant improvements to the Ministry's information-technology systems, along with changes to its policies and procedures, will be necessary before the Ministry can be assured that the correct amount of tobacco, gasoline, and diesel-fuel taxes is being declared and paid in accordance with the requirements of the law.

There is no process in place to assess the completeness and accuracy of information reported in returns for tobacco, gasoline, and diesel fuel. For example, the Ministry has no way to reconcile reported tax-exempt purchases and sales between designated collectors, or of verifying imports and exports reported by collectors against the independent information submitted by inter-jurisdictional transporters.

Our review of the Ministry's audit coverage for the largest and riskiest collectors noted that while

all seven of the large gasoline and diesel-fuel tax collectors have been audited every four years as targeted, only a few of the 38 large tobacco tax collectors have been audited at least once every four years as planned.

### 3.11 HOSPITAL BOARD GOVERNANCE

Almost all public hospitals in Ontario are governed by a board of directors that is responsible for the hospital's operations and for determining the hospital's priorities in addressing patient needs in the community. We surveyed 20 hospital boards with respect to their governance practices and found that many had adopted a variety of best practices. However, many board members who responded to our survey indicated the need for clarification of the specific roles of hospital boards, the Local Health Integration Networks (LHINs), and the Ministry of Health and Long-Term Care (Ministry). As well, many board members identified areas where they felt hospital governance practices could be strengthened. Some of these areas, as well as observations arising from our research and other work, were as follows:

- Only slightly more than half of responding board members indicated that the information they received on their hospital's progress towards the achievement of the hospital's risk-management goals was "very useful," with most other members stating that it was just "moderately" or "somewhat useful."
- Almost 70% of board members indicated that information-technology skills were under-represented on their board, and almost 50% identified legal skills as being underrepresented.
- Ex-officio board members—persons appointed by virtue of their position within the hospital or another organization, such as medical and community groups, volunteers, hospital foundations, and municipalities—may be placed in the challenging position of representing specific interests that might, at times, be in

conflict with the hospital's and community's best interests. A survey of hospital boards in the Greater Toronto Area noted that the average board had six ex-officio members, with one board having 12 such members out of a total of 25.

- More than 55% of hospitals have bylaws permitting individuals to pay a small fee or meet other criteria to become "community corporate members," which entitles them to elect the board members of the hospital. There is a risk that a hospital's priorities can be significantly influenced if enough board members are elected who have a specific agenda or represent a specific interest group.
- Various Ministry-funded reports have recommended that certain good governance practices, such as facilitating competency-based recruitment and setting term limits for directors, be addressed in legislation. This may warrant review when future amendments to the *Public Hospitals Act* are being considered.
- Good governance practices and lessons learned identified by reviewers, investigators, and supervisors of hospitals experiencing difficulties had not been routinely shared among hospital boards.

### 3.12 ONTARIO CLEAN WATER AGENCY

The Ontario Clean Water Agency (OCWA) operates 313 drinking-water systems and 225 wastewater systems for about 180 customers, mostly municipalities, on a cost-recovery basis. Other services provided by OCWA include project management for facility maintenance and construction; capital improvement planning; and loan financing. OCWA employs almost 700 staff and generated \$120 million in revenue during the 2007 calendar year.

We found that OCWA generally had adequate procedures in place to ensure that it provides effective drinking-water and wastewater treatment services. As well, OCWA has been making headway in achieving full cost recovery in the operations

side of its business. Nevertheless, we identified a number of areas where further improvements could be made:

- A regulation under the *Safe Drinking Water Act, 2002* requires OCWA to test drinking water for over 160 substances, such as *E. coli*, lead, and uranium. Overall, 99.6% of water samples tested met legislated quality standards. While OCWA-operated facilities experienced more adverse water-quality incidents than other provincial drinking-water systems on average, OCWA had relatively fewer incidents in the most high-risk microbiological category, such as *E. coli*.
- To help monitor the facilities it operates for compliance with legislation, OCWA has implemented a facility assessment review process and more in-depth compliance audits. Action plans are then developed for the compliance issues identified. As of mid-March 2008, OCWA's management system noted that 1,471 of the problems from 2007, or 70%, still had not been addressed.
- For a sample of operators we reviewed, over 10% were not listed as having the proper drinking-water certificate or wastewater licence. A number of these operators were listed as having expired certificates. Although we were subsequently provided with evidence that these operators had valid certificates, in other situations, staff with expired certificates or licenses are assigned to non-operational duties, which is not a fully productive use of staff resources.
- Over the last five years, OCWA's expenses have increased only 2.8% annually, on average, and OCWA has been successful in gradually reducing its operating deficit, from \$9.5 million in 2003 to \$1.3 million in 2007.
- The majority of OCWA's 205 contracts to provide facility operating and maintenance services are for a fixed price over several years, adjusted for inflation. Consequently, OCWA bears the risk of any price increases above

the rate of inflation. In addition, its margin or mark-up on direct costs may not be sufficient to cover overhead costs and some contracts did not even recover all direct contract costs.

- We found that the employee travel expenses we tested were for legitimate business purposes and were properly approved. However, controls over the purchases of goods and services needed to be improved.
- OCWA needs better information to adequately monitor its field operations. In addition, it needs to enhance the reliability and usefulness of its reporting to the senior management committee and the Board of Directors to assist them in effectively meeting their respective management and oversight responsibilities. We did note that OCWA has recently been successful in adding several well-qualified members to its Board of Directors.

### 3.13 SCHOOL RENEWAL AND MAINTENANCE

Ontario has 72 district school boards with about 5,000 schools and 1.9 million students. About half of Ontario's schools were built at least 45 years ago. In 2002, the Ministry of Education (Ministry) hired consultants to inspect each school to assess its capital renewal needs and input the results into a database. The consultants concluded that addressing the capital renewal needs of Ontario schools by the 2007/08 fiscal year would cost \$8.6 billion, of which \$2.6 billion would be required to address urgent needs. Since 2005, the Ministry has committed \$2.25 billion for essential repairs and renovations to Ontario's publicly funded schools through its Good Places to Learn initiative and a further \$700 million to replace schools in the worst condition.

In the 2007/08 fiscal year, the Ministry also provided school boards with over \$1.7 billion in grants for school operations, which are primarily used for ongoing maintenance, custodial services, and utilities. The Ministry also provided \$382 million in



capital renewal grants for expenses such as repairs and renovations.

Our audit focused on how three school boards—the District School Board of Niagara, the Durham Catholic District School Board, and the Kawartha Pine Ridge District School Board—managed and maintained their school facilities and used the funding provided by the Ministry.

Some of our more significant observations were as follows:

- The initiative to inspect each school in Ontario and enter the results into a database provided valuable information on the state of Ontario's schools and where renewal funds should be invested. Such a database can only continue to be useful, however, if it is kept up to date.
- Boards did not always spend the funds they received under the Good Places to Learn initiative in accordance with ministry requirements and on the highest-priority needs. Also, the Ministry needed an action plan to address schools that are considered to be uneconomical to maintain.
- All three schools boards we audited generally had good policies for the competitive acquisition of facility-related goods and services, and all three boards were generally following their prescribed policies. However, one board did not do so in purchasing approximately \$3.5 million in plumbing services from four suppliers. Many invoices had been split into smaller amounts to avoid competitive purchasing requirements and lacked sufficient detail to verify the amounts charged. Our work indicated the board had also been overcharged \$87,000.
- With respect to maintenance and custodial services, we found that there is little formal monitoring; expected service levels are rarely established; and only limited feedback is being obtained from teachers, students, and parents on how well their individual school is being maintained and cleaned. To identify inefficient or costly practices that warrant

follow-up, school boards should more formally track the comparative costs for these services between schools within each board or between boards in the same geographical region.

- Electricity, natural gas, and water costs are a major expense. While all three boards had introduced energy conservation measures, they should be comparing energy costs for schools of a similar age and structure and following up on those instances where costs differ significantly between comparable schools. We noted instances where the average energy costs per square metre between schools in neighbouring boards differed by over 40%.

### 3.14 SPECIAL EDUCATION

The *Education Act* defines a student with special education needs as one who requires placement in a special education program because he or she has one or more special behavioural, communicative, intellectual, or physical needs. School boards make this determination, identifying the student's strengths and needs and recommending the appropriate placement. The Ministry of Education (Ministry) bases its special education policies and regulations on the principle that students with special education needs should normally be placed in regular classrooms. However, school boards may place a student in special education classes if this better meets his or her needs and is supported by the parents.

Special education grants are a significant component of funding for the province's 72 publicly funded school boards, amounting to \$2.1 billion or over 12% of annual operating grants. While the Ministry has increased special education funding since the 2001/02 school year by 54%, the number of students served increased by only about 5% to 290,000 in 2006/07. Although provincial test results and our audit indicated that progress has been made since our last audit in 2001, there are still a number of areas where practices need to be

improved to ensure that the significant funding increases result in continuous improvement in the outcomes for students with special education needs in Ontario.

Some of our more significant observations were as follows:

- The proportion of Individual Education Plans (IEPs) in our sample completed by the due date improved from 17% in our 2001 audit to almost 50% in this audit. The availability of information from student information systems had also improved. However, the information that school boards currently collect about students with special education needs, how early they are identified, the educational programs provided to them, and the results achieved was not yet sufficient to support effective planning and service delivery and program oversight.
- The IEPs that we examined varied in how well they set the learning goals and expectations for students with special education needs working toward modified curriculum expectations. The learning goals and expectations for numeracy and literacy were generally measurable. However, those for other subjects were often vague. As a result, schools could not measure the gap between the performance of these students and regular curriculum expectations and assess student progress.
- Identification, Placement, and Review Committees (IPRCs) make significant decisions regarding the education of students with special education needs but do not adequately document why and how their decisions were made.
- The provincial report card is not designed to report on the achievement of IEP learning expectations that differ from curriculum expectations and on the extent to which students with special education needs have met their learning goals. As a result, such students and their parents may not be adequately informed about student performance.

- None of the school boards we audited had established procedures to assess the quality of the special education services and supports at their schools. This makes it difficult for both individual schools and the boards to know what kinds of improvements are needed to better serve students with special education needs.

## Special Reports

In addition to the 14 value-for-money audits that are featured in this Annual Report, my Office also conducted four other value-for-money audits or follow-up reviews over the past year that were reported on in three special reports.

On January 29, 2008, at the request of the Minister of Children and Youth Services, I issued a Special Report entitled *Follow-up of 2006 Audits of the Child Welfare Services Program and Four Children's Aid Societies*, which contained the results of follow-up work on two of my Office's 2006 audits—our audit of the Child Welfare Services Program and our audit of four Children's Aids Societies—both operating under the oversight of the Ministry of Children and Youth Services. In this Special Report, we indicated that, while good progress had been made in a number of areas, there were still some areas where additional work was required. We acknowledged at that time that a lack of substantial progress in some areas could have been due to the relatively short time period between the tabling of my Annual Report in December 2006 and our follow-up work in fall 2007.

Almost five months later, on July 14, I issued a special report to the Minister of Agriculture, Food and Rural Affairs entitled *AgriCorp—Farm Support Programs* outlining the details of an audit my Office conducted at AgriCorp (a Crown agency operating under the Ministry) at the Minister's request. AgriCorp is responsible for delivering farm support programs and other services to Ontario's farmers. The

report described how AgriCorp had had difficulty adapting to rapid changes caused by a substantial growth in the number of farm support programs and a doubling of annual support payments to farmers in recent years. We concluded that, despite these issues, there were two significant benefits—relating to cost and quality of service—to having Ontario continue to deliver the Canadian Agricultural Income Stabilization program as opposed to having it delivered by the federal government.

Finally, on September 29, I released the special report *Prevention and Control of Hospital-acquired Infections*. Hospital-acquired infections are those, such as *C. difficile*, that a patient acquires while in the hospital being treated for some other condition and that can cause illness or even death. This audit report was issued as a special report primarily because of a motion by the Standing Committee on Public Accounts, which encouraged my Office to report on this audit as soon as it was completed rather than waiting until the Annual Report (the audit was already under way at the time of the motion). This special report concluded that the Ministry of Health and Long-Term Care and the three hospitals we visited had implemented some

good initiatives to manage the risk of infection outbreaks, but a lot more needed to be done. Specifically, my report indicated that hospitals need to work with their staff to improve hand-hygiene practices, identify improper antibiotic use, appropriately screen all new inpatients, and ensure that surgical instruments are properly sterilized.

All three reports are available on our website at [www.auditor.on.ca](http://www.auditor.on.ca) or from our Office.

## Acknowledgements

The Office expresses its sincere appreciation to the staff at the ministries, agencies, and broader-public-sector and other entities we audited this past year for their co-operation in providing us with the information and explanations required during the performance of our work.

The Auditor General and the Deputy Auditor General also extend their sincere appreciation to the staff of the Office for their dedication, their professionalism, and their hard work during a challenging year.