



Bonnie Lysyk
Auditor General of Ontario

Reflections

Introduction

It's hard to believe that over a year has gone by since I began working as the Auditor General of Ontario last September. My initial positive impression about the dedication and hard work of the members of the Legislative Assembly of Ontario—including the members of the Standing Committee on Public Accounts, deputy ministers and their staff—and boards and senior management in the broader public sector has not changed. This also holds true of the staff in my Office, and I thank them for their excellent work and contribution to this report.

As an independent Office of the Legislative Assembly, it is our job to report the results of our work to the members of the Legislative Assembly, including the members of the Standing Committee on Public Accounts, and to the citizens of Ontario. Our reports focus on areas where improvements can be made in the public sector and the broader public sector for the benefit of Ontarians. We take considerable care in the conduct of our work, the drafting of recommendations and the writing of fair, evidence-based reports.

The Standing Committee on Public Accounts, an all-party committee of the Legislature, is respected by its peers across Canada for its work in ensuring that issues in our reports are discussed and that the related recommendations are being implemented,

and for generating its own reports and recommendations to ensure that people in Ontario receive value for money and benefit from government initiatives, programs and spending.

This section of our report provides a high-level commentary about our audits this year and some of our key messages.

Public Accounts and Ontario's Growing Debt Burden

Chapter 2 of our report provides some insight into the Public Accounts of Ontario. This is the 21st year that the government of Ontario has obtained a “clean” audit opinion from the Auditor General on the province's consolidated financial statements since the province adopted generally accepted accounting standards in the 1993/94 fiscal year.

Our key commentary in Chapter 2 is on Ontario's growing debt burden. Although the focus on eliminating Ontario's annual deficit is important, we think that government should provide more information on how it plans to achieve its longer-term objective of reducing its net debt-to-GDP ratio to its pre-recession level of 27%. Ontario's net debt-to-GDP ratio is projected to reach a high of 40.5% in 2015/16, after which the government expects it to decline. The net debt-to-GDP ratio is a key

indicator of the government's financial ability to carry its debt relative to the size of the economy. It measures the relationship between a government's financial obligations and its capacity to raise the funds needed to meet them. This ratio is impacted by provincial economic growth and the government's borrowing from external parties.

While annual deficits are projected to decline, the province will still be increasing its borrowings annually to finance these deficits, to replace maturing debt and to fund public infrastructure projects (both public- and private-sector delivered). In fact, net debt (the difference between the government's liabilities and its total assets) and total debt (the total amount of borrowed money the government owes to external parties) are both expected to continue growing in absolute terms even after the province starts to run annual budget surpluses. This important fact should not go unnoticed by the members of the Legislature and the public. We estimate that total debt will exceed \$340 billion by 2017/18 (it was at \$295.8 billion on March 31, 2014).

By 2017/18, the year the government projects it will achieve an annual surplus, Ontario's net debt will have more than doubled over a 10-year period, from \$156.6 billion in 2007/08 to over \$325 billion by 2017/18. To put this in perspective, to eliminate Ontario's 2017/18 estimated net debt, every man, woman and child in Ontario would need to contribute \$23,000 to the provincial coffers. We recommended that the government provide information on how it plans to achieve its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

Highlighting Three Audits

Is Value for Money Being Achieved?

Value for money can be defined as the "optimal use of resources to achieve the intended outcomes." It is a term used to assess whether or not the maximum

benefit has been obtained from the goods and services an organization both acquires and provides, or in simpler terms, it involves "getting a good deal" for taxpayer or ratepayer dollars spent.

While the concept of value for money is addressed in various ways in all of our reports, two of the three audits I would like to highlight this year are directly related to this concept and involve significant dollars spent. They are our audits of the **Smart Metering Initiative** and **Infrastructure Ontario—Alternative Financing and Procurement**.

Smart Metering Initiative

The **Smart Metering Initiative** has spent nearly \$2 billion of electricity ratepayers' money, but the intended outcomes of significantly reducing electricity peak demand usage using smart meters and time-of-use pricing (TOU) rates, and of reducing the need for new sources of power generation, have not yet been achieved. Under the initiative, ratepayers were supposed to use less electricity during peak times; as a result, Ontario would not need to immediately expand its power-generating capacity. Peak demand reduction targets set by the Ministry of Energy have not been met, ratepayers have had significant billing concerns, and ratepayers are also paying significantly more to support the expansion of power-generating capacity while also covering the cost of the implementation of smart metering.

As well, TOU rates have been significantly impacted by the Global Adjustment (an extra charge mainly to cover the gap between the guaranteed prices paid to contracted power generators and the electricity market price), which is included in these TOU rates. The Global Adjustment now accounts for 70% of TOU rates, while the market price of electricity accounts for only 30% of these rates. This is not transparent on ratepayers' electricity bills. From 2006 to 2013, the Global Adjustment increased almost 1,200%, while the average market price of electricity actually dropped 46%. By 2015, the 10 year-cumulative actual and

projected Global Adjustment cost (between 2006 and 2015) is expected to reach about \$50 billion. As our definition of the Global Adjustment indicates, the \$50 billion is an extra amount covered by rate-payers over and above the actual market price of electricity. More contracted generators, especially producers of higher-priced renewable power, will soon be coming online, and ratepayers will pay even more in Global Adjustment charges.

Infrastructure Ontario—Alternative Financing and Procurement

In the case of our audit of **Infrastructure Ontario—Alternative Financing and Procurement (AFP)**, Infrastructure Ontario uses value-for-money (VFM) assessments to decide whether large infrastructure projects should be delivered by the public sector or delivered by the private sector under the various AFP delivery models outlined in **Appendix 1 of Chapter 3, Section 3.05**. For the 74 infrastructure projects where Infrastructure Ontario concluded that private-sector delivery would be more cost-effective, the tangible costs (such as those for construction, financing, legal services, engineering services and project management services) were estimated to be nearly \$8 billion higher than if the public sector would have been able to directly deliver these infrastructure projects on time and on budget. The risks of having projects not delivered on time and on budget by the public sector were estimated to be about five times higher than having the private sector deliver these projects. A key element in the \$8 billion is higher private-sector financing costs. The private sector initially finances the construction of AFP projects, but ultimately the province pays for these projects under the terms of their contracts with the private sector, some of which are up to 30 years. To March 31, 2014, public debt related to AFP projects has increased by an estimated \$5 billion since 2005, and the province has almost \$23.5 billion in liabilities and commitments relating to AFP projects that will have to be paid in the future.

We determined that Infrastructure Ontario should not have included two specific risks in its VFM assessments. Without these two risks, public-sector delivery for 18 of the 74 projects could have potentially saved \$350 million when compared to the total cost assessed for delivery under AFP.

Based on our audit work and review of the AFP model, achieving savings through public-sector project delivery would be possible if the contracts for public-sector project delivery had strong provisions to manage risk and provided incentives for contractors to complete projects on time and on budget, and if there was a willingness and ability on the part of the public sector to manage the contractor relationship and enforce the provisions when needed. Total costs for these projects could be lower than under an AFP, and no risk premium would need to be paid.

There is a place for the use of both private-sector and public-sector delivery—the challenge is determining the right mix to achieve value for money for Ontario taxpayers. In **Chapter 3, Section 3.05**, we encourage a healthy discussion of the appropriate level of AFP delivery/private-sector financing that should be used, and an element of this discussion would also be how to best leverage the expertise Infrastructure Ontario has developed with AFPs to bring about the successful delivery of larger infrastructure projects by the public sector.

Doing Nothing Is An Option; But Is It The Right Option?

Government is complicated. Every day the public sector is challenged to make decisions that Ontarians would consider to be the right ones. This definitely was the case, as we note in **Chapter 3, Section 3.09**, for those working in the seven-year-old **Provincial Nominee Program (Program)**. Over the last few years, they encountered immigration representatives who submitted questionable immigrant nominee applications, as well as potential nominees who submitted questionable applications themselves, yet took little action. In

our opinion, the decision to do the right thing to protect the integrity of the Program would have involved restricting or banning individuals for submitting fraudulent information for a period of time and reporting these situations to the federal government, provincial counterparts operating their own nominee programs, regulatory bodies for immigration representatives or law enforcement agencies, so that actions could be taken quickly if warranted. Such decisions were not made or acted on in a timely manner by the program. In our audit of the Program, we encouraged the Ministry of Citizenship, Immigration and International Trade to address—in conjunction with the Office of the Information and Privacy Commissioner of Ontario, the federal government, law enforcement agencies and regulatory bodies—what it viewed to be obstacles to taking timely action regarding program integrity issues.

Five Recurring Issues in This Year's Audits

This report contains 12 audits covering diverse topics. Within this diversity, however, a number of similar issues come into view. The summaries in **Chapter 1** that follow these reflections, and the audit reports themselves in **Chapter 3**, provide more details on the audits we've conducted. In the following subsections, I highlight some examples of these similar, recurring issues.

Importance of Planning and Revisiting Plans As Time Goes By

Planning is the key to the delivery of successful outcomes that meet objectives as fully as possible. In thinking of the common expression “An ounce of prevention is worth a pound of cure,” it occurs to me that an ounce of **planning** is worth a pound of cure, too.

Smart Metering Initiative

This is especially true in the case of the **Smart Metering Initiative**, where nearly \$2 billion dollars has been spent to-date—nearly double the amount that the implementation of smart meters in Ontario, the first and largest smart-meter deployment in Canada, was projected in 2005 to cost. The decision to mandate smart metering in Ontario was not supported by an appropriate cost/benefit study, in contrast to other jurisdictions in Canada and abroad, which did prepare such studies. As a result, electricity ratepayers in Ontario are paying significantly more for this initiative in their monthly electricity bills than was originally intended.

The sheer complexity and complications of implementing smart meters, involving the Ministry of Energy, the Ontario Energy Board, the Independent Electricity System Operator and 73 distribution companies, including Hydro One, are discussed in **Chapter 3, Section 3.11**. Of special note is the involvement of the Ontario Energy Board. The Board was directed by the Minister of Energy to develop an implementation plan to achieve the government's smart-meter targets, despite the fact that as an independent regulator, part of the Board's mandate is to protect the interests of ratepayers with respect to prices. Even though the electricity market in Ontario continued to change during the implementation of smart meters, with the supply of electricity exceeding demand, the Ministry did not adjust the original smart-meter implementation plan.

Source Water Protection

Planning was a key issue in our audit of **Source Water Protection**. Fourteen years after the Walkerton drinking-water crisis, Ontario still does not have approved source water protection plans in place as envisioned by the Commission of Inquiry into the Walkerton disaster. These plans are intended to assess existing and potential threats to source water, and ensure that policies are in place to reduce or eliminate these threats. At the time of our audit,

the Ministry of Environment and Climate Change did not have a clear time frame for when all source water protection plans will be approved. Moving forward, the Ministry also needs a long-term strategy to address funding and oversight of municipalities and Conservation Authorities to ensure that the plans, once approved, are actually implemented. This long-term strategy should also include timely updates of source water protection plans to ensure they remain current. Water treatment facilities are intended to provide only a second defence against contamination of drinking water. Protecting source water is safer and more cost-effective than detecting and treating contaminated water.

Palliative Care

The time is right for a strategic policy framework, along with a formal implementation plan, to be developed and implemented for the delivery of palliative care in Ontario. As pointed out in our audit of **Palliative Care**, such a framework can provide direction to support the implementation of commitments for providing care to patients across Ontario to maximize the quality of their remaining life.

Decision-making Must Consider and Address Risks to the Public

If governments had unlimited resources, everything governments wanted to do could be done. There would be no infrastructure deficits and no waiting lists for services. Everyone could be employed, and all needed inspections could be conducted to ensure compliance with legislation. In fact, it would not even matter that much if taxpayers' money was poorly spent. But the fact remains that resources are not unlimited, and governments must make choices about what their focus should be and what they can do with the resources available. This means that all decisions must consider risk.

Provincial Nominee Program

Given that Ontario is considered a very attractive province to immigrate to, Ontario's immigration program, the **Provincial Nominee Program** (Program), must have effective controls and processes to select qualified immigrant nominees who will provide economic benefit to the province, and to refer them to the federal government for approval. We found there to be a significant risk that the Program might not always be nominating qualified people who can be of economic benefit to Ontario. After seven years of operation, the Program still lacks the necessary tools, including policies, procedures and training, to help program staff make consistent and sound decisions.

Infrastructure Ontario's Loans Program

In our audit of **Infrastructure Ontario's Loans Program**, we found that many improvements had been made over the last year. The majority of loans are made to low-risk municipalities. The higher-risk, non-municipal loans we examined were being monitored by Infrastructure Ontario, which was taking appropriate action to deal with those few borrowers that were having difficulty meeting the conditions of their loan agreements. One of the most significant high-risk loans on the Watch List was made to a borrower that did not fall into any of Infrastructure Ontario's 10 eligible borrowing sectors, but which the government had made eligible through a regulatory amendment, to support its plans and priorities for research and innovation. This borrower was a subsidiary of MaRS Discovery District, a not-for-profit organization, and the loan was for \$216 million. The lack of transparency around the policy objectives and intended benefits to be obtained from the significant financial risks assumed in providing this loan, as well as the Ministry of Research and Innovation's guaranteeing this loan, may have created the perception that the government is bailing out a private-sector developer. The borrower has a contract with the private-sector

developer whose interest the government has offered to purchase to preserve previous investments in MaRS and its ongoing research mandate. Whether the future benefits that may be realized from this transaction will ultimately outweigh the risks and the costs assumed remains to be seen.

Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight

The growing level of underfunding of defined-benefit pension plans in Ontario is a serious concern and could pose a significant future financial risk. These plans do not currently have enough funds to pay full pensions to their 2.8 million members if they were wound up immediately. As of December 31, 2013, 92% of Ontario's defined-benefit plans were underfunded compared to 74% as of December 31, 2005. Our audit titled **Financial Services Commission of Ontario—Pension Plan and Financial Services Regulatory Oversight** encourages the Financial Services Commission of Ontario (FSCO) to make better use of its powers to monitor pension plans and conduct on-site examinations. Over the last three fiscal years, FSCO has conducted on-site examinations of only 11% of underfunded plans on its solvency watch list. As well, the inspections conducted did not adequately cover significant areas, such as whether investments complied with federal investment rules for pension plans. We also encouraged FSCO to closely monitor the financial exposure risk of the Pension Benefits Guarantee Fund, and to strengthen its oversight and licensing of life insurance agents and registration of co-operative corporations.

Adult Community Corrections and the Ontario Parole Board

Potential risk to the public was a major consideration in our audit of **Adult Community Corrections and the Ontario Parole Board**. The Ministry of Community Safety and Correctional Services supervises and provides rehabilitative programming and

treatment to adult offenders serving sentences in the community. To reduce public risk and lower the reoffend rate, the Ministry needs to better monitor the work of its probation and parole officers to ensure policies and procedures are followed, and to focus its available supervisory resources, rehabilitation programs and services on higher-risk offenders. We noted that lower-risk offenders were often oversupervised, while higher-risk offenders were undersupervised.

Child Care Program (Licensed Daycare)

The Ministry of Education is responsible for the safety of children in licensed daycares. Our audit of the **Child Care Program (Licensed Daycare)** found that the Ministry needs to strengthen its inspection processes and related enforcement actions over licensed child care operators in order to reduce the incidence of serious occurrences that put children at risk. More than 29,000 serious occurrences were reported to the Ministry by licensed child care operators between January 1, 2009, and May 31, 2014. We noted many examples where licensed child care operators with a history of non-compliance, considered to be high risk, were not being monitored more closely than well-run child care operations. The Ministry also needs to conduct inspections in a consistent and timely manner, and focus its resources on those child care operations posing a high risk to the safety of children. As well, because criminal record checks are not regularly updated and vulnerable person record checks are not being obtained by child care operators, children in licensed daycares might be being placed in higher-risk situations.

Residential Services for People with Developmental Disabilities

In our audit of **Residential Services for People with Developmental Disabilities**, we noted that about 45% of adult residences have not been inspected since at least 2010. Where inspections

were performed, the Ministry of Community and Social Services did not conduct timely follow-ups to ensure corrective action was taken. As well, the Ministry did not have adequate procedures for verifying the information provided by Ministry-funded agencies providing residential services. Improvements are also needed with respect to the Ministry's serious occurrence reporting system to ensure data accuracy and usefulness for inspection action, follow-up and decision-making.

Decision-makers Must Have Timely, Accurate and Appropriate Information

Having timely, accurate and appropriate information is essential to making effective decisions and undertaking the right actions. Unfortunately, in the majority of our audits this year, we noted that many decisions were made without the benefit of complete and accurate information. Along with this, we saw significant investment in computer applications where the expected accuracy, quality and usefulness of information have not yet been achieved, yet the costs spent on development have exceeded their initial budgets.

Adult Community Corrections and the Ontario Parole Board

In our audit of **Adult Community Corrections and the Ontario Parole Board**, we found that the Ministry of Community Safety and Correctional Services does not have sufficient information on the availability, wait times for, and effectiveness of rehabilitation programs. The Ministry's Offender Tracking Information System does not capture needed information. As well, the Ministry does not have reliable and timely information on offenders who breached the conditions of their releases, or information about the monitoring action taken by probation and parole officers to address these violations (unless an offender's actions resulted in a serious incident).

Palliative Care

Our audit of **Palliative Care** highlighted that the Ministry of Health and Long-Term Care needs to obtain more information on the services that are available, their costs, patients' needs for services and what mix of services would best meet patient needs in a cost-effective way. This information is essential to the development of an integrated and co-ordinated system for the delivery of palliative care in Ontario.

Child Care Program (Licensed Daycare)

We noted that ministry management of the **Child Care Program (Licensed Daycare)** did not have the information necessary to properly oversee this program. For example, consolidated information on complaints, serious occurrences, and the status of operators' licenses and inspections was lacking.

Immunization

During our audit of **Immunization**, we noted that the Ministry of Health and Long-Term Care lacks complete and reliable information to monitor if Ontario's immunization program and delivery mechanisms operate in a cost-effective manner. For example, the Ministry does not track information on the total costs of delivering the immunization program in Ontario and therefore cannot ensure that the program is being delivered cost-effectively. As well, the Ministry estimates that costs will exceed \$160 million (\$85 million more than planned) on a new computer system to capture individuals' immunization information and assess province-wide immunization coverage rates. However, until immunization information is registered by all health-care providers at the time a vaccination is administered, the information that is being captured will not be complete or reliable.

Residential Services for People with Developmental Disabilities

The Ministry of Community and Social Services created the Developmental Services Consolidated Information System database in 2011 to consolidate the client information maintained by various service providers. During our audit of **Residential Services for People with Developmental Disabilities**, we noted that numerous problems exist with the data reliability of this information system. As well, we found that the program lacks meaningful performance indicators, and wait-time information is not tracked consistently across the province.

Ontario Energy Board—Natural Gas Regulation

In our audit of the **Ontario Energy Board—Natural Gas Regulation**, we noted that the Board should more fully assess the different approaches used by gas utilities in recovering their costs, as this has a direct impact on the rates they are able to charge gas ratepayers. The Board needs to more fully verify the accuracy and validity of the information provided by the gas utilities. Over the last 10 years, only one audit of gas cost adjustment accounts has been performed. We noted that Ontarians pay different natural gas rates depending on where they live in the province. This is attributable to gas utilities having different costs for transportation, distribution and storage. A typical residential customer using the same amount of natural gas can have a bill as low as \$98.18 per month or as high as \$115.15 per month, a 17% difference.

Provincial Nominee Program

In our audit of the **Provincial Nominee Program**, we highlighted that the Ministry of Citizenship, Immigration and International Trade does not have complete information to assess program outcomes such as whether any economic benefit was obtained from nominating individuals for immigration into Ontario who didn't have a job offer.

Allocation of Resources Must Consider Equality of Service for Ontarians

People in Ontario who have a similar need for public services expect to receive the same level of service regardless of where in Ontario they live. They also expect funding to service providers to be commensurate with the level of service being provided. However, we found that this is not always the case.

Palliative Care

In our audit on **Palliative Care**, we noted that because eligibility for and supply of palliative care services varies across the province, patients who qualify for services in one region may not have access to the same services if they live in another region.

Adult Community Corrections and the Ontario Parole Board

During our audit of **Adult Community Corrections and the Ontario Parole Board**, we noted that rehabilitation programs intended to reduce the risk of offenders reoffending are not consistently available across the province. We found that about 40 out of 100 probation and parole offices did not offer the Ministry's core programs, such as anger management and substance abuse prevention to their offenders, and the Ministry did not have information on whether the offices used alternative community programs instead. Also, the cost of programs varied significantly across the province. In some geographic areas, costs incurred were more than four to 12 times higher than those incurred in other areas to deliver similar programs.

Residential Services for People with Developmental Disabilities

The Ministry of Community and Social Services funds residential and support services for people with developmental disabilities to help them live

as independently as possible in the community. In the 2013/14 fiscal year, the Ministry paid a total of \$1.16 billion to 240 not-for-profit community agencies operating nearly 2,100 residences that provided residential and support services to people with developmental disabilities. In our audit of **Residential Services for People with Developmental Disabilities**, we noted that the Ministry funds service providers based on what they received in previous years rather than on the level of care required for the people they actually serve. We calculated the cost per bed and cost per person across the system for the 2012/13 fiscal year and found significant variations. For example, the cost per bed for adult group homes ranged from \$21,400 to \$310,000 province-wide, and we also observed large variations within regions, which the Ministry was unable to explain because it did not have good underlying information on what services it was getting for its funding. We further noted that there is no consistent process for children with developmental disabilities to access residential services.

Staff Need More Training

During our audits of the **Provincial Nominee Program**, the **Child Care Program (Licensed Daycare)**, **Adult Community Corrections and the Ontario Parole Board**, and **Residential Services for People with Developmental Disabilities**, we highlighted the need to provide ministry and agency staff with training to help them do their work more consistently and effectively.

Follow-ups on the Value-for-money Audits of 2012

A key part of our Office's work is following up on the implementation of recommendations in our past audit reports. This year, we followed up on the implementation status of 77 recommendations, requiring 170 actions, from the value-for-money audits conducted in 2012. We found that 81% of these actions have been either fully implemented or are in the process of being implemented. While the goal is full implementation, we noted positive intent by the various stakeholders to finish implementing the recommendations that are still in process. Follow-up reports are discussed and presented in **Chapter 4**.

Acknowledgments

I want to thank the many people in the public sector and the broader public sector who were involved in our work for their assistance and co-operation in the completion of this year's audits. We look forward to continuing to serve the Legislative Assembly and, through it, the citizens of Ontario.

Sincerely,



Bonnie Lysyk
Auditor General of Ontario