



**Bonnie Lysyk**  
Auditor General of Ontario

# Reflections

## Introduction

Serving all members of the Legislature and the taxpayers of Ontario as an independent Office of the Assembly is a privilege and a trust. It requires vigilance in balancing objectivity and productive relations, as well as in gathering information for our work. It also requires the fortitude to address significant issues without fear of push-back and reprisal, and to not walk away from them.

On the one hand, establishing overly cordial relationships with our auditees can result in issues being missed and not fixed. On the other hand, antagonistic relationships can prevent people from working together productively and agreeing on what improvements should be made, and how those improvements should be implemented for the benefit of Ontarians. This is a balance that continually has to be considered and adjusted as we conduct our work assessing transparency, accountability and value for money in the public and broader public sectors.

This, my fifth Annual Report as Auditor General of Ontario, comes at a critical time following our October 2017 Special Report regarding certain government accounting practices. Specifically, we raised in the Special Report that we have serious concerns about the way the government is planning to finance and account for the costs of its electricity

rate reduction policy decision. As well, my Office continues to have strong reservations about the way the government claimed certain pension assets on its consolidated financial statements. These are important issues on which our objectivity and independence require us to maintain an uncompromising stance.

While we have noted in this year's value-for-money audit reports areas where planning for service delivery, program implementation, oversight and public reporting needs action, we also have highlighted areas where things are working well, thanks to the solid efforts of thousands of dedicated, hard-working civil servants in Ontario.

These reflections review our serious concerns in the following section, present some themes arising from this year's value-for-money audits and outline some areas that are working well.

## Government's Accounting Distorts Results

We continue to disagree that the government is presently entitled to unilaterally use assets in the Ontario Teachers' Pension Plan, so we believe it does not currently have a pension asset worth \$11.5 billion. We continue to disagree that the balances relating to transactions between power generators and electricity distributors should be reported in

the Province's consolidated financial statements. Finally, we continue to disagree with the government's proposed accounting for its 2017 electricity rate reduction that will keep billions of dollars in real costs of its policy decision from impacting the Province's deficit and net debt figures.

These inappropriate accounting treatments are not in accordance with Canadian Public Sector Accounting Standards (Canadian PSAS). As such, they obscure, or will obscure, the true state of the Province's annual deficits and net debt reported on its consolidated financial statements at a time when Ontario already has the highest sub-sovereign debt in the world.

The government uses these incorrect accounting treatments to claim it has balanced the Province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the Province's finances.

These concerns led us to issue a qualified opinion on the Province's consolidated financial statements for 2016/17 regarding the impact of its accounting on the annual deficit—the first time in the 24 years since Ontario adopted Canadian PSAS for governments that we have issued such an opinion. (Ontario's qualification in 2015/16 was not for an annual deficit misstatement.)

A qualified opinion is not to be taken lightly; it signals that the Auditor believes the statements contain one or more material misstatements or omissions resulting from the misapplication of Canadian PSAS.

We continue to encourage the government to do the right thing and account for the electricity rate reduction and pension assets in accordance with established Canadian Public Sector Accounting Standards. This is discussed further in **Chapter 2 of Volume 1**.

## Themes From Value-for-Money Audits

This year's Annual Report contains 14 value-for-money (VFM) audit reports. Five of these reports address health care, a sector that accounts for more than 40% of all provincial spending and affects every single Ontarian. The remaining nine VFM reports examine aspects of key provincial sectors and programs, including education, social services, farm-support programs, infrastructure, energy, settlement and integration of immigrants, emergency management, and tribunals (specifically, the Assessment Review Board and the Ontario Municipal Board). This year's VFM audits highlight a variety of areas in need of improvement.

Apart from specific findings, we noted several themes common to many of this year's VFM audits that offer a look at areas where the Province can do better. These include:

- Ministries do not always have all of the information needed to make the most appropriate decisions.
- Some government services could be delivered in a timelier way.
- Performance benchmarks are not always met (or sometimes are not set).
- Spending controls and operational oversight need to be improved.
- The level of services the public receives may vary depending upon where you live in Ontario.
- Opportunities exist to eliminate duplicate services.

However, there was one overarching theme this year that was common in varying degrees to almost all of the VFM audits: **the need to improve planning that supports timely and informed decision-making and oversight**—or even to just have a plan of action with ongoing monitoring of the results being achieved—to ensure efficient and cost-effective public services.

## Planning Not Always Done, So Informed Action Not Always Taken

This issue may be tougher to address than it sounds in a climate where the emphasis is often on making decisions or pushing services out the door quickly. Planning generally requires people to assemble and analyze all the relevant data, ask what-if questions, and take a long-term view. This seems contrary to our other theme—that services could be adopted and delivered in a timelier manner—but it is not. Planning can serve to anticipate and put in place systems to speed up effective service delivery once well-thought-out decisions are implemented.

In some cases, we found plans were inadequate to meet existing needs, while in others no plans existed at all to deal with contingencies or emergencies. In still other cases, plans were late or had not been updated in years, with potentially serious implications for all Ontarians. In the case of the electricity rate reduction, the accounting/financing structure and other plans were still being evaluated and developed after the public announcement of the rate reduction was made.

This province has a population of 14 million, along with a talented and hard-working public service. The former means good planning is expected; the latter means good planning is possible.

## Planning for Emergencies

Planning is critical in most sectors, but few more so than **Emergency Management in Ontario**. Our audit of this area found that the last provincial risk assessment was done in 2012—based on emergencies experienced in Ontario up to 2009. This means the current provincial emergency management program has not planned for newer threats related to, for example, climate change, cyberattacks and terrorism.

In addition, the two provincial emergency response plans prepared by Ontario's Emergency Management Office have not been updated since 2008 and 2009. As a result, these plans may not adequately reflect current events or threats.

Oversight of emergency management in Ontario is the responsibility of the Cabinet Committee on Emergency Management—which has not met for several years.

## Planning in Health Care

Health care is a critical sector that touches the life of every single Ontarian. We found areas where appropriate planning could help improve services while containing costs. Lack of planning also led to delays in adopting newer, cutting-edge services.

We noted in our audit of **Cancer Treatment Services**, for example, that the Province's limited capacity to perform stem cell transplants was first identified as an issue in 2009. Lack of timely planning by the Ministry of Health and Long-Term Care (Ministry) to expand services between 2009 and 2015 led to excessive wait times, costly out-of-country transplants, and poorer patient outcomes. The Ministry only approved capital projects to expand transplant programs in Ontario in 2016/17.

Our audit of **Community Health Centres**, mandated to serve vulnerable people who have traditionally had trouble accessing health care, found that the Province does not have a plan that specifies how the Centres fit strategically within the primary-care system and within the overall health-care system, and how their performance should be measured. This also means the Province is unable to direct funding to those Centres that need it most.

We found in our audit of **Laboratory Services in the Health Sector** that the government plans to update the prices it pays community laboratories for tests in 2017/18, nearly 20 years after its last major price update. We noted that if it had planned to implement the new lower prices in 2015/16, the Province could have saved about \$39 million in that year alone.

We also noted in our audit of **Public Health: Chronic Disease Prevention** that Ontario has no policy framework on chronic diseases to guide overall planning and development of programs, or program evaluation. In addition, we found there

were limited formal systems in place to co-ordinate the activities of public health units and share best practices. As well, we noted that it is challenging for public health units to plan programs because the Ministry generally does not finalize funding decisions for the public health units until the last quarter of the fiscal year. This leaves little time for the public health units to deal with unexpected changes in funding.

In our audit of **Ontario Public Drug Programs**, we found that considerable attention has been given to reducing drug costs for Ontarians (although further price reductions are possible). More active planning is needed to determine how to improve the timeliness of reimbursing Ontarians, the cost of non-Formulary drugs listed under the Exceptional Access Program; how to obtain critical information needed to inform decisions to effectively address the opioid crisis in Ontario; and how to maximize recoveries of overpayments to pharmacies.

## Program Planning to Help Farmers

The Ministry of Agriculture, Food and Rural Affairs (Ministry) delivers four main **Farm Support Programs**, through its agency Agricorp, to help farmers manage production risks (for example, weather and disease) and price risks (for example, fluctuations in the costs of goods and services, and in the prices at which they sell their commodities).

Our audit of this area found that the Ministry's existing programs would likely not be sufficient to provide support during extended market crises or natural disasters, and the Ministry had no explicit plan for dealing with such major issues.

In addition, one of the four main computer systems used by Agricorp to administer the support programs is 25 years old, while another is over 10 years old. The systems require many manual work-arounds that cause delays and errors. Although Agricorp has been working for years on renewal of its IT infrastructure, it has not yet determined the cost and time required to complete this renewal.

## Planning to Help Property Owners by Reducing Backlogs

Two tribunals in Ontario serve property owners: the Assessment Review Board (Review Board) hears appeals mainly about property assessments, and the Ontario Municipal Board (Municipal Board) hears appeals primarily related to land-use planning matters.

The Review Board had a backlog of 16,600 unresolved appeals as of March 31, 2017, while the Municipal Board took between 10 months and almost seven years to close complex cases. Each case in the backlog represents a person or business waiting to learn what their property-tax bill will be, or whether they can proceed with their proposed land use. Planning for how to reduce and eventually eliminate the backlog would help thousands of property owners.

## More Co-ordinated Planning to Help Newcomers Settle in Ontario

The federal government is the primary funder of newcomer settlement services in Ontario, but the Province also has a mandate to successfully settle and integrate newcomers.

We found there was limited co-ordination between the two levels of government to avoid duplication of services. We estimated that in 2016/17, for example, about \$30 million in Ontario-funded newcomer services were provided to individuals who were eligible for services already funded by the federal government. Thus, the extent to which the Ministry also needs to fund services for these individuals is unclear. Planning to expand co-ordination between the two levels of government could have helped minimize duplication of services and resulted in savings for Ontario.

## Planning and Action to Align School Board Funding to Needs

The Ministry of Education does not ensure that students with similar needs receive the same level of support no matter where they live in the province, and it gives school boards considerable discretion in how they spend the funding they receive, including funding provided for specific education priorities. Plans to compare and analyze how boards with similar attributes use funding allocated by the Ministry could help the Ministry identify boards that are not operating efficiently or highlight whether further review is necessary.

## Planning and Action to Reduce Employee Sick-Time in Schools

From 2011/12 to the 2015/16 school year, school boards experienced added financial pressures because of an increase in sick days taken by school board employees. A study of over 50 school boards found that for the five-year period, sick days increased by 29%, and the overall sick leave paid as a percentage of payroll increased 25%. In our audit, we found that teacher absenteeism results in fewer funds being available for student services because of the need to pay for substitute teachers. There are also indirect costs associated with teacher absenteeism, including reduced productivity and lower morale for staff and students. Planned actions to reduce sick-time would benefit students by reducing these rising direct and indirect costs.

## Planning and Action to Improve Maintenance of Existing Government-Owned Infrastructure

The Ontario Infrastructure and Lands Corporation is responsible for managing a large and diverse portfolio of real estate owned and leased by Ontario Government ministries and some agencies. Our audit noted that deferred maintenance of buildings has more than doubled from \$420 million as of March 31, 2012, to \$862 million as of March 31,

2017. Over the last six years, the condition of government properties has deteriorated from excellent to almost a poor level of condition as measured by the industry standard. Planning is needed to determine how this can be addressed before properties further deteriorate and costs to improve buildings increase even more.

## Planning and Actions to Fix Electricity Market Design Problems and Increase Fine and Settlement Recoveries

In addition to operating the Ontario wholesale electricity market, the Independent Electricity System Operator (IESO) is responsible for fixing weaknesses and flaws in the design of the electricity market. It investigates suspicious activity by market participants signalling they may be breaking market rules, and fines rule-breakers. It has collected over \$30 million in fines and settlement recoveries since 2011, although it is understood that there is the potential for more recovery. A plan is needed to assess whether additional resources could cover its own costs through additional fines and settlement recoveries. Explicitly legislated investigative powers to compel the production of information would also support the investigative work.

The Ontario Energy Board's Market Surveillance Panel monitors the market operated by the IESO and reports on ways that the market is vulnerable to being abused by market participants because of weaknesses and flaws in its design. Although the Panel has reported on problems with two programs operated by the IESO and has written about 30 reports recommending changes since 2010 on one program and since 2002 on the other program, issues remained outstanding for many years. No significant changes were made to these programs to correct problems that contributed to at least \$260 million in possible ineligible costs being claimed by generators, with only \$168 million being recovered to date. Earlier planned actions could have reduced the breaking of market rules and the need for investigations.

## Planning for Social and Affordable Housing Availability

Challenges for affordable housing are likely to increase over the next 15 years as contracts with housing providers to offer affordable rents for 83,000 units begin to expire (about 50% will have expired by the end of 2020, and the last of them by 2033). Some housing providers have already increased rents and are converting affordable units (that rent for about 20% below market rent) to market-rent units. The Ministry of Housing does not have complete information on how many affordable units have been lost and what the impact has been on tenants.

We also found there is no provincial strategy in place to address Ontario's growing social housing wait list—the longest in Canada. Planning in this area is critical because 185,000 households, representing about 481,000 people, are currently on wait lists for social housing.

## What's Working Well

Our audits are intentionally focused on areas where improvements may be needed. It is important to keep this in mind when reading our Annual Report because there are also many things that are working well in the areas we audited. Here are some examples.

- Most cancer patients are generally receiving treatment in a timely manner.
- The Ministry of Health and Long-Term Care has had some success with its Smoke-Free Ontario Strategy to reduce tobacco use and lower the risk of smoking-related chronic diseases.
- Crop production insurance is helping most crop farmers manage production losses.
- The Ontario Public Drug Programs have provided timely access for eligible recipients when their prescribed drugs are listed on the Formulary.
- Accurate and timely lab results are being delivered to health-care professionals.
- Community Health Centres advocate for and provide programs and services to individuals who otherwise face barriers to health-care services created by poverty, geographic isolation, language, culture and different abilities.
- The Ministry of Housing implemented the portable housing subsidy in 2017 that could help service managers better meet the legislated standard of providing about 187,000 subsidies.
- The Ministry of Education is doing a good job of getting financial information from school boards and monitoring their fiscal health.
- School boards are using their restricted funding for purposes intended and have been increasing their use of group purchasing arrangements to acquire goods and services, which should result in cost savings.
- The Ontario Energy Board's Market Surveillance Panel has been effective in monitoring and reporting inappropriate electricity market conduct and recommending that the Independent Electricity System Operator (IESO) fix problems with the electricity market design.
- The IESO has strong processes for compliance with the appropriate cybersecurity standards.
- More attention is now being given to finding ways to improve emergency management in Ontario and updating the Provincial Nuclear Emergency Response Plan.
- Both the Assessment Review Board and the Ontario Municipal Board fill a role in the justice system under applicable legislation by providing citizens with access to dispute resolution mechanisms to address their property-assessment and other land-use concerns.
- The Ministry's bridge training program is helping many internationally trained newcomers to get the training they need to gain employment. Bridge training service provider contracts completed in the last three years

indicate that 71% of those who completed their bridge training program obtained employment in their field or in a related field.

## Toward Better Accountability

Each year, our Annual Report addresses issues of accountability—and initiatives to help improve accountability—in government and across the broader public sector.

This year, we examined the quality of provincial agencies' and broader-public-sector organizations' public reporting on their activities through their annual reports. We report our findings in **Chapter 4 of Volume 1**.

Thorough, clear and accurate disclosure of operational and financial information is essential to accountability, and is a mandated requirement for provincial and broader-public-sector entities. The Public Sector Accounting Board issued a Statement of Recommended Practice (SORP) that provides guidance to organizations on reporting supplementary information beyond that presented in the financial statements. We found room for improvement by many of the provincial entities we examined in the quality of reporting in their annual reports.

We reviewed the 2015/16 annual reporting of 30 provincial entities, 28 of which issued annual reports, and found that only two, Agricorp and Algonquin Forestry Authority, met all the selected SORP criteria for annual reports. Four others in our sample, the Liquor Control Board of Ontario, the Ontario Energy Board, the Ontario Lottery Gaming Corporation and Ontario Power Generation, met all but one of the criteria. These six entities included in their annual reports performance measures that were clear and included performance targets.

## Review of Government Advertising

The *Government Advertising Act, 2004* (Act), which took effect in late 2005, requires the government to submit most advertisements to the Auditor General for review to ensure they are not partisan. Ads can only run if we have issued an approval for them. **Chapter 5 of Volume 1** contains an account of our activities under the Act.

The 2016/17 fiscal year was the first full year that a series of 2015 amendments to the Act were in effect. These amendments weakened our Office's authority to ensure that public money is not spent on advertising that is not factual or that could give the government a partisan advantage.

In 2016/17, the government spent more than \$58 million on advertising—the most since the 2006/07 fiscal year. Just over 30% of that total was for advertisements we believe had as their primary goal to foster a positive impression of the governing party. Although we were required to approve these ads as compliant with the amended Act, we noted that they would not have passed our review for partisanship under the original Act—and therefore could not have been broadcast or printed in prior years.

In the past, ads needed to provide the public with specific information, and not focus on government giving itself credit.

For example, the government submitted a \$330,000 radio campaign for review in May 2017 to promote the new provincial budget. We noted that the items used vague feel-good statements such as “we’re building a stronger, healthier Ontario” and “it’s a balanced budget for all of us.” Under the previous Act, we would have rejected these advertisements, meaning they could not run. However, these ads were in compliance with the amended Act and we duly approved them.

In addition, the Ministry of Energy spent just over \$1 million in 2016/17, and planned in the

first half of 2017/18 to spend another \$2.9 million, on campaigns to promote the government's plan to cut Ontario Hydro rates by 25% starting in summer 2017. One of the campaigns used the phrases "we've heard you" and "fair for everyone," which led us to conclude that the campaign was self-congratulatory and aimed primarily at ensuring the government gets credit for lower energy prices. Under the amended Act, we were required to approve all the items as compliant, although we had concerns about some of their claims and their self-promotional tone.

## Annual Report in Two Volumes

For the second year, we are presenting our Annual Report in two volumes:

- **Volume 1** contains our examination of the Public Accounts of the Province, our VFM audits, our ongoing analysis of matters relating to improving accountability, our review of government advertising, our Office operations, and discussions on a variety of other matters. We also have one-page summaries of our VFM reports on our website.
- **Volume 2** contains follow-up reports on our 2015 VFM audits and a Special Report that year, and follow-ups on recommendations contained in seven reports tabled in 2016 by the Legislative Assembly's all-party Standing Committee on Public Accounts. These reports were written following hearings into matters raised in our previous Annual Reports. In addition, our Office is for the first time reporting on follow-up work on VFM audits beyond our initial two-year follow-ups. This year we include follow-ups for audit reports issued in 2012, 2013 and 2014. Reflections about what we see overall from our follow-up work are contained in **Volume 2**.

## Acknowledgements

I continue to be grateful for the support of members of the all-party Standing Committee on Public Accounts. I also want to thank the staff in my Office for their outstanding work during the year and their contributions to this Annual Report, and our excellent Panel of Senior Advisers who offer their extensive knowledge, insight and judgment to help steer us in the right direction in addressing issues of importance to all legislators and the public.

As well, thank you to the many people in the public and broader public sectors who were involved in our work for their assistance and co-operation in the completion of this year's audits.

We also express gratitude to the various experts who shared with us their knowledge and advice, and to the public accounting firms that provided us with assistance during the past year and whose relationships we value.

We look forward to continuing to serve the Legislative Assembly and, through it, the citizens of Ontario.

Sincerely,



Bonnie Lysyk  
Auditor General of Ontario

## Our Team

It takes a massive effort by many people to perform the research, audit, writing and administrative-support work required to produce an Annual Report of this scope and substance. The following is a list of the people with our Office who worked to produce this Report:

Anderson, Tara	Fletcher, Kandy	Patel, Mamta
Balachandra, Paranika	Ganatra, Neil	Pedias, Christine
Balakrishnan, Arujunan	Gill, Rashmeet	Pellerin, Louise
Beben, Izabela	Gosse, Scott	Pelow, Bill
Bell, Laura	Gotsis, Vanna	Randoja, Tiina
Benaroya, Anne	Gravenor, Evan	Reuben, Adam
Bertucci, Paul	Green, Mariana	Rogers, Fraser
Blair, Jeremy	Gurgul, Emilia	Saeed, Shariq
Bove, Tino	Hamza, Ali	Sarkar, Christine
Budihardjo, Audelyn	Herberg, Naomi	Sciortino, Margaret
Carello, Teresa	Hill, Peggy	Segota, Romeo
Catarino, David	Jani, Shivansh	Shah, Shreya
Chadha, Kartik	Juseviciene, Vilma	Sidhu, Pasha
Chagani, Gus	Klein, Susan	Sin, Vivian
Chan, Ariane	Koh, Li-Lian	Sisopha, Jennifer
Chan, Larry	Lee, Jennifer	Stavropoulos, Nick
Chan, Sandy	Leung, Benjamin	Stonell, Alice
Chatzidimos, Tom	Lew, Taylor	Szablowski, Victoria
Cheung, Anita	Lozinsky, Arie	Tanudjaja, Georgegiana
Cheung, Brandon	Lu, Jane	Tepelenas, Ellen
Cheung, Helena	MacDonald, Cindy	Thomas, Zachary
Chiu, Rudolph	Mahmood, Muddassir	Tilner, Rachel
Cho, Kim	Malik, Mohak	Tsikritsis, Emanuel
Chohan, Navreen	Man, Julia	Tso, Cynthia
Couturier, Myriam	Martino, Mary	Ulisse, Dora
Cumbo, Wendy	Marume, Kundai	Vanderheyden, Adam
D'Mello, Marian	Mathew, Paul	Volodina, Alla
Deol, Aman	May, Kristy	Walton, Jeremy
DeSouza, Marcia	Merklinger, Bradley	Wanchuk, Brian
Dimitrov, Dimitar	Mohammad, Shuaib	Wang, Jing
Ditta, Sara	Munroe, Roger	Winardi, Kimberly
Dufour, Jesse	Muradzada, Zahid	Wong, Jessica
Dupuis, Vanessa	Myers, Sohani	Wong, Nancy
Ehsas, Qais	Ng, Wendy	Wu Sak Wing, Christine
Elshebiny, Ahmed	Nguyen, Lisa	Yarmolinsky, Michael
Exaltacion, Katrina	Ojisua, Mafu	Yip, Gigi
Fitzmaurice, Thomas	Parmar, Gurinder	Yosipovich, Rebecca
		Young, Denise