
CHAPTER ONE

Overview

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IMPROVING INFORMATION FOR DECISION MAKING

GOOD DECISIONS REQUIRE GOOD INFORMATION

To make the right decisions about the future of each government program or activity, decision makers must be provided with reliable information so that they can assess the economy, efficiency and effectiveness of the program or activity and decide whether it can continue as is, be modified, outsourced or discontinued.

In my *Annual Reports* since 1993 I have stressed that a performance- and results-oriented focus should be the driving force behind reductions in government spending, deficits and debts.

I have urged the government to pursue the following formula which, if achieved, would result in better information for decision making and ultimately better value for money for the taxpayer:

<p>Better accounting for the government's financial affairs plus Better accountability for the government's performance in achieving legislated objectives equals Better value for the taxpayers' money.</p>
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The fundamental requirement for better information is even more important with the government's thrust to shift a portion of the role of the Ontario Public Service from direct program delivery to service management. A consequence of this thrust is that an increasing proportion of public funds will be spent through alternative service delivery arrangements with very little or no direct control over day-to-day operations of service providers. Those service providers can be other levels of government or non-government organizations.

In effect Ontario could well be moving into a two-tier public service consisting of a smaller core public service and a number of arm's length service delivery agents operating in a more "private sector-like" manner. Accountability to the Legislative Assembly will be much more complex in this kind of restructured public service. The government has recognized that achieving better accountability requires clarifying the roles and responsibilities and performance expectations of the parties involved and building effective accountability relationships.

A major concern expressed in my previous *Annual Reports*, and again in this Report, is that the ministries require significant improvements in the quality of information to evaluate whether program services are delivered with due regard for economy and efficiency. Furthermore, procedures to measure and report on program effectiveness are often deficient, especially with regard to programs delivered by separately governed agencies that are funded through transfer payments.

Chapter Three of this Report again contains value for money observations and recommendations for improving the accountability and governance relationships, and the information requirements they entail, between certain ministries and those program service deliverers funded through billions of dollars of transfer payments from those ministries. For example, we found that ministries frequently did not link the funding provided through transfer payments with the service levels and performance of service delivery agents. I believe that the observations and recommendations in this regard are also relevant for any alternative service arrangements to be implemented by the Ontario Public Service. Particularly, decision makers need to know how well, and at what cost, program service is being delivered before any alternative service delivery arrangements are established and what benefits will be obtained by the taxpayers from those new service delivery arrangements, particularly where financial benefits are to be shared with a non-government party.

The current *Audit Act* which governs our audit activities for the Legislative Assembly does not permit us to carry out value for money audits of separately governed transfer payment recipient organizations that are given government funds to achieve legislated purposes. Each year these organizations receive about \$28 billion, which represents about half of the government's annual spending. Permitting my Office to carry out value for money audits of such transfer payment recipient organizations would enable us to more comprehensively and effectively serve the Legislative Assembly, the Standing Committee on Public Accounts and, through them, the taxpayers of Ontario.

ACCOUNTING AND FINANCIAL INFORMATION

I am pleased to report that my auditor's report on the Financial Statements of Ontario for the year ended March 31, 1997 is clear of any qualifications or reservations.

SIGNIFICANT PROGRESS HAS BEEN MADE

As recommended by me and by the Ontario Financial Review Commission in 1995, the government has for the second consecutive year presented the Legislative Assembly with an Annual Report that enables the legislators and the public to better understand and evaluate the province's financial performance, activities and condition.

The Financial Statements of Ontario since 1994, and the *Ontario Budget* since 1996, have been prepared, on my urging, in accordance with the accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. With the PSAAB basis of accounting being used in both

the *Budget* and the province's Financial Statements, the Legislative Assembly is more readily able to compare actual and planned financial performance and results.

Notwithstanding the progress that has been made, there are still areas where improvements are needed. Although summary reconciliations to the PSAAB basis of accounting are provided, the *Estimates* that outline ministry spending on a program-by-program basis are still being prepared on the modified cash basis of accounting. Consequently, legislative spending authority and appropriation controls remain to be converted to the PSAAB basis of accounting. I understand that the government is working toward adopting PSAAB standards for spending authority.

From the several recommendations made by the Ontario Financial Review Commission that remain to be implemented, I would highlight the one dealing with the need to develop an integrated government-wide financial system. In this regard, I note that an implementation plan and timetable have been developed and that a new senior level position has been established to provide leadership for this important project.

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ACCOUNTABILITY

Chapter Two of this Report provides the current status of the many encouraging steps that the government has taken during the past few years toward better accountability to the Legislative Assembly and the taxpayers for performance and results. These steps include the government's firm commitment toward continuously improving the business plans that the ministries prepare and the enactment of a *Public Sector Accountability Act*.

Further improvements to public accountability would be achieved if the amendments to the *Audit Act*, proposed by my Office and endorsed by the Standing Committee on Public Accounts, were enacted.

Chapter Two also indicates that improvements continue to be required in the current legislative estimates review process, which both the Ontario Financial Review Commission and my Office have viewed as requiring significant improvement to be made effective.

VALUE FOR MONEY AUDIT RECOMMENDATIONS

THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The audits covered by this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislative Assembly, public sensitivity or safety, and past audit reports.

Before beginning an audit, office staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally and discussed with the auditee. A management response to our recommendations is received and incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report, and the auditee is given an opportunity to finalize the responses. Those responses are provided with the report sections included in this *Annual Report*.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Immediately prior to the tabling of the *Annual Report*, separate and simultaneous lockups are arranged for members of the Legislative Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer questions from media representatives.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's *Annual Report* for review and calls upon representatives of the audited ministries and agencies to attend as witnesses.

I am pleased to acknowledge the active cooperation of the staff of audited ministries and agencies throughout this year's process. I would also like to express my appreciation to the members of my Office for their diligent and professional contribution to this Report.

SUMMARY OF RECOMMENDATIONS

The following are summaries of the 13 reports on value for money audits contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three indicate that action to implement many of our recommendations is planned or has already been taken.

3.01 Ministry of the Attorney General Courts Administration Program

The Courts Administration Program supports the operations of the court system in Ontario through a network of approximately 250 courthouses and collects fines owed to the province. Total program expenditures for the 1996/97 fiscal year were \$252 million, and revenues collected totalled \$247 million for the year.

We assessed whether: program resources were managed with due regard for economy and efficiency; adequate procedures were in place to measure and report on the Program's effectiveness; and there were proper controls over the collection of fines.

We found that the present structure of the courts administration system is complicated by the absence of a clear division of authority and responsibility between the Ministry and the Judiciary. More clearly defined accountability is needed to ensure that program resources are managed with due regard for economy and efficiency. Other key recommendations are for the Ministry:

- to develop performance indicators to measure and report on the Program's contribution to a modern, more accessible and more effective justice system;

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- to work with the Judiciary to provide better information for dealing with the backlogs of criminal cases; and
 - to improve the collection of fines by transferring overdue fines to the Central Collection Service on a timely basis.

3.02 Ministry of Citizenship, Culture and Recreation

Culture Activity

The purpose of the Ministry's Culture Activity is to encourage the arts, support cultural industries, preserve Ontario's heritage, advance the public library system and oversee cultural agencies. For the 1996/97 fiscal year, expenditures for cultural activities were \$193 million.

We assessed whether: resources were managed with due regard for economy and efficiency; a proper framework was in place to hold cultural agencies accountable for their expenditure of public funds; and satisfactory procedures were in place to measure and report on the effectiveness of the cultural activities.

We recommended that the Ministry:

- strengthen grant eligibility review procedures in order to ensure that only eligible recipients and costs are funded;
- improve the assessment of grant requests to ensure that funding is allocated on a more reasonable and equitable basis;
- strengthen its framework for holding cultural agencies accountable for their expenditures; and
- develop and implement a more comprehensive performance measurement system for assessing the effectiveness of the Culture Activity.

3.03 Ministry of Community and Social Services

Child and Family Intervention Program

The Child and Family Intervention program provides transfer payments to approximately 200 community-based agencies that offer a range of services designed to alleviate social, emotional and/or behavioural problems experienced by children and their families. These include family breakdown, physical or sexual abuse, drug abuse, attempted suicide and depression. Services provided include psychiatric therapy, counselling, skills training and education, as well as residential services to children who require more intensive assistance. For the 1996/97 fiscal year, program expenditures totalled approximately \$189 million, of which approximately \$69 million was spent for residential services.

Our audit assessed whether the Ministry's administrative procedures were adequate to ensure that transfer payments to agencies were reasonable and satisfactorily controlled and whether the quality of services provided was monitored and assessed.

We concluded that the Ministry's administrative procedures required significant improvements to ensure that transfer payments are reasonable and satisfactorily controlled and that the quality of services provided is monitored and assessed. Consequently, we recommended that the Ministry ensure that:

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- funding decisions are based on sufficiently detailed and relevant financial and operational information from agencies;
 - program surpluses accumulated by agencies are identified and recovered on a timely basis; and
 - service quality is in accordance with program expectations.

3.04 Ministry of Community and Social Services Transfer Payment Agency Accountability and Governance

The Ministry of Community and Social Services provides strategic direction and annual funding for service planning and delivery to approximately 3,400 community-based, mostly non-profit agencies. Ministry transfers to all of its agencies for the 1996/97 fiscal year totalled approximately \$2.1 billion.

Our audit objectives were to assess whether the Ministry had established and communicated to its transfer payment agencies reasonable expectations for their accountability to the Ministry as well as for agency governance, and whether procedures were in place to determine if transfer payment recipient agencies were meeting the Ministry's expectations.

We found that the Ministry needs to significantly improve transfer payment agency accountability and encourage effective agency governance. Accordingly, we recommended that the Ministry:

- clearly define and promulgate the roles and responsibilities of both the Ministry and the boards of directors for ensuring that program service delivery is achieved economically, efficiently and effectively;
- establish measurable and meaningful ministry expectations for service outcomes or communicating minimum or acceptable levels of care; and
- periodically evaluate service outcomes or, alternatively, the quality of services provided and agency service delivery costs to ensure that funding is reasonable.

3.05 Ministry of Community and Social Services Young Offender Services Program

The Young Offender Services program provides services primarily to youths 12 to 15 years old who are charged under the federal *Young Offenders Act* with a *Criminal Code of Canada* offence or under the *Provincial Offences Act*. The program protects society through a combination of activities that provide for the safety and security of offenders and actively assist, support and encourage the offenders to become law-abiding citizens. For the 1996/97 fiscal year, the Ministry spent \$127 million on young offender services, including \$79 million in transfer payments to approximately 100 agencies.

Our audit objectives were to assess whether the Ministry's procedures were adequate to ensure compliance with legislative and judicial requirements and program policies and procedures and whether the program was delivered with due regard for economy, efficiency and effectiveness.

Our most significant findings were that the Ministry needs to strengthen its procedures for case management, setting appropriate funding levels and determining program effectiveness. As a

result, we recommended the Ministry ensure that:

- required offender risk/needs assessments and case management plans are initiated, completed and updated on a timely basis;
- case files demonstrate compliance with all terms and conditions of probation and community service orders;
- funding approvals are commensurate with the services provided by agencies; and
- program outcome indicators are developed and implemented to measure and evaluate program effectiveness.

3.06 Ministry of Education and Training Ontario Student Assistance Program

The Ontario Student Assistance Program is a federally and provincially funded program that provides needs-based financial assistance to students to enable them to attend an approved postsecondary institution. Provincial financial assistance to students is provided primarily through loans under the Ontario Student Loans program. As of March 31, 1997, some 438,000 Ontario Student Loans totalling \$2,195 million were guaranteed to banks by the province. About 32%, or \$714 million, was loaned to students who have completed their studies and are repaying their loans. It is expected that approximately \$800 million, or over half of the remaining loans, will be forgiven in the future. Program expenditures for the 1996/97 fiscal year were \$335 million.

Our audit objectives included assessing whether adequate systems and procedures were in place to ensure that the Program was being delivered economically, efficiently and in accordance with its legislated authority and approved policies and guidelines.

Our most significant recommendations were for the Ministry:

- to introduce several measures to reduce the risk and cost of defaulted student loans;
- to make much more timely and effective efforts to identify and recover over \$100 million in loan, loan forgiveness and bursary overpayments, and defaulted student loans; and
- to better verify information provided by students in their applications for assistance and more effectively oversee the program delivery activities of postsecondary institutions.

3.07 Ministry of Environment and Energy Conservation and Prevention Division

The Conservation and Prevention Division is responsible for promoting the reduction of waste and pollutants and the conservation of energy and water. It also administers the *Environmental Assessment Act* and provides funding to municipalities for water and sewage capital projects. For the 1996/97 fiscal year, the Division had about 180 staff and total expenditures of \$224 million, of which \$200 million related to grants provided to municipalities for waste reduction and for water and sewage capital projects.

Our audit objectives were to assess whether satisfactory procedures were in place to measure and report on the performance of the Division in contributing to the effectiveness of the Minis-

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try in protecting the environment and human health and whether grants were disbursed with due regard for economy.

We recommended that the Ministry:

- measure and report on its effectiveness in meeting the provincial waste reduction goal and work with municipalities to reduce the cost of collecting and processing recycled materials in their communities;
- establish performance indicators to measure and report on the effectiveness of the environmental assessment process and monitor compliance with the terms and conditions of approved projects;
- require municipalities to implement, where appropriate, water conservation and system optimization measures before providing any funding for water or sewage expansion projects; and
- better assess municipal eligibility and funding needs for water and sewage projects and ensure timely identification and recovery of project expenditure overpayments.

3.08 Ministry of Finance Employer Health Tax

The *Employer Health Tax Act* requires all employers who have a permanent establishment in Ontario to remit employer health tax on the total Ontario remuneration paid to employees. Employer health tax also applies to all self-employed individuals with over \$40,000 in net self-employment income. The Ministry's Employer Health Tax Branch has primary responsibility for the administration and enforcement of the Act. For the 1996/97 fiscal year, the Ministry collected \$2.8 billion in employer health tax and the Branch's expenditures were \$11.9 million.

We assessed the adequacy of the Ministry's tax collection procedures and concluded that tax payments were being deposited promptly and credited to the appropriate taxpayer accounts and that employer health tax returns were being processed accurately. Additionally, based on the number of field audit staff and the number of field audits being conducted, the overall level of audit coverage was adequate.

However, in order to better detect and follow up on unpaid taxes, we recommended that the Ministry:

- improve the effectiveness of field audits by using all available, pertinent information and a more formalized, risk-based approach to select audit candidates with a high potential for reassessment;
- set up a desk audit function to identify and follow up on inconsistencies and anomalies in employer health tax returns; and
- compare the information in its computer database with other relevant and available information to identify unreported taxes owed by unregistered, self-employed taxpayers and potentially amounting to several million dollars annually.

3.09 Ministry of Health Mental Health Program - Community Based Services Activity

The Community Based Services Activity is administered by the Mental Health Programs and Services Group. The goal of the Activity is to develop a system that will support people with mental illness in living fulfilling lives in the community. The Activity funds community mental health programs which include community-based mental health services, children's mental health programs, residential Homes for Special Care and the community psychiatric payment program. For the 1996/97 fiscal year, transfer payments to community mental health service providers totalled approximately \$176 million.

We assessed whether the Ministry had adequate procedures in place: to measure and report on the effectiveness of the Activity; to ensure compliance with legislation; and to ensure that policies and procedures for the approval, processing and payment of transfer payments were adequate and were being followed in an economic and efficient manner.

We found that significant improvements were required to adequately monitor, assess and report on the Activity's effectiveness in meeting its goal of developing a system that will support people with mental illness in living fulfilling lives in the community.

In particular, we recommended that the Ministry:

- compare the costs and outcomes of community-based care with the costs and outcomes of institutional care for various levels of services/care;
- define acceptable levels of care, establish benchmarks and standardized outcome measures for community-based mental health services and monitor service providers against them; and
- ensure that funding is commensurate with services provided.

3.10 Ministry of Health Public Health Activity

The Ministry's Public Health Branch, under the direction of the Chief Medical Officer of Health, administers the Public Health Activity, which provides funding for programs designed to maintain population health through health protection, health promotion and disease prevention.

For the 1996/97 fiscal year, Public Health Activity expenditures totalled \$283 million, of which approximately \$237 million was spent on transfer payments for the delivery of mandatory programs and services; \$40 million for the purchase of vaccines; and \$6 million for branch operating expenditures.

We assessed whether the Ministry had adequate policies and procedures in place: to ensure that public health programs were funded and delivered with due regard for economy and efficiency and in accordance with applicable legislation; and to measure and report on the effectiveness of provincially funded public health programs.

We found that the Public Health Branch had recently introduced a number of significant initiatives. These included mounting hepatitis B and measles immunization campaigns for children; promoting influenza and pneumococcal vaccines for the elderly; addressing the causes of vaccine wastage; and adopting food safety protocols.

However, to help ensure that it meets its goal of maintaining population health through health protection, health promotion and disease prevention, we recommended that the Ministry:

- ensure that funding to boards of health is allocated equitably;
- ensure that assessments of the immunization status of children are being completed by boards of health in accordance with legislation;
- improve the quality of information available on the delivery and coverage of immunization programs for children and adults and determine whether costs are reasonable;
- improve contact tracing and case management programs for tuberculosis and sexually transmitted diseases; and
- improve the quality of food safety inspections by boards of health.

3.11 Management Board Secretariat Employee Health Care Benefits

The Ontario government provides health care benefit plans for its 71,000 current and 45,000 retired employees and their eligible dependants. Eligible plan members are entitled to partial reimbursement for dental costs as well as for supplementary health expenses such as drugs and vision care. Life insurance coverage is also provided along with long-term disability protection for current employees. The most recent annual cost of providing these benefits was \$192 million.

We assessed whether the Secretariat had adequate procedures in place to manage the health care benefit plans with due regard for economy and in accordance with the terms of the plans. We concluded that to slow the escalating rate of growth in benefit costs, the Secretariat needs to more actively pursue cost-containment strategies, particularly those that do not require union ratification.

We recommended that the Secretariat:

- help ensure claims are paid only for eligible recipients by periodically obtaining information on spousal insurance coverage and the eligibility of family members;
- implement an early intervention program to help reduce short-term absences and identify potential long-term disability claims at an earlier stage; and
- periodically obtain appropriate audit assurance that its insurance carriers are processing claims submitted by employees in accordance with the employee benefit plans.

3.12 Ontario Housing Corporation and Metropolitan Toronto Housing Authority Capital Asset Management

The Ontario Housing Corporation is an agency of the Ministry of Municipal Affairs and Housing and is funded through rental income and subsidies from the provincial and federal governments. The Corporation owns approximately 84,000 rent-geared-to-income housing units which are managed by 54 local housing authorities, including Metropolitan Toronto Housing Authority. These units provide housing for about 250,000 tenants in 310 communities. The Corporation's

property operating expenditures, excluding municipal taxes and depreciation, were \$382 million for the year ended December 31, 1996.

Our audit objective included assessing whether the Corporation had in place systems and procedures to ensure that its rental properties were repaired and maintained economically, efficiently and effectively.

Our more significant recommendations were that the Ontario Housing Corporation and Metropolitan Toronto Housing Authority need to strengthen procedures and operating practices:

- to better assess building conditions and estimate the costs of needed repairs in order to effectively establish priorities for capital repairs;
- to ensure compliance with legislation and corporate policies governing health and safety matters such as the *Ontario Fire Code* and asbestos management; and
- to achieve further savings of several million dollars in utility and maintenance costs.

We also determined the progress made in addressing pertinent recommendations and issues arising from a major review of Metropolitan Toronto Housing Authority operations conducted by outside consultants in 1994. While the Metropolitan Toronto Housing Authority has made significant progress in addressing concerns raised as a result of that review, the benefits of many of the changes will only be realized in 1997 and beyond. Some important changes were still being implemented.

3.13 Ministry of Transportation Commercial Vehicle Safety and Regulation

The Ministry oversees the intercity bus and truck industries, administers the licensing of for-hire transport, and enforces legislation relating to driver and vehicle safety, vehicle weight and size, and the movement of goods. For the 1996/97 fiscal year, the Ministry spent \$21.4 million on commercial vehicle safety activities.

We assessed whether the Ministry had adequate procedures in place: to measure and report on the program's effectiveness in ensuring commercial vehicle safety; to ensure compliance with legislation and ministry policies; and to ensure that resources were managed with due regard for economy and efficiency.

We recommended that the Ministry:

- improve its ability to assess the effectiveness of the new commercial vehicle safety initiatives;
- ensure that its inspection process results in reducing the incidents of non-compliance with legislation by setting minimum standards for the number of vehicles and carriers selected for truck and bus inspections, vehicle weight inspections and facility audits;
- strengthen the enforcement process to ensure that carriers are sanctioned on a timely basis and unsafe vehicles are removed from the road; and
- strengthen control procedures over safety certificates to ensure that only properly inspected commercial vehicles are safety certified.

