
MINISTRY OF COMMUNITY AND SOCIAL SERVICES

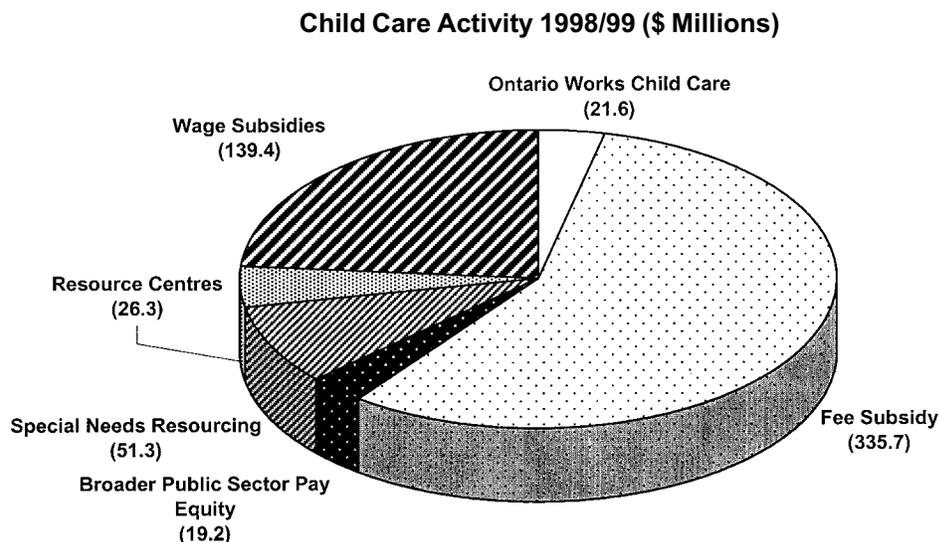
Child Care Activity

The Ministry's Child Care Activity develops policies for licensed child-care programs and subsidizes the cost of a portion of those programs to enhance the availability of affordable, high-quality care for children up to the age of twelve years. This care is, in turn, intended to allow parents to work or undertake training or education leading to employment. However, access to subsidized child care is not an entitlement and is therefore limited by the availability of subsidized child-care spaces, which is determined by ministry funding and the financial contributions of municipalities and approved corporations.

The main objectives of the Child Care Activity are:

- to subsidize child-care costs for children of parents in need either directly, through fee subsidies to child-care programs, or indirectly, through wage subsidies intended to enhance caregiver wages and benefits;
- to provide additional financial support for the care of children with special needs;
- to provide funding for community-based resource centres that provide such things as parent education, drop-in and playground programs, and toy and equipment lending libraries; and
- to license and monitor child-care operators to promote quality child-care services and ensure the health and safety of the children in care.

For 1998/99, ministry child-care expenditures totalled \$593 million as follows:



Source: Ministry of Community and Social Services

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During the 1998/99 fiscal year, the Ministry contracted with 186 municipalities and ministry-approved non-profit corporations to provide local fee subsidy management services on its behalf. These fee subsidy managers either provided subsidized child-care services directly or purchased such services from third-party providers. In total, subsidized child care was provided by 3,400 licensed child-care centres and 140 licensed private home-care agencies for approximately 133,000 and 8,500 children respectively.

Up to December 1997, the cost of the fee subsidy program was shared between the Ministry and its fee subsidy managers on an 80:20 basis, while the costs of the other program components were paid for entirely by the Ministry.

In May 1997, the government announced Local Services Realignment reforms intended to provide a more accountable and less costly child-care delivery system. The reforms included making municipal service delivery agents responsible for 20% of the total cost of the Child Care Activity beginning in January 1998.

The reforms also included consolidating the 186 fee subsidy managers to 47 municipal service delivery agents to streamline program delivery. The transition from fee subsidy managers to municipal service delivery agents had not taken place during the time of our audit. The Ministry intended to implement this change by the end of 1999.

The Ministry currently retains responsibility for inspecting and licensing child-care centres.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's policies and procedures were adequate to ensure that:

- transfer payments to fee subsidy managers and child-care providers were reasonable and adequately controlled; and
- legislative requirements and ministry program policies and procedures were being complied with.

The first objective above focused on ministry expenditures and services provided under the fee and wage subsidy programs because together they accounted for 83% of total program expenditures.

The scope of our audit included a review and analysis of relevant ministry files and administrative procedures as well as interviews with appropriate staff at the Ministry's head office and three area offices. We also visited a number of fee subsidy managers to review their procedures and samples of their fee subsidy needs test files.

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

We conducted our audit during the period from October 1998 to February 1999 with emphasis on expenditures during the 1997/98 fiscal year. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money

and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We reviewed a 1996 report by the Ministry's Comprehensive Audit and Investigation Branch on the Wage Subsidy Program that corroborated many of our findings regarding that program.

OVERALL AUDIT CONCLUSIONS

A number of the audit observations and recommendations in this report are similar to audit observations and recommendations made in our reports on the Child Care Activity in 1989 and 1995. In 1995, the Ministry had agreed to take action to implement our recommendations to correct observed deficiencies, but did not follow through with some of its stated intentions. Consequently, although the Child Care Activity has generally met its legislative requirements, we have again concluded that the Ministry's administrative policies and procedures did not ensure that transfer payments were reasonable and adequately controlled. More specifically, the Ministry needed:

- to ensure that child-care fee and wage subsidy funding decisions reflect changes in local needs over time and are reasonable based on an appropriate assessment of sufficiently detailed financial and operational information;
- to ensure that significant variances between expected and actual services provided and costs incurred are identified, assessed and, where necessary, followed up on a timely basis;
- to obtain additional assurance that all reported ministry-funded surpluses are appropriately determined and recovered;
- to periodically review the eligibility criteria used by fee subsidy managers to ensure that all applicants for child-care fee subsidies are appropriately and consistently needs tested so that only eligible families receive subsidized child care; and
- to periodically review a sample of needs test files maintained by fee subsidy managers and related procedures to ensure compliance with established eligibility requirements.

We also concluded that, to ensure the Child Care Activity's compliance with legislative requirements and the Ministry's own policies and procedures, the Ministry needed to:

- to conduct and adequately document licensing inspections on a more timely basis; and
- to ensure that all serious occurrences and complaints reported to the Ministry are adequately followed up and documented.

DETAILED AUDIT OBSERVATIONS

CHILD-CARE FEE SUBSIDY PROGRAM

FEE SUBSIDY BUDGET REQUESTS

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The Ministry enters into an annual funding agreement with each of its 186 local child-care fee subsidy managers for the administration and delivery of the child-care fee subsidy program. These annual agreements are based on a budget submission package which must be returned to the Ministry within two months of being sent out, which, in some cases, was as late as August of the year to which the package pertained. Area office staff are expected to review the budget requests taking into consideration caseloads, previous years' expenditure surpluses or deficits, and any other relevant, available information. Final budget approvals should be communicated to fee subsidy managers as soon as possible to allow them to make any necessary expenditure adjustments.

We found that the budget request and approval process was not timely. In addition, we found no evidence that the amounts approved were based on assessed needs or reflected previous years' funding surpluses or deficits, as the following examples illustrate:

- Annual budget requests from fee subsidy managers were often not reviewed and approved until near, and in some cases, after the managers' fiscal year-ends.
- Budget requests lacked sufficient information to permit ministry staff to make informed funding decisions. For example, requests generally provided information on the total number of children to be served but did not provide information about the age groups of the children, which would have a significant impact on costs.

We found that child-care costs for children of the same age showed significant differences. For example, for one area office, the daily cost of caring for toddlers ranged from \$24 per day to \$34 per day, a difference of 42%.

- We found no evidence on file to indicate how, or whether, the Ministry determined the reasonableness of the amounts of funding approved. Instead, we found that it approved funding in amounts similar to the amounts approved in the previous year without assessing either need or prior funding surpluses or deficits. For example:
 - A fee subsidy manager with an annual budget of approximately \$670,000 for directly operated child-care services had funding surpluses of \$297,000 and \$150,000 in the previous two years. Nevertheless, its budget was increased by \$95,000 for the 1997/98 fiscal year.
 - Since the 1992/93 fiscal year, the Ministry had annually provided approximately \$73,000 for a pilot project to provide flexible hours of child care to hospital staff. The child-care centre did not have any parents eligible for fee subsidies, and as such, it was not in compliance with the objective of this program.

Recommendation

To help ensure that each fee subsidy manager receives reasonable and appropriate funding, the Ministry should:

- **review and approve budget requests on a more timely basis;**
- **require fee subsidy managers to report information that is sufficient to permit informed funding decisions; and**
- **critically assess budget requests to ensure that approved funding amounts are commensurate with the demand for and value of the underlying services to be provided.**

Ministry Response

The Ministry works within the government business cycle and will administer budget approvals within that cycle. However, the Ministry is developing a framework for service planning and funding allocations to be implemented in the 2000/01 fiscal year. When implemented, the framework will ensure that funding reflects the relative demand for and value of service across the province.

QUARTERLY REPORTING

Fee subsidy managers are required to submit quarterly year-to-date reports of budgeted versus actual expenditures and service data such as the number of families and children served. The first three quarterly reports are due 30 days after the end of their quarters and the fourth-quarter report is due 45 days after year-end. As part of the quarterly reporting process, the Ministry requires fee subsidy managers to highlight, fully explain and describe an appropriate course of action for all budget-to-actual variances greater than 10% or \$10,000 for financial data.

However, for approximately one third of the files we reviewed with variances greater than 10% or \$10,000, either no explanations of the variances were on file or the explanations on file were inadequate. In most cases, there was no evidence of ministry review and follow-up. For example:

- One quarterly report indicated an over-expenditure of \$124,000, or 42% of the fee subsidy manager's total budget, but included no explanation or evidence of review and approval by the Ministry.
- Another quarterly report indicated that the number of children served was 20% less than planned while total expenditures were only 3% below budget, again with no explanation.

In neither case was there any evidence of follow-up by ministry staff.

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Recommendation

In order to ensure the timely identification and follow-up of significant in-year variances in expenditures and service delivery, as required by ministry policy, the Ministry should:

- obtain adequate explanations of such variances; and
- review and approve any necessary corrective action.

Ministry Response

The Ministry developed a Business Practices Guideline in 1999 for implementation in 2000. The guideline provides direction to fee subsidy managers on the timely identification and follow-up of significant in-year variances in expenditures and service delivery, including full reporting of variances. The Ministry will monitor service targets and expenditures through the service contract process and take corrective action as necessary. The variance analysis will be taken into consideration when funding decisions are made.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

In general, recipients of ministry transfer payments in amounts over \$75,000 must prepare and submit an Annual Program Expenditure Reconciliation (APER) together with an audited financial statement no later than four months after the fiscal year-end. The APER is to reconcile a recipient's approved budget with actual expenditures in order to identify ministry-funded program surpluses or deficits. Recovery of identified surplus ministry funding must be under way no later than 12 months after the fiscal year-end in which it arose and must be completed within 24 months.

We found that, where required, APERs were generally received and reviewed on a timely basis. However, in our view, the effectiveness of the process was limited for the following reasons:

- Although municipal fee subsidy managers received over 85% of the total child-care funding, they were exempted from the APER process. As a result, there was no independent assurance that the funds they received were spent as intended by the Ministry.
- For approximately one half of the APERs we reviewed, the accompanying audited financial statements lacked either sufficient detail or the note disclosure necessary to identify inappropriate or ineligible expenditures and to permit the reconciliation of the audited financial statements with the APER-reported actual expenditures.

Recommendation

To improve the effectiveness of the Annual Program Expenditure Reconciliation (APER) process in identifying funding surpluses and inappropriate or ineligible expenditures, the Ministry should:

- **obtain independent assurance for all fee subsidy managers' expenditures either through the APER process or through some other form of independent assurance; and**
- **ensure that the financial statements accompanying APERs are sufficiently detailed or have the required note disclosure to permit the detection of inappropriate or ineligible expenditures as well as the reconciliation of the financial statement with any APER-reported funding surpluses or deficits.**

Ministry Response

In order to improve the effectiveness of the Annual Program Expenditure Reconciliation process, the Ministry implemented a new financial policy in 1998 that requires all fee subsidy managers to complete an Annual Program Expenditure Reconciliation. The first reports were due to the Ministry in April 1999. The Ministry has communicated this requirement in its Business Practices Guideline.

FEE SUBSIDY ELIGIBILITY

The Ministry provides subsidized child care only for children whose parents are in need, children who are developmentally or physically disabled and children in First Nations-operated child-care services. A parent in need is defined as:

- a person eligible for income support under the *Ontario Disability Support Program*, the *Family Benefits Act* or the *Ontario Works Act*; or
- a person who for reasons of financial hardship, inability to obtain regular employment, or lack of a principal family provider, illness, disability or old age, does not have the financial resources to provide child-care services or private-home child care to the person's child or children, as determined in accordance with ministry guidelines.

Eligibility for child-care fee subsidies is determined by the local fee subsidy manager based on ministry guidelines. Once eligibility for fee subsidy has been established, parents may choose to place their child in any child-care centre with an available subsidized space in their area.

NEEDS TEST ASSESSMENT

Eligibility for subsidized child care is dependent on an applicant's family composition, monthly income, budgetary needs and liquid assets, based on the Ministry's *Guidelines for the Determination of Available Income*.

These guidelines allow a degree of discretion to reflect local conditions. However, in our 1989 and 1995 audit reports on this Activity, we reported a number of inconsistencies which

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resulted from the exercise of this discretion and which, in our view, were not affected by local conditions. The Ministry generally agreed with our findings and resultant recommendations, and, in 1995, stated that it was pursuing a way of assessing financial eligibility for fee subsidies that would result in greater consistency in the determination of eligibility across the province.

Notwithstanding the Ministry's earlier stated intentions, many of the previously noted inconsistencies remained, as shown by the following examples:

- Significant differences not affected by local conditions still exist in the discretionary allowable expense deduction limits used to determine available income. For example, for the fee subsidy managers we visited:
 - maximum monthly deductions for laundry expenses ranged from \$25 to \$65;
 - maximum monthly deductions for debt repayment ranged from \$100 to \$500;
 - additional miscellaneous deductions from net income ranged from 10% to 25%, in some cases without maximum dollar limits; and
 - in some cases, RRSPs valued at up to \$25,000 were not considered liquid assets while in other cases all RRSPs were considered liquid assets.
- Practices varied with respect to determining eligibility for child-care fee subsidies for parents with special needs children. For example, we found that within the same area office's jurisdiction, parents of special needs children applying for a child-care subsidy to a municipal fee subsidy manager were not required to be needs tested while the same parents applying to an approved corporate fee subsidy manager were required to be tested.

We noted that the Ministry did not regularly obtain and review the eligibility criteria used by the various local fee subsidy managers and, therefore, could not even be aware of some of these differences.

We also noted that some fee subsidy managers allowed individual child-care centres to charge a discretionary "top-up fee" in addition to the needs test-determined fee that parents must pay. As a result, some child-care centres charged top-up fees while others did not. In addition to the obvious inconsistency, the potential exists that some parents in need could lose access to a subsidized child-care space simply because they could not afford to pay the top-up fee.

Recommendation

To promote greater consistency in the application of needs tests and to help ensure equitable access to subsidized child care, the Ministry should periodically obtain and review the eligibility assessment criteria used by all fee subsidy managers and ensure that any variances are reasonable and clearly attributable to local conditions.

Ministry Response

The Ministry has recently updated its Fee Subsidy Guidelines and has provided training to fee subsidy managers to ensure greater consistency with ministry policy. The cross-provincial use of an Ontario Child Care Technology System and the reduction in the number of fee subsidy managers from almost 200 to 47 (as a result of Local Services Realignment) will also promote more consistency. The Ministry will direct its staff to periodically review the eligibility assessment criteria used by fee subsidy managers to ensure that ministry guidelines are being followed.

REVIEW OF NEEDS TEST FILES

In our 1989 audit of this Activity, we found that needs test files were not systematically checked for completeness and accuracy by the Ministry. As a result, we recommended that the Ministry conduct periodic reviews of needs test files to ensure that the criteria and intent of needs testing were being observed. The Ministry agreed with our recommendation and in 1990 introduced a requirement that each area office review a sample of needs test files for 20% of their fee subsidy managers each year.

In our 1995 audit, we found that this requirement was not adhered to and again recommended that the Ministry conduct timely and effective needs test file reviews based on risk assessments.

During our current audit, we were informed that the requirement for area offices to annually review needs test files for 20% of their subsidy managers was rescinded by the Ministry during the 1995/96 fiscal year and that the requirement to review needs test files was to be added to the area managers' performance contracts. However, we found that this requirement had not been implemented. Consequently, at the time of our audit, there was no requirement in place to review fee subsidy managers' needs test files or procedures. Although one of the area offices we visited was continuing to conduct needs test file reviews, the two other offices we visited were not doing so.

Our review of needs test files and related procedures at a sample of fee subsidy managers indicated the following concerns:

- Internal controls over needs test assessments varied significantly in areas such as supervisory review and approval. For example, at one fee subsidy manager, the needs test assessments were conducted, reviewed and approved by the same person with little supervisory review.
- Requirements for conducting and documenting needs tests varied significantly among fee subsidy managers. For example, requirements for documentation ranged from obtaining copies of a few asset-related documents such as RRSP statements to retaining copies of all documents reviewed.

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Recommendation

To ensure that only eligible families receive subsidized child care, the Ministry should conduct periodic needs test file reviews based on assessed risks. Where deficiencies or inconsistencies are identified, the Ministry should take timely and appropriate corrective action.

Ministry Response

Ministry staff have been directed to conduct annual reviews of a sample of delivery agent needs test files and take timely and appropriate corrective action to ensure that ministry guidelines are being followed.

WAGE SUBSIDY PROGRAM

Wage subsidy grants consist of three distinct components introduced between 1987 and 1992 as follows:

- 1987 – Direct Operating Grants
These grants were based on an agency’s licensed capacity and the age of the children it served. Non-profit agencies were eligible to receive 100% of the calculated amount while for-profit agencies were eligible to receive 50% of the amount calculated.
- 1991 – Wage Enhancement Grants
These grants were determined based on the number of permanent full- and part-time agency employees and were available only to non-profit agencies.
- 1992 – Home Provider Enhancement Grants
These grants provided a daily subsidy for home child-care providers of non-profit agencies.

The Ministry enters into an annual wage subsidy agreement with each eligible child-care agency under which the agencies must ensure that each employee receives a reasonable portion of the total grant. Distributions must not exceed \$9,030 per full-time-equivalent position in a non-profit agency and \$3,230 per full-time-equivalent position in a for-profit agency. Failure to comply with any of the funding conditions may result in a claim for recovery of the grant and ineligibility to receive future grants.

During the 1993/94 fiscal year, the government capped its funding for wage subsidy grants. Subsequently, the Ministry based its distribution of these grants on the agreements in place at that time. As a result, agencies that received grants then receive them now and agencies that did not receive them then do not generally receive them now.

PROGRAM EQUITY

Our review of the Ministry's wage subsidy grant calculation process and the way the Ministry implemented the 1993/94 funding cap identified significant inequities which, in our view, call into question the intent and effectiveness of the wage subsidy program.

For example, none of the grant calculations originally used to establish the amounts of wage subsidies, and hence current agency funding, considered actual wages paid. Although an argument can be made that these calculations were equitable at that time because all agencies were eligible for similar subsidies regardless of actual wages paid, that is no longer the case. Thus it is likely that some agencies that now pay relatively high wages continue to receive wage subsidy grants. However, other, perhaps newer agencies, that were not receiving wage subsidy grants in 1993/94 but may be paying relatively low wages now, are not eligible to receive these grants.

For example, in one of the area offices we visited, a municipality had administered its own wage subsidy program since 1983. Under the terms of this program, average non-supervisory salaries up to \$32,500 per year were eligible for wage subsidies.

During 1998, twelve child-care agencies were determined to be ineligible to continue to receive the municipal subsidy because their average non-supervisory salaries ranged from \$32,500 to \$41,500. However, despite their relatively high salaries, these same 12 centres continued to receive a total of about \$820,000 per year in ministry wage subsidy grants.

We also noted that:

- Unlike municipal wage subsidy programs and many other ministry transfer payment programs, child-care agencies were not required to reapply and demonstrate eligibility for wage subsidy grants annually.
- The practice of providing significantly different amounts of wage subsidies for employees of non-profit and for-profit child-care agencies was not equitable.
- Wage subsidy grants were not increased for agencies that have expanded their capacities since the program was capped in 1993/94. As a result, similarly sized centres could receive significantly different amounts of wage subsidy grants.
- One agency used its entire \$257,000 wage subsidy grant to reduce total operating costs because it was already paying relatively high salaries to all its employees. Although ministry guidelines permit this use of wage subsidy grants, the Regulation to the *Day Nurseries Act* stipulates that wage subsidies are to be used to enhance the salaries and benefits of the employees of child-care centres.
- As a result of the way the Ministry implemented the 1993/94 funding cap on the program, 335 of 2,180 agencies or 15% of all child-care agencies do not receive wage subsidy grants.

In 1996, a report prepared for the Ministry entitled *Improving Ontario's Child Care System* stated that, while current funding invested in wage subsidies should remain in the child-care system, it should be reinvested in a different way. This reinvestment should provide assistance for more families, better focus resources on those in need and provide more equitable funding across the entire system.

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The report recommended that reinvestment should occur in two ways: all licensed operators, both for-profit and non-profit, should receive an equitable grant to maintain stability in the system; and the number of low income families receiving subsidized child care should be increased. The Ministry has not implemented these recommendations. The Ministry informed us that it had not done so because the recommendations had been deferred for future consideration in the context of Local Services Realignment.

Recommendation

To ensure that wage subsidy grants are fairly distributed, the Ministry should reassess its policy and method for subsidy grant distribution to ensure program equity, in accordance with program objectives.

Ministry Response

The Ministry has taken the following steps to more equitably distribute wage subsidy grants:

- ***as funds become available, they can be used to increase wage subsidies in either the commercial or non-profit sector to the non-profit formula level (regardless of date of existence);***
- ***existing wage subsidy funds are to be transferred to the new owner upon the sale of a centre regardless of whether there is a change of corporate status; and***
- ***funding adjustments are to be made when there is a reduction or increase in service capacity.***

WAGE SUBSIDY GRANT CALCULATIONS

Although wage subsidy grants to individual child-care agencies had not increased since the program funding was capped in 1993/94, agencies that are now caring for children in different age groups or that have downsized their programs in terms of either licensed capacity or full-time-equivalent positions should have had their wage subsidy grants recalculated and, where warranted, reduced by the Ministry.

In our review of a sample of wage subsidy grants and available supporting documentation, we noted some discrepancies:

- One quarter of the grants we reviewed showed a reduction in either the agency's licensed capacity or the number of its full-time-equivalent positions since the previous determination of the grant. However, the grants had not been reduced accordingly, which resulted in overpayments ranging from \$232 to \$27,855 per agency per year
- Similarly, for one sixth of the grants we reviewed, we were unable to find any support for a portion, which totalled \$777,000 per year, of the grants paid.

Recommendation

The Ministry should periodically assess the appropriateness of the amounts of wage subsidy grants paid and ensure that assessments are adequately documented and based on current information.

Ministry Response

Consolidated Municipal Service Managers (CMSMs) will have responsibility for wage subsidy funding. The Ministry has directed CMSMs, upon designation, to conduct reviews whenever service providers report significant reductions in service levels. The Ministry will monitor CMSMs' compliance with ministry directives annually.

WAGE SUBSIDY UTILIZATION STATEMENTS

Although wage subsidy grants are exempted from the Ministry's normal APER process, grant recipients must submit an annual Wage Subsidy Utilization Statement, which is intended to ensure that grants are spent in accordance with the Ministry's conditions for funding. As noted above, these conditions include:

- that the grant be spent for the purposes intended;
- that each employee receive a reasonable portion of any wage subsidy, consistent with the agency's pay equity plan; and
- that employees of non-profit agencies and for-profit child-care agencies not receive more than \$9,030 and \$3,230 in wage subsidies per year respectively.

Our review of Wage Subsidy Utilization Statements and related ministry policies and procedures found that they were not effective in meeting their objectives as the following examples illustrate:

- When agencies provided both centre-based and private home-based child care, information in the Wage Subsidy Utilization Statement was not sufficiently detailed to determine whether funds were spent for the purposes intended. For example, for the agencies we reviewed that provided both types of child care, the Wage Subsidy Utilization Statements indicated that only 30.5% to 89.8% of private home-care wage subsidies were spent directly for that purpose. It was not possible to determine how the remaining funding was spent.
- Criteria for assessing whether or not each employee received a reasonable portion of the wage subsidy grant had not been established.
- Since Wage Subsidy Utilization Statements only provided information with respect to total expenditures and number of full-time-equivalent positions, the Ministry could not determine how grant funds were distributed to each individual or whether any individual received more than the maximum allowable amount.

We noted that a number of agencies received wage subsidy funding in excess of the maximum amount of \$9,030 per full-time-equivalent position. Several of them did not declare a funding

surplus on their Wage Subsidy Utilization Statements and consequently were not asked to return the excess amounts.

We also noted that Wage Subsidy Utilization Statements were signed by officers of the agency. However, there was no independent confirmation of the completeness and accuracy of the information reported.

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Recommendations

The Ministry should more effectively determine whether wage subsidies are paid in appropriate amounts and for the purposes intended, based on sufficient information from the Wage Subsidy Utilization Statements.

The Ministry should also consider whether it is advisable to obtain independent confirmation of the completeness and accuracy of information provided in the Wage Subsidy Utilization Statements, as is currently ministry practice for other types of transfer payment Annual Program Expenditure Reconciliations.

Ministry Response

Upon designation, Consolidated Municipal Service Managers (CMSMs) will be required to have child-care service providers reconcile wage subsidy allocations against actual expenditures and to obtain independent confirmation of the information provided. CMSMs will also be required to conduct random sample reviews at least annually of the use of funds. The Ministry will monitor CMSMs' compliance with ministry directives.

LICENSING AND ENFORCEMENT

The *Day Nurseries Act* requires that the Ministry license child-care centres caring for more than five children under the age of 10 years and private home child-care agencies. The licence must be issued before operations begin and annually thereafter. Prior to issuing a licence, the Ministry conducts a formal licensing inspection. These inspections include the completion of a ministry-developed licensing checklist that requires a review of the physical premises, the services provided, and the organization's records, policies and procedures.

TIMELINESS OF LICENSING INSPECTIONS

Operators of a licensed child-care agency must apply for a licence renewal prior to the expiry date of the current licence. Providing that the operator has submitted a completed application for renewal, a licence past its expiry date is deemed to continue until the renewal is granted or refused. However, licences are expected to be renewed prior to their expiry dates except in "unusual circumstances" where the delay originates with the Ministry. In such cases, the licence renewal date becomes the new anniversary date.

Our review of licensing files showed that two thirds of all licensing inspections and resulting licence renewals occurred after the expiry date of the current licence. On average, these inspections and licence renewals occurred approximately one month after the expiry date and, in one case, six months after the expiry date. The reasons for these delays were not documented.

Recommendations

To ensure that child-care operators continue to be in compliance with licensing requirements, the Ministry should conduct inspections and renew licences on a more timely basis, as required by program guidelines.

When licensing inspections and renewals occur after licence expiry dates, the Ministry should ensure that the reason for the delay is documented.

Ministry Response

The Ministry licenses over 3,000 programs. A licence past its expiry date is deemed to continue. The Ministry makes efforts to renew licences in a timely fashion and on average renews them within a month of the renewal date. The Ministry will continue to require that licensing be conducted in a timely manner and monitor staff compliance through its regular management processes.

CRIMINAL REFERENCE CHECKS

In order to help protect children in care, effective December 1996, the Ministry established a requirement that every licensed child-care operator develop and implement a policy for conducting criminal reference checks for all employees. In addition, operators must indicate their compliance with this requirement in writing to the appropriate ministry area office. The area office must retain these letters in the operator's file. Our review of a sample of operators' files found that one quarter of the files did not contain the required letters.

Recommendation

To help ensure that all licensed child-care operators implement the required policy for criminal reference checks, the Ministry should make greater efforts to:

- **monitor operators' confirmations of compliance with criminal reference check requirements; and**
- **take corrective action when necessary to ensure that criminal reference check policies are in place and implemented.**

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Ministry Response

The Ministry has sent a directive to regional offices to remind them to retain letters of compliance in their files. The Ministry is reviewing its current monitoring plan and will strengthen adherence to the requirements.

SERIOUS OCCURRENCES AND COMPLAINTS

SERIOUS OCCURRENCES

The *Day Nurseries Act* requires that all licensed child-care operators report to the Ministry within 24 hours any serious occurrences such as the injury or abuse of children in care. In addition, the Ministry's program guidelines require that a written follow-up report detailing the corrective actions to be taken must be received and reviewed by the Ministry within five working days.

Our review of serious occurrence files maintained in area offices revealed the following:

- In general, serious occurrences were reported to the Ministry within 24 hours as required.
- About one fifth of the required follow-up reports were not received within five working days. On average, these reports were submitted twelve working days after the occurrence, with one being 65 working days late.
- For about one fifth of the serious occurrence reports we reviewed, we found no evidence that ministry staff had reviewed and evaluated the appropriateness of the corrective actions taken.

COMPLAINTS

The Ministry's program guidelines require that all complaints not related to immediate health and safety concerns of children in care be investigated by ministry staff within five working days of notification. Many of these complaints relate to alleged illegal child-care operators—individuals who care for more than five children under 10 years of age but are not licensed under the *Day Nurseries Act*.

For the one third of complaints where the existence of an illegal operator is confirmed as a result of an initial ministry investigative visit, a second follow-up visit must be conducted within one month to confirm that the child-care provider is no longer in breach of the *Day Nurseries Act*.

We reviewed a sample of complaints and found that for approximately one third of the cases where an illegal operator was identified, there was no evidence that the required follow-up visits had been conducted.

Recommendation

As required by ministry policy, the Ministry should take the necessary steps to ensure that:

- **all serious occurrence follow-up reports are reviewed and evaluated for the appropriateness of the corrective actions to be taken; and**
- **all required second follow-up visits resulting from reported complaints are conducted.**

Ministry Response

The Ministry has developed a plan which will assist staff to improve on their documentation of serious occurrence follow-up actions. The Ministry has sent a directive to regional offices to remind them of the Ministry's policies on second follow-up visits resulting from reported complaints.

OTHER MATTER

MANAGEMENT INFORMATION

The Ministry has recently implemented a new computerized Services and Management Information System (SMIS) that monitors expenditure and service information for each child-care provider. Information is entered into the system by area office staff on a quarterly basis. All area office managers are required to confirm in writing to the Ministry's head office that the information entered into the system is complete and accurate.

However, we reviewed a sample of SMIS data for the offices we visited, and found:

- information with respect to expenditures and service data was often either missing or incomplete; and
- no evidence that ministry staff had reviewed and assessed the reasonableness of the information in SMIS to identify significant variances that warranted further review.

In addition, we also noted that the Ministry did not obtain copies of consultants' reports or auditors' management letters issued to the various fee subsidy managers and child-care providers. Such documents would be useful in identifying deficiencies requiring corrective action as well as best practices that could be communicated throughout the province.

Recommendation

The Ministry should ensure that the information in its Service and Management Information System is complete and accurate and used to identify significant variances requiring further review.

Ministry Response

Since its introduction in the 1997/98 fiscal year, the Service Management Information System has become more stable and staff are experienced in its use. Regular training will continue to be provided. Quarterly reporting in conjunction with the Service Management Information System will be used to identify significant variances.

3.03
