

# Chapter 1

## Section 1.01

Treasury Board Secretariat

Ministry of Finance

Ministry of Children, Community and Social Services

Ministry of the Environment, Conservation and Parks

Ministry of Tourism, Culture and Sport

Follow-Up on 2021 Value-for-Money Audit:

# The Public Accounts of the Province of Ontario

### RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1	1				
Recommendation 2	1	1				
Recommendation 3	1	1				
Recommendation 4	1				1	
Recommendation 5	3		3			
Recommendation 6	1	1				
Recommendation 7	3			2	1	
<b>Total</b>	<b>11</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>0</b>
<b>%</b>	<b>100</b>	<b>36</b>	<b>28</b>	<b>18</b>	<b>18</b>	<b>0</b>

### Overall Conclusion

The Treasury Board Secretariat, Ministry of Finance, Ministry of Children, Community and Social Services, Ministry of the Environment, Conservation and Parks, Ministry of Tourism, Culture and Sport (collectively known as the “Ministries”) and the Office of the Provincial Controller Division (a division within the Treasury Board Secretariat), as of October 30, 2023, have fully implemented 36% of the actions we recommended in our 2021 Annual Report. The Treasury Board

Secretariat, Ministries and Office of the Provincial Controller Division have made progress in implementing an additional 28% of the recommendations.

The Treasury Board Secretariat, Ministries and Office of the Provincial Controller Division have fully implemented recommendations such as revising legislation to permit supplies of inventory to be recorded as an asset in accordance with Public Sector Accounting Standards and consolidating the non-Indigenous Children’s Aid Societies.

However, the Treasury Board Secretariat, Ministries and Office of the Provincial Controller have made little

or no progress or will not implement 36% of the recommendations, including a long-term debt reduction strategy.

The status of actions taken on each of our recommendations is described in this report.

## Background

For the year ended March 31, 2021, we issued an unqualified audit opinion for the fourth year in a row on the consolidated financial statements for the Province of Ontario. This means that the consolidated financial statements were free from material errors and fairly presented the province's financial position and operating results. Specific observations made during our audit included the following.

- In response to the COVID-19 pandemic and the need for personal protective equipment (PPE), the Province established a central procurement process to obtain supplies and distribute them through the Ministry of Government and Consumer Services (now known as the Ministry of Public and Business Service Delivery), the Ministry of Health and the University Health Network. This significantly increased the volume of PPE purchased and held by the ministries in 2020/21. The Province recorded supplies inventory as an expense in its consolidated financial statements for the year ended March 31, 2021, rather than as an asset in accordance with Public Sector Accounting Standards.
- During fiscal 2020/21, the Province had provided \$1.39 billion in funding to its 444 municipalities for the purposes of addressing COVID-19 operating costs, and announced an additional \$500 million and \$150 million in operating and transit funding, respectively, to municipalities through the use of funding letters. These letters contained the minimum terms and conditions needed to facilitate the flow of funding to municipalities. However, formally executed transfer payment agreements are a much stronger control and mitigate risks associated with transfer payments, including legal, accounting, recipient accountability and value-for-money, as they establish rights, responsibilities and accountability requirements between the Province and recipients, and include provisions to confirm that the monies provided will be or have been spent for the intended purposes.
- Over the past several years, we have recommended to the Province that the non-Indigenous Children's Aid Societies be consolidated into the Public Accounts. As a result of its ability to impact the operational and financial decisions of the Children's Aid Societies, the Province controls these entities, requiring that their financial positions and results should be formally consolidated into the Public Accounts.
- Perfluoroalkyl and polyfluoroalkyl substances (PFAS) are a broad group of human-made chemicals that are contaminants of emerging concern, which are used in a variety of consumer products, such as adhesives, coatings and cleaning products, as well as industrial processes. Ontario is currently studying PFAS but there are no environmental standards for PFAS at present. The environmental impacts associated with PFAS could have a significant impact on the valuation of contaminated sites liabilities in the province once an environmental standard is established.
- We noted that processes for updating contaminated sites annually and identifying new sites differed among ministries. We recommended that the Province conduct additional work in this area.
- We perform an audit of Ontario Place Corporation (Corporation) annually. Since November 2019, the Corporation had been without any board members. Without a board, there was no one to authorize and approve the audited financial statements. At that time, Ontario Place had not approved nor issued financial statements for its years ending December 31, 2019, and December 31, 2020, as required under the *Ontario Place*

*Corporation Act* and the Agencies and Appointments Directive.

- The Province's growing debt burden also remained a concern, as it had been since we first raised the issue in 2011. In 2021, as in the past, we focused on the critical implications of the growing debt for the Province's finances. We maintain the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt.

We made seven recommendations, consisting of 11 action items, to address our concerns.

## Status of Actions Taken on Recommendations

We conducted assurance work between April 2023 and October 2023. We obtained written representation from the Treasury Board Secretariat, Ministry of Finance, Ministry of Children, Community and Social Services, Ministry of the Environment, Conservation and Parks, Ministry of Tourism, Culture and Sport, and Office of the Provincial Controller Division, that effective November 6, 2023, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

## COVID-19 Impacts on the Audit of the Consolidated Financial Statements

### Recommendation 1

*We recommend that the Ministry of Finance and Treasury Board Secretariat revise the Financial Administration Act to permit supplies of inventory to be recorded as an asset and expensed in the periods used rather than expensed in the period purchased, in accordance with Canadian PSAS.*

**Status: Fully implemented.**

### Details

In our 2021 audit, we found that the Province recorded personal protective equipment supplies as an expense in its 2020/21 consolidated financial statements. We identified accounting risk over the completeness and valuation of these supplies. To address this risk, we held discussions with ministries, performed inventory counts at provincially leased warehouses, evaluated purchase documents and recalculated ministry schedules. In order to implement the recommendation, changes were required to the *Financial Administration Act* to allow for the recognition of non-cash expenses and non-cash investments, including inventory expenses.

In our follow-up, we found that the Ministry of Finance and Treasury Board Secretariat implemented amendments to the *Financial Administration Act* to allow for the recognition of non-cash expenses, and non-cash investments, in accordance with Canadian Public Sector Accounting Standards. These amendments were included as part of the Budget Measures bill that received royal assent on December 9, 2021. Commencing with the Province's 2021/22 consolidated financial statements, inventory is included as an asset.

## Safe Restart Agreement – Use of Funding Letters

### Recommendation 2

*We recommend that the Treasury Board Secretariat work with the ministries to monitor and end the use of funding letters to establish transfer payment programs.*

**Status: Fully implemented.**

### Details

We found in our 2021 audit that the Province announced an additional \$500 million and \$150 million in operating and transit funding, respectively, to municipalities through the use of funding letters in lieu of formal transfer payment agreements. While the funding letters contained the minimum terms and conditions needed to facilitate the flow of funding to municipalities, historically formally executed transfer payment agreements were typically used. Formally executed transfer

payment agreements are much stronger controls and mitigate risks associated with transfer payments, including legal, accounting, recipient accountability and value-for-money.

In our follow-up, we found that the Treasury Board Secretariat established communications with the ministries' Chief Administrative Officers, Assistant Deputy Ministers and other staff through various communication channels, to increase the awareness of the requirements of the Transfer Payment Accountability Directive, including the mandatory use of transfer payment agreements for time-limited and ongoing transfer payments.

## Financial Impact of Consolidation of Non-Indigenous Children's Aid Societies

### Recommendation 3

*To ensure the completeness of accounts reported in the government's financial statements, starting in fiscal year 2022/23, we recommend that the Office of the Provincial Controller Division, in conjunction with the Ministry of Children, Community and Social Services, continue with its plans to consolidate Children's Aid Societies into the Public Accounts.*

**Status: Fully implemented.**

### Details

In our 2021 audit (and in prior years), we found that non-Indigenous Children's Aid Societies were controlled by the government, and recommended that their financial information should be consolidated into the Public Accounts. Even though the government cannot appoint the majority of the Children's Aid Societies' directors, control exists due to the government's ability to direct the use of the assets by appointing a supervisor, having the ability to dissolve the Societies, approving annual funding, issuing directives and appointing some board members.

In our follow-up, we found that the Ministry of Children, Community and Social Services consolidated the non-Indigenous Children's Aid Societies into the Public Accounts as at March 31, 2023.

## Contaminants of Emerging Significance

### Recommendation 4

*We recommend that the Ministry of the Environment, Conservation and Parks, using the existing federal guidelines on perfluoroalkyl and polyfluoroalkyl substances (PFAS) as a guide, perform a risk assessment of the effects of PFAS and develop a regulation or environmental standard outlining the maximum levels of PFAS in the environment in Ontario.*

**Status: Will not be implemented. The Office of the Auditor General of Ontario continues to support the implementation of this recommendation.**

### Details

Perfluoroalkyl and polyfluoroalkyl substances (PFAS) are a broad group of human-made chemicals that are contaminants of emerging concern. PFAS have been used in a wide variety of consumer products, such as adhesives, coatings and cleaning products, as well as industrial processes. There is also growing evidence of the toxicity of PFAS at low concentrations. Responsibility for the protection of the environment is divided between the federal and provincial governments in Canada. The federal government has developed guidelines for some PFAS in soil, sediment, groundwater, drinking water and surface water, however Ontario has not yet developed any provincial standards. Based on a review of a subset of the Province's contaminated site liabilities, an environmental consultant our Office engaged noted there is potential for PFAS contamination in a number of sites examined. The environmental impacts associated with PFAS could have a significant impact on the valuation of contaminated sites liabilities in the Province once an environmental standard is established.

In our follow-up, we found that the Ministry of the Environment, Conservation and Parks has decided to defer decisions on its current interim advice for drinking water in Ontario until after a Health Canada consultation on a proposed drinking water objective for PFAS is completed and the objective is finalized. The consultation period for public commentary closed

on April 12, 2023. The Ministry stated it continues to follow new science and select appropriate reference values to evaluate PFAS toxicity for risk assessments. The Ministry will work with the federal government and other provinces and territories through the Canadian Council of Ministers of the Environment on environmental guidelines for perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA), which are two common types of PFAS, for surface water, soil and groundwater and through the Committee on Drinking Water on new guidelines for PFAS as a group.

The Office of the Auditor General of Ontario continues to believe this is a significant recommendation and continues to recommend establishing an environmental standard or regulation, as it is the first requirement for identifying and recognizing a contaminated site liability. By establishing a standard, the ministries could test whether the PFAS levels exceed the standard and where they do, determine the expected costs to remediate those sites.

## Ongoing Reviews of Contaminated Sites Liabilities

### Recommendation 5

We recommend that the Treasury Board Secretariat work with the ministries to:

- *develop an assessment and valuation policy and procedures to require ministries to perform uniform procedures for reassessing contaminated site liabilities on an annual basis in line with the requirements of the Canadian Public Sector Accounting Standards;*

**Status: In the process of being implemented by March 31, 2025.**

### Details

In our 2021 audit, we noted inconsistencies across ministries in their processes to annually update contaminated sites liabilities and to identify new sites. Each ministry has their own mechanisms in place to

annually update contaminated sites liabilities as well as identify new sites.

In our follow-up, we found that the Assistant Deputy Minister Steering Committee on Contaminated Sites developed a contaminated sites checklist that will require ministries to answer a series of questions about changes to their contaminated sites liabilities (for example, changes to laws, identification of new contaminants on existing sites and changes in cost estimates). If a ministry answers yes to one or more of the questions, then it may be required to recalculate its estimate for its contaminated sites. The checklist is expected to be broadly utilized as part of the March 31, 2025, Public Accounts.

- *develop a policy requiring reviews to be performed at least every three to five years on the extent of contamination and the re-estimation of costs for contaminated sites remediation;*

**Status: In the process of being implemented by March 31, 2025.**

### Details

In our 2021 audit, we found that contaminated site liability estimates were not being updated regularly by the ministries. Through our testing, we found several sites that had cost estimates older than five years. Several sites had liability estimates based on historical site condition data over 10 years old. For some of the sites we audited, we noted that the liability estimates were based on projected costs of remediation from 2014 that had not been updated to reflect increased costs of remediation.

In our follow-up, we found that the Office of the Provincial Controller Division is working with ministries to review and update the Liabilities for Contaminated Sites Guidelines (previously called the Environmental Contamination Financial Management Policy and Guidelines), which will be implemented for the March 31, 2025, Public Accounts.

- *update the contaminated site liability annually to reflect new information.*

**Status: In the process of being implemented by March 31, 2025.**

## Details

In our 2021 audit, we found that ministries were not updating their cost estimates annually as required by the Canadian Public Sector Accounting Standards. At a minimum, ministries should be updating their cost estimates for the cost of inflation from the point where their estimates were last updated to reflect the impact that recent inflation has had on the estimates.

In our follow-up, we found that, starting with the 2024/25 Public Accounts, impacted ministries will be required to implement the updated policy, which states that the carrying value of contaminated site liabilities must be reassessed at least annually.

## Ontario Place Board Governance

### Recommendation 6

*We recommend that the Ministry of Heritage, Sport, Tourism and Culture Industries work with the Ontario Place Corporation and the Public Appointments Secretariat to either expedite the appointment of a Board for the Corporation or delegate approval of the audited financial statements to the Deputy Minister of Heritage, Sport, Tourism and Culture Industries.*

**Status: Fully implemented.**

### Details

Since November 2019, the Ontario Place Corporation had been without any board members. Without a board, there was no one to authorize and approve the audited financial statements. Ontario Place had not approved nor issued financial statements for its years ending December 31, 2019, and December 31, 2020, as required under the *Ontario Place Corporation Act* and the Agencies and Appointments Directive. In lieu of having a board, the responsibility for governance and oversight fell to the Ministry of Heritage, Sport, Tourism and Culture Industries (which was renamed the Ministry of Tourism, Culture and Sport in June 2022). During 2022/23, this responsibility was transferred to the Ministry of Infrastructure.

In our follow-up, we found that a Board Chair was appointed for the Ontario Place Corporation effective March 4, 2022. Subsequently, the December 31, 2019,

and December 31, 2020, audited financial statements were approved, although not yet publicly released.

## Debt Burden Reduction Strategy

### Recommendation 7

*We recommend that the Ministry of Finance:*

- *formally document, publicly communicate, and implement a long-term debt reduction strategy;*

**Status: Will not be implemented. The Office of the Auditor General of Ontario continues to support the implementation of this recommendation.**

### Details

The debt burden reduction strategy is required by the *Fiscal Sustainability, Transparency and Accountability Act, 2019* to include a progress report on supporting actions and the implementation of the debt burden reduction strategy included in the last budget. In our 2021 report, we highlighted that the provincial debt amount increases on an annual basis, and that the debt burden reduction strategy does not address plans to reduce the debt balance.

In our follow-up, we found that the Province does not intend to formally document, publicly communicate and implement a long-term debt reduction strategy. The Province plans to continue to report on its debt burden reduction strategy as required by the *Fiscal Sustainability, Transparency and Accountability Act, 2019*. Unlike a debt reduction strategy, a debt burden reduction strategy does not focus on the reduction of the Province's debt balances but instead aims to reduce the Province's net-debt-to-GDP ratio.

- *explain how the net-debt-to-GDP target is determined;*

**Status: Little or no progress.**

### Details

In our 2021 report, we found that the Province had indicated that its net-debt-to-GDP ratio should not exceed 50.5% over the medium-term outlook, as disclosed in the 2021 Ontario Budget. However, the Province did not outline specific details on how it

determined its target percentage, such as by setting an evidence-based debt sustainability target.

In our follow-up, we found that the Province has included explanations in both the 2022 and 2023 Ontario Budgets of the change in estimated ratios in the medium-term outlook compared to the prior budget as required by the *Fiscal Sustainability, Transparency and Accountability Act, 2019*. However, the 2022 and 2023 Ontario Budgets did not clearly explain how the net-debt-to-GDP target of 42.0% and 40.0%, respectively, were determined to be a target.

- *outline specific details how the Province's debt burden will be managed to achieve its objective.*

**Status: Little or no progress.**

### Details

In our 2021 report, we found that the Province's described objective of the debt burden reduction strategy was to slow the rate of increase in the net-debt-to-GDP ratio and for the ratio to not exceed 50.5% over the medium-term outlook, as disclosed in the 2021 Ontario Budget. However, the Province did not outline specific details on how it planned to achieve its objective (for example, by prioritizing investments, making trade-offs or delaying other investments).

In our follow-up, we found that, while the net-debt-to-GDP ratio target was reduced in the 2022 Ontario Budget and 2023 Ontario Budget to 42.0% and 40.0%, respectively, the Province had not clearly described what the Province did to achieve these reductions. In the 2023 Ontario Budget, the Province explained that the forecasted net-debt-to-GDP is lower than the previous budget because of lower than previously projected deficits and higher nominal GDP growth but did not provide any details of steps taken by the Province to achieve either lower deficits or higher GDP growth.