

# Chapter 1

## Section 1.04

Ministry of Economic Development, Job Creation and Trade

Ministry of Energy

Ministry of Finance

Ministry of Public and Business Service Delivery

Treasury Board Secretariat

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

# COVID-19 Economic Response and Supports for Businesses

### 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		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable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	2	2				
Recommendation 5	1	1				
Recommendation 6	2	1		1		
Recommendation 7	1					1
Recommendation 8	3	2		1		
<b>Total</b>	<b>12</b>	<b>7</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>%</b>	<b>100</b>	<b>59</b>	<b>8</b>	<b>17</b>	<b>8</b>	<b>8</b>

### Overall Conclusion

The Ministry of Economic Development, Job Creation and Trade; the Ministry of Energy; the Ministry of Finance; the Ministry of Public and Business Service Delivery; and the Treasury Board Secretariat, as of July 28, 2023, have fully implemented 59% of the actions we recommended in our *2021 Annual Report*.

The Ministry of Economic Development, Job Creation and Trade has fully implemented several recommended actions, such as compiling lessons learned from the delivery of the Ontario Small Business Support Grant to inform the design and delivery of future economic support programs; reviewing and improving the assessment criteria to require additional financial information or guarantees from applicants that are assessed as high financial risk; and reinforcing

the importance of applicants declaring any actual, potential or perceived conflict of interest in their applications for funding. In addition, the Treasury Board Secretariat has fully implemented the requirement for ministries to develop clear and measurable objectives.

However, the Ministries have made little progress on 17% of the recommended actions: ensuring public reporting on outcome-based performance measures (Treasury Board Secretariat); reviewing whether actual, potential or perceived conflicts of interest exist for a recipient; and determining whether or not funds should be recovered (Ministry of Economic Development, Job Creation and Trade). We also determined that the Ministry of Finance and the Ministry of Energy do not plan to implement the recommendation to recover over \$16 million in funds paid to ineligible recipients in relation to property tax and energy cost rebates.

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

## Background

To alleviate the impact of the COVID-19 pandemic, the Province of Ontario announced on March 31, 2021, \$50.9 billion in financial support would be distributed from 2020 to 2024. The funding was split between supports for the health-care sector and for the economy. At the time, provincial ministries had received approval to deliver approximately \$36.5 billion or 72% of the total commitments, of which we calculated that over \$11.2 billion was earmarked for businesses.

Out of the \$11.2 billion, approximately \$4.5 billion (or 40.2%) was allocated to the five programs and one initiative that we audited: the Ontario Small Business Support Grant, third-party non-consulting services to review high-risk applications for the Ontario Small Business Support Grant program, Property Tax and Energy Cost Rebates, the Ontario Together Fund, Personal Protective Equipment Rebates (Main Street Relief Grant) and the Digital Main Street–Digital Transformation Grant. We determined that, as of July 31, 2021,

\$3.4 billion (or 76%) of the authorized \$4.5 billion had been spent.

We found that the Province had not established any short-term or long-term objectives for its suite of economic support programs for businesses—in other words, what it sought to achieve with the over \$11.2 billion in spending authorized as of March 31, 2021. Ministries also did not establish outcome-based measures with which program success could be evaluated. Where individual ministries tracked spending under individual programs, this information was not consolidated, nor was it tracked as COVID-19 economic support spending. We collected this information.

Our audit also found that, as a consequence of speeding up the delivery of programs once a funding decision was made, eligibility controls were either missing entirely, poorly designed, or not applied. For example, in the case of the Ontario Small Business Support Grant, payments were made to thousands of ineligible or suspicious applications. For this program, the Province initially relied on applicant-reported information without verifying whether the information was true, asking for supporting documentation, or at a minimum, assessing the reasonableness of the information being provided.

Besides examining five targeted support programs, our audit confirmed that the Province did not inform business owners in advance of publicly announcing restrictions to business operations. This meant businesses did not have sufficient time to prepare for closing or reopening their operations, in some cases further contributing to financial losses. For example, business owners found out on April 1, 2021, through a public announcement, that the Province would be imposing a province-wide “emergency brake” effective April 3, only two days later.

Some of our significant findings were:

- In August 2021, the Province wrote off over \$210 million paid to approximately 14,500 ineligible recipients of the Ontario Small Business Support Grant, identified through application reviews performed by a consulting

firm during the course of the program. The Ministries of Finance; Economic Development, Job Creation and Trade (Economic Development Ministry); and Government and Consumer Services (now the Ministry of Public and Business Service Delivery) did not make any attempts to recover funds paid to ineligible recipients. Excluded from the \$210 million was a further roughly \$6 million paid to 212 suspicious recipients that were still under investigation by the Economic Development Ministry. These recipients were reported by public tips, financial institutions, as well as internal review by the Ministries.

- The amounts granted in the Ontario Small Business Support Grant were not proportionate to businesses' needs. The minimum grant awarded was \$10,000. Some recipients reported that they lost as little as \$0.02 or experienced no change at all in their revenues, yet received \$10,000.
- Some businesses that experienced significant revenue declines were not eligible for the Ontario Small Business Support Grant. Only businesses that were required to close or significantly restrict services due to the December 26, 2020, province-wide shutdown were eligible for supports. Other businesses that nonetheless were impacted by the pandemic did not receive supports. Examples include laundromats and dry cleaners; manufacturing, supply chain, transportation and logistics services; and wineries and breweries.
- The Economic Development Ministry did not validate information about the progress of projects supported by the Ontario Together Fund. Instead it relied on self-reported information from the grant recipients. One company that received \$1.8 million in funding went bankrupt while other projects were not completed by the date required in the agreement. At the time of our audit, 15 or 28% of the 54 Ontario Together Fund projects had been delayed in various stages. The Ministry approved a total of \$15.8 million in funding for these delayed projects, \$9.7 million of which had already been paid out to the businesses by July 31, 2021.
- The Economic Development Ministry did not identify actual, potential or perceived conflicts of interest as defined by contracts. For example, the Chief Executive Officer of a company that was awarded a \$2.5 million contract under the Ontario Together Fund was a member of the Ministers' COVID-19 Vaccine Task Force. In addition, the Chief Technology Officer and Executive Vice President of Marketing of the same company was a member of the Canadian Automotive Partnership Council, which the Economic Development Minister also sat on.
- In the Personal Protective Equipment (PPE) Rebates program, eligible businesses could receive up to \$1,000 toward their costs incurred for PPE. The Economic Development Ministry told us the grant amount was determined by "an estimate made at the time to provide a reasonable level of urgent assistance to small businesses to offset unexpected PPE costs." The committed budget for this program was \$65 million and the program ran from November 16, 2020, to March 31, 2021, or about five months. Despite being widely communicated, the application uptake was only 18% of the committed budget for the program.
- We found that the delivery of the Digital Main Street–Digital Transformation Grants benefited from well-established systems and processes.

We made eight recommendations, consisting of 12 action items, to address our audit findings. We received commitment from the Treasury Board Secretariat as well as the Ministries of Finance; Economic Development, Job Creation and Trade; Government and Consumer Services (now the Ministry of Public and Business Service Delivery); and Energy that they would take action to address our recommendations.

## Standing Committee on COVID-19 Economic Response and Supports for Businesses

On March 23, 2022, the Standing Committee on COVID-19 Economic Response and Supports for Businesses (Committee) held a public hearing on our 2021 audit of COVID-19 Economic Response and Supports for Businesses. In February 2023, the Committee tabled a report in the Legislature resulting from this hearing. The Committee endorsed our findings and recommendations, and made 12 additional recommendations. The Ministries reported back to the Committee in June 2023. The Committee's recommendations and our follow-up on its recommendations are found in **Chapter 3, Section 3.02** of our *2023 Annual Report*.

## Status of Actions Taken on Recommendations

We conducted assurance work between April 2023 and July 2023. We obtained written representation from the Ministry of Economic Development, Job Creation and Trade; the Ministry of Energy; the Ministry of Finance; the Ministry of Public and Business Service Delivery; and the Treasury Board Secretariat that effective November 20, 2023, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

### Some Small Businesses Not Eligible for Ontario Small Business Support Grant

#### Recommendation 1

*To determine whether the Ontario Small Business Support Grant was effective in providing supports to small businesses that were impacted by public health restrictions,*

*we recommend that the Ministry of Economic Development, Job Creation and Trade, in collaboration with the Ministry of Finance, and the Ministry of Government and Consumer Services, review lessons learned from the delivery of the Ontario Small Business Support Grant and provide this information to the Ontario Jobs and Recovery Committee to inform the design and delivery of future economic support programs for businesses.*

**Status:** Fully implemented.

#### Details

In our 2021 audit, we found that the program eligibility criteria for the Ontario Small Business Support Grant meant that some small businesses were ineligible for supports even though they had been impacted by public health restrictions affecting their operations. For example, only businesses that were required to close or significantly restrict services due to the December 26, 2020, province-wide shutdown were eligible for supports. Other businesses that nonetheless experienced significant revenue declines did not receive supports. For example, hotels were not required to close but had to significantly restrict their other income-producing services, such as hosting weddings, events and meetings in their non-accommodation facilities. Our audit also found that some businesses received financial support that was more than their reported revenue loss. For example, some recipients reported that they lost as little as \$0.02 or experienced no change at all in their revenues, yet received \$10,000.

In our follow-up, we found that the Ministry of Economic Development, Job Creation and Trade (Ministry) submitted a lessons-learned document on the delivery of the Ontario Small Business Support Grant to the Treasury Board/Management Board of Cabinet in January 2023. The document was submitted to the Treasury Board instead of the Ontario Jobs and Recovery Committee because the committee was no longer operational.

The document outlined recommendations for future small business grants based on key audit observations

from our 2021 audit. One of the key recommendations in the lessons-learned document was to eliminate the auto-approval approach for all incoming applications for future small business support grants to significantly reduce the number of ineligible businesses receiving payments. The Ontario Small Business Relief Grant program, which was launched in January 2022 to provide financial support to small businesses that were required to close indoor operations, required all applications to be reviewed by Ministry staff. Another recommendation in the lessons-learned document is for the creation and delivery of mandatory training for all staff on program requirement/eligibility criteria and Transfer Payment Ontario (TPON—system used for application processing). According to the Ministry, training material was delivered to staff for both the Ontario Travel and Tourism Small Business Support Grant, launched in June 2021, and the Ontario Small Business Relief Grant, launched subsequent to our 2021 audit.

Another recommendation noted in the lessons-learned document was a mandatory requirement for submission of documents at the time of application to assess authenticity and eligibility. According to the application guides, both the Ontario Travel and Tourism Small Business Support Grant and the Ontario Small Business Relief Grant require applicants to provide business documentation (such as void cheques, business bank statements, identification of all businesses owned or controlled by the applicant including the businesses' names and business numbers) at the time of application. For the Ontario Small Business Relief Grant, the business number and legal name was to be confirmed in real time against the Canada Revenue Agency database via Service Ontario's Business Directory. In addition, the Ministry (in conjunction with the Ministry of Public and Business Service Delivery) is also considering establishing a direct relationship with financial institutions prior to any new program launch to identify key contacts for each financial institution to support the review and verification of banking documents.

## Over \$16 Million Paid to Over 3,000 Ineligible Recipients

### Recommendation 2

*So that property tax and energy cost rebates made to ineligible businesses are recovered on a timely basis, we recommend that the Ministry of Finance and the Ministry of Energy continue to recover funds paid to ineligible recipients.*

**Status: Will not be implemented.**

**The Office of the Auditor General of Ontario continues to support the implementation of this recommendation.**

### Details

In our 2021 audit, we found that the Ministry of Finance and Ministry of Energy had determined that payments were made to ineligible businesses during the course of the Property Tax and Energy Cost Rebates program because the initial system and manual controls were not strong enough to detect and screen out all the types of ineligible businesses that applied. About \$14.3 million in property tax reimbursements was paid to 2,463 ineligible businesses, and about \$1.7 million in energy cost reimbursements was paid to 602 ineligible businesses. As of October 4, 2021, the Ministry of Finance and the Ministry of Energy had recovered approximately \$850,000 from 229 businesses, or about 5.3% of the payments.

In our follow-up, we found that the Ministry of Finance and the Ministry of Energy have recovered approximately \$930,000 of ineligible payments (comprising \$420,000 by the Ministry of Finance and \$510,000 by the Ministry of Energy). However, the total recovery of approximately \$930,000 is only about 5.8% of the total ineligible payments of over \$16 million. The Ministries of Finance and Energy told us that “the government will not pursue further recovery of the property tax and energy costs rebate made to ineligible recipients” due to the “significant challenges and global economic uncertainty businesses have faced over the past three years.” In June 2023, the Ministries of Finance and Energy received approval from the Lieutenant Governor for the write-off of ineligible payments.

## Economic Development Ministry Did Not Have Sufficient Monitoring Processes over Projects

### Recommendation 3

*So that the Ministry of Economic Development, Job Creation and Trade can effectively oversee the progress of projects approved under the Ontario Together Fund, we recommend that the Ministry validate information reported by funding recipients in interim reports to ensure that the information is complete and accurate.*

**Status:** In the process of being implemented by January 2024.

### Details

In our 2021 audit, we found that the Ministry of Economic Development, Job Creation and Trade (Ministry) did not validate information about the progress of projects and instead relied on self-reported information from the grant recipients. Site visits were all conducted virtually through a live walkthrough using webcams due to public health restrictions, but were never recorded. In addition, the Ministry told us that during the interim reporting process, it did not typically perform external checks on the financial condition of companies, such as a review of annual reports, media scans and (if the company is public) its valuation on the stock exchange.

In our follow-up, the Ministry told us that staff now review the interim reports for completeness. According to the Ministry, for the ongoing projects, the Ministry will review financial statements, conduct site visits (in person where safe to do so), and conduct media scans as part of the interim report review process. The Ministry told us that the new practice will be implemented starting January 2024.

## Contract Worth \$1.8 Million Awarded to Business That Went Bankrupt

### Recommendation 4

*So that funding under the Ontario Together Fund is awarded to businesses that have the capacity to*

*complete their projects, we recommend that the Ministry of Economic Development, Job Creation and Trade:*

- *review and improve its assessment criteria to require additional financial information or guarantee from applicants that are assessed as high financial risk;*

**Status:** Fully implemented.

### Details

In our 2021 audit, we found that the Ministry of Economic Development, Job Creation and Trade (Ministry) awarded a \$1.8 million contract to a company that went bankrupt eight months later. Prior to the company declaring bankruptcy in May 2021, the Ministry had paid \$1,087,164, or approximately 61% of the contract value to the company. When assessing the business's application, Ministry staff noted concerns regarding the business's financial situation and rated the working capital risk as high because external financing for the project was unconfirmed and revenues up to 2019 were minimal. Despite this risk assessment, the Ministry awarded the contract to the business. The contract that the Province signed with the business was unsecured, which meant that the Ministry did not have priority in reclaiming what it paid. According to the Ministry, it did not expect to recover any portion of the \$1,087,164 that had been paid out.

In our follow-up, the Ministry informed us that, in order to ensure that businesses participating in the Ontario Together Fund have the capacity to undertake projects, the Ministry, for new applicants subsequent to our audit, requested additional financial information for projects that are assessed as high financial risk. The requirement of project financing was incorporated into the contracts with the applicants. For two recipients, the Ministry was able to obtain guarantees from parent companies confirming that they would meet financing commitments in case of any cash shortfall from the applicant.

- *monitor and mitigate changes to each project's overall risks during its lifecycle.*

**Status:** Fully implemented.

### Details

In our follow-up, we found that the Ministry of Economic Development, Job Creation and Trade (Ministry) staff monitor projects and project risk by conducting and documenting virtual site visits and onsite visits, including having the company provide a virtual tour of its facility when possible. According to the Ministry, the project monitoring guide provides guidance on assigning risk and follow-up, as required. The Ministry raised its monitoring level based on interim site visits for four projects that were behind schedule, and amending agreements with extensions were signed.

## Over One-Quarter of Funded Projects Have Been Delayed

### Recommendation 5

*To prevent further delays in future Ontario Together Fund projects, we recommend that the Ministry of Economic Development, Job Creation and Trade use provisions in contracts, including clawback measures, to recover funds from recipients that are unlikely to complete projects.*

**Status: Fully implemented.**

### Details

In our 2021 audit, we found that 15 or 28% of the 54 Ontario Together Fund projects were delayed in various stages, meaning that these businesses received money to help produce Personal Protective Equipment (PPE) or other pandemic-related equipment but were unable to deliver on their agreement. The Ministry of Economic Development, Job Creation and Trade (Ministry) had approved a total of \$15.8 million in funding for these delayed projects, \$9.7 million of which had already been paid out to the businesses by July 31, 2021. The Ministry extended the project-completion deadline for all these projects. On average, the Ministry granted an extension from three to six months for these companies.

In our follow-up, we found that the Ministry had noted that there were 19 Ontario Together Fund projects that were eligible for clawbacks and holdbacks due to shortfalls in eligible project investment since inception of the program. The Ministry exercised

clawbacks on all 19 projects. In addition, there was one project that was unlikely to be completed and the Ministry demanded funds back from this company.

## Perceived Conflicts of Interest Were Not Disclosed or Identified

### Recommendation 6

*So that any actual, potential or perceived conflicts of interest are identified prior to contracts being awarded to businesses under the Ontario Together Fund, we recommend that the Ministry of Economic Development, Job Creation and Trade, as part of the application and assessment process:*

- *review whether actual, potential or perceived conflicts of interest exist and determine whether or not funds should be recovered and if the contract should be disengaged;*

**Status: Little or no progress.**

### Details

In our 2021 audit, we found that the Ministry of Economic Development, Job Creation and Trade (Ministry) did not identify actual, potential or perceived conflicts of interest as defined by contracts. For example, the Chief Executive Officer of a company that was awarded a \$2.5 million contract was a member of the Ministers' COVID-19 Vaccine Task Force. In addition, the Chief Technology Officer and Executive Vice President of Marketing of the same company was a member of the Canadian Automotive Partnership Council, which the Economic Development Minister also sat on. At the time of our audit, the Ministry told us that it was unaware of these perceived conflicts. Ministry staff had not taken steps to determine whether any actual, potential or perceived conflicts of interest existed during the assessment process.

In our follow-up, the Ministry noted that it does not have full visibility on interests/activities of company officers, and the onus is on grant recipients to report any actual, potential or perceived conflicts of interest as it relates to them. With respect to conflicts of interest identified in the audit, the Ministry worked with its Legal Services Branch to conclude that it was unaware

of any facts or information that would lead it to conclude that the Chief Executive Officer's participation in the Ministers' COVID-19 Vaccine Task Force could constitute a conflict of interest. However, the Ministry had not yet taken any additional steps to assess whether participation on the COVID-19 Vaccine Task Force had influenced the awarding of the contract to the company or the amount of the contract.

- *reinforce the importance of applicants declaring any actual, potential or perceived conflict of interest in their applications for funding.*

**Status:** Fully implemented.

### Details

In our follow-up, we found that, to reinforce that applicants are required to disclose actual, potential or perceived conflicts of interest at the application stage, the Ministry had included company attestation regarding conflicts of interest in the Ontario Together Fund application form. In addition, the conflict-of-interest-disclosure requirement was added in the program guidelines. These guidelines state that, as part of the application process, each applicant would be required to declare that they have no actual, potential, or perceived conflicts of interest related to the application process and/or the execution of the project (subject to funding approval).

## No Centralized Tracking of Approved Funding

### Recommendation 7

*To facilitate proper oversight in the Province's COVID-19 spending, we recommend that the Treasury Board Secretariat compile COVID-19 program expenditure data from provincial ministries and report amounts spent against amounts authorized.*

**Status:** No longer applicable.

### Details

In our 2021 audit, we found that the Treasury Board Secretariat (Secretariat)—the central provincial body responsible for facilitating approval of funding requests

from ministries and monitoring the status of spending against approved amounts—did not track how much of the \$50.9 billion the Province committed to as part of its COVID-19 response had been authorized for spending or how much of the authorized funding had been spent. As of March 31, 2021, based on our own analysis of more than 300 business case submissions to the Treasury Board/Management Board of Cabinet from March 2020 to March 31, 2021, we found that a total of \$36.5 billion had been authorized to be spent.

According to the Secretariat, as time-limited COVID-19 funding winds down, there is no need to present COVID-19 funding against actual spending.

## Program Results Not Publicly Communicated

### Recommendation 8

*So that the Province of Ontario can assess the effectiveness of its COVID-19 economic support and recovery initiatives for businesses, we recommend that the Treasury Board Secretariat:*

- *require ministries responsible for the economic support and recovery initiatives for Ontario's businesses to develop clear, measurable short and long-term objectives for the initiatives;*
- *establish outcome-based performance measures based on the objectives;*

**Status:** Fully implemented.

### Details

In our 2021 audit, we found that none of the three action plans the Province released during the first year of the COVID-19 pandemic contained clear and measurable outcomes for the Province's COVID-19 economic support programs. The three action plans were the primary way through which the Province communicated to Ontarians how it intended to support the various sectors in the province, such as health, education, social services, and the economy in response to the COVID-19 pandemic. We found that all three plans made general commitments intended to (1) protect



people's health, and (2) support jobs and the economy. However, such broad commitments are difficult to measure. Our audit also found that most of the performance measures established for the programs we audited were output-based, such as the number of applications received and approved and the number of contracts awarded. As a result, the various ministries could not assess whether programs achieved their objectives. The only outcome-based metric we identified was for the Digital Main Street Grant (number of businesses that launched an online store after receiving support). We also noted that ministries reported on the results of the output-based performance measures only through the quarterly progress reports submitted to the Treasury Board/Management Board of Cabinet, which were not publicly available.

In our follow-up, we found that the Treasury Board Secretariat (Secretariat) is implementing the first phase of the Transfer Payment Performance Measurement Framework. According to the Secretariat, the Transfer Payment Performance Measurement Framework will require ministries to use a common central platform (Transfer Payment Ontario system) to report on program outcomes for all new time-limited and discretionary transfer payment programs (including economic support and recovery initiatives). All ministries were responsible for identifying existing performance measures that align with the framework and submitting their plans to transition collection to Transfer Payment Ontario by June 2022. According to the Secretariat, all ministries have submitted their Transfer Payment Performance Measurement Framework

implementation plans. In addition, in May 2022, the Secretariat revised/updated the business case template for in-year Treasury Board/Management Board of Cabinet requests that contained an updated "Ongoing Performance Monitoring and Evaluation" section for ministries to include performance measurement plans to demonstrate progress toward key objectives and outcomes.

According to the Secretariat, full implementation of the Transfer Payment Performance Measurement Framework is an ongoing process during which all new programs are required to be compliant from program launch; and all existing programs are to be transitioned as transfer payment agreements are renewed. The Secretariat plans to continue to monitor the implementation of requirements for existing programs through implementation plans, which are submitted annually.

- *publicly report on the results.*

**Status: Little or no progress.**

#### Details

According to the Secretariat, in alignment with 2022/23 reporting, ministries were directed to provide information in their 2022/23 annual reports regarding their performance/outcomes, including for programs in response to the COVID-19 pandemic. Although the Secretariat has recommended that ministries publicly report on performance measures, we saw no evidence of any public reporting of relevant performance measures by the Ministries of Economic Development, Job Creation and Trade, Finance or Energy in their annual reports as recommended by the Secretariat.