Introduction

This Annual Report, my fourth as the Auditor General of Ontario, is important for several reasons.

First, our value-for-money audits this year provide Members of the Legislative Assembly and the general public with insight into four key areas—health care, mental-health care, the environment, and construction of roads and public transit—that touch the life of nearly every Ontarian. Together with our other value-for-money audits of general government procurement, and employment and training, the areas that we have audited account for billions of dollars of provincial spending.

Second, this Report addresses an important, albeit complex, aspect of the province’s finances pertaining to the government’s accounting treatment of jointly sponsored public-sector pension plans. This is addressed in detail in Chapters 2 and 4 of Volume 1 of the Annual Report.

Third, we are for the first time issuing our Annual Report in two volumes:

- **Volume 1** contains our examination of the public accounts of the province, our value-for-money audits, our continuing analysis of specific matters relevant to achieving better accountability, our review of government advertising, our Office operations, and a discussion on a variety of other matters. As a point of interest, we are publishing one-page summaries of each value-for-money audit report and certain other sections of this Report on our website this year.

- **Volume 2** contains follow-up reports on our 2014 audits, follow-ups on three of our special reports issued between 2012 and 2015, and follow-ups on the recommendations contained in reports tabled during the last year by the Legislative Assembly’s all-party Standing Committee on Public Accounts. These Committee reports were written following hearings on matters covered in previous Annual Reports.

Finally, we established an audit team to focus on information technology (IT) audits in the public and broader public sectors, and to provide internal IT support to our value-for-money and financial-statement audit teams. This year Chapter 4 of Volume 1 also includes a short report that sets the stage for future IT audit work to be conducted by my Office.

Over the past year, I have been grateful for the support of the members of the all-party Standing Committee on Public Accounts. I also want to thank the staff of my Office for their outstanding work and contributions to this Report, and I want to highlight the continuing co-operation and assistance of senior officials and staff in the public and broader public sectors.
Public Accounts and the Government’s Accounting Treatment of Public-Sector Pensions

For the first time in the 23 years since the Province adopted Canadian generally accepted accounting standards for governments, the government received a qualified audit opinion on the Province’s consolidated financial statements. This was the result of the government’s accounting treatment of pension assets of two pension funds it co-sponsors with teachers and public servants.

We take the view, supported by standards of the Public Sector Accounting Board, that the government cannot include these co-sponsored assets in its statements because it has no legal, regulatory or contractual right to make use of the assets without first securing the agreement of each pension plan’s joint sponsor.

The government adjusted its 2015/16 consolidated financial statements to reflect this position, but did not restate the 2014/15 comparative figures to reflect that this treatment also applies to prior years. As a result, as required under Canadian Auditing Standards, I qualified my audit opinion because users of the financial statements could not make a valid comparison of this year’s statements to last year’s.

For those seeking to better understand the issue, we have included a more detailed discussion of the accounting treatment of pension plans in Chapter 4 of Volume 1.

Still with the Public Accounts, in Chapter 2 of Volume 1, we reiterate the view expressed in previous Annual Reports that, with respect to the Province’s debt burden, the government should provide legislators and the public with long-term targets for addressing the current and projected debt. We also continue to caution against using legislated accounting treatments instead of following Canadian generally accepted accounting standards.

Value-for-Money Audits

In reviewing the results of our audits this year, a few common themes stand out: funding models need to be reviewed to ensure funding is provided based on needs rather than on historical funding patterns; better information is required for decision-making; some services need to be timelier; greater transparency through improved public reporting is needed; and ministries need to conduct more analysis of underlying issues to better understand and address them.

However, it is the concept of “shared responsibilities” for service delivery and capital projects in the public and broader public sectors that stands out. This concept also extends to the roles of government, ministries, agencies, for-profit and not-for-profit organizations, and other stakeholders in protecting our environment.

Shared Responsibilities for Service Delivery and Capital Projects

During our audits this year, the public servants with whom we dealt were clearly passionate about delivering services and capital projects to the public in the best way possible, in accordance with legislation and within allocated budgets. This passion for making a difference is what draws many people to work in the public and broader public sectors.

As time has passed and the public sector has evolved in Ontario, decision-making about how services and capital projects are actually delivered does not always rest directly and solely with ministries or broader-public-sector entities. Many non-government service providers, such as for-profit and not-for-profit organizations, physicians, contractors and suppliers (and their associations) are starting to play bigger roles in how and when services are provided and capital projects are delivered. This was a common thread in the majority of our audits this year. The involvement of these groups is necessary and positive, and they bring knowledge, expertise and experience to the table.
However, what has not changed, and will likely not change in the near future, is that the public continues to hold government, ministries and the broader-public-sector entities accountable when the delivery of service is unsatisfactory, or when value for money is not achieved. As such, staff in the ministries and the broader public sector have difficult decisions to make in order to maintain positive relationships with service providers and their associations, while at the same time holding them to account for the economical, efficient and effective use of public money. Responsibilities for ensuring value for money are increasingly becoming shared responsibilities.

Given that ultimate accountability still rests with government, ministries and the broader public sector, we believe there is still a strong need for staff within the public and broader public sectors to be able to make appropriate difficult decisions and take appropriate difficult actions in the best interest of taxpayers—even when doing so may not always align with the views of their service providers. During some of this year’s audits, we saw constraints on, or hesitation by, public servants because of concerns about the impact some decisions and actions could have on relationships with service providers.

Shared Responsibilities Still Require Oversight

When used in the same sentence as “public sector,” the terms “oversight” and “accountability” in some people’s minds have the same meaning as “excessive bureaucracy.” As a consequence, it seems to us that ministries and broader-public-sector entities may not accept ownership of a program, or may be unable or reluctant to conduct the oversight and monitoring necessary to ensure that programs are delivered efficiently and cost-effectively, because this work may be viewed as “excessively bureaucratic.” Excessive bureaucracy has existed, and likely still exists to some extent, in all governments. However, this should not be confused with “appropriate oversight.” Many publicly funded services that touch Ontarians are being delivered, as previously mentioned, by many service providers throughout the province, where the public still ultimately holds government accountable to make sure that they are delivered in a timely, efficient and effective way. Appropriate oversight is essential to ensure this happens. This point arose in most of the audits we conducted this year.

Shared Responsibilities to Protect the Environment

Three of our audits this year address the environment and touch on shared responsibilities. Government, ministries, the broader public sector, not-for-profit and for-profit organizations and the general public all contribute to the condition of our physical environment. Ultimately, the public expects appropriate public consultation, effective government oversight of operations affecting the environment, and assurance that decisions affecting Ontarians and their environment take into account their health, finances and overall well-being.

Health Care

This year, we performed value-for-money audits on some important areas in this sector—Large Community Hospital Operations, Physician Billing, and Electronic Health Records’ Implementation Status.

Every resident of the province will at one time or another come into contact with the health-care system, and the budget of the Ministry of Health and Long-Term Care (Ministry) reflects this, accounting for 40 cents of every dollar the province spends.

Considering that the province has a population of more than 13 million, I believe the Ministry and its health-care partners generally do a good job of providing care in the vast majority of cases. However, this is one sector where any kind of subpar performance can have critical—and sometimes tragic—consequences.
One overriding issue relates to the growing number of seniors requiring a wide range of health services. Demographers have warned for decades that aging baby boomers will be making increasingly heavy demands on the health-care system, but government planning has thus far not fully addressed the need for more long-term-care homes and other facilities necessary to relieve the strain on hospitals.

**Large Community Hospital Operations**

In 2015/16, Ontario’s 57 large community hospitals, which account for almost half of the province’s 31,000 publicly funded hospital beds, recorded 4.3 million visits to emergency rooms and performed 1.07 million surgical procedures. Funding to all large community hospitals accounted for about $7.89 billion, or 46% of the $17 billion spent on 147 public hospitals in Ontario in 2015/16.

Our audit found that nine out of 10 patients treated in the emergency rooms of the three large community hospitals we visited typically received timely care, and left the hospital within about three hours. However, the one in 10 with conditions serious enough to warrant admission to hospital waited longer than would be expected in the emergency room.

We also determined that operating rooms are underutilized, with most hospitals closing most operating rooms on evenings, weekends, statutory holidays, March break and for two to 10 weeks in the summer. During these periods, no elective surgeries are performed, and only limited numbers of operating rooms remain open for emergency surgeries.

At the three hospitals we visited, one in four patients with critical or life-threatening conditions had to wait an average of four hours for surgeries that should have started within two. Half of patients who should have undergone emergency surgery within two to eight hours waited an average of 10 or more hours longer.

Data from the Canadian Institute for Health Information also indicated that patients in Ontario hospitals had the second-highest rate of sepsis, a potentially life-threatening complication of an infection, in Canada. High bed-occupancy rates in hospitals contribute to the likelihood of a patient becoming infected during a hospital stay.

As of March 2016, more than 4,000 people were occupying hospital beds across Ontario, even though they no longer needed them, while awaiting home care or accommodation in other institutions. We calculated that hospitals could have treated about 37,550 more patients a year if this had not been the situation.

**Physician Billing**

Ontario’s 30,000 physicians, among the best remunerated in Canada, were paid $11.6 billion in 2015/16, accounting for 23% of Ontario’s total health-care spending. Physicians operate as independent service providers and are not government employees; instead, they have traditionally billed the Province for their services under the Ontario Health Insurance Plan.

To encourage family physicians to see more patients and to offer their patients more comprehensive and continuous care, the Ministry of Health and Long-Term Care (Ministry) introduced new models that encourage physicians to form group practices. Most of these models pay family physicians based on the number of patients enrolled with them for a pre-determined basket of services (called base capitation payments) rather than on a per-service basis.

We found that the Province paid physicians for base capitation under the most popular group practices (Family Health Organizations) about $522 million more in 2014/15 than it would have using the traditional fee-for-service model, in part because physicians were compensated for approximately 1.78 million patients that they had enrolled but did not treat that year.
The incremental cost of patient-enrolment models has not always led to more timely access to a family physician. Enrolled patients are still visiting walk-in clinics, other physicians and hospital emergency rooms for services treatable by their family physician. We also noted that in 2014/15, physicians in most group practices worked an average of between 3.4 and four days a week, and many did not work the number of weeknight or weekend hours required by the Ministry.

Further, the Ministry does not investigate many anomalous or possibly inappropriate billings, and does not have a cost-effective enforcement mechanism to recover inappropriate payments made to physicians. As well, taxpayers continue to pay significant amounts—$329 million in 2016—for the rising cost of physician medical-liability protection.

Electronic Health Records’ Implementation Status

An Electronic Health Record (EHR) is a digital lifetime record of a person’s health and health-care history, updated in real time, and readily and securely available to authorized health-care professionals. Benefits are many and include, for instance, a reduction in duplicate medical tests because there is immediate access to complete patient records at the point of patient care. The government had at one time committed to providing an EHR for every Ontarian by 2015.

EHR is an important initiative with the goal of improving the quality of patient care. However, the Ministry of Health and Long-Term Care (Ministry) never established an overall strategy and budget for the entire EHR initiative that included the expected funding of costs likely to be incurred by health agencies and organizations involved in this initiative. Over the 14 years that the government has been working on this initiative (up to 2015/16), the EHR initiative has cost the province’s health-care sector more than $8 billion—even though parts of the initiative are still not fully functional. Our key message is that it is important to have an overall strategy, budget and realistic timeline for such a major initiative, in order to assess whether costs incurred are reasonable in relation to a planned budget, and whether the project is implemented as designed and according to the expected timeline.

The full participation of health-care organizations and professionals such as hospitals and labs in the EHR initiative is also critical—but eHealth Ontario, an agency that the Ministry noted is the “principal partner in delivering an EHR,” cannot compel these parties to contribute patient information to EHR systems. This has contributed to significant problems with functional integration and completeness of data.

Most health-care professionals we interviewed and surveyed did not yet fully use the available systems, with over one-third saying they did not know how to use the systems.

Mental-Health Services

This year, we produced audit reports that examined Specialty Psychiatric Hospital Services, Child and Youth Mental Health, and Housing and Supportive Services for People with Mental Health Issues (Community-Based).

One in five Ontarians will experience mental-health issues in their lifetime, and these issues often start in childhood and adolescence. We found that demand for care is rising dramatically, but the government has not updated its service-delivery plans and approaches to meet the demand.

Specialty Psychiatric Hospital Services

Ontario’s four specialty psychiatric hospitals are the province’s only public hospitals that focus primarily on providing mental-health services. They account for about half of the province’s 2,760 long-term mental-health beds, used to treat people with the most severe or complex forms of mental illness.

It costs more to treat psychiatric patients at specialty hospitals than at other hospitals or in the community, and demand for mental-health services
has increased. The number of people going to hospital emergency departments for mental-health reasons increased 21% across the province between 2011/12 and 2015/16.

Our audit found that the Ministry of Health and Long-Term Care (Ministry) does not collect or report wait times for specialty psychiatric hospital services like it does for general hospitals. Data collected from the specialty psychiatric hospitals indicates that wait times increased at each of the hospitals between 2011/12 and 2015/16, with some patients waiting over three months for treatment.

At the same time, about one in 10 patients in specialty psychiatric hospitals between 2011/12 and 2015/16 did not actually need such specialty care, but could not be discharged because no other accommodation was available. Had these patients been discharged promptly, specialty psychiatric hospitals could have cared for an additional 1,400 people in 2015/16.

We also noted that Ontario does not have provincial mental-health standards, and there is currently no timetable for their development and implementation. As a result, individual hospitals have created their own standards for patient admission, treatment and discharge, and these standards differ between hospitals.

In 2014, the Waypoint Centre for Mental Health opened a new building that houses its high-security program to treat forensic patients. Since then, 90 deficiencies impacting staff and patient safety were identified, and these deficiencies contributed to 800 reported safety hazards.

**Child and Youth Mental Health**

The Ministry of Children and Youth Services (Ministry) provides substantial funding—$438 million in 2015/16—to more than 400 service providers and agencies that directly deliver mental-health services to about 120,000 clients across the province.

We found that hospital emergency-room visits and in-patient hospitalizations have increased more than 50% since 2008/09 for children and youth with mental-health problems, signalling a growing problem. Additionally, a lack of effective Ministry and agency procedures and standards may be preventing children and youth from receiving the level of service they need in the community on a timely basis.

We noted that the Ministry does not examine the reasons for the significant differences between agencies in cost per client and client caseload per worker. We found significant variances that should have been followed up by the Ministry. For example, about one in five agencies providing services across five core mental-health services reported average costs per client that were at least 50% higher than the provincial average.

In addition, the Ministry does not monitor whether agencies comply with its program requirements for service delivery, and we found that, in many cases, agencies do not comply. For example, the agencies we visited did not always help in the transition of discharged children and youth to other services, putting treatment gains already achieved at risk.

**Housing and Supportive Services for People with Mental Health Issues**

The Ontario government subsidizes over 12,300 supportive-housing units, and funds support services to individuals with serious mental illness who reside in these funded units. The shift that began in the 1990s from institutional to community mental-health services increased the need for mental-health community housing with appropriate community-based support services.

In 2015/16, the Ministry of Health and Long-Term Care (Ministry) spent more than $100 million on operating and capital costs of mental-health housing, and, through the Local Health Integration Networks, another $629 million on mental-health support services, including services for clients living in mental-health supportive housing.
As with our 2002 and 2008 audits, we again found that the Ministry still lacks consolidated information on the demand for mental-health supportive housing. Without such information, the Ministry has been unable to set goals for how many mental-health supportive housing units should be established for those in need.

As of March 2016, wait times to access mental-health supportive housing in one of the regions we visited ranged from one year to seven years; in another region we visited, there were more than 11,000 people waiting for housing placements that could take between 2.3 and 4.5 years. Long wait times are expensive for the Province, because the cost to keep an individual in a psychiatric hospital while they await other accommodations is about nine times that of living in mental-health supportive housing in the community. Further, we noted that agency wait-lists for housing do not prioritize high-need individuals, or those awaiting discharge from psychiatric hospitals.

The Environment

This year, we produced audit reports that examined Environmental Approvals, Environmental Assessments and Climate Change.

Environmental Approvals

In 2013, southern Ontario ranked among the highest in Canada for emissions of sulphur dioxide and fine particulate matter—contaminants known to cause respiratory problems. Environment Canada rated the water as marginal or poor quality in 22% of Ontario’s freshwater rivers, which is significantly worse than the national average of 14%.

There are potentially many polluters across Ontario operating without proper approvals and only minimal oversight from the Ministry of the Environment and Climate Change (Ministry). Instead of proactively identifying these emitters, the Ministry relies largely on public complaints to identify emitters operating without environmental approvals.

The Ministry does not monitor over 200,000 approvals issued more than 15 years ago, nor have these approvals been updated to meet current environmental standards or to reflect emitters’ current operations. As well, the Ministry does not know how many of these emitters are still operating. About 80% of the 32,500 emitters that received approvals in the last 15 years have never been inspected for compliance with their approvals, and the Ministry has little information on the risk they pose to the environment. Ministry inspections of the other 20% of emitters over the last five years found that, on average, between 20% and 47% violated the conditions of their approvals, thus indicating a need for more frequent inspections.

The government has put greater emphasis on the polluter-pays principle, but taxpayers are still funding 80% of program costs, and remain at risk of having to pay for much of the clean-up costs of contamination and environmental damage caused by emitters. Our 2015 Annual Report contained a section in Chapter 3, 3.10 Management of Contaminated Sites that discussed contaminated sites in Ontario.

Environmental Assessments

The Environmental Assessment Act (Act) was passed 40 years ago and has not been significantly amended since 1996. It applies broadly to many public-sector projects and plans, but not to the private sector (except for electricity generation and transmission, waste management, and municipal infrastructure built by the private sector). When effectively conducted, environmental assessments can identify and assess stakeholder concerns and measures to prevent or mitigate negative environmental impact before a project or plan proceeds.

The Act falls short of achieving its intended purpose because of legislative gaps, despite a number of amendments since it was enacted. For instance, we found that Ontario is the only Canadian jurisdiction that generally does not require environmental assessments for private-sector projects in, for
example, mining and chemical manufacturing, which can have and have had extensive long-term environmental impacts. Of the 10 contaminated sites with the largest rehabilitation costs in Ontario, four are former private-sector mineral-extraction sites whose rehabilitation will cost the Province an estimated $968 million. In addition to our section on contaminated sites noted above, our 2015 Annual Report also contained a section in Chapter 3, 3.11, on the Mines and Minerals Program.

Although the Act applies to government proposals, plans and programs, it does not prescribe the types of plans and programs that must be assessed, and the government sometimes uses other legislation to exempt certain plans from assessment. As a result, significant long-term government initiatives have been implemented without an assessment of their full environmental impact.

There are no clear criteria to ensure Ministerial decisions about public requests for more rigorous environmental assessment processes are made objectively and for the protection of the environment. The Ministry also provides insufficient information about projects—and sometimes none at all—to enable the public to participate knowledgeably in the environmental assessment process.

**Climate Change**

In 2018, Ontario plans to join Quebec and California in a cap-and-trade system to combat climate change by requiring emitters to obtain “allowances”—licences to emit greenhouse gases—for each tonne of greenhouse gases they produce. Ontario expects to generate revenues from allowances of about $8 billion between 2017 and 2020, which the government has stated will be spent on emission-reduction initiatives.

Our audit noted that the Ministry’s own external environmental consultant projected that only 20% of the emission reductions—about 3.8 megatonnes (Mt)—required to meet Ontario’s 2020 target will occur in the province. This projection includes the impact of spending cap-and-trade revenue on greenhouse-gas reduction initiatives and the public’s change in behaviour in response to the cost of cap and trade.

Because Ontario intends to enter into a linked cap-and-trade system, it plans to achieve the remaining 80% (14.9 Mt) of its target by allowing Ontario emitters to purchase allowances to emit greenhouse gases from Quebec and California emitters. However, given the current oversupply of cap-and-trade allowances in Quebec and California’s auctions, it is unlikely that the reduction of 14.9 Mt will be fully attributable to Ontario’s participation in the linked system. Ontario emitters are expected to pay Quebec and California an estimated $466 million for allowances between 2017 and 2020. Based on early forecasts in 2015 used to inform program design, the Ministry estimated this could rise to $2.2 billion in 2030.

Our audit highlights the need for clear public reporting on how Ontario plans to meet its emission-reduction targets. No formal agreements or rules have yet been established among the three jurisdictions to prevent the same emission reduction from being reported in more than one jurisdiction.

The government’s internally compiled 2016 Climate Change Action Plan (Action Plan), created after the external consultant’s work, outlines how the projected $8 billion in cap-and-trade revenues will be spent to achieve emissions reductions of 9.8 Mt in 2020. This amount of reductions in emissions far exceeds the 3.8 Mt estimated by the external consultant. Both the Ministry’s and the consultant’s estimates include the impact of spending the same $8 billion in cap-and-trade revenue, but on potentially different greenhouse-gas reduction initiatives. More analysis is needed on how reductions will be achieved from initiatives identified in the Action Plan. For example, the Action Plan proposes to spend up to $1.32 billion to reduce electricity prices and achieve a 3-Mt reduction of greenhouse gases—but there was no analysis to support this estimate.
In addition, we found provincial ministries and agencies did not yet routinely consider how their decisions will impact greenhouse-gas emissions, and the Ministry of the Environment and Climate Change could do more to provide government-wide guidance.

More than two-thirds of the 37 actions set out in the Ministry's 2011–2014 Adaptation Strategy and Action Plan were not completed at the time of our audit.

Construction of Roads and Public Transit

This year, we examined Metrolinx—Public Transit Construction Contract Awarding and Oversight and Ministry of Transportation—Road Infrastructure Contract Awarding and Oversight.

Metrolinx—Public Transit Construction Contract Awarding and Oversight

One in every seven dollars of Ontario capital spending goes to construction projects overseen by Metrolinx, the government corporation that oversees GO Transit services and the Regional Transportation Plan in the Greater Toronto and Hamilton Area. Over the past five years, Metrolinx has spent about $4 billion to build almost 520 projects, and it is expected to spend another $27 billion over the next 10 years.

We found Metrolinx does not have adequate processes in place to consistently ensure value for money in its delivery of construction projects. There is a significant risk that it is spending more than it needs to because of deficiencies in its oversight process around construction contracts.

The lack of a process or penalties to hold design consultants and construction contractors accountable when they deliver work that is late or of poor quality contributes to late projects, inconveniences to commuters, and additional costs for Metrolinx and taxpayers.

Metrolinx does not always enforce its contractual right to recover payments from design consultants who have contributed to cost overruns resulting from their errors. As well, Metrolinx has consistently rehired poorly performing contractors who also have contributed to project delays—and when they caused delays, they were not assessed penalties, such as liquidated damages (late fines). Further, Metrolinx has not fully addressed the issue of contractors who breach safety regulations. For example, Metrolinx does not in these cases perform follow-up inspections, or exclude the contractors from bidding on future contracts for a period of time.

As well, we noted that Metrolinx has not managed its relationship with CN and CP in a way that ensures value for money, and more oversight is needed for work performed by them for Metrolinx.

Ministry of Transportation—Road Infrastructure Construction Contract Awarding and Oversight

Over the past five years, the Ministry of Transportation (Ministry) has completed almost 2,100 road projects at a cost of about $6.1 billion. About $1.4 billion of this total was spent on asphalt to build highway pavement.

Experts have raised concerns about premature cracks in Ontario highways as a result of the substandard quality of asphalt used in their construction. The Ministry expects that in the next 10 years, road-construction work will cost about $18 billion, with $14 billion of that earmarked for rehabilitating existing infrastructure including roads, and the remaining $4 billion to build new infrastructure. For the five highway jobs we examined in detail, the Ministry paid $23 million to repair premature asphalt cracking, on top of the $143 million originally paid to initially pave these highways.

The Ministry allowed the Ontario Road Builders' Association (ORBA) and the Ontario Hot Mix Producers Association (OHMPA), representing contractors, asphalt producers and cement suppliers, to significantly influence the Ministry's internal operational policies, which, not unexpectedly, now benefit primarily ORBA and OHMPA members. The
Ministry also delayed implementation of tests that they validated in 2007 to identify asphalt likely to crack prematurely—one test was implemented five years late, while another still has not been implemented across all contracts. As well, the Ministry pays contractors bonuses when they use the quality of asphalt specified in the contract—something contractors would normally be expected to do without a bonus.

We also noted that some engineers who certify structures as correctly built are hired by the contractor, and have provided certifications on infrastructure that was later confirmed to have problems.

The Ministry is lenient with contractors who perform poorly, allowing those that have received unsatisfactory ratings in the past to continue to bid for and win significant amounts of new work from the Ministry. In addition, the Ministry has paid to repair sub-standard work, even when the repairs should have been covered by the contractor’s warranty.

### Government Procurement

The Government of Ontario spends an average of $3.5 billion a year to procure goods and services (not including capital spending), so it is important to ensure procurement is done in a way that gives the Province value for money.

We found that Supply Chain Ontario, a division of the Ministry of Government and Consumer Services that assists ministries with procurement, manages preferred supplier arrangements effectively. As well, the ministries we examined generally followed procurement requirements, and their purchases were mostly competitive, fair and cost-effective. However, Supply Chain Ontario needs more information to effectively identify new bulk-buying opportunities that could potentially save money on future purchases.

Based on our review of a sample of procurements, we found that ministries were not always evaluating and documenting suppliers’ performance as required. A supplier’s past performance can provide insight into future performance issues. We also noted that a new online procurement system is not yet widely used because of design concerns.

Over the past two years, ministries made approximately 3,200 requests for IT staff. About 90% of these requests were filled using external consultants, because of an insufficient number of permanent IT employees. Treasury Board Secretariat, which oversees IT staffing, estimates that a consultant costs $40,000 more annually than a permanent employee. Because of the shortage of permanent IT employees, demand for IT services was being met through a more expensive option. Consultants were often hired without an in-person interview, and payments to them can be authorized by the same person who hired them.

### Employment and Training

The Ministry of Advanced Education and Skills Development (Ministry), through Employment Ontario, offers programs through 400 third-party service providers to help Ontarians develop skills and find sustainable employment. With a budget of over $1 billion, this program can play a significant role in the Ontario economy. Ontario’s overall unemployment rate in 2015 was generally in line with the national average of 6.8%, but its 14.7% youth unemployment rate has been consistently higher than the national average over the last decade by two percentage points.

Our audit found that the Ministry does not collect or analyze regional information on labour-force supply and skills demand to determine which jobs face a shortage of skilled workers. As a result, the Ministry lacks detailed and timely labour-market information on which to make informed program and funding decisions. As a result, there is little assurance that funding is directed toward areas that will bring sustainable employment. We noted that the majority of employment and training program clients were unsuccessful in finding full-time employment in their chosen career.
We also noted that fewer than half of those who begin an apprenticeship program in Ontario complete it. Despite this, however, the Ministry does not review apprentice completion rates by training provider or employer, and it does not compile and analyze survey results separately for the majority of questions for those who completed their apprenticeships and those who withdrew.

Toward Better Accountability

In our 2015 Annual Report, we introduced a new chapter, called Toward Better Accountability, to create a broader discussion of government accountability that would complement our value-for-money and financial-statement audit work. This year, we continue this practice in Chapter 4 of Volume 1 with the following four reports:

- **Accounting Treatment of Pension Funds**—We provide a general overview on pension accounting that may assist the reader in more fully understanding the pension asset issue discussed in Chapter 2 of Volume 1.

- **The Provincial Public Appointment Process**—Timely appointments of qualified candidates to the Province’s various agencies, boards, commissions and other entities is essential to ensure appropriate oversight and the protection of public interests. Each year, the provincial government makes approximately 1,500 public appointments to 184 provincial agencies and 360 other entities. In our review of the appointment process, we noted that although Ontario has a mature process with a centralized appointment Secretariat, there have been significant delays in appointments and reappointments in the last five years.

- **Information and Information Technology (I&IT) General Controls**—This audit looked at whether the province has effective I&IT policies, procedures and controls in place to cover security, changes, operations, availability, capacity, continuity and disaster recovery, to ensure the integrity of three key IT systems. This audit also enabled us to assess a few broader IT subject areas. For example, we noted that there was no overall I&IT strategy between 2013 and 2016. As well, I&IT service agreements between I&IT clusters and ministries are not in place for 75% of government I&IT systems.

- **The Nursing Retention Fund**—The Nursing Retention Fund (Fund) was designed to maintain nursing positions in Ontario’s public hospitals where reductions in services or closures of units would otherwise have led to nurse layoffs. The Fund aimed to achieve this by paying hospitals to cover the costs of training nurses, and to cover their salaries and benefits for up to six months during the training. Our review looked at why only limited funds were distributed to hospitals during the Fund’s operation, and found that, while the Fund was appropriately administered, its eligibility criteria limited the circumstances under which hospitals would be eligible for funds. In 2016, all unspent funds were disbursed to the Registered Nurses’ Association of Ontario and the Registered Practical Nurses Association of Ontario for nursing education.

Review of Government Advertising

The Government Advertising Act, 2004 (Act) mandates my Office to review most government advertisements and issue an approval before they can be run to ensure they are not partisan. The Act originally gave the Auditor General appropriate discretion in determining what constitutes partisan advertising.

However, the Act was significantly amended in 2015 to remove the Auditor General’s discretion and to provide a narrow definition of “partisan” that now allows for publicly funded self-congratulatory government advertising on television and radio, in print and online.
For the year ending March 31, 2016, the government spent $49.9 million on advertising, as compared to $30 million in the previous year. This year’s total includes $5.73 million on ads for the Ontario Retirement Pension Plan.

In the past year, we had to approve as compliant with the amended Act three campaigns that straddled the 2015/16 and 2016/17 fiscal years, and for which complete information about costs was not yet available. All three appeared designed primarily to give the government credit for certain initiatives.

The first campaign included promotion of “Ontario’s nearly $160-billion investment in infrastructure,” while the second told Ontarians that the government is increasing health-care funding by $1 billion in the current fiscal year. The third promoted the government’s view that Ontario schools provide “a world-class education” and that “more Ontario students are reaching their potential than ever before.”

In having to review and approve these submissions as compliant with the revised Act, we advised the government that their scripts would have been deemed partisan advertising under the previous Act, because they appeared aimed at fostering a positive impression of the government, rather than providing the public with useful information.

**Acknowledgements**

On behalf of my team, I again want to thank the many people in the public and broader public sectors who were involved in our work for their assistance and co-operation in the completion of this year’s audits.

As well, we thank the various experts who shared with us their knowledge and advice on our value-for-money audits, and the public accounting firms that we worked with during the past year.

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

Sincerely,

Bonnie Lysyk

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

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<th>Ahmed, Fatima</th>
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