Chapter 1

Overview and Value-for-money Audit Summaries

Overview

In this introduction to my fourth Annual Report to the Legislative Assembly, I want to highlight the results of our first audits of organizations in the broader public sector and of Crown-controlled corporations—and then turn to our ministry and Crown-agency value-for-money work and our follow-up work on audits from prior years. I also discuss my Office's review of government advertising, a responsibility my Office was mandated to take on in late 2005. Following this discussion, I provide a brief overview of the results of our annual audit of the province's consolidated financial statements.

AUDITS IN THE BROADER PUBLIC SECTOR AND OF CROWN-CONTROLLED CORPORATIONS

On November 30, 2004, the Legislature unanimously approved amendments to the *Audit Act*, the most significant of which was the extension of our value-for-money audit mandate to include organizations in the broader public sector such as hospitals, school boards, universities, and colleges, as well as hundreds of other organizations and Crown-controlled corporations. The Office had been seeking this mandate for many years, principally because over one-half of the government's total annual expenditures are in the form of transfer payments to these organizations. We felt that legislators would be better able to oversee the prudent use of these funds by the broader public sector if my Office had unrestricted audit access to these organizations.

We conducted our first audits of these organizations this year, selecting organizations from a number of different sectors as well as two Crown-controlled corporations, specifically:

- Children's Aid Societies;
- hospitals (two separate audits);
- school boards;
- community colleges;
- Hydro One Inc.; and
- Ontario Power Generation.

The following is a brief summary of the results of our audit work at these organizations:

- In certain areas, better oversight was needed to ensure that children in the care of Children's Aid Societies received the appropriate level of service and protection. Also, Children's Aid Societies need to tighten their general purchasing practices, especially when it comes to expenditures for professional services and costs charged to corporate credit cards, such as travel-related expenses.
- Hospitals were adequately managing and using Magnetic Resonance Imaging (MRI)

and computed tomography (CT) equipment in some areas. However, improvements could be made in other areas, for example, in limiting the exposure of doctors and patients—especially child patients—to radiation.

- Hospitals were administering some areas of medical equipment acquisition satisfactorily, but other areas, such as long-term planning and competitive purchasing, required improvement. We also noted that medical equipment was not always being maintained in accordance with established standards.
- Community colleges and school boards generally had good purchasing practices in place. As well, colleges and boards were using purchasing consortia to obtain certain goods and services at better prices than otherwise. However, we had concerns with one school board's travel-related and meal expenditures.
- While both Hydro One Inc. and Ontario Power Generation had established sound purchasing policies, they lacked adequate systems and procedures to ensure that their policies were being complied with—particularly with respect to competitive purchasing and employee-related expenses.

MINISTRY AND CROWN AGENCY AUDITS

Although we focused heavily on the broader public sector and Crown-controlled corporations in our selection of audits this year, we did conduct a number of ministry and Crown-agency audits as well, and some of our more significant observations included the following:

- In addition to auditing Children's Aid Societies, we audited the Ministry of Children and Youth Services' Child Welfare Services Program, which is responsible for funding and overseeing the province's 53 Children's Aid Societies. We noted that, although program expenditures doubled over the past five years, related service volumes increased by only about one-third. This, combined with the fact that there were widespread variations in the level of expenditure increases at the individual Societies, led us to conclude that more effective ministry oversight was necessary. As well, better monitoring of child protection services by the Societies is needed if the Ministry is to be assured that children in need are receiving the appropriate level of service and protection.
- The Ministry of Health and Long-Term Care is not doing enough to ensure that only those people who are eligible for OHIP services receive them and that health-care providers are paid for only those billings that are appropriate. For example, we found that there are significantly more health cards than people in Ontario, and we noted cases of unlicensed and even deceased doctors being paid for OHIP claims.
- The Ministry of Natural Resources' forest fire management program had a good track record of effectively suppressing forest fires once they were detected. However, the Ministry needs to enhance its procedures for detecting forest fires and for assessing its effectiveness in this area. Also, more proactive planning is needed to ensure public safety with respect to potentially hazardous dams and abandoned natural-gas and crude-oil wells.
- The Ontario Realty Corporation had recently made some much-needed improvements to its leasing activities and its management of external property service providers. However, its management information systems do not provide adequate information to enable an informed assessment of space utilization, and the Corporation is facing significant capital-renewal needs given the advanced age of many of the properties it manages.

PROGRESS IN THE IMPLEMENTATION OF PRIOR YEARS' RECOMMENDATIONS

As further discussed in Chapter 2, one of the two major concerns I identified in my first Annual Report, tabled in 2003, was the lack of substantive action being taken on our previous recommendations, many of which had been made five, six, or even 10 years earlier. I am pleased to report that this is one area where I have seen a significant improvement over the last three years. Ministries are now taking significantly more action to address our recommendations, as well as those of the Standing Committee on Public Accounts, which is resulting in improvements in the cost-effectiveness of government programs and the level of service being provided to the public.

REVIEW OF GOVERNMENT ADVERTISING

With the initial proclamation of the *Government Advertising Act, 2004* on November 21, 2005, I became responsible for reviewing proposed government advertising for television, radio, newspapers, magazines, and billboards, as well as advertising to be distributed to households by bulk mail delivery. The purpose of our review is to ensure that any proposed advertisement meets the legislated standards set out in the Act—most importantly, that the advertisement does not have as a primary objective the promotion of the partisan political interests of the governing party. The Act stipulates those advertisements that must be reviewed and prohibits government offices from running any reviewable advertisement that has not received the Auditor General's approval.

My Office engaged two experts—one with decades of experience in the advertising industry and the other a leading academic specializing in political advertising and Canadian politics—to assist in fulfilling our responsibility. As well, we consulted with and received valuable advice from Advertising Standards Canada. In preparing to take on our new responsibility, we developed a *Guideline on the Review of Government Advertising* and held workshops for government communications practitioners and their creative agency personnel.

The Office has taken a constructive approach in working with government offices to ensure that proposed advertising meets legislative requirements. For example, we have agreed to conduct preliminary reviews of proposed advertisements at what is called the "storyboard" or pre-production stage. This pre-review provides government offices with some initial feedback before they incur significant production expenses. After an advertisement is formally submitted, we keep the submitting office informed of any concerns we have, to give it the opportunity to make revisions.

Our experience has been that about 80% of proposed advertisements are relatively straightforward and can be approved fairly quickly, another 15% require some modification by the submitting office before being approved, and about 5% require a significant time commitment from my Office and our external advisors. One of the most difficult issues we face relates to how information is presented in an advertisement. We recognize the need for advertisements to employ creative, provocative, humorous, and/or "catchy" elements to capture and maintain audience attention—especially when they invite people to obtain more information from a website or 1-800 number. However, we are concerned when such techniques are used in such a way that the advertisement may be perceived as primarily fostering a positive impression of the governing party and its achievements. We have found it challenging at times to balance the standards that an advertisement must meet against the government's legitimate need to produce effective advertising.

Chapter 6 of this report provides detailed information on our review responsibilities, the results of reviews conducted, and the total cost of advertising formally submitted for review.

THE PROVINCE'S FINANCIAL STATEMENTS

Each year, the Auditor General is required to audit the province's consolidated financial statements to determine whether, in the Auditor's professional opinion, they are fairly presented. As has been the case for over a decade now, the Auditor's report on these financial statements is clear of any reservations or qualifications and states that the financial statements are fairly presented in accordance with generally accepted accounting principles recommended by the Canadian Institute of Chartered Accountants.

Chapter 5 of this report discusses a number of issues relating to this year's audit of the province's consolidated financial statements, such as:

- the impact of including, for the first time, hospitals, school boards, and community colleges in the statements;
- the first significant reduction in the stranded debt that the province took on since the electricity sector was restructured more than five years ago; and
- the continuing concerns we have had since 2000 with respect to government accountability when the government dispenses multi-year grants just before the end of the fiscal year.

Value-for-money Audit Summaries

The following are summaries of the value-for-money audits reported in Chapter 3 of this Annual Report. For all audits reported on in Chapter 3, we made a number of recommendations and received commitments from the relevant ministries, organizations in the broader public sector, and Crown corporations that they would take action to address our concerns.

3.01 CHILD WELFARE SERVICES PROGRAM

The Ministry of Children and Youth Services (Ministry) administers the Child Welfare Services Program (Program) under the authority of the *Child and Family Services Act* and Regulations. Under this Program, the Ministry contracts with 53 local not-for-profit Children's Aid Societies (Societies) for delivery of legislated child-welfare services in their respective municipal jurisdictions, and it provides 100% of the required funding for these services. For 2004/05, program expenditures reported by all Societies totalled $1.218 billion.

The Societies are responsible for investigating allegations and evidence to determine whether children may be in need of protection, and supplying services necessary to provide that protection. Under the legislation, Societies must provide all of the mandatory services to all identified eligible children. Each Society operates at arm's length from the Ministry, and each is governed by an independent volunteer board of directors.

Our more significant observations from our audit of this Program were:

- Although total program expenditures almost doubled between 1999/2000 and 2004/05, key service volumes such as the number of open cases where children were under Society protection increased by only 32%, while the number of residential days of care rose just 38% over the same period.
- The Ministry's funding practices, along with minimal oversight, contributed to significantly different rates of funding and caseload growth among Societies, and to significantly higher program costs. For example, we noted that the eight Societies with the biggest percentage increase in transfer payments from the Ministry got an average 181% more in funding between 1999/2000 and 2004/05, while the eight Societies with the smallest increase

received an average of only 25% more over the same period.

- The Ministry's process for review of caseload data used for funding purposes is inadequate to ensure that the Ministry receives complete and accurate data. This review process was, in fact, suspended in 2005/06.
- Although the Ministry introduced a new block-funding model in 2005/06 for the Societies, a number of limitations were identified. For instance, the new model perpetuates previous funding inequities by defining a Society's 2005/06 base core funding as being equal to actual expenditures incurred for 2003/04 plus 3%. Thus, any Societies that may previously have been over-funded relative to their caseload volumes are allowed to retain this higher ongoing base-funding level.
- Our research indicated that many other jurisdictions use a more balanced means of risk assessment to identify children in need of protection. Such models highlight strengths a Society can draw upon from the immediate and extended family and from the community, and often result in less formal and costly intervention.
- In most cases, the Ministry approved *per diem* rates for residential-care facilities with little or no supporting documentation on file. No written agreements with the facilities exist to detail the specific services to be provided in return for the approved *per diem* rates. In addition, the Ministry does not regularly monitor facilities to ensure that negotiated services are actually provided.
- Staff responsible for licensing children's residences and foster homes did not comply with ministry policies for doing so. In addition, in many cases the Ministry did not ensure that the necessary corrective actions were taken to address instances of non-compliance identified during licensing inspections. At one regional office, 24 non-compliance issues were identified in a file, with half of these repeated for two consecutive years. Also, about 70% of the licensing staff we interviewed indicated that they would benefit from formal training in licensing procedures and interviewing techniques.

3.02 CHILDREN'S AID SOCIETIES

The Ministry of Children and Youth Services (Ministry) contracts with 53 local not-for-profit Children's Aid Societies for delivery of legislated Child Welfare Services in their respective jurisdictions. The Ministry provides 100% of the required funding for these services. Each Society operates at arm's length from the Ministry and is governed by an independent volunteer Board of Directors. Unlike most other ministry programs, where provision of services is subject to availability of funding, the Child Welfare Services Program requires each Society to provide mandatory services to all eligible children. In other words, there is no such thing as a waiting list for Child Welfare Services.

Societies are required to investigate allegations that children under the age of 16 may be in need of protection and, where necessary, provide the required assistance, care, and supervision in either residential or non-residential settings (services will continue until age 18 unless the child opts out); work with families to provide guidance, counselling, and other services where children have suffered from abuse or neglect, or are otherwise at risk; and place children for adoption.

Based on our audit work at four Societies (Thunder Bay, Peel, Toronto, and York), and in light of the fact that expenditures by Children's Aid Societies have increased at a substantially higher rate than the underlying service volumes over the past six years, Societies need to be more vigilant to ensure that they receive—and can demonstrate that they receive—value for money spent. As well, stricter adherence to child-welfare legislation and policy requirements is needed to ensure that children in their care receive the appropriate services and protection.

Some of the issues we identified were as follows:

- Societies need to formally establish and follow prudent purchasing policies and procedures for the acquisition of goods and services. In addition, controls over certain expenditures, such as professional services, travel, and other costs charged to corporate credit cards, should also be strengthened to ensure that they are for business purposes only and are reasonable in the circumstances.
- Societies should tighten controls on reimbursements to staff for use of personal vehicles. As well, vehicles should only be acquired when economically justified. For instance, one Society operated a fleet of 50 vehicles but logged fewer than 10,000 kilometres a year on half of them, which suggests that such a large fleet was unnecessary.
- With just over half of the total $1.24 billion in ministry transfer payments to Societies in the 2005/06 fiscal year going towards residential foster care and group residential care, Societies need to do more to obtain and document information about residential care services provided by outside institutions and to document the factors considered to ensure that children are appropriately and economically placed in residential care.
- Only when necessary should Societies enter into Special Rate Agreements, which require payments to private residential care providers over and above those prescribed by the Ministry, and they should ensure that services contracted for are reasonably priced and actually received.
- Requirements for completing the required Intake/Investigation Process following referrals should be met in a more timely manner; in some cases, these requirements were not met at all.
- Initial plans of service or care for children receiving protection services, along with the required assessments and plan updates, should be completed in a more timely manner.

3.03 COMMUNITY COLLEGES—ACQUISITION OF GOODS AND SERVICES

Ontario's 24 community colleges offer students a comprehensive program of career-oriented post-secondary education and training. Enrolment data from the Ministry of Training, Colleges and Universities indicate that there were 215,000 full- and part-time students enrolled in community colleges in 2005. According to the Association of Colleges of Applied Arts and Technology of Ontario, colleges employ 17,000 academic staff and 16,800 other employees. Colleges spent a total of $2.3 billion in 2005, of which $751 million was spent in areas covered by this audit. (Our audit focused on a broad range of expenditures but did not include employee compensation, student assistance, ancillary operations, or the costs of acquiring college facilities.)

We found that the purchasing policies at the four colleges we audited (Conestoga, Confederation, George Brown, and Mohawk) were adequate to ensure that goods and services were acquired economically and were generally being followed. In addition, all of the colleges we audited were participating in purchasing consortia in order to reduce costs. However, areas where procedures could be strengthened included the following:

- Some major contracts with suppliers had not been re-tendered for a number of years. Therefore, other suppliers did not have an opportunity to bid on these public-sector contracts, and colleges might not know whether the goods or services could be obtained at a better price.

- Where non-purchasing personnel managed the purchasing process, policies and procedures were not always followed, increasing the risk that the goods or services purchased did not represent the best value.
- Before making major purchases, colleges did not always clearly define their needs and objectives and therefore could not ensure that the purchases met their needs in the most cost-effective manner.
- For large purchases, the colleges normally established committees to evaluate competing bids. However, they had not developed procedures for committee members to follow. As a result, colleges could not be assured that all committee members ranked bids in the same manner.
- Policies governing gifts, donations, meals, and hospitality were neither clear nor consistently enforced. While the individual amounts claimed were not significant, we noted several examples of gifts purchased for staff, including, at one college, five gift cards worth $500 each.

3.04 FOREST FIRE MANAGEMENT

The primary responsibility of the Public Safety and Emergency Response Program of the Ministry of Natural Resources (Ministry) is to detect and suppress forest fires on 90 million hectares of Crown land in Ontario and manage the government's air fleet used for forest fire fighting, natural resource management, and passenger transportation for all government ministries. The Ministry is also responsible for managing provincial obligations relating to six other types of hazards: floods; drought/low water; dam failures; erosion; soil and bedrock instability; and emergencies related to crude oil and natural gas production/storage and salt-solution mining.

Program expenditures for the 2005/06 fiscal year totalled $103.4 million. Program fixed costs, for full-time staff and infrastructure expenditures, amounted to $36.6 million. Extra costs, such as additional staffing and contracted services that are incurred to deal with year-to-year fluctuations in the number and intensity of fires, amounted to $66.8 million.

Our audit found that once forest fires were detected, the Ministry had a good track record of effectively suppressing them. However, the Ministry did not have measures for assessing the effectiveness of its procedures for detecting forest fires and, consequently, could not demonstrate that its fire-detection performance was adequate. In addition, although the Ministry had implemented a number of good initiatives to help prevent forest fires, a comprehensive strategy for fire prevention would help focus efforts in this area. Our more significant observations were as follows:

- In the last five years, the Ministry reported that once a fire was detected, it substantially achieved a 96% success rate in suppressing the fire by noon the next day or limiting its extent. However, fire-suppression costs were still significant when fires were not detected early. We noted two other Canadian jurisdictions that detected two-thirds of fires early through planned methods, in contrast to Ontario, which detected only one-third of all fires through its proactive efforts.
- In 2005, one region noted a significant number of fires caused by railways, and regional staff had directly observed railway workers failing to comply with required practices for fire prevention. We noted that one railroad company had submitted neither its required five-year plan nor an adequate annual work plan. This company caused 36 fires in the 2005 calendar year that cost the Ministry over $1 million for fire suppression.

- Based on an innovative simulation modelling exercise, the Ministry implemented a program, beginning in 1999, to reduce firefighting costs by better utilizing its resources and optimizing the number of seasonal firefighters and contracted helicopters. Since that time, the Ministry estimates that this program has achieved savings of $23 million. A recent external review also concluded that the Ministry's aviation fleet was well suited to its requirements.
- The Ministry had negotiated a favourable price for aviation fuel purchases from two suppliers at various locations throughout the province. However, we found that the Ministry had often paid more than the negotiated price for aviation fuel and was unable to verify whether the $4.7 million it paid for aviation fuel in the 2005/06 fiscal year was billed correctly.
- The Ministry was assigned responsibility for developing a plan for emergency management of a number of potential hazards, including failed dams and abandoned oil and natural gas wells. The Ministry found that over 300 dams were high-risk and, if breached, could cause extensive damage. It also estimated that there could be as many as 50,000 abandoned natural gas and crude oil wells in the province, many of which pose a range of threats including the build-up of explosive gas or groundwater contamination. Plans for dealing with these threats were being developed but more comprehensive planning was required.

3.05 HOSPITALS—ADMINISTRATION OF MEDICAL EQUIPMENT

Ontario has 155 public hospital corporations, each responsible for determining its own priorities to address patient needs in the communities it serves. In the 2005/06 fiscal year, total operating costs of the hospitals in Ontario were about $17.5 billion, with provincial funding accounting for about 85% of total hospital funding. These figures exclude the cost of most physician services provided to hospital patients, because the Ministry of Health and Long-Term Care pays for these services through the Ontario Health Insurance Plan.

These hospitals operate a large variety of medical equipment required to meet patient needs—everything from relatively inexpensive vital-signs monitors to complex magnetic resonance imaging (MRI) machines costing millions of dollars. The acquisition, maintenance, and repair of such equipment is essential to provide quality patient care in hospitals. While overall expenditures by Ontario hospitals on medical equipment were not readily available, the three hospitals in which we conducted work (Grand River, Mount Sinai, and Thunder Bay Regional Health Sciences Centre) spent a total of $20 million to acquire such devices in the 2005 calendar year.

We found that, while some areas were being well managed, procedures in other areas were inadequate to ensure that medical equipment was acquired and maintained in a cost-effective manner. For instance:

- Two of the three hospitals we visited did not use multi-year strategic plans to determine and prioritize medical equipment needs. While all three did have a prioritization process for annual equipment requests, most of the purchases we sampled at one hospital were made outside this process, because acquisitions using funds from sources such as the hospital's foundation did not need to go through the regular prioritization process.
- Hospitals did not consider certain relevant criteria in assessing proposed medical equipment purchases. For example, one hospital purchased laboratory equipment for $534,000 without a documented assessment supporting the need for this equipment.

- The majority of the medical equipment acquisitions we reviewed were made without competitive selection. Hospitals indicated that this was due primarily to the standardization of medical equipment. While we recognize the benefits of standardizing certain types of medical equipment (for example, to ensure compatibility with other hospital devices), we found that none of the hospitals had guidelines on what medical equipment should be standardized and therefore be exempt from competitive purchasing practices.
- One of the hospitals purchased its equipment through a buying group, which we expected would result in lower prices. However, none of the items that we sampled, including a computed tomography (CT) machine costing more than $1.1 million, were purchased by the buying group using an open, competitive process. Given the specialized nature of certain medical equipment purchases, we were unable to assess whether hospitals or the buying group could have acquired equipment that met their patients' needs at a lower price had they followed a competitive selection process.
- All three hospitals relied on equipment vendors to maintain their MRIs and CTs. We noted that the extent of maintenance varied, and was often less frequent than the standards set by the College of Physicians and Surgeons of Ontario for MRIs and CTs located in independent health facilities. We also noted that MRIs and CTs were not always subject to normal quality assurance procedures to ensure that they were operating properly.
- Medical equipment was often not maintained as frequently as required by service manuals or hospital plans. For example, 75% of defibrillators at one hospital did not receive scheduled maintenance during 2005, and some had no maintenance at all during that year.

3.06 HOSPITALS—MANAGEMENT AND USE OF DIAGNOSTIC IMAGING EQUIPMENT

Diagnostic medical imaging includes the use of x-ray, ultrasound, magnetic resonance imaging (MRI), and computed tomography (CT) to provide physicians with important information for diagnosing and monitoring patient conditions. Ontario hospitals conducted about 10.6 million diagnostic imaging tests in the 2005/06 fiscal year. Although CT and MRI examinations are a small percentage of the overall number of diagnostic imaging procedures, our audit focused on CTs and MRIs since the equipment can cost several million dollars, there are health safety risks associated with such examinations, and the use of CTs and MRIs has been increasing over the years. According to ministry data, between the 1994/95 and 2004/05 fiscal years, the total number of CT examinations increased by almost 200%, and MRI out-patient examinations increased by more than 600%.

The three hospitals we visited—Grand River, the University Health Network (consisting of Princess Margaret, Toronto General, and Toronto Western), and Peterborough Regional Health Centre—were managing and using their CTs and MRIs well in some respects. However, we noted areas where these hospitals could improve their management and use of this equipment to better meet patient needs. Our observations on the operations of MRIs and CTs included the following:

- Although the Canadian Association of Radiologists (CAR) noted that 10% to 20% of diagnostic imaging tests ordered by physicians were not the most appropriate tests, the hospitals we visited generally did not use referral guidelines to help ensure that the most appropriate test was ordered.
- At two of the hospitals we visited, we noted that Workplace Safety Insurance Board (WSIB) patients received much quicker access to MRI examinations than non-WSIB patients.

Hospitals receive about $1,200 from the WSIB for each MRI examination of a WSIB patient.

- Wait times reported on the Ministry's website combined in-patient and out-patient wait times, even though in-patients generally received their appointment within a day. At one hospital, for example, the ministry-reported wait time for a CT was 13 days, but out-patients actually waited about 30 days.
- Many referring physicians and staff at the hospitals we visited indicated that they were unaware that CTs expose patients to significantly more radiation than conventional x-rays. For example, one CT of an adult's abdomen or pelvis is equivalent to the radiation exposure of approximately 500 chest x-rays. Ontario has not established radiation dose reference levels to guide clinicians in establishing CT radiation exposure levels for patients, whereas other jurisdictions, such as Britain and the United States, have established such reference levels.
- Staff at the two hospitals we visited that performed pediatric CT examinations indicated that, in close to 50% of the selected cases, the appropriate equipment settings for children were not used. As a result, the children were exposed to more radiation than necessary for diagnostic imaging procedures. Radiation levels are particularly important when the patient is a child, since children exposed to radiation are at a greater risk of developing radiation-related cancer later in life.
- None of the hospitals we visited analyzed the number of CT examinations by patient or monitored the radiation dosages absorbed by patients. At the two hospitals that were able to provide us with information for 2005, 353 patients had received at least 10 CT examinations each, and several had had substantially more than that during the year. In addition, these patients may have received CT examinations at other hospitals, or in other years, which would also add to their lifetime radiation exposure.
- Patient shielding practices, such as the use of a lead sheet to cover body parts sensitive to radiation, varied at the hospitals we visited. For example, one hospital informed us that lead sheets were placed over and under a patient's body if they did not interfere with the diagnostic image. However, another hospital provided no similar protection for patients undergoing a CT examination.
- Most of the interventional radiologists at one hospital, who are exposed to higher levels of radiation since they perform procedures close to the radiation source, did not wear the required dosimeter, which measures radiation exposure. As a result, the hospital was unable to tell whether these physicians exceeded the annual maximum radiation doses established under the *Occupational Health and Safety Act*.
- The Ministry examines x-ray operations. However, it does not do the same for CT operations because there are no CT operating standards established under the *Healing Arts Radiation Protection Act*—even though CT examinations expose patients to significantly more radiation than x-rays.
- None of the hospitals we visited had a formal quality assurance program in place to periodically ensure that radiologists' analyses of CT and MRI examination images were reasonable and accurate.

3.07 HYDRO ONE INC.—ACQUISITION OF GOODS AND SERVICES

Hydro One Inc. was created following the reorganization of Ontario Hydro, pursuant to the *Electricity Act, 1998*, and incorporated under the *Business Corporations Act* on December 1, 1998. Wholly owned by the province of Ontario, Hydro One has as its principal business the transmission and distribution of electricity to customers in Ontario.

Hydro One controls almost $12 billion in total assets, consisting primarily of its transmission and distribution systems. In 2005, Hydro One earned more than $4.4 billion dollars in revenue, while its total costs were $3.4 billion. These costs included $2.1 billion for the purchase of electricity to distribute to its customers, $792 million for operations, maintenance, and administration, and $487 million for depreciation and amortization.

Our audit focused on Hydro One's spending on goods and services, including its acquisition of capital assets but excluding employee salaries and benefits. This spending totalled more than $800 million in the 2005 calendar year. Hydro One has contracted an outside service provider to perform purchasing activities on its behalf, but in-house departments and individuals also do a significant amount of buying—$163 million in 2005, or about 20% of total spending—using corporate charge cards.

We found that Hydro One generally had adequate policies in place to help ensure that goods and services were acquired with due regard for value for money. However, systems and procedures were not adequate to ensure compliance with corporate policies. In 2004, Hydro One's internal audit department examined many aspects of the corporation's purchasing functions and concluded that, in several key areas, internal controls needed to be improved. We noted at the time of our audit that a number of internal control weaknesses remained to be addressed.

Some of our major concerns and observations were as follows:

- Hydro One's corporate policy encourages the establishment, through a competitive process, of blanket purchase orders (BPOs) for the procurement of goods or services directly from specified vendors for a stipulated period of time. However, the BPOs we examined had not always been established through a competitive procurement process, or had no documentation available to verify that a competitive process had been used. In addition, BPO suppliers increased their prices periodically without competition. For example, a BPO established in 1996 for a two-year term with an original value of $120,000 had been revised 39 times, extended an additional eight years, and increased in value to $6.7 million.
- Competitive selection of suppliers is required for all Hydro One purchases over $6,000 where no BPO arrangement exists. We found that procedures needed to be improved to ensure that the required competitive process was followed in the acquisition of goods and services. In a number of the cases we tested, the required competitive-procurement process was not followed.
- Hydro One's procurement policy allows goods and services to be purchased from a single vendor ("single sourcing") if it is neither possible nor practical to obtain them through the normal competitive processes. However, many of the single-source purchases for materials, consulting services, and contract staff that we examined could have been obtained from several different vendors. As well, the required documentation justifying the decision to single-source was not on file in most of the cases we examined.
- In December 2001, Hydro One entered into a 10-year, $1-billion agreement to outsource significant operations of the corporation. Under its master service agreement with the service provider, Hydro One can reduce the fees it pays the provider if benchmarking studies show that the provider is charging more than fair market rates. Although a consultant's benchmarking report concluded that no adjustment to the fees was required, the consultant examined only two of six lines of

business conducted by the service provider. A more thorough review may have been warranted.

- During the 2005 calendar year, Hydro One purchased $127 million worth of goods and services using corporate charge cards. We found that the documentation, such as charge-card slips, submitted in support of expenditures was often insufficient to determine what was purchased. We also identified instances where monthly statements had been reviewed and approved even though employees had not provided details about the cash advances received and charged to their corporate charge cards.

3.08 ONTARIO HEALTH INSURANCE PLAN

The Ministry of Health and Long-Term Care (Ministry) works to provide all Ontario residents with a readily accessible, publicly funded, and accountable health-care system. The Ontario Health Insurance Plan (OHIP) is a key vehicle for delivering on this objective. In the 2004/05 fiscal year, the Ministry paid more than $6.9 billion through OHIP for insured services covering some 180 million medical claims. As of January 2006, there were about 12.9 million valid OHIP health cards in circulation.

Our audit of OHIP indicated that while controls and procedures were generally adequate to ensure that claims are paid accurately, they do not yet effectively mitigate the risk that people who are not entitled to OHIP services could receive medical care free of charge or that health-care providers could be paid for inappropriate billings. Some of our specific concerns included the following:

- In 1995, the Ministry began gradually to replace the older red-and-white health cards with new photo cards containing additional security features. This project was to have been completed by 2000 but delays have pushed back the completion date by another 14 years at least. Our data analysis also indicated that there continue to be approximately 300,000 more health cards in circulation than there are people in Ontario. The Ministry has not yet verified the authenticity of the citizenship documents for about 70% of all existing health-card holders.
- Few resources have been devoted to monitoring health-card usage to identify areas that warrant review or investigation. We identified thousands of cases where card holders submitted medical claims from every region of the province within a short period of time, and instances where service-provider billings appeared excessive. For instance, our computer analysis of OHIP claims identified a group of clinics that have potentially overbilled the Ministry by almost $10 million for medical tests since 2001. We also questioned why the Ministry's Fraud Program Branch did not have a mandate to conduct fraud audits or investigate suspected fraud cases.
- In fall 2004, the Ministry suspended the activities of the Medical Review Committee, which reviewed cases where physicians may have filed inappropriate claims, but it has yet to implement a replacement process. As a result, we estimate that the Ministry may have lost the opportunity to recover as much as $17 million, since all outstanding reviews were cancelled at the time of the suspension and the Ministry has not initiated an audit review process for suspicious cases since that time.
- Physician licensing information was not being updated properly. We identified 725 unlicensed physicians who could still submit claims, with 40 of them having billed and received full payment from the Ministry after their licences had expired.
- We found weaknesses in the procedures used to review rejected claims, and in systems

designed to verify claims and protect the confidential records of card holders and service providers.

3.09 ONTARIO POWER GENERATION—ACQUISITION OF GOODS AND SERVICES

As part of the reorganization of Ontario Hydro, Ontario Power Generation (OPG) was created under the *Electricity Act, 1998* and commenced operations on April 1, 1999. Wholly owned by the province of Ontario, OPG's objective is to own and operate generation facilities to provide electricity in Ontario. In 2005, OPG generated approximately 22,000 megawatts of electricity, which accounted for 70% of the electricity produced in Ontario that year. OPG generates electricity from three operating nuclear stations, five fossil-fuelled stations, 35 hydroelectric stations, 29 certified green power stations, and three wind power stations. During 2005, OPG spent $2.5 billion on operations, maintenance, and administration.

Included in OPG's total expenditures are annual purchases of goods and services amounting to approximately $1 billion. Most of this amount is for goods and services procured through the general purchasing system. Such procurement is to be made in one of three ways—through master service agreements with selected vendors, a competitive procurement process, or, when justified, single sourcing. The remaining purchases, which amounted to $61 million for the 2005 calendar year, are acquired by OPG staff using corporate credit cards.

We concluded that, although OPG had sound policies in place for acquiring goods and services and controlling employee expenses, in many respects its systems and procedures for ensuring compliance with those policies were not adequate. Specifically, there was often insufficient evidence on file to demonstrate that goods and services were acquired with due regard for value for money. Also, although purchases requiring the competitive selection of vendors were generally conducted appropriately in accordance with OPG's policies, we had concerns with other purchases, such as those arranged through master service agreements, which do not require competitive selection. Some of our particular concerns were as follows:

- Most of the master service agreements OPG established with vendors that we reviewed were made without an open or competitive process. Instead, OPG practice is to establish master service agreements with vendors that have carried out business with OPG for some period of time. As well, we found that most of the master service agreements did not have fixed rates for specific services, typically a key benefit of such agreements.
- The single-source purchases we reviewed, for such items as temporary staff, equipment, and consulting services, ranged from $110,000 to $2.6 million. We noted that the explanations for single-sourcing such large purchases either were not documented or were inadequate to justify not carrying out a competitive process.
- In the five years that OPG has outsourced its information technology services, OPG has not audited the service provider with respect to its provision of services, setting of fees, and performance reporting, even though the contract allows for this. Given that this contract is worth approximately $1 billion over a 10-year period, such periodic audits would be a sound business practice to provide assurance that the contractor is furnishing accurate and reliable data to support its fees and performance.
- We noted in our review of travel and purchasing credit-card payments numerous examples where supporting documentation was inadequate for managers to properly assess what was purchased and how much was paid for each item. Managers may be the only ones reviewing these transactions, which makes

effective supervisory review a critical internal control for ensuring that such purchases are appropriate and compliant with policy. However, these reviews were often not completed satisfactorily.

3.10 ONTARIO REALTY CORPORATION—REAL ESTATE AND ACCOMMODATION SERVICES

The Ontario Realty Corporation, a Crown corporation, provides services relating to real estate, property, and project management to most ministries and agencies of the province of Ontario. Cost-effective management of real property and accommodations is a responsibility shared by the Corporation with the Ministry of Public Infrastructure Renewal (Ministry) and its client ministries and agencies. The Corporation manages one of Canada's largest real-estate portfolios, including more than 95,000 acres of land and 6,000 buildings comprising more than 50 million square feet of space. Eighty-one percent of the portfolio is owned by the government of Ontario, and the remainder is leased. The Corporation requires revenues of nearly $600 million each year to offset expenses incurred to manage the portfolio and look after the accommodation needs of its clients.

Our audit concluded that the Corporation had recently made a number of improvements with regard to its systems and procedures for leasing and for property sales and acquisitions, and in its hiring and monitoring of building management service providers. However, it must continue to work with the Ministry and its client ministries and agencies to ensure that:

- all managed space is being efficiently used;
- properties are being maintained through appropriate investments in the life-cycle repair and maintenance of buildings; and
- its management-information systems provide decision-makers with sufficient reliable information.

The Ministry also recently identified several factors that had inhibited effective management and rationalization of the province's real-estate portfolio, such as the processes used to deal with surplus and underutilized property. We noted that the province gave its approval in 1999 for the Corporation to sell 330 properties, but as of 2006, the Corporation had disposed of fewer than half of them. The Corporation also needs to improve its systems and procedures for identifying properties that could be rationalized or sold.

Some of our more significant observations were as follows:

- Better controls were needed to record and track potential recoveries from property sales and to monitor subsequent sales of government properties to identify large resale profits. As a result of our inquiries, the Corporation recovered approximately $265,000 that was still owing to it from a property sale and that had been available to it since April 2004. As well, the Corporation has instituted additional monitoring procedures after we noted that one property sold by the Corporation for $2.6 million was resold seven months later for $4.2 million.
- In handling requests for new accommodations that could not be met by the existing inventory of owned space, the Corporation generally leases space without assessing the cost-effectiveness of alternatives such as construction, lease-buy, outright purchase, or relocation.
- The Corporation did not have adequate information or assurance that space was being used by its clients in an efficient manner. As well, the Corporation's real-estate database contained extensive errors regarding the current status of properties, raising concerns about the integrity of data used for assessing accommodation needs and tracking property use.

- More than 40% of the buildings the Corporation manages are at least 40 years old, and it rated 148 buildings as being in poor to defective condition. It also estimated that deferred costs for repairing, renewing, and modernizing provincially owned buildings stood at $382 million as of March 31, 2006.

3.11 SCHOOL BOARDS—ACQUISITION OF GOODS AND SERVICES

Ontario's publicly funded elementary and secondary schools are administered by 72 school boards and 33 school authorities. Total funding for public education in Ontario for the 2005/06 fiscal year was about $17.2 billion. While school boards spend the majority of their funding on salaries and benefits, they also spend several hundred million dollars on purchases of services, supplies, and equipment. Our audit focused primarily on the acquisition of supplies and services and equipment, and on contracted services and minor capital projects. Our audit excluded pupil transportation and capital expenditures for the construction of new schools.

We found that purchasing policies at the four school boards we audited (Durham District, Rainbow District, Thames Valley District, and York Catholic District) were adequate for promoting due regard for economy, and the boards were generally complying with the policies and procedures. In addition, all four school boards were participating in purchasing consortia in an attempt to reduce the cost of goods and services. However, we did note areas where compliance could be improved. For instance:

- School boards were using some suppliers for significant purchases, as well as for ongoing minor capital projects, for a number of years without periodically obtaining competitive bids.
- Rather than publicly advertising their needs, school boards often invited a selected group of suppliers to bid. As a result, only one or two bids were received for some significant contracts.
- Payments continued to be made to suppliers where the purchase order had expired and/or the amount on the purchase order had been exceeded.

While the four school boards generally had adequate policies governing use of corporate charge cards (purchasing cards), we had a concern about the lack of clear policies with regard to the use of board funds for employee recognition and gift purchases. As well, we had concerns about certain meal and travel-related expenditures at one school board.