

# Summaries of Value-for-money Audits

### 3.01 Adult Community Corrections and Ontario Parole Board

The Ministry of Community Safety and Correctional Services (Ministry) supervises and provides rehabilitative programming and treatment to adult offenders serving sentences in the community. The overall goal is to help offenders not reoffend and reduce the risk to the public.

During the fiscal year ended March 31, 2014, there were 37,490 newly sentenced offenders serving community-based sentences, which include probation, conditional sentences, parole and temporary absences. On an average day, the Ministry is responsible for supervising more than 51,200 offenders.

The Ontario Parole Board (Board) is a quasi-judicial independent administrative tribunal that derives its authority from both federal and provincial legislation. (Ontario and Quebec are the only provinces with their own parole boards. Other provinces have arrangements with the Parole Board of Canada.)

We concluded that overall there continues to be substantial room for improvement in the Ministry's supervision of and rehabilitative programming for offenders serving their sentences in the community. For instance, little headway has been made over the last decade in reducing the overall reoffend rate. Specifically, the overall average reoffend rate for these offenders increased slightly, from 21.2% in 2001/02 to 23.6% in 2010/11. As well, for high- and

very-high-risk offenders, the rate of reoffending is much higher at 42.7% and 60.3% respectively.

Other significant issues included the following:

- Processes were not sufficient to ensure that probation and parole officers completed risk assessments for all offenders within the required six weeks of the offender's initial intake appointment with a probation and parole officer. The timely completion of this risk assessment is critical to establishing an effective offender management plan, which details supervision requirements and rehabilitation needs during the community sentence period.
- The Ministry did not have reliable and timely information on offenders who breached conditions of their release. As well, probation and parole officers did not use effective measures to ensure that more stringent conditions imposed by courts, such as curfews and house arrest, were enforced.
- We found that lower-risk offenders were often over-supervised and higher-risk offenders were under-supervised.
- Many probation and parole officers were not sufficiently trained to effectively oversee higher-risk offenders or those with mental health issues. The Ministry estimated that the number of offenders with mental health issues has grown 90% over the last 10 years to 10,000 offenders, representing at least 20% of the number of offenders supervised each day.

- Rehabilitation programs intended to reduce the risk of offenders reoffending are not consistently available across the province. We found that about 40 of 100 probation and parole offices did not have core programs, such as anger management and substance abuse, available to offer to their offenders.
- Currently, the Ministry does not evaluate the quality of external rehabilitation programs to determine whether they are effective in contributing to an offender's successful reintegration into society or whether the programs are helping to reduce the reoffend rate.
- Only half the number of inmates applied to the Ontario Parole Board for a parole hearing in 2013/14 than applied in 2000/01. Low parole participation rates can be attributed to a number of factors including shorter sentences, the lengthy and onerous process in place for inmates to apply for a parole hearing, and the low approval rate.

Our audit report recommends, among other things, that the Ministry target its services to higher-risk offenders; compare Ontario's expenditures and program outcomes for supervising and rehabilitating offenders with other jurisdictions to assess whether programs are cost-effective; strengthen procedures to ensure probation and parole officers complete risk assessments and offender management plans consistently and on a timely basis; assess whether probation and parole officers have the tools to ensure offenders comply with their sentencing conditions; ensure officers have the skill to supervise higher-risk offenders; establish a strategy that includes training for probation and parole officers to assist offenders with mental health issues; and track the effectiveness, availability and wait times for rehabilitative programs across the province.

### 3.02 Child Care Program (Licensed Daycare)

The Ministry of Education (Ministry) is responsible under the *Day Nurseries Act* and its regulations

for ensuring that children in licensed child care operations are safe. These responsibilities include issuing and renewing child care operators' licences, inspecting and monitoring licensed facilities, gathering information on serious occurrences in licensed facilities and investigating complaints.

Our audit found that the Ministry needs to do significantly more to reduce the risk and incidents of serious occurrences to children by ensuring that licensed child care operators protect the health, safety and well-being of children in its care. The Ministry can do this by strengthening its inspection processes and related enforcement actions over licensed child care operators.

More than 29,000 serious occurrences were reported to the Ministry by licensed child care operators between January 1, 2009 and May 31, 2014. These occurrences include serious injury to a child, abuse of a child, a child gone missing, fire or other disaster, and physical or safety threats on the premises. We found that many of these incidents were not being reported to the Ministry within the required 24 hours, including a case of alleged physical abuse by a child care employee that was witnessed by another staff member. We were concerned that child care operators were not reporting all serious occurrences to the Ministry.

As well, we noted cases where the same concerns about child health, safety and well-being were noted in multiple inspections and that only 18 enforcement actions were taken in the last five years. Although the current legislation outlines grounds on which the Ministry can revoke or refuse to renew a licence, we noted there were no operational guidelines to help staff determine when such enforcement actions were appropriate. With the potential proclamation of Bill 10, the *Child Care Modernization Act, 2014*, the Ministry will still need to address how to operationalize enforcement requirements.

Other significant issues included the following:

- Over the last five years, program advisors have not inspected approximately one third of child care operators before the expiry date on their licences. As well, we found many

examples where operators with ongoing child health and safety concerns were not being monitored any more closely than were well-run child care centres. For example, from our sample of operators with provisional licences, which are operators considered to be high risk, we found that more than 80% of them were inspected after the expiry date on their licences. Therefore, there was no timely verification that the previous safety concerns noted were resolved.

- Ontario does not require child care operators and their staff to obtain vulnerable sector checks, something that is required in Alberta and Saskatchewan. These checks are more thorough than criminal reference checks and are designed to screen people who work with children or others considered at greater risk than the general public. A vulnerable sector check is already required by Ontario's Ministry of Health and Long-term Care for people seeking employment in long-term care homes.
- The caseloads of Ministry program advisors, who carry out licensing, inspection, complaint and serious occurrences duties, have been growing significantly. Since 2005, the number of child care operators has increased by 33%, while the number of program advisors has remained relatively constant. As a result, over half of the program advisors were responsible for the inspection and oversight of more than 100 child care centres compared to an average caseload of 65 centres per advisor in 2005.
- Program advisors exercise a great deal of discretion during the course of their work because Ministry policies and guidelines are often vague or nonexistent. For example, there were no guidelines on how to verify that medications, cleaning supplies and other hazardous substances were properly stored and inaccessible to children. We noted that program advisor verification could range from minimal to thorough.

We recommended that the Ministry should take more effective action against operators that do not report serious occurrences as required by law; develop guidelines for investigating and following up on serious occurrences; establish mandatory provincial guidelines for child care programming; develop more useful guidance for program advisors to evaluate child care programs and assess whether new applicants are competent enough to run a child care centre; gauge the risk of non-compliance posed by each new operator to identify high-risk operators and develop a risk-based approach for determining how often these operators should be inspected; address the backlog of inspections; strengthen the oversight of private-home day care agencies; disclose and provide more detail on its child care website of all non-compliance issues noted during inspections; more closely monitor operators who have been issued provisional licences; review its policy regarding criminal reference checks to assess whether it should be updated; and require operators and their staff to obtain vulnerable sector checks.

### 3.03 Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight

The Financial Services Commission of Ontario (FSCO) is an agency accountable to the Ministry of Finance and responsible in Ontario for regulating pension plans; the insurance industry; the mortgage brokerage industry; credit unions and caisses populaires; loan and trust companies; and co-operative corporations (known as co-ops). FSCO's mandate is to protect the public interest and enhance public confidence in Ontario's regulated financial sectors through registration, licensing, monitoring and enforcement.

The Pension Division of FSCO administers and enforces the *Pension Benefits Act* (Act) and its regulations. Under the Act, every employer that establishes a pension plan in Ontario must register it with FSCO and comply with the reporting and

fiduciary responsibilities set out in the Act. The Licensing and Market Conduct Division of FSCO administers and enforces the requirements of legislation pertaining to the financial service sector.

Underfunded pension plans are those that would not have enough funds to pay full pensions to their members if they were wound up immediately. We noted that the level of underfunding in defined-benefit pension plans in Ontario has become significantly worse over the past decade. As of December 31, 2013, 92% of Ontario's defined-benefit plans were underfunded, compared to 74% as of December 31, 2005. The total amount of underfunding of these plans grew from \$22 billion in December 2005 to \$75 billion in December 2013.

FSCO has limited powers to deal with administrators of severely underfunded pension plans, or those who do not administer plans in compliance with the Act. In contrast, FSCO's federal counterpart has legal authority to terminate a plan, appoint a plan administrator, or act as an administrator, but FSCO can only prosecute an administrator (which is usually the employer company) or take action after it orders the wind-up of a plan. As well, it cannot impose fines on those who fail to file information returns on time.

We concluded that FSCO should make better use of the powers it already has under the Act to monitor pension plans, especially those that are underfunded. Regarding the oversight of pensions, other significant issues included the following:

- Over the last four years, FSCO conducted on-site examinations of only 11% of underfunded plans on its solvency watch list. At this rate, it would take 14 years to examine them all. As well, FSCO took little or no action against late filers of information.
- It is uncertain whether the Pension Benefits Guarantee Fund, designed to protect members and beneficiaries of single-employer defined-benefit plans in the event of employer insolvency, is itself sustainable.

With respect to the Licensing and Market Conduct Division's (Division's) oversight of

regulated financial services, we had the following significant issues:

- FSCO undertakes minimal oversight of co-ops, which raise millions of dollars from investors each year for ventures such as renewable energy initiatives. FSCO does no criminal background checks of key members before a co-op is registered and begins raising money.
- Weakness in FSCO's online licensing system allows life insurance agents to hold active licences without having entered proper information about whether they have up-to-date errors-and-omissions insurance to cover client losses arising from negligence or fraud by an agent.
- There were significant delays and weak follow-up enforcement actions in the Division's handling of several serious complaints.

We recommended that FSCO conduct an analysis of the specific reasons for the increase in underfunded pension plans and the financial exposure to the province; assess the Pension Benefits Guarantee Fund's financial risk exposure to potential claims and to its continuation; seek legislative changes if necessary to increase the powers of the Superintendent; ensure that its online licensing system has the necessary controls to identify and reject licences for insurance agents who do not meet minimum requirements; investigate complaints in a timely manner; and explore opportunities to transfer more self-governing responsibilities to financial services sectors.

### 3.04 Immunization

Ontario's publicly funded immunization schedule currently includes vaccines that protect against 16 infectious diseases. Eligible people in Ontario can be immunized against these infectious diseases at no cost. Most vaccines are administered by family physicians, but other health-care providers also administer certain vaccines, such as the influenza vaccine.

The federal government is responsible for approving new vaccines prior to their use. The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for Ontario's immunization program, including advising the government which vaccines to publicly fund and the eligibility criteria for each one.

We estimated that operational funding for Ontario's immunization program was about \$250 million in the 2013/14 fiscal year. However, because the Ministry does not track the total costs of the immunization program, it does not know whether the program is being delivered cost-effectively. As well, information on children's immunization rates relies on parents reporting information to public health units often years after their child is vaccinated, as opposed to health-care providers reporting the information when they administer the vaccines. As a result, immunization coverage information is not reliable.

Other significant issues we noted included the following:

- There is minimal provincial co-ordination of the immunization programs delivered by the 36 municipally governed public health units in Ontario. Public health units act independently and are not responsible to Ontario's Chief Medical Officer of Health. As such, it is difficult for the Ministry to determine the most effective model for delivering Ontario's immunization program.
- Ministry funding to the public health units varied significantly, from \$2 per person in one area to \$16 per person in another. The Ministry has not analyzed the reasons for such variations to determine if such cost discrepancies are justified.
- Ontario is implementing a new system called Panorama, which includes a vaccination registry, at an estimated cost that has escalated by over \$85 million and is now expected to exceed \$160 million. Until such time as all vaccinations are contained in Panorama, the completeness of the data is limited, similar to the system it is replacing. That is, it will not provide the data needed to identify areas of the province with low immunization coverage rates, which could help prevent future outbreaks and identify vulnerable people during an outbreak.
- Ontario's child immunization rates are below federal targets and below the level of immunization coverage necessary to prevent the transmission of disease. One public health unit reported that outbreaks would occur if its measles immunization coverage rate decreased by as little as 10% from its current immunization rate.
- The Ministry lacks information on immunization coverage in licensed daycares. Parents choosing a daycare for their child who is not able to be vaccinated cannot readily access public information on the percentage of children who are not immunized in each daycare. In one situation, we noted that 31% of children in a daycare were not immunized against measles.
- We found questionable flu immunization billings in 2013/14, including about 21,000 instances where the Ministry paid physicians and pharmacists for administering the flu vaccine more than once to the same person. As well, the Ministry did not have information on how many, of almost one million doses of the flu vaccine that it purchased, had actually been administered.
- The majority of the public health units we reviewed expressed concerns regarding excess and expired inventory at health-care providers. There is no cost to public health units or health-care providers who order more of the publicly funded vaccines than they use, and the Ministry has no system to consistently identify unreasonable orders. Health-care providers and public health units reported \$3 million in vaccines expiring before use for the 2012/13 fiscal year.

- There is no process to ensure that new adult immigrants are immunized before or soon after arriving in Ontario. This makes them more susceptible to acquiring a vaccine-preventable disease, which may spread to other unimmunized Ontarians.

Our recommendations included that the Ministry review the immunization program delivery structure and consider alternative options; develop processes to enable physicians and other health-care providers to electronically update the immunization registry each time they provide a vaccine to both children and adults; establish provincial immunization coverage targets and monitor whether they are being achieved; ensure that public health units are taking appropriate actions to identify and address areas of the province, including daycare centres and schools, with low immunization rates; publicly report immunization rates by daycare and school; and implement processes aimed at ensuring that the volume of vaccines ordered by health-care providers is reasonable.

### 3.05 Infrastructure Ontario—Alternative Financing and Procurement

When the province constructs public-sector facilities such as hospitals, court houses and schools, it can either manage and fund the construction itself or have the private sector finance and deliver the facilities under what is called an Alternative Financing and Procurement (AFP) approach, a form of public-private partnerships (P3s) frequently used in Ontario. Contractual agreements between the government and the private sector define AFP arrangements. Under these agreements, private-sector businesses deliver large infrastructure projects, and the various partners (private sector and public sector) share the responsibilities and business risks of financing and constructing the project on time and on budget. In some cases, the private sector is also responsible for the maintenance and/or operation of the project for 30 years after it is built.

The private sector initially finances construction of AFP projects, but as with projects delivered by the public sector, the province ultimately pays for these projects under the terms of their contracts, some of which are up to 30 years. The province's March 31, 2014 public accounts reported almost \$23.5 billion in liabilities and commitments that the present and future governments, and ultimately taxpayers, will have to pay. However, the financial impact of AFP projects is higher since the province has also borrowed funds to make the payments to AFP contractors when the various projects reached substantial completion. These borrowed amounts, which we estimate to be an additional \$5 billion, are part of the total public debt recorded in the March 31, 2014 Public Accounts.

Since 2005, large-scale infrastructure projects under the AFP model have been managed by Infrastructure Ontario. To compare whether each large infrastructure project should be delivered using the AFP approach versus directly by the public sector, Infrastructure Ontario relies on “value-for-money” (VFM) assessments. These VFM assessments take into account both estimated tangible costs and the estimated costs of related risks (for example, late changes to project design or changes in government priorities that result in delays), some of which are assumed to be transferred to the private sector under AFP reducing the province's cost.

For 74 infrastructure projects (either completed or under way) where Infrastructure Ontario concluded that private-sector project delivery under the AFP approach would be more cost effective, we noted that the tangible costs (such as construction, financing, legal services, engineering services and project management services) were estimated to be nearly \$8 billion higher than they were estimated to be if the projects were contracted out and managed by the public sector. The majority of this (\$6.5 billion) relates to private sector financing costs.

Infrastructure Ontario estimated that this \$8-billion difference was more than offset by the risk of potential cost overruns if the construction and, in some cases, the maintenance of these 74 facilities

was undertaken directly by the public sector. In essence, Infrastructure Ontario estimated that the risk of having the projects not being delivered on time, and on budget, was about five times higher if the public sector directly managed these projects versus having the private sector manage the projects.

We also noted the following:

- There is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks. Instead, the agency relies on the professional judgment and experience of external advisers to make these cost assignments, making them difficult to verify. In this regard, we noted that often the delivery of projects by the public sector was cast in a negative light, resulting in significant differences in the assumptions used to value risks between the public sector delivering projects and the AFP approach.
- In some cases, a risk that the project's VFM assessment assumed would be transferred to the private-sector contractor was not actually transferred, according to the project's contractual agreement. For example, the VFM assessment for a hospital project assumed the contractor would bear the risks of design changes; however, this hospital project's contract indicated that the contractor was not responsible for project design, and that the public sector was responsible for the risk of design changes.
- Two of the risks that Infrastructure Ontario included in its VFM assessments should not have been included. If they had not been included in the VFM assessments, public-sector delivery for 18 of these projects would have been assessed as \$350 million cheaper than delivery under the AFP approach.

Based on our audit work and review of the AFP model, we determined that achieving value for money under public-sector project delivery would be possible if contracts for public-sector projects have strong provisions to manage risk and provide incentives for contractors to complete projects on

time and on budget, and if there is a willingness and ability on the part of the public sector to manage the contractor relationship and enforce contract provisions when needed.

Infrastructure Ontario has a strong track record of delivering projects such as hospitals, courthouses and detention centres on time and on budget. It may now be in a position to utilize its expertise to directly manage the construction of certain large infrastructure assets and thereby reduce the cost to taxpayers of private-sector financing. There is a role for both private-sector and public-sector project delivery. As experience with AFPs has developed, it may be time to assess what those roles and the financing mix should be going forward.

We recommended that Infrastructure Ontario gather data on actual costs from recent projects—both AFP and non-AFP—and revise its VFM assessment methodology to ensure that its risk valuations are justified; confirm that all risks assumed to be transferred to the AFP contractor are actually transferred in contracts; and that Infrastructure Ontario be engaged in traditional forms of procurement to utilize the experience that it has gained in delivering AFPs, for the most part, on time and on budget, in order to achieve additional cost benefits for Ontario taxpayers.

### 3.06 Infrastructure Ontario's Loans Program

Infrastructure Ontario (IO), a Crown corporation, has four main lines of business dealing with government and non-government clients—real estate management, Ontario Lands, project delivery and lending (the Loans Program). The Loans Program existed before IO was created in 2011 to make and administer loans primarily to municipalities. Over the years, the types of borrowers eligible for the program have grown to 10 eligible sectors. Certain other entities—the 2015 Pan American Games Organizing Committee and MaRS Discovery District, for example—have also been specially

named as eligible borrowers under the legislation that governs the Loans Program.

The Loans Program has a portfolio of 806 loans advanced to 353 borrowers and has approved loans totaling \$7 billion since its inception. As of March 31, 2014, IO's balance of outstanding loans receivable totalled approximately \$4.9 billion.

IO maintains a Credit Risk Policy that outlines its credit risk management strategy, roles and responsibilities, internal controls and requirements for reporting to its board of directors. In addition to the general policy that defines credit risk as "the potential for default or non-payment by borrowers of scheduled interest or principal repayments," IO has policies on credit risk and lending for each of the 10 eligible sectors.

Although most of IO's loans have been made to relatively low-risk municipal borrowers, and loan defaults have to date been very low, we did note the following concerns about the Loans Program:

- A loan for up to \$235 million, of which \$216 million was outstanding as of March 31, 2014, was made to a subsidiary of MaRS Discovery District, a not-for-profit organization that would not have been eligible for the Loans Program, except for a regulatory amendment. MaRS Discovery District sought the loan to help restart construction of an office tower to be built, owned and operated by a private-sector developer, and it made concessions to the developer to avoid further delays following the economic downturn in 2008. Given the risks identified, IO was unwilling to make the loan without further security, which the government provided by way of a guarantee through the Ministry of Research and Innovation, in order to preserve prior government investments in MaRS and the MaRS research mandate. The project is now complete and the building ready to be occupied, but the amount of space leased so far is not enough to support the interest payments on the loan. IO has therefore enforced the guarantee. As well, the most significant

leases signed so far are with two publicly funded organizations—Public Health Ontario and the Ontario Institute for Cancer Research. These leases were committed to before construction began in 2007 at rates that are higher than current market rents. Whether the government's recent decision to purchase the private sector developer's interest in the project is a good deal for taxpayers remains to be seen.

- Also on IO's Loans Watch List are two older loans to not-for-profit organizations that were made based on assumptions about donation revenues that have not materialized. The two loans had a balance of approximately \$75 million outstanding as of March 31, 2014.
- IO needs to enhance its credit-risk assessment models, especially for non-municipal borrowers, which tend to be higher risk, as well as update and strengthen its credit-risk policies.
- IO's loan-monitoring procedures were not well documented at the time of our audit.
- IO currently lacks a monitoring tool to track and monitor compliance with non-standard loan covenants in certain loan agreements.

In our report, we recommended that IO formalize and document its monitoring procedures for municipal loans; implement its action plan to address the deficiencies identified in a 2013 consultant's review of its credit and lending processes; and develop a tracking tool to record and monitor non-standard loan covenants that are included in signed loan agreements.

### 3.07 Ontario Energy Board—Natural Gas Regulation

The Ontario Energy Board (Board) is responsible for ensuring that natural gas market participants comply with the *Energy Consumer Protection Act*, which pertains specifically to those selling to low-volume users, such as households. Under the *Ontario Energy Board Act*, the Board's objectives include facilitating competition in the sale of gas to

consumers and protecting the interests of consumers with respect to prices and the reliability and quality of gas services. In carrying out its mandate, the Board sets prices for natural gas and its delivery and storage. It also licenses and oversees natural gas market participants, including gas utilities and gas marketers.

In Ontario, residential consumers have the option of purchasing natural gas from either a gas utility or one of 12 gas marketers actively selling natural gas in Ontario. There are three utilities that own the pipes and equipment that deliver the natural gas to homes and businesses, plus two municipal utilities that also distribute natural gas. Each utility serves different areas of the province.

The Board regulates the rate that the three utilities charge their consumers, but not those that the gas marketers charge. The gas marketers operate as brokers, locating natural gas on the market to sell competitively. When consumers buy gas from marketers, they sign fixed-term contracts for periods of one to five years. Otherwise, they get their gas supply from their utility, which is the default supplier. For the year ended March 31, 2014, there were 3.5 million natural gas customers in Ontario. Of these, over 3 million purchased their gas from one of the three utilities.

The Board conducts its oversight through a quasi-judicial process that includes public participation. Panels of board members hold proceedings and their decisions must uphold the broad public interest, including the protection of consumers, the financial integrity of the utilities, and other legislated goals, such as the safe operation of storage and energy conservation.

The Board uses a three-stage process in regulating natural gas rates. In the first stage, utilities must submit cost-of-service applications approximately every five years to establish the base rate to charge consumers. In the second stage, the Board reviews and adjusts gas rates annually between cost-of-service reviews, typically using a formula that considers inflation adjusted by the utilities' productivity figures. In the third stage, gas rates are adjusted

four times a year to smooth out fluctuations in billing rates and to reflect current market prices for natural gas, as well as changes in transportation rates and inventory valuations.

We found that the Board has adequate systems and processes in place to protect the interests of natural gas consumers and ensure that the natural gas sector provides energy at a reasonable cost. However, Board staff could more fully assess the cases utilities make when they apply to the Board for rate changes.

Some significant issues included the following:

- Gas utilities are not allowed to charge consumers more than the purchase cost of gas, but Board staff seldom obtained source documents to verify the information the utilities provided in rate change applications. We noted that over the last 10 years only one audit of gas cost adjustment accounts and accounting processes was done, in 2011, and on only one utility.
- Utilities apply different approaches to recover their Board-approved revenue requirements, but Board staff had not assessed the impact that these differences have on consumers.
- Although complaints against gas marketers decreased by 81% from 2009 to 2013, contract cancellation and renewal issues were still the sources of many complaints when consumers discovered they could pay lower prices with other gas providers. The Board could facilitate providing consumers with rate information from the various gas providers on its website to help them make more informed decisions before they entered into a contract.

We recommended that the Board compare the different cost recovery approaches used by utilities and identify best practices in purchase, transport and storage that could affect consumer rates; periodically select source documents from utilities for review to assess the reasonableness of the information on rate-change applications; and consider including on its public website information on the gas rates offered by various gas marketers.

### 3.08 Palliative Care

The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for health care in Ontario, including palliative care. Palliative care focuses on the relief of pain and other symptoms for patients with advanced illnesses, and is often referred to as “end of life” care for persons within their last few months of life.

The Ministry funds 14 Local Health Integration Networks (LHINs), which are responsible for planning, co-ordinating, funding and monitoring palliative-care services in their regions. The LHINs fund various organizations that provide palliative care, including Community Care Access Centres (which provide care in patients’ homes), hospitals and hospices (which are home-like facilities that provide inpatient palliative care). However, the total amount of funding the Ministry provides for palliative-care services is not known because costs are not tracked specifically enough to isolate the amount spent on palliative care (e.g., hospital-based costs, long term care home-based costs and publicly funded drug costs).

The need for palliative care is growing because the population is aging. Palliative-care services in Ontario developed in a patchwork fashion, often being initiated by individuals who had a passion for this area of care, wherever they were located in the province. As a result, although efforts have been made to create an integrated co-ordinated system to deliver palliative care in Ontario, no such system yet exists. The Ministry obtains only minimal information on the services that are available in each LHIN, their costs, and the relative patient need for these services. The Ministry also lacks performance measures to help determine its progress in meeting its goal of providing the “right care at the right time in the right place.”

Some significant issues included the following:

- Ontario lacks a strategic policy framework for delivering palliative care. Although the 2011 Declaration of Partnership established a common vision for delivering palliative-care

services among a number of stakeholders, significant work still needs to be done to meet most of the commitments outlined in it.

- There is little province-wide or LHIN-level information on the supply of or demand for palliative and end-of-life care. The Ministry does not have accurate information on the number of palliative-care beds in hospitals across the province, nor is the number of palliative patients served by each LHIN tracked consistently.
- The mix of services available has not been adequately assessed. Although most people would prefer to die at home, most die in hospital, likely because there are not sufficient services available in the community to meet their health-care needs. Caring for terminally ill patients in an acute-care hospital is estimated to cost over 40% more than providing care in a hospital-based palliative-care unit, more than double the cost of providing care in a hospice bed, and over 10 times more than providing at-home care.
- Access to palliative-care services is not equitable. Patients who qualify for services in one area of the province may not have access to similar services in another area.
- Overall, hospices have a 20% vacancy rate and thus have the potential to serve more patients than they are currently. Meanwhile, the Ministry funds hospices with vacant beds.
- There is a need for additional physician communication with patients about their end-of-life prognosis and the availability of palliative care.
- Ontario’s publicly funded palliative-care services are mainly used by cancer patients, even though as many people die each year from advanced chronic illnesses that would also benefit from palliative care, including heart disease, stroke and chronic obstructive pulmonary disease.

Our recommendations included that the Ministry create an overall policy framework on the provision of palliative-care services; implement a co-ordinated

system for the delivery of these services; ensure patients have complete information on their prognosis and care options; ensure that patients have similar access to similar services across Ontario by standardizing patient eligibility practices; explore the feasibility of increasing the occupancy rates at hospices; ensure that public information on palliative-care services and end-of-life care is available and easily accessed; and adopt palliative-care performance indicators and associated benchmarks.

### 3.09 Provincial Nominee Program

The Provincial Nominee Program (Program), delivered by the Ministry of Citizenship, Immigration and International Trade (Ministry), is the only immigration selection program administered by the Ontario government. Immigrants are nominated by the Program based on their potential economic contribution to the province.

Under the Program, the province is allowed to select and recommend (“nominate”) to the federal government foreign nationals and their accompanying family members for permanent residency in Canada. At the time of our audit, the Program had three components: an employer-driven component, for business to fill permanent positions in professional, managerial or skilled-trades occupations; an Ontario graduate component, which allows international students graduating from Ontario universities with post-graduate degrees to qualify for nomination without a job offer; and an investment component, which lets investors permanently relocate staff (who may be foreign workers) to Ontario.

From the Program’s inception in 2007 to June 2014, Ontario nominated about 6,600 people. As of April 30, 2014, 7,100 people—3,900 nominees and 3,200 family members—have become permanent residents through the Program. The Ministry expects the federal government to allow Ontario to nominate up to 5,500 potential immigrants in 2015.

As Ontario is considered a very attractive province to immigrate to, the Program must have

effective controls and processes in place to select qualified nominees and detect immigration fraud. A weak program can be targeted by unscrupulous potential immigrants and immigration representatives. Our audit found that the necessary controls and processes were not in place and that there are significant issues regarding the Program that need to be addressed.

There is a significant risk that the Program might not always be nominating qualified people who can be of economic benefit to Ontario. In some cases, it can be difficult to distinguish eligible and ineligible jobs under the Program. Seven years after it began, the Program still lacks the necessary tools, including policies, procedures and training, to help program staff make consistent and sound selection decisions. In addition, we found that program staff had not been provided with clear guidelines on how to deal with immigration fraud.

Some significant issues include the following:

- From 2007 to 2013, 20% of the 400 denied applicants were turned down because of misrepresentation. However, there is nothing stopping people who have misrepresented themselves or their clients from reapplying or representing other clients. The Program does not have a protocol in place to ban applicants or their representatives who have submitted fraudulent applications.
- The Program did not follow up on questionable files that were approved but flagged for follow-up. About 260 files were flagged between October 2011 and November 2013, but only 8% had been followed up on at the time of our audit. The Ministry did not review the majority of the 260 files before 71% of these nominees became landed immigrants.
- The Ministry delayed formally reporting information relating to potential abuse of the Program to the federal government and proper law enforcement agencies and did not provide vital personal information to them, thereby potentially delaying corrective action against individuals who might be abusing the

Program. As well, the Program did not report its concerns about certain immigration representatives to its respective regulatory bodies.

- Program management did not share program integrity concerns with internal staff in order to enhance their due diligence processes.
- The Program is required to select nominees who can contribute economic benefits to Ontario, but the Program allows the nomination of people with no job offers. Two-thirds of the nominees in 2013 were international students with a post-graduate degree but no job offer. The Ministry has not evaluated whether these nominees became employed and are making an economic contribution to Ontario.
- Staff turnover in the Program has been high, with 31 staff leaving the Program and 59 staff starting between January 2012 and June 2014. As of March 31, 2014, there were 45 staff working in the Program.
- Even though the Ministry says publicly that applications are processed on a first-come-first-served basis, certain applications were given priority and processed at least three times faster than others. We noted that files submitted by a certain representative, who was a former program employee, were prioritized.
- Significant data integrity issues were noted with the case management system and there were weak internal controls over nomination certificates.

Some of our recommendations included that the Ministry file formal complaints with the RCMP and any applicable regulatory bodies as soon as it has evidence of potential immigration fraud; implement necessary steps to allow banning of applicants and representatives who have misrepresented themselves or clients; establish limits for the proportion of nominees who can be accepted without job offers; scrutinize applicants applying for jobs in classifications where they could be misrepresenting their work experience; enhance program staff training, including on ethical matters and management expectations; require that program staff obtain

security clearance; and develop a process to track representatives and applicants of concern, and to alert processing staff of these concerns.

### 3.10 Residential Services for People with Developmental Disabilities

The Ministry of Community and Social Services (Ministry) funds residential and support services for people with developmental disabilities to help them live as independently as possible in the community. The Ministry estimated there were 62,000 adults in Ontario with developmental disabilities in 2012, about half of whom needed residential services. Of these, 17,900 people received residential services in the 2013/14 fiscal year, 98% of them adults. Another 14,300 adults were on a wait list at year's end.

In 2013/14, the Ministry paid a total of \$1.16 billion to 240 not-for-profit community agencies that operated nearly 2,100 residences that provided residential and support services to people with developmental disabilities. Of this total, 97% was for adult services. The Ministry, through regional offices, is responsible for overseeing program delivery for most residential services by agencies. Children's residential services are also funded by the Ministry.

The adult developmental service system faces challenges because its clients are growing older and living longer, and their care needs are complex (40% of those with developmental disabilities also have mental health issues).

In our audit, we noted that over the last four years, the number of Ontarians with developmental disabilities receiving provincial services and supports grew only 1% to 17,900, while spending on those services and supports rose 14% to \$1.16 billion. A portion of this funding increase was intended to accommodate 1,000 more people over four years, but only 240 more were being served by the end of the third year. As such, program costs are increasing faster than the number of people

served. As well, as of March 31, 2014, the number of people waiting for services was almost as high as the number of people who had received services in the previous 12 months.

In 2004, the Ministry began work on a comprehensive transformation of developmental services in Ontario; however, the project was still unfinished at the time of our audit in 2007 and our audit now. The Ministry has made some progress by, for instance, establishing Developmental Services Ontario as a single access point for adult developmental services.

Significant shortcomings remain in a number of areas:

- From 2009/10 to 2013/14, the number of people waiting for adult residential services increased 50% while the number served increased only 1%. We calculated that it would take 22 years to place everyone who is currently waiting for a residence, assuming no one else joins the list.
- Eligibility and needs assessment of applicants has improved, but the Ministry still needs to complete the development of a consistent and needs-based prioritization process. People with the highest-priority needs are not usually placed first because residential services placements go to people who are the best fit for the spaces that become available, rather than to those who are assessed as having the highest priority needs.
- The Ministry needs to revise funding methods to link residential funding to residential level of care needs. Ministry funding to service providers is currently based on what the providers received in previous years, rather than on the level of care they need to provide the people they serve. A new funding method based on a reasonable unit cost for services by level of care could lead to savings that would allow more people now on wait lists to be served.
- We found wide variations in the cost per bed or cost per person across the system for 2012/13. We calculated the cost per bed for adult group homes ranged from \$21,400 to \$310,000 province-wide. We also found large variances within regions. The Ministry was unable to explain the variances.
- About 45% of adult residences have not been inspected since 2010. Inspections typically include a review of agency policies and procedures, board documents, and staff and resident records, in order to assess the physical condition of a residence, the personal care provided to residents, the management of residents' personal finances, and whether the residence has a fire safety plan. For those inspections conducted, we found that issues were not being followed up on or resolved in a timely manner. The results of residence inspections are not made public.
- Ontario has few care standards and they are general in nature and open to interpretation.
- The Ministry does not have meaningful performance indicators to assess the quality of residential care provided.
- The Ministry created the Developmental Services Consolidated Information System database in 2011 for client information. However there are problems with the accuracy and completeness of the wait management information.
- The segregation of roles between the Ministry of Community and Social Services and the Ministry of Children and Youth Services regarding children's residential services is confusing: one ministry is responsible for contracting, funding and managing the relationship with service providers and another ministry is responsible for handling complaints, and licensing and inspecting those service provider premises. The confusion can arise over who is accountable for the overall delivery of children's residential services. As well, there is no consistent single access point for children's residential services.

We recommended that the Ministry establish a funding model based on the assessed needs of

people who require services; review performance measures used in other jurisdictions to evaluate residential services for vulnerable people and adapt these for its own use; develop a consistent prioritization process across the province; develop a consistent wait-list management process across the province; conduct unannounced inspections of residences; and establish further standard-of-care benchmarks, such as staff-to-resident ratios.

### 3.11 Smart Metering Initiative

The Ontario government's Smart Metering Initiative (Smart Metering) is a large and complex project that required the involvement of the Ministry of Energy (Ministry), the Ontario Energy Board, the Independent Electricity System Operator, and 73 distribution companies, including Hydro One. In 2004, the government announced plans to reduce energy consumption in the province by creating a culture of conservation. One aspect of this plan was the installation of smart meters in homes and small businesses across Ontario. As of May 2014, 4.8 million smart meters had been installed in homes and at small businesses across Ontario.

Smart meters, like conventional meters, track the quantity of electricity used. However, the smart meters also log use by time of day. This feature allows for the introduction of time-of-use (TOU) pricing, which is intended to encourage ratepayers to shift electricity usage to times of off-peak demand, when rates are lower. Under TOU pricing, electricity rates are highest during the day, but drop at night, on weekends and holidays. The combination of smart meters and TOU pricing was expected to encourage electricity conservation and reduce demand during peak times by encouraging ratepayers to, for example, run the dishwasher or clothes dryer at night rather than in the afternoon, and set the air conditioner a few degrees warmer on summer afternoons. The reduction of peak demand could reduce the need to build new power plants,

expand existing ones or enter into additional power purchase arrangements.

Our audit found that Smart Metering was rolled out by the Ministry with aggressive targets and tight timelines, without sufficient planning and monitoring by the Ministry, which had the ultimate responsibility to ensure that effective governance and project-management structures were in place to oversee planning and implementation. As yet, many of the anticipated benefits of Smart Metering have not been achieved and its implementation has been much more costly than projected.

Our other significant concerns included the following:

- The Ministry did not complete any cost-benefit analysis or business case prior to making the decision to mandate the installation of smart meters. In contrast, other jurisdictions, including British Columbia, Germany, Britain and Australia, all assessed the cost-effectiveness and feasibility of their smart-metering programs before proceeding.
- After the government announced the rollout of Smart Metering in April 2004, the Ministry prepared a cost-benefit analysis and submitted it to Cabinet. However, the analysis was flawed; its projected net benefits of approximately \$600 million over 15 years were significantly overstated by at least \$512 million.
- The Ministry has neither updated the projected costs and benefits of Smart Metering, nor tracked its actual costs and benefits, to determine the actual net benefits realized. As of May 2014, our analysis shows that overall smart metering-related implementation costs had reached almost \$2 billion, with additional costs to come. Significant smart metering system development and integration challenges were encountered as the project progressed. The majority of these costs are passed on to the ratepayers in Ontario.
- The purpose of Smart Metering was to enable time-of-use (TOU) pricing, which was expected to reduce electricity demand during

peak periods. The Ministry set several targets to reduce peak electricity demand, but these targets have not been met.

- Ratepayers pay different amounts for the same power usage depending on where they live in Ontario, mainly due to different delivery costs of the 73 distribution companies. For example, a typical residential electricity bill could vary anywhere between \$108 and \$196 a month, mainly due to the variation in delivery costs ranging from \$25 to \$111 a month charged by different distribution companies to ratepayers.
- The difference between the On-Peak and Off-Peak rates has not been significant enough to encourage a change in consumption patterns. When TOU rates were introduced in 2006, the On-Peak rate was three times higher than Off-Peak; by the time of our audit, that differential had fallen to 1.8 times.
- The significant impact of the Global Adjustment on TOU rates is not transparent to ratepayers. Between 2006 and 2015, the 10-year accumulative actual and projected Global Adjustment stands at about \$50 billion which is equivalent to almost five times the 2014 provincial deficit of \$10.5 billion. The Global Adjustment represents an extra payment covered by ratepayers over the market price of electricity and it now accounts for about 70% of each of the three TOU rates.
- Under Smart Metering, a \$249-million provincial data centre was established to collect, analyze and store electricity consumption data. However, most distribution companies used their own systems to process smart-meter data. The costs of this duplication—one system at the provincial level and another locally—are passed on to ratepayers.
- Additionally, we noted that many of Hydro One's billing complaints related to the increases in the TOU rates, connectivity issues between smart meters and associated communication systems, bills based on errors arising from smart meters connected to incorrect

addresses, and other Hydro One billing system issues.

In our report, we directed recommendations to the Ministry, the Independent Electricity System Operator, Hydro One and the Ontario Energy Board. We recommended that business cases be prepared before proceeding with any major projects in the future; that the structure and pricing of the TOU program be re-evaluated; that Hydro One improve its systems for dealing with ratepayer complaints about billing and metering issues; that the impact of the Global Adjustment on electricity bills be transparent to ratepayers, and that the limitations and options surrounding the provincial data centre be reassessed.

### 3.12 Source Water Protection

In May 2000, seven people died and more than 2,300 became ill when the drinking water in Walkerton, Ontario, became contaminated with deadly bacteria. The primary source of the contamination was manure from a farm near a well that was the source of the town's drinking water. Two years later, Justice Dennis O'Connor's report from his related Commission of Inquiry recommended that the Ministry of the Environment and Climate Change (Ministry) review and approve source protection plans developed locally for each watershed in the province.

In response to Justice O'Connor's recommendations, the province enacted the *Clean Water Protection Act* in 2006. Soon after this Act was proclaimed, the Ministry established a Source Protection Committee in each of 19 regions in the province to develop, in conjunction with local conservation authorities, source water protection plans to assess existing and potential threats to source water and ensure that policies were in place to reduce or eliminate these threats. In 2002, the government also passed the *Nutrient Management Act* to manage nutrients in ways that better protect the environment, including source water. Applying more nutrients to crops can lead to a build-up in the

soil, which can run off into surface waters or leach into groundwater, to the detriment of the environment and to human health.

Fourteen years after the Walkerton water crisis, the Ministry is still in the process of reviewing and approving the locally developed source water protection plans envisioned by the O'Connor commission and required by the *Clean Water Act, 2006*. As well, non-compliance with the *Nutrient Management Act* and the Ministry's weak enforcement increase the risk that source water is not being effectively protected.

Our significant issues included the following:

- The Ministry has no clear time frame when all source water protection plans will be approved. It also lacks a long-term strategy for funding and oversight of municipalities and conservation authorities to ensure that approved source water protection plans are implemented.
- Spills from industrial and commercial facilities pose a threat to water intakes into the Great Lakes, yet source water protection plans do not currently address them.
- Only a limited number of farms that produce and use manure are captured under the requirements of the *Nutrient Management Act*. For example, the farm that was the source of contamination in Walkerton would not be captured under the Act's regulations.
- In 2013/14, the Ministry inspected only 3% of the farms known to have to adhere to the Act's regulations for proper storage and application of manure. Of those farms, about half had

non-compliance issues causing a risk or threat to the environment and/or human health. As well, we noted that the Ministry often did not follow up on issues of non-compliance, and rarely used punitive measures, such as issuing offence notices that could lead to fines in provincial courts.

- The Ministry is recovering only about \$200,000 of the \$9.5 million annual program costs associated with the taking of water by industrial and commercial users.

In our report, we recommend that the Ministry set a firm commitment for when source water protection plans should be approved; devise an approach to fund the implementation of many of the policies within approved plans; develop a strategy for updating the plans as needed to ensure that threats to source water, and the policies that address these threats, remain current; and charge industrial and commercial users of surface or groundwater an appropriate fee to recover the costs of administering programs that help sustain the amount of available water in Ontario.

With respect to the *Nutrient Management Act*, we recommended that the Ministry and the Ministry of Agriculture, Food and Rural Affairs develop an approach to gather information on the number of farms that need to manage nutrients in accordance with the Act; set targets that maximize the number of inspections being performed; use appropriate risk-based criteria for selecting farms for inspection; and apply available punitive measures to cases of non-compliance.