CHAPTER ONE

Overview

IMPROVING INFORMATION FOR DECISION MAKING

1.00

As I have emphasized in previous Annual Reports, having good information for decision making is essential. Appropriate, reliable and timely information enables decision makers to accurately assess the economy, efficiency and effectiveness of government programs and activities. Such information provides a critical base for decision makers to decide whether to continue, discontinue or change government programs and activities, including the use of alternative service delivery or common purpose procurement. Good administration of public funds depends on good decisions based on good information.

One of the significant themes of my Annual Report this year, as in past years, is that ministries still require improvements in the quality of their information about the economy and efficiency of the programs and services they deliver. They often lacked adequate procedures for measuring and reporting program effectiveness, especially for those programs funded through transfer payments. These areas offer significant opportunities to improve information for decision making, which would lead to an improved administration of public funds.

Many services paid for by government are being provided by service delivery agents to which government does not have access for information about day-to-day operations. However, since about half of our tax dollars go to these agents in the form of transfer payments, it is vital that the government know the extent to which they are achieving intended results and whether or not taxpayers are receiving value for money spent. The key to this knowledge is ensuring the availability of appropriate, reliable and timely information.

A common finding of the transfer payments we audited this year, as in prior years, was that the government provided funding without linking that funding sufficiently to:

- assessed needs and service levels provided (see the sections on the Ministry of Community and Social Services' Child Care Activity and Community Accommodation Program);
- the demand for services rather than historical expenditure patterns (see the section on Ministry of Health and Long-Term Care's Transfer Payments to Public Hospitals); and
- provincial objectives (see the section on the Ministry of Training, Colleges and Universities' University Funding).

The fundamental requirements for sound information for decision making must also be met for decisions to outsource service delivery. In our audits, we focus on three phases of outsourcing: selecting the service to be outsourced; implementing the outsourcing/contracting;

and monitoring contractor performance. In this year's audits we found inadequacies in all three phases. Examples of our findings are described below.

- In outsourcing highway maintenance, the Ministry of Transportation selected a pilot district and estimated that savings from that pilot contract would amount to $900,000. However, the Ministry could not provide us with any information to support its savings calculations. Therefore, the Ministry could not demonstrate whether the estimated savings were achievable or achieved. Nevertheless, the Ministry proceeded to grant four contracts covering almost 20% of the provincial highways for $93.1 million without properly evaluating the results of the pilot project. Furthermore, in trying to determine if those four contracts would result in the estimated 5% of savings that the Ministry had reported to Management Board of Cabinet as achievable from the outsourcing, the Ministry either double-counted or overestimated its own costs of equipment maintenance, service crews and other expenditures. We found that, for these four contracts, the 5% target was not achieved.
- In implementing a computer consulting services contract, the Family Responsibility Office of the Ministry of the Attorney General spent $2.3 million, including $1.1 million on change orders subsequent to awarding the contract, without complying with significant aspects of the applicable Management Board of Cabinet directive, which is designed to ensure that value for money is obtained. The Ministry lacked the required approvals and could not explain why the large number and amounts of change orders were necessary despite having previously paid a consultant $214,000 to define the project. We found the Ministry could not demonstrate that the project was managed with due regard for economy.

  Furthermore, this $2.3 million project did not address the computer system deficiencies we reported on in 1994, which we found still existed during this year's audit and which, according to the Ministry, will not be addressed at least until the year 2000. The Ministry had agreed with us that these deficiencies must be corrected to make the computer system meet the Family Responsibility Office's operational needs.
- As to monitoring, the Ministry of Transportation's monitoring efforts were insufficient to provide assurance that contractors are maintaining highways that are safe for public use. Maintenance coordinators in the districts we visited advised us that patrol areas were too large and inadequately staffed. As well, some coordinators assumed that contractors carried out their work as required because some of the contractor's staff were former ministry employees.

ACCOUNTING AND FINANCIAL INFORMATION

I am pleased to state that my auditor's report on the financial statements of the province for the year ended March 31, 1999 is clear of any qualifications or reservations.

Both the financial statements and the budget of the province are prepared in accordance with the accounting principles recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and, where applicable, the *CICA Handbook* for private and public sector corporations in Canada. Using the same basis of accounting for both sets of accounts allows the Legislative Assembly to more easily compare actual with planned financial performance and results.

Despite this progress, further improvements are still needed. Although summary reconciliations are provided on a PSAB basis, the estimates continue to be prepared on a modified cash basis of accounting. Legislative spending authority and appropriation controls are not yet converted to the PSAB basis of accounting. I understand that the government is working toward adopting PSAB standards for spending authority.

For the third consecutive year, the government issued an annual report which helps legislators and the public better understand and evaluate the province's financial position and activities.

Below are my observations relating to some of the significant changes in expenditures this year as compared to previous years due to the government's Local Services Realignment (LSR) initiative and to the issue of the former Ontario Hydro's debt as it relates to its provincially owned successor companies. Both of these issues are more fully discussed in Chapter Five.

LOCAL SERVICES REALIGNMENT

Under LSR, responsibilities for a number of government programs were transferred in whole or in part to municipalities effective January 1, 1998, while at the same time the government assumed a greater share of the responsibility for education funding.

The LSR initiative has had a significant impact on the comparability of government expenditures with the previous year. For example, the impact on the expenditures of the ministries of Education and Training and Finance were increases of $2,954 million and $678 million respectively, and decreases for the ministries of Transportation and Municipal Affairs of $1,285 million and $666 million respectively. These and other impacts of LSR are discussed further in Chapter Five.

As a transition measure and to ensure continuity of service, the province continues to deliver many LSR programs on behalf of municipalities, pending full program transfer. During this transition period, municipalities reimburse the province for expenditures made on their behalf. In 1998/99 the province recorded reimbursements of $2.1 billion from municipalities.

ONTARIO HYDRO

SUCCESSOR COMPANIES

Under the *Energy Competition Act,* Ontario Hydro was succeeded effective April 1, 1999 by five entities. The three largest of these are Ontario Power Generation Inc. (OPG), Ontario Hydro Services Company Inc. (OHSC) and the Ontario Electricity Financial Corporation (OEFC). The OEFC's preliminary opening balance sheet shows debt of $38.1 billion, $21 billion of which is the latest estimate of "stranded" debt.

The government has a long-term plan in place to retire this "stranded" portion of debt from dedicated revenues, such as payments from OPG and OHSC in lieu of property taxes, corporate income taxes, capital taxes and, if necessary, a Competition Transition Charge that most likely would be levied on all ratepayers as part of their electricity bills. The effect of this plan is reflected in the preliminary opening balance sheet of the OEFC as a $21 billion deferred charge to be recovered from future dedicated revenue streams. We have accepted this approach, contingent on being provided annually with independent assurance of the value of the dedicated revenue streams. If this assurance is not maintained, the deferred amount, or a portion thereof, would at that time worsen the provincial government's operating results.

RESTATEMENT OF CERTAIN FINANCIAL STATEMENTS

In our *1998 Annual Report*, we stated that, while Ontario Hydro acknowledged that the charging of $6.4 billion of future expenses to be incurred in the years 1998–2001 to the year 1997 was not in accordance with generally accepted accounting principles for business enterprises, Ontario Hydro and its external auditors had concluded that this accounting treatment was acceptable for enterprises operating in a rate-regulated environment. We expressed our concern that this inclusion of future expenses in 1997 would, in future years, allow Ontario Hydro to significantly inflate its net income.

We understand that Ontario Hydro Services Company Inc., one of the successor companies to Ontario Hydro, has determined with its external auditors that it would be appropriate to restate certain of its financial statements along the lines that we had suggested for Ontario Hydro, that is, expenses are included in operating results of the year in which those expenses are incurred. We believe it would be appropriate for all of Ontario Hydro's successor companies that need to access public capital markets to take action similar to that taken by Ontario Hydro Services Company Inc.

In our view, the ability of Ontario Hydro's successor companies to raise funds through public issues is essential to containing the risk to the Government of Ontario under guarantees provided on existing Ontario Hydro debt amounting to $26.2 billion as at March 31, 1999 and to deal with the recovery of "stranded" debt now recorded in the books of the Ontario Electricity Financial Corporation.

ACCOUNTABILITY

Chapter Two addresses specific issues of governance and accountability in government. This year there are four issues that I believe warrant discussion to improve accountability to the Legislature for the prudent use of public funds: concerns regarding public accountability for the Ontario Innovation Trust; the need for guidelines for government advertising; the governance and accountability of Ontario's scheduled agencies; and legislative proposals for increased public accountability.

VALUE FOR MONEY AUDIT RECOMMENDATIONS

1.00

THE AUDITING AND REPORTING PROCESS

Under section 12 of the *Audit Act,* the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office selects the audits it conducts in a cycle, so that all major programs are considered for coverage every five years. The audits covered by this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislative Assembly, public sensitivity and safety, and past audit reports.

We plan, perform and report our value for money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. The application of these standards is described more fully in Chapter Six of this Report.

Before beginning an audit, staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally and discussed with the auditee. A management response to our recommendations is incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and to finalize the responses. Those responses are provided with the report sections included in this *Annual Report.*

Immediately prior to the tabling of the Annual Report, separate and simultaneous lockups are arranged for members of the Legislative Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer questions from media representatives.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's Annual Report for review and calls upon representatives of the audited ministries and agencies to attend as witnesses.

Since 1993 it has been our practice to make specific recommendations in our value for money audits and reviews for corrective action by ministries and agencies and, two years after the publication of the recommendations in our Annual Report, to follow up on the status of actions taken. Chapter Four of this Report contains our comments on the current status of actions taken on the recommendations made in our *1997 Annual Report*.

VALUE FOR MONEY REPORT SUMMARIES

The following are summaries of the 14 reports on value for money audits and reviews contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three indicate that action to implement many of our recommendations has been planned or has already been taken.

3.01 Ministry of the Attorney General
Family Responsibility Office

The Family Responsibility Office (the Office), formerly the Family Support Plan, is responsible for enforcing support orders. A support order is an order issued by the court or an agreement between two parties for the payment of money towards the support or maintenance of a child and/or spouse. The Office's responsibility includes collecting and disbursing support payments.

For the 1998/99 fiscal year, the Family Responsibility Office had 340 staff and incurred expenditures of approximately $28.2 million. Over $500 million was collected and disbursed during the year compared to $300 million in the 1993/94 fiscal year when we last audited the program. As of March 31, 1999, the Office had over 170,000 registered cases (126,000 at March 31, 1994). At that time, approximately 128,000 (75%) of the active cases registered with the Office were in arrears (96,000 cases at March 31, 1994). The arrears totalled $1.2 billion ($700 million at March 31, 1994).

We concluded that when payors went into arrears, the Office did not have a satisfactory system for initiating contact and taking the appropriate enforcement action. Where enforcement action was taken, we found gaps of more than six months between actions and, when unsuccessful, frequent failure on the part of the Office to pursue more aggressive action.

The Office's policy of issue management, under which the responsibility of enforcement officers was limited to the issues on which they worked, resulted in inefficiencies in case management. We noted many examples where more than three enforcement officers had worked on the same case; in one instance, eleven different officers were involved in one case over a span of two years.

The Office had spent over $2.3 million on a computer services consulting contract relating to the installation of a front-end interface to the existing computer system. However, these technology enhancements did not address our 1994 audit findings relating to the computer system performance problems. According to the enforcement officers surveyed during this audit, the computer system was slow and often became unavailable.

In addition, with respect to the acquisition of the computer consulting services contract, we found that the Office had not complied with significant aspects of the Management Board of Cabinet Directive and could not demonstrate that the project was managed with due regard for economy.

Accordingly, we made recommendations for improving the Office's systems and procedures and the management of its resources.

3.02 Ministry of the Attorney General
Office of the Public Guardian and Trustee

The primary responsibilities of the Office of the Public Guardian and Trustee (the Office) include acting as the guardian of property and/or personal care for mentally incapable persons and administering the estates of persons who die in Ontario without a will and without known relatives. In addition, the duties of the Office were expanded in 1997 to include those of the Accountant of the Ontario Court. As such, the Office acts as custodian for assets paid into court, including monies paid to the credit of children until they reach the age of majority.

For the 1998/99 fiscal year, the Office had approximately 250 staff, operating expenditures of $21 million and managed assets of approximately $970 million.

Our audit concluded that although the Office had procedures in place to measure and report on the effectiveness of its services and programs, for the most part, the performance results reported did not meet the Office's targets.

The Office's systems and procedures were not adequate to ensure compliance with legislative requirements and due regard for economy and efficiency in the management of assets and financial affairs for its mentally incapable clients. We found a number of cases in which the Office had:

- acted on behalf of clients without the proper authority;
- failed to obtain income entitlements for clients;
- failed to identify and account for client assets in a timely manner; and
- failed to dispose of unused assets, maximize value to clients and avoid unnecessary expenses.

Management reported serious errors in 33% of guardianship files and a high number of negligence claims. We were especially concerned that procedures were not effective in ensuring corrective action, even when significant problems had been reported to the Office's senior management.

For the administration of estates for individuals who died without a will or next-of-kin, we noted a lack of adequate effort by the Office to locate potential heirs to the assets of estates that had files opened prior to 1996. If heirs cannot be located, the assets of an estate are payable to the province 10 years after an individual's death.

The Accountant of the Ontario Court indicated that it did not have a legal obligation to locate account holders and notify them of their assets. We found 1,300 accounts for minors with a value of over $13 million belonging to clients who were at least 25 years old. The Office had not attempted to obtain current information, such as addresses, for many of these clients.

Accordingly, we made recommendations for improving the Office's systems and procedures and the management of its resources.

3.03 Ministry of Community and Social Services Child Care Activity

The Ministry's Child Care Activity develops policies for licensed child-care programs and subsidizes the cost of a portion of those programs to enhance the availability of affordable, high-quality care for children up to the age of 12. This care is, in turn, intended to allow parents to work or undertake training or education leading to employment.

During the 1998/99 fiscal year, the Ministry contracted with 186 municipalities and ministry-approved, non-profit corporations to provide for services on its behalf. In total, subsidized child care was provided by 3,400 licensed child-care centres and 140 licensed private home-care agencies for approximately 133,000 and 8,500 children respectively. Ministry program expenditures totalled $593 million for the year.

We concluded that the Ministry's administrative policies and procedures did not ensure that transfer payments were reasonable and adequately controlled because:

- the agency budget request and approval process was not timely, and there was no evidence that the amounts approved were based on assessed needs;
- significant variances in agencies' expenditure and service data were often not explained or acted upon by the Ministry;
- the Ministry did not regularly obtain and review the child-care subsidy eligibility criteria used by fee subsidy managers to ensure fairness and consistency in determining access to subsidized care; and
- the Ministry did not effectively determine whether wage subsidies were spent for the purposes intended and in the appropriate amounts.

A number of the audit observations and recommendations in this report are similar to audit observations and recommendations made in our reports on the Child Care Activity in 1989 and 1995. In 1995, the Ministry had agreed to take action to implement our recommendations to correct observed deficiencies, but did not follow through with some of its stated intentions. Therefore, we again made recommendations to overcome these deficiencies, and the Ministry responded to our recommendations with commitments to take corrective action.

3.04 Ministry of Community and Social Services Community Accommodation Program

The Community Accommodation program funds approximately 200 non-profit agencies that provide community-based, residential accommodation and supports to adults and children with developmental disabilities. The services provided range from minimal supervision for individuals placed in relatively independent living arrangements to intensive 24-hour-per-day, seven-day-a-week care when considered necessary.

For the 1998/99 fiscal year, the program's operating expenditures totalled approximately $285 million, and one-time capital expenditures amounted to about $15 million for that year.

We concluded that the Ministry's procedures did not ensure that transfer payments to agencies were reasonable and satisfactorily controlled. In that regard we found that:

- the Ministry did not have a transfer payment accountability framework in place that met the requirements of the Management Board of Cabinet Directive on Transfer Payment Accountability;
- the agency budget request and approval process was not timely, and there was no evidence that the amounts approved were based on assessed needs; and
- the Ministry was not effectively monitoring agency expenditures or service levels, or ensuring that appropriate corrective action was taken when necessary.

We also concluded that the Ministry's procedures to ensure compliance with legislative requirements and ministry policies and procedures were not adequate because the Ministry needed to:

- conduct regular inspections of family home agencies and group homes and ensure that any necessary corrective actions are taken; and
- promptly investigate and follow up all serious occurrence reports to ensure that the necessary corrective actions are taken.

We made recommendations to overcome these deficiencies and the Ministry responded to our recommendations with commitments to take corrective action.

3.05 Ministry of Consumer and Commercial Relations Liquor Control Board of Ontario

The Liquor Control Board of Ontario (LCBO), which reports to the Minister of Consumer and Commercial Relations, is a Crown agency incorporated under the *Liquor Control Act* to regulate the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO operates about 600 stores that are supplied by five warehouses. In partnership with the LCBO, established retailers operate approximately 100 agency stores in communities without populations large enough to support regular LCBO stores.

The LCBO employs over 4,500 permanent and casual staff and provides consumers with over 11,000 products. For the 1998/99 fiscal year, sales were approximately $2.3 billion and net income was $809 million, with the LCBO remitting $776 million of its profits to the Consolidated Revenue Fund.

On the basis of our audit, we concluded that, in most respects, procedures were adequate to ensure that both the development of store facilities and store operations were carried out economically and efficiently. However, we made a number of recommendations for improvement, the most significant of which were to ensure that capital projects and single source contracts are better justified. The LCBO responded with commitments for corrective action.

3.06 Ministry of Economic Development and Trade Financial Controls Review

During the 1998/99 fiscal year, the Ministry spent $161 million to administer economic development, trade and tourism programs. These expenditures consisted of $40 million for staff salaries and benefits, $76 million for other direct operating expenditures such as supplies, services and equipment, and $45 million for transfer payments and other disbursements.

We reviewed the Ministry's financial controls, systems and procedures to determine whether they were adequate to ensure that expenditures were properly authorized, processed and recorded.

We concluded that, overall, financial controls were not sufficient to ensure that expenditures were properly authorized, processed and recorded. Controls over the $15 million spent annually through the Ministry's accountable advance account were weak as the account was not reconciled on a timely basis, and in some cases the delay between making payments and recording them on the financial system was six months or more. There was also a lack of segregation of duties in the Finance Branch, as 21 of the 28 employees could both enter transaction information into the financial system and approve payments. Additionally, in over 60% of the purchases we reviewed, we found control weaknesses such as a lack of required purchase orders, contracts and tendering. Controls over payroll were generally adequate.

Accordingly, we recommended that the Ministry correct these control problems, and the Ministry responded that corrective action would be taken to:

- perform reconciliations and record all transactions on a timely basis;
- ensure an adequate segregation of duties over the processing of financial transactions; and
- require that all payments be supported by evidence of compliance with mandatory competitive acquisition and approval policies.

3.07 Ministry of Finance Provincial Personal Income Tax Revenue and Related Credits and Reductions

For the 1998/99 fiscal year, the province received approximately $17.2 billion in personal income taxes net of $1 billion in tax credits, which represented 31% of total revenues. With the exception of Quebec, all Canadian provinces and territories have entered into a personal income tax collection agreement with the federal government. Under the terms of this agreement, the federal government processes and collects Ontario personal income taxes, processes claims for provincial personal income tax credits and reductions and remits the net proceeds to the province. As a result, the Ministry of Finance has no direct role in the collection or administration of personal income tax in Ontario.

We concluded that the Ministry did not have the necessary information to assess whether personal income taxes were correctly determined and whether personal income taxes were remitted to the province in as timely a manner as possible. In that regard, we found that:

- Revenue forecasts, and therefore in-year cash flows, were significantly less than the final determination of personal income tax revenues for the last three years. We estimated that the cost to the province of the resultant cash flow deficiencies for those years totalled $189 million.
- The Ministry had very little input into, or information from, Revenue Canada about its audit procedures or its audit strategy, plans and coverage of Ontario-based taxpayer returns.

In addition, the Ministry estimated that the federal government's benefit from retaining interest and penalties revenue received in excess of bad debts written off from Ontario personal income tax payers could exceed $50 million per year. However, the federal government has not provided the Ministry with the data required to verify the actual federal benefit.

We also noted that the Tax Collection Agreement imposes a number of significant limitations on the province with respect to the implementation of tax policy changes and administrative practices, the necessity and advisability of which are no longer clear.

We made a number of recommendations to the Ministry to address our concerns. The Ministry agreed with the merits of our recommendations and committed to pursue corrective actions.

3.08 Ministry of Health and Long-Term Care Cancer Care Ontario

1.00

Cancer Care Ontario's (CCO's) primary task is "to ensure that people in Ontario continue to receive high-quality cancer treatment." CCO also aims to reduce the number of people affected by cancer in the future by increasing prevention and screening efforts. CCO operates eight regional cancer centres, the Ontario Breast Screening Program and the Ontario Cancer Registry and advises the Ministry of Health and Long-Term Care on cancer issues.

During the 1998/99 fiscal year, Cancer Care Ontario had expenses totalling approximately $209 million, of which $173 million was provided by the Ministry of Health.

During our audit, we found that certain standards set to ensure that people in Ontario receive high-quality cancer care were not being met:

- Only 32% of CCO's patients requiring radiation therapy received it within the recommended four weeks from referral.
- The Ontario Breast Screening Program had insufficient mechanisms to monitor whether screening centres were meeting required performance standards and to ensure that high-risk women were identified for screening.

Although CCO generally managed its resources adequately, we noted that:

- The required Memorandum of Understanding between the Ministry and CCO setting out CCO's role and powers and the Ministry's expectations regarding CCO's administration was not in place.
- Cancer Care International had not been managed with due regard for economy.

We made a number of recommendations for improvement to CCO and the Ministry and received their commitments to take the necessary corrective action.

3.09 Ministry of Health and Long-Term Care Institutional Health Program–Transfer Payments to Public Hospitals

The Ministry's Institutional Health Program provides funding to public hospitals for the costs of operating their facilities. Currently, approximately 80% of the operating costs of public hospitals are funded through transfer payments from the Ministry. Each hospital's board of directors is responsible for the delivery of services by the hospital. The Ministry and hospital boards are both responsible for ensuring compliance with legislation and regulations. The *Public Hospitals Act* provides the Minister with the authority to impose terms and conditions for financial assistance provided to hospitals.

In the 1998/99 fiscal year, the Ministry provided $7.1 billion to operate public hospitals and $248 million for one-time costs incurred by hospitals in implementing the directives of the Health Services Restructuring Commission (HSRC).

In addition, the Ministry's Health Capital Program provides financial assistance to hospitals for the cost of approved capital construction. In the 1998/99 fiscal year, the Ministry provided approximately $52 million to hospitals for capital construction and $49 million for HSRC-directed capital projects. The key findings from our audit were that the Ministry did not have in place:

- an accountability framework clearly delineating the roles and responsibilities of both the Ministry and the hospitals;
- a mechanism to periodically monitor and assess the impact of hospital restructuring;
- systems to fund hospitals based on the demand for services;
- consistent criteria for providing financial assistance to hospitals experiencing financial difficulties; and
- indicators to measure and report on the performance of the public hospital system in delivering quality services.

Examples of audit findings that can be linked to the foregoing problems were:

- Based on hospital estimates, the capital costs for hospital restructuring would increase to approximately $3.9 billion from the $2.1 billion originally estimated by the HSRC.
- One hospital reported that, due to a shortage of operating funds, it was not fully utilizing new facilities that cost approximately $110 million to construct. Four of its eight operating rooms were idle while local residents continued to travel to other centres for specialized care.

We made a number of recommendations for improvement and received commitments from the Ministry that corrective action would be taken.

3.10 Ministry of Health and Long-Term Care Ontario Substance Abuse Bureau

The Ontario Substance Abuse Bureau (the Bureau), which is part of the Ministry's Community and Health Promotion Branch, is responsible for funding addiction treatment services in Ontario. The Bureau's mandate is to reduce or eliminate substance abuse and other addictive behaviours.

The Bureau funds a range of treatment programs for people with substance abuse problems. During the 1998/99 fiscal year, the Bureau provided transfer payments totalling approximately $94.5 million to 158 drug and alcohol addiction treatment agencies and approximately $3.5 million for problem gambling initiatives.

In our audit, we found that the Ministry did not have adequate processes in place to ensure that bureau-funded addiction treatment agencies are providing quality treatment services in an economic and efficient manner.

- The Ministry had not monitored whether its initiatives were increasing capacity to treat substance abuse.
- The Ministry was not adequately ensuring that services were provided economically and efficiently.

The Ministry did not have an appropriate transfer payment accountability framework in place to hold agencies accountable for the services provided and the prudent management of the funds they receive.

The Ministry also did not have adequate procedures in place to measure and report on its effectiveness in preventing, reducing or eliminating substance abuse, problem gambling and other addictive behaviours. Our major concerns were that the Ministry:

- had not developed performance expectations or benchmarks for treatment agencies;
- was not adequately monitoring the performance of treatment agencies regarding costs and outcomes;
- was not sufficiently reviewing the accessibility of treatment services and was not monitoring waiting times to ensure that all clients were receiving treatment that met their needs on a timely basis; and
- did not have program standards relating to quality of service.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

3.11 Ministry of Municipal Affairs and Housing Non-Profit Housing Program–Capital Reserves

The Ministry of Municipal Affairs and Housing is responsible for administering the province's social housing programs, including the non-profit housing program. Responsibility for funding the costs of social housing programs was transferred to municipalities effective January 1, 1998. Subject to legislative approval and the finalization of a new agreement on social housing with the federal government, responsibility for the administration of the programs is to be transferred to municipal organizations.

Until then the Ministry continues to oversee the funding and operations of more than 1,100 cooperative, private and municipal non-profit housing providers and to bill municipalities for the subsidies and administrative costs. These providers receive subsidies totalling close to $800 million annually to operate some 2,200 properties containing almost 100,000 rental units. The province also continues to guarantee over $7 billion in mortgages on these properties.

Under operating agreements with each provider, the Ministry requires a portion of the annual operating subsidy to be contributed to a separate capital reserve fund established by the provider and stipulates how these reserve funds may be invested and spent. By the end of 1998, providers held capital reserves estimated at $340 million.

Based on our audit, we concluded that the Ministry had not taken sufficient action to ensure that non-profit housing providers prudently managed their capital reserve funds and properly maintained their assets. We were particularly concerned that many non-profit housing providers:

- had not prepared and followed preventive maintenance plans and long-term capital plans that are based on competent assessments of the condition of their assets; and
- had not pooled capital reserve funds or employed other investment strategies to improve by millions of dollars the income earned on reserve funds and to reduce the incidence of borrowing from reserve funds for operating purposes.

The Ministry agreed with our recommendations and indicated that it would encourage and assist providers to better manage their assets and capital reserve funds using approaches acceptable to providers and to municipalities.

3.12 Management Board Secretariat
Year 2000/Information Technology Preparedness

In our 1998 report to the Legislature, *Year 2000: The Millennium Bug*, we concluded that the government needed to significantly accelerate its efforts in order to meet the target dates for ensuring that its computer systems would be Year 2000 compliant.

In view of the approaching deadline, in 1999 we followed up on the state of the government's readiness for the Year 2000 as well as the extent to which contingency plans had been developed to minimize disruption of government services and administration. We also looked at the government's procedures for supporting and monitoring progress in key parts of the broader public sector.

We found that, although significant progress had been made and a number of sound practices implemented, the government still needed to accelerate its Year 2000 compliance efforts in some key areas. At March 31, 1999, seven mission critical projects (systems essential to a ministry's operations or ability to provide service to Ontarians) and 49 business critical projects (systems that support mission critical projects, core businesses or internal operations) needed to be accelerated. Only three ministries had made substantial progress toward completing contingency plans. In the hospital sector, we were concerned that 30% of public hospitals had not responded to a Year 2000 readiness survey, and 21 of those that did respond did not expect their computer systems to be ready by December 31, 1999.

The Notes to the Financial Statements of the *Public Accounts 1998-99* state that, despite the government's efforts, "there remains a risk that all aspects of the Year 2000 issue affecting the government, including those related to the efforts of organizations in the broader public sector, suppliers and other third parties, will not be fully resolved."

In mid-summer of 1999, we provided to the government our overall and detailed review observations and recommendations. These included that the government should further accelerate the conversion of mission and business critical projects and the development of contingency plans, and intensify the monitoring of the readiness of public hospitals. We received progress and action-oriented responses to our recommendations from Management Board Secretariat.

3.13 Ministry of Training, Colleges and Universities
Accountability Framework for University Funding

Ontario has the largest university system in Canada with 17 universities and the Ontario College of Art and Design. In 1998 their combined full-time enrolment was about 230,000 students and they had revenues and expenditures of approximately $4.5 billion, of which $1.6 billion was provided by the Ministry.

Neither the universities' incorporation statutes nor the *Ministry of Colleges and Universities Act* provide the Ministry with direct authority over university operations or academic affairs. However, the Ministry can and does exercise significant indirect authority over universities by attaching conditions to the funding it provides.

We concluded that recent steps taken by the Ministry to strengthen the accountability framework for university funding were not sufficient to enable the Ministry to determine how well the university system is meeting provincial needs and contributing to the achievement of postsecondary education objectives. We also concluded that the accountability framework did not yet meet certain aspects of the Management Board of Cabinet requirements for transfer payment accountability.

In particular we noted that the Ministry had not:

- sufficiently linked funding to the achievement of provincial postsecondary education objectives;
- established expectations for university governance and accountability and encouraged universities to report publicly on their key governance and accountability processes, including those aimed at ensuring program quality;
- taken steps to ensure that program quality assurance processes were effective; and
- obtained sufficient, reliable information to determine the extent to which universities are currently meeting student and provincial needs and to assess the likelihood that forecast increases in the proportion of the population pursuing a university education will materialize and require a significant investment in additional capacity as well as several hundred million dollars annually in additional funding.

From our brief visits to five universities, we concluded that these universities had strengthened their governance and accountability processes in recent years. However, the governing boards of the universities visited had not yet:

- set measurable objectives and targets and reported publicly on their achievement;
- formally evaluated their presidents' performances against established objectives and ensured that other senior managers are similarly evaluated; and
- ensured that they are governing effectively by periodically evaluating the performance of both the board and its members, and by formalizing board member orientation.

The Ministry responded that our recommendations were timely and described actions that would be taken to address each of them.

3.14 Ministry of Transportation Provincial Highway Maintenance

To protect the provincial highways network from untimely deterioration and to ensure that highways are safe and usable, the Ministry performs routine highway maintenance services. In October 1996, the Ministry's highway maintenance outsourcing initiative was approved and, by March 31, 1999, approximately 30% of the provincial highways system had been outsourced. For the 1998/99 fiscal year, total funding for provincial highway maintenance was $243 million.

We concluded that the Ministry did not have sufficient procedures to measure and report on program effectiveness. We found that the highway system had not improved appreciably since 1992 when we reported that a lack of timely maintenance contributed to a decline in the proportion of roads in good condition from 60% in 1979 to 40% in 1991. In 1998, only 44% of the province's highways were in good condition.

We also concluded that the Ministry had not achieved the estimated 5% savings on the outsourcing contracts we reviewed, which covered about 20% of the province's highway system. The Ministry had also engaged contractors to perform preservation management work without tender and offered these contractors surplus ministry vehicles and equipment without going through the required public auction. Additionally, ministry procedures were not adequate to ensure compliance with legislation, policies, and contractual terms and conditions as maintenance coordinators stated that patrol areas were too large and there were insufficient staff to adequately monitor the work of contractors.

Accordingly, we made a number of recommendations to the Ministry, and the Ministry made certain commitments to take corrective action.