

# Summaries of Value-for-Money Audits

## Climate Change Adaptation: Reducing Urban Flood Risk

Urban flooding occurs when heavy rainfall overwhelms the capacity of drainage systems in developed areas to absorb, collect and carry away stormwater. Urban flooding is the most common form of flooding in Ontario. While less than 3% of Ontario’s population live in areas that may be subject to river flooding, all Ontarians who live in a developed area—regardless of proximity to a waterbody, like a river or creek—may be at risk of an urban flood.

Urban flooding can have serious economic, social and environmental impacts. For example, a record-breaking rainfall in Toronto in 2013 caused both urban and river flooding, resulting in 7,000 flooded basements, 900,000 households without power, and insured damage of \$1 billion. While this flood was Ontario’s costliest disaster, the impact of urban flooding has been felt across the province, including major urban flood events with insured losses over \$80 million each in Thunder Bay (2012), Hamilton (2012), Burlington (2014), and Windsor and Tecumseh (2016 and again in 2017). Localized storms in smaller communities also result in sewer back-ups and basement flooding that are equally damaging and disruptive to those affected.

Despite these impacts, urban flooding receives much less attention from the Province than river and lake flooding. Our audit found that the Province does not have effective systems and processes to reduce the

risk of urban flooding, nor to provide homeowners, municipalities and other decision-makers the guidance and information they need to reduce the risks of urban floods.

The following are some of our most significant findings:

- Basement flooding from sewer backups has been reported as the most preventable climate-related damage to Ontario homes. Yet many buyers of new homes are not protected from sewer backups due to lack of clarity in the Building Code. Although the Code requires backwater valves for homes with drains that “may” be subject to backflow, ambiguity in the term “may” has hindered their widespread installation. In our survey of chief building officials, only 14 of the 52 respondents required installation of backwater valves for all new homes with basements in their municipalities. During construction, the cost to install a backwater valve was around \$250. By contrast, the average cost to repair a basement that flooded during the 2013 Toronto rainstorm was around \$43,000.
- The Province is providing inconsistent guidance and direction to municipalities on whether to use projected climate change data, such that many continue to rely on historical data. As a result, the infrastructure and buildings designed on the historical climate data may not be able to withstand future precipitation patterns.

- Ontario municipalities have been underinvesting in their stormwater infrastructure. Of the 182 municipalities that incurred operating expenses relating to urban stormwater management in 2020, only 51 reported collecting revenue earmarked for urban stormwater systems. Federal and provincial grants for urban stormwater infrastructure varied annually over the past 10 years and totalled just \$187 million, substantially less than the billions of dollars needed. Municipalities must now complete asset management plans, which can help ensure that municipalities sustainably finance their stormwater infrastructure. However, we found that a lack of detailed guidance from the Infrastructure Ministry is resulting in inconsistent and incomplete plans, which may limit their effectiveness.
- Green spaces, such as wetlands, woodlands and meadows, are important for flood reduction as they absorb water and reduce stormwater runoff, which reduces the risk of flooding. Wetlands are particularly important for reducing flood risk, due to their ability to provide short-term water storage during heavy rains. Despite provincial policies to protect them, wetlands and other green spaces continue to be lost across the province. Over the past 20 years, the percentage of urban land area classified as green has declined in 94% of Ontario's medium and large urban centres.
- Between 2011 and 2015, southern Ontario lost an average of 1,825 hectares of wetlands per year—an annual rate of loss three times higher than the previous data period (2000 to 2011). The wetlands that do remain are at risk of further loss. Despite that, there is no provincial strategy to conserve wetlands, and former targets to reverse their loss were abandoned.
- The Province is not regulating the structural design of large flood-control facilities that are located away from lakes or rivers. The Natural Resources Ministry issues approvals for flood-control facilities, but only for those that are on lakes or rivers. The Environment Ministry issues

approvals for municipal stormwater infrastructure to protect water quality. However, because flood control is not within its mandate, the Environment Ministry does not require these flood-control facilities to obtain an environmental compliance approval. As a result, there is a regulatory gap regarding the structural design of these facilities.

## Conserving the Niagara Escarpment

The Niagara Escarpment is one of the most prominent natural features in southern Ontario and is widely seen as one of Canada's natural wonders. This ridge extends 725 kilometres through southern Ontario from the Bruce Peninsula to the New York border, where the Niagara River plunges over the Escarpment at Niagara Falls. Because of its ecological significance, it is recognized internationally as a World Biosphere, designated by the United Nations as a place to conserve nature and promote sustainable development.

But the Escarpment's natural environment is under threat. It is located beside the most densely populated part of Ontario. Population pressures are mounting, with the number of people living in the Greater Golden Horseshoe expected to grow more than 50% to over 14 million by 2051.

Our audit examined whether the Ministry of Natural Resources and Forestry (Ministry) and the Niagara Escarpment Commission (Commission) are effectively and efficiently conserving the Niagara Escarpment in order to meet the purpose and objectives of the *Niagara Escarpment Planning and Development Act* (Act) and the Niagara Escarpment Plan (Plan).

The following are some of our significant findings:

- The Plan does not cover all of the Niagara Escarpment, so not all of it is protected from incompatible development. The current size of the Plan Area is 195,055 hectares. In 2017, the Commission concluded that 45,677 hectares could be added to the Plan Area to include all of the Escarpment's natural features, but the Ministry decided against those additions due to

- public opposition against an increased level of government control over land use and municipalities potentially losing out on tax revenue.
- The Plan allows new and expanded aggregate operations on the Niagara Escarpment despite the environmental impacts, poor inspection rates, and poor rehabilitation track record of pits and quarries, and no required justification of need. Seventeen of the 54 aggregate operations on the Escarpment are licensed for unlimited tonnage—meaning there is no restriction on the amount of material that can be extracted each year. The Ministry has only inspected 14 out of 54 of the active extraction sites within the Plan Area in the last five years and two of these sites failed the inspection due to non-compliance with progressive rehabilitation requirements. During the Plan review in 2017, the Commission recommended to the Ministry that new aggregate operations be prohibited within the Plan Area, but the Ministry did not change the Plan.
  - There is no longer environmental monitoring because there are no Commission staff, resources or programs to assess the state of the Niagara Escarpment.
  - The Commission does not have a long-term strategic plan to achieve the legislative mandate to conserve the Niagara Escarpment. It has not developed a new strategic plan since the 2012–16 plan expired.
  - Almost all development permit applications have been approved by the Commission in the last five years. A development permit is an approval issued by the Commission—or in very rare cases, the Minister—to a person, company or organization, and includes conditions that must be met for a particular development to occur. We found that only 19 of 1,661 development permits were refused in those years; however, only 125 of these development permit applications were complex applications that required the Commissioners' approval or denial and some of these Commissioner-approved applications went against the Niagara Escarpment Plan.
  - The Ministry does not have a plan or program to assist in financing the completion of the Niagara Escarpment Parks and Open Space System (Park System) and securing a permanent route for the Bruce Trail. The Plan establishes the Park System as a provincially co-ordinated network of parks and open spaces and the Bruce Trail as a secured footpath along its length. However, dedicated annual funding for land securement on the Niagara Escarpment has not been offered since 1998, despite commitments in the Niagara Escarpment Plan to complete both the Park System and the Bruce Trail.
  - Reports of possible contraventions of the Act have climbed 82% over the last five years, but no charges have been laid since 2014. We found that there were 156 high-risk incidents, such as the illegal construction of buildings and other structures, in the last five years. However, the Commission requested the Ministry consider laying charges only five times. In four of the five cases, the Ministry did not investigate due to insufficient documentation provided by the Commission.
  - The Ministry provides insufficient financial and staffing resources to the Commission to ensure the Niagara Escarpment Plan and Act are effectively and efficiently implemented. In 1996, as part of broader cuts across government, the Province reduced the budget and staffing of the Commission by approximately one-third to the levels that generally remain today. The Commission's overall budget was again reduced by the Ministry in 2010/11, 2011/12 and 2012/13, and 2019/20. Between 2017/18 and 2019/20, the Commission maintained an operational deficit and was forced to cut costs by cancelling Commission meetings or delaying IT repairs.

## COVID-19 Contracts and Procurement

The government of Ontario approved \$7 billion in spending on COVID-19-related procurements from March 2020 to March 2022. About half of those funds

were approved by the Treasury Board/Management Board of Cabinet (TB/MBC) before ministries entered into contracts with vendors. The remaining \$3.5 billion of procurements were not reviewed or approved because ministries invoked the emergency exception clause within the Ontario Public Service Procurement Directive, which allows for direct and non-competitive procurement in “unforeseen situations of urgency.”

Our audit reviewed 127 of about 600 COVID-19-related procurements with a total cost of \$1.6 billion. The contracts were for goods and services such as personal protective equipment (PPE), clinics dedicated to conduct COVID-19 testing and vaccination, rapid antigen test kits, COVID-19-related information technology and other consulting services to establish infrastructure and support public initiatives.

Given the urgency of the pandemic, the procurements were generally conducted in accordance with the Procurement Directive, had appropriate business plans, and were accomplished in a timely and cost-effective way. Competitive procurements followed the required process of requesting proposals and evaluating the bids received. Most of the non-competitive emergency procurements followed appropriate approvals processes, except for 11% of the purchases totalling \$218 million, where the Secretary of TB/MBC was not “promptly” notified as required, though the information was reported in the ministries’ quarterly reports.

We identified some contracts that could have been managed more effectively to achieve their intended purposes, and maximize potential cost savings. Both Ontario Health and the Ministry of Education contracted with vendors to operate COVID-19 testing clinics in 2021, but they did not co-ordinate on locations to better meet demand for testing services. Between Ontario Health and the Ministry of Education, \$18.7 million of the \$32.3 million paid to vendors went toward underutilized mobile COVID-19 testing clinics.

The following are some of our other significant observations:

- About \$66 million worth of PPE purchased by the Province during the COVID-19 pandemic required disposal as of March 31, 2022, because it was expired, damaged or obsolete. Certain

items were not in demand by the public sector or could not be used prior to expiry. More planning is needed to minimize future waste of PPE. This is especially true for the items that the Ministry of Public and Business Service Delivery has contractually committed to continue to purchase annually, such as N95 respirators. The Ministry of Public and Business Service Delivery entered into a contract to establish a reliable, domestic supply chain for N95 respirators to meet the demand of Ontario’s public sector and to maintain a stockpile in case of future emergencies, but current forecasts estimate that there will be an excess of 100 million N95 respirators (worth \$81 million) by 2030 that will require disposal if inventory is not proactively managed.

- COVID-19 testing appointment information was not collected by the Ministry of Education for scheduled testing sites to optimize COVID-19 testing services. The mobile COVID-19 testing clinics operated by the Ministry mainly operated on a walk-in basis. Since no prior appointment bookings were collected prior to the day of testing at schools, the Ministry could not proactively identify locations with little testing demand and the vendors only tested between 2% and 7% of their potential capacity, on average.
- While some COVID-19 testing clinics contracts were competitively procured, certain vaccination clinic contracts were not. From January 2021 to January 2022, the Ministry of the Solicitor General entered into several non-competitively procured contracts for vaccination clinics, instead of switching to a competitive process, citing the rationale that a competitive process would take over six months. However, we noted that Ontario Health was able to procure similar COVID-19 testing clinics using a competitive procurement process in one to two months during that same period.
- Workplace usage of a limited supply of rapid antigen tests was not monitored consistently to ensure fair and equitable distribution. Starting

in November 2020, the Ministry of Health provided eligible workplaces with free rapid antigen test kits to test asymptomatic employees. These kits were not available to schools until December 2021 or to the general public until February 2022. Workplaces were required to report weekly on the number of tests used, but often the information was not complete. The Ministry of Health and its partnering ministries often did not verify that the rapid antigen tests had been used by workplaces before fulfilling more orders, or verify that workplaces were ordering a reasonable number for the employees they had.

## COVID-19 Vaccination Program

Ontario began administering the COVID-19 vaccine in December 2020. By mid-August 2022, about 35 million doses had been administered to eligible Ontarians. While the federal government was responsible for purchasing vaccines for all provinces and territories, in Ontario the Ministry of Health and the Ministry of the Solicitor General were in charge of co-ordinating the rollout of those vaccines. From April 1, 2020 through May 31, 2022, the ministries spent about \$1.5 billion on the rollout of COVID-19 vaccines.

As the pandemic progressed, vaccinating the population grew more challenging. The government called on experts in December 2020 to support the development of its vaccination plan and its decisions about prioritizing segments of the population in the face of a limited vaccine supply.

Our audit found that:

- The Ministries of Health and the Solicitor General did not consistently adopt advice from experts and key stakeholders, health-care organizations and workers when formulating their vaccination strategies.
- When identifying high-risk populations for the “hotspot” strategy to prioritize vaccination when vaccines were scarce, the Ministry of Health did not apply its chosen method of selection consistently across all postal-code regions. This resulted in eight lower-risk neighbourhoods receiving

vaccines ahead of high-risk neighbourhoods, and nine higher-risk neighbourhoods being excluded from the hotspot strategy.

- The Province’s communication strategy was not always effective in supporting its vaccination program. Our review of the Ministry of Health’s approach to communicating factual information to the public indicated that it was disorganized, inconsistent and lacking important details about the benefits of COVID-19 vaccines and vaccination.
- Decentralized and inconsistent vaccination appointment booking systems resulted in confusion and poor experiences for Ontarians. The Ministry of Health launched the provincial COVID-19 vaccination appointment booking system and call centre on March 15, 2021, more than three months after the first vaccine was administered. Adding to the confusion, many other booking systems were also in use across different public health units, pharmacies and hospitals.
- Multiple booking systems also encouraged Ontarians to “vaccine shop” by registering for multiple appointments to try to get either the quickest appointment or a specific vaccine brand. This phenomenon contributed to about 227,000 no-show appointments in 2021 alone in just the provincial system—appointments that could have gone to someone else in need of vaccination.
- Without a pre-existing registry of Ontarians’ vaccination records, the Ministry of Health needed to create a new database for COVID-19. The Ministry does not keep vaccine records of Ontarians of all ages, despite indicating that this was part of the Ministry’s plan in our 2014 audit on Immunization.
- The Ministry of Health’s compensation structure may have incentivized physicians to provide vaccinations at mass immunization clinics rather than their offices. Physicians were paid \$170–\$220 per hour for vaccinating at mass clinics compared with \$13 per dose for vaccinating in their own offices.



- Vaccinators were paid different rates depending on their profession and whether the vaccination site was operated by a private sector organization, a hospital or a public health unit. Physicians received much higher compensation (\$170–\$220 per hour) than nurses (\$32–\$49 per hour) and pharmacists (\$30–\$57 per hour) for vaccinating at sites operated by public health units and hospitals. As well, vaccinators working for private-sector operators were paid more than those working for not-for-profit organizations—for example, a pharmacist was paid \$120 per hour by a private-sector operator compared with \$62 per hour by a not-for-profit operator.
- Enforcement officers could not effectively assess whether businesses were implementing proof-of-vaccination requirements, including whether businesses were using the Verify Ontario app to confirm the patron was vaccinated, as mandated in early 2022. Because officers were required to announce themselves to business owners at the beginning of each visit, they were prevented from observing the normal operations of the business, uninfluenced by their presence.

## Financial Management in Ontario Universities

University education is critical for Ontario students and for Ontario’s future. When a university is negatively impacted by administrative and financial issues, its ability to educate and to contribute to societal advancement is diminished. This audit was conducted in the wake of the filing for creditor protection under the *Companies’ Creditors Arrangement Act* by Sudbury-based Laurentian University. Mismanagement, weak Board oversight and questionable decision-making at Laurentian led to the elimination of academic programs, affecting students, professors and staff.

In this audit, we assessed key operations and governance structures at four Ontario universities, with a focus on their financial management processes: Algoma University, Nipissing University, Ontario Tech University, and the University of Windsor. These

publicly funded institutions were chosen based on their past financial performance vis-à-vis the Ministry of Colleges and Universities’ financial health indicators and for comparative purposes; they are all small- or medium-sized universities. In 2020/21, all four universities performed below the provincial average in four of seven key financial indicators (primary reserve, viability ratio, in-year surplus and expendable net assets).

Ontario universities have faced several challenges over the past five years, including a 10% province-wide tuition reduction and freeze and disruptions as a result of the COVID-19 pandemic. Nonetheless, all four universities we audited had positive net assets as of the end of fiscal year 2020/21. But only one, Algoma University, had an annual surplus consistently throughout the five-year period 2016/17–2020/21. Although the universities we audited were in a positive financial position at the time of our audit, some issues, if left unaddressed, could put their financial sustainability at risk.

The following are some of our significant findings:

- To combat a reduction and freeze on domestic tuition in Ontario, universities have increased their focus on international student tuition fees. A high reliance on international student enrolment poses risks outside of the Ministry’s and the universities’ control, such as the potential loss of revenue should a large number of students from one country suddenly not be able to obtain study permits (visas) or otherwise be restricted from entering Canada. In 2021/22, three of the four selected universities (Algoma, Nipissing, and Windsor) relied significantly on one country (India) for their international students.
- Universities’ financial sustainability could also be at risk if weaknesses in their financial management practices are not addressed. Problems include not establishing or adhering to policies limiting external borrowing and debt servicing costs, despite carrying significant long-term debt; not preparing budgets and cash flows that are complete and accurate to control spending and make better financial decisions; not

analyzing the profitability of academic programming and adjusting offerings where appropriate to improve financial sustainability; and failing to assess the financial feasibility of major capital projects before proceeding with them.

- One challenge for the Ministry is that it does not have the legislative authority to intervene in the operation of publicly funded universities, even if it is aware of an institution's worsening financial condition. Our audit confirmed that the Ministry does not have clear and strong processes in place to work with universities to mitigate financial difficulties and assist a university to improve its financial situation if required.
- The Ministry does not have a clear strategy or long-term vision for the post-secondary education sector that distinguishes programming between colleges and universities. Some colleges offer degree programs and some universities offer certificate programs to generate more revenue, and over time the originally-intended purposes of Ontario's post-secondary institutions have blurred and overlapped.

At **Algoma University**, revenue was largely driven by international students from India who enrolled at its Brampton campus. As of 2021/22, the Brampton campus generated 65% of the university's revenue and 51% of the university's total enrolment; 90% of Brampton's enrolment are international students. Algoma did not always prepare a financial feasibility study before undertaking large capital projects between 2016 and 2021 and did not always conduct an analysis of the profitability of its academic programming.

At **Nipissing University**, financial sustainability was weakening with declining revenues and consistent annual losses. Nipissing accumulated \$9.4 million in net losses from 2016/17 to 2020/21, which contributed to drawing down its net assets from \$25.2 million to \$16.1 million, along with other adjustments for external contributions and employee benefits. Nipissing University is primarily reliant on domestic tuition (99% of students are local) and government grants. Nipissing budgeted for deficits for each year from 2016/17

to 2021/22, but presented no formal plan on how the university would return to a surplus position.

**Ontario Tech University** achieved in-year surpluses in four of the last five years, partly due to increased international student enrolment. The university has, however, avoided over-reliance on international student enrolment from a single country, or few countries. The university had established debt guidelines but no formal capital debt policy. As of March 31, 2021, Ontario Tech's debt totalled \$188 million. Ontario Tech did not always assess the financial feasibility of major capital projects before proceeding with them.

At the **University of Windsor**, despite having the third-highest debt-per-student ratio among 19 Ontario universities, there was no policy in place limiting external financing. At the end of 2020/21, the university had \$234.3 million in debt, primarily comprising debentures maturing in 2043 or after. The university is significantly reliant on enrolment by international students from India. In 2020/21, 60% of international students at the university were from India and 12% were from China. Over-reliance on a few geographic regions increases the risk that external factors, such as a global economic downturn or foreign policy shift, could significantly impact a university's financial health.

## Financial Services Regulatory Authority: Regulation of Private Passenger Automobile Insurance, Credit Unions and Pension Plans

The Financial Services Regulatory Authority of Ontario (FSRA) is the primary regulator of non-securities-related financial services in the province, including about 60 credit unions/caisses populaires, 310 insurance companies, 67,000 insurance agents and 4,600 pension plans. It is a self-funded Crown agency that is accountable, through the Minister of Finance, to the Ontario Legislature.

FSRA is mandated to perform a wide range of functions, from promoting the disclosure and transparency of information, to deterring deceptive or fraudulent conduct by the entities it regulates. This audit focused

on FSRA's regulatory activities in the private passenger automobile insurance, credit union and provincially registered pension plan sectors.

The following are some of our significant findings:

- Historically, Ontarians have paid the highest rates in Canada for private passenger automobile insurance. We identified initiatives that may enable Ontario's automobile insurance sector to operate more effectively and at a lower cost. For example, Ontario could follow British Columbia and Saskatchewan in implementing a mandatory licensing or certification regime for automobile repair businesses so as to protect consumers against poor repairs and fraud.
- FSRA could establish an updated territory framework for greater equity in insurance rates throughout Ontario. Currently, individuals pay widely different insurance rates based on where they live. We obtained 10 quotes for private passenger automobile insurance where the only factor about the person that we changed was where they lived. Insurance rates for this individual ranged from \$1,200 per year (in London) to \$3,350 (in Brampton).
- FSRA did not ensure consumers were able to make informed choices on who to get automobile insurance quotes from. Insurance brokers work on a commission basis with a variety of insurance companies to provide the lowest quote for private passenger automobile insurance possible to consumers. FSRA, as part of its review of the Registered Insurance Brokers of Ontario (RIBO), which is the self-regulatory body for insurance brokerages and insurance brokers, has not taken steps to ensure that RIBO confirms that insurance brokerages complied with the requirement to disclose any financial interests (including ownership) insurance companies may have in them. Nor did FSRA confirm that RIBO is ensuring that consumers received disclosure of the commissions received by insurance brokerages from the insurance companies with which they work.
- Insured deposits can be claimed by depositors in the event of a credit union failure only up to the total value of assets available in the Deposit Insurance Reserve Fund (DIRF), a fund that insures credit union depositors' eligible deposits. As a result, not all insured deposits may be fully protected in certain scenarios where the DIRF is insufficiently funded unless the provincial government decides to step in.
- FSRA's inspections of credit unions did not involve the procedures needed to identify and resolve governance concerns in a timely manner. We selected a sample of 20 credit union inspections performed by FSRA and noted that eight did not collect fulsome information to evaluate governance processes at the credit union (such as how the credit union's board operates).
- Further, in four inspections of the credit unions, we identified that an issue found in the credit union's previous inspection occurred in the subsequent inspection, even though the credit union's board of directors had provided a written attestation to FSRA that the necessary change had been made. FSRA has not levied any administrative monetary penalties or taken any other enforcement action in such circumstances or when credit unions do not implement the governance recommendations identified through FSRA's assessments, giving little incentive for credit unions to make the identified changes.
- FSRA and the Ministry of Finance have not clearly communicated the risk to plan members of multi-employer pension plans (MEPPs) that they may not receive their full targeted pension benefits. Unlike other defined-benefit plans, MEPPs establish only a target benefit level, which may be reduced, instead of providing a fixed level of pension income. Because of this, these plan members are at risk of not receiving their full pension benefits.
- FSRA takes limited action when pension plans do not comply with information submission requirements. In each of the past three fiscal



years, about 718 pension plans submitted a total of 1,058 required filings late. In these cases, FSRA has the authority under the *Pension Benefits Act* to take enforcement actions, such as levying administrative monetary penalties (AMPs). However, since its inception, FSRA has taken only 22 enforcement actions—issuing 17 warning letters and five compliance orders. If it had levied AMPs against the late filers, it could have charged penalties to active pension plans of approximately \$47 million.

## Highway Planning and Management

The Ministry of Transportation is responsible for building and maintaining the province's highways. It manages highway assets valued at \$56 billion (not including bridges and culverts), including over 40,000 kilometres of highway lanes covering a distance of about 17,000 kilometres. According to Statistics Canada, Ontario has some of the most well-maintained highways in Canada, ranking third after the Northwest Territories and Saskatchewan. In addition, according to Transport Canada, the rate of traffic fatalities in Ontario is the lowest in Canada.

The Ministry works to alleviate traffic constraints and to accommodate forecasted population and economic growth by investing in new highway projects through its highway expansion program. It also invests in maintaining and repairing existing highways through its rehabilitation program. In 2021/22, the Ministry spent nearly \$2 billion on capital construction for highway expansion and rehabilitation projects.

Our audit found that Ontario does not yet have an overall long-term transportation strategy in place. However, the Ministry is taking positive steps toward developing an overall transportation strategy for Ontario, and has committed to developing four inter-related regional transportation plans. These plans are intended to provide a roadmap for the Ministry's vision of a province-wide transportation system that integrates all modes of travel (road, rail, air and marine). Although the Ministry published the first of these transportation plans for the Greater Golden

Horseshoe (GGH) region in March 2022, we found that the Ministry has not set timelines to finalize plans (that are currently in draft) for the rest of the province. In addition, we found that the GGH plan does not set short-term and long-term priorities, nor does it disclose the estimated costs and a time frame to implement the plan.

Our audit also found that, over the past 10 years, the Ministry has consistently proposed highly-rated highway expansion projects to the provincial government, based on the Ministry's prioritization assessment of each project. However, in 2019, the Ministry proposed deferring six highway expansion projects previously approved by Treasury Board/Management Board of Cabinet (TB/MBC), and recommended funding the construction of four highway projects identified as government priorities, even though these projects were ranked as a lower priority by the Ministry's technical and engineering staff. Our audit found that the Ministry prioritized the four projects at the direction of the Minister's office. We found that the Ministry's proposal to TB/MBC neglected to communicate that the direction from the Minister's office was inconsistent with the recommendations of the Ministry's subject-matter experts, who indicated that they would not have recommended those four projects at that time.

These are some of our other significant observations:

- The Ministry has not developed a consistent framework to assess the circumstances in which tolling is appropriate—for example, to recover the costs of constructing a highway to support commerce. The Ministry's lack of tolling authority and the absence of a framework for the use of tolling have contributed to inconsistent tolling practices in the construction of provincial highways. For example, while the Ministry has been asked by the government to explore tolling opportunities to lower the costs of a proposed highway project, it was also asked by the government to build a business case to remove tolls from Highways 412 and 418 before their costs had been recovered.

- The government directed Ministry staff to prepare business cases to eliminate tolls from Highways 412 and 418, and to remove licence plate sticker fees. We found that the Ministry's business cases did not meet all of TB/MBC's requirements, including failing to provide adequate review time for decision-makers and all relevant information in their analysis of options. Both proposals also targeted expedited implementation that was less than three months before the provincial election.
- In 2013, the Ministry started using vehicles equipped with automatic road analyzers (ARANs) to scan and assess the condition of pavement on the province's entire highway network at least once every two years. However, we found that four of the Ministry's five regional offices continue to also perform manual assessments of the entire highway network's pavement every one to two years, duplicating the work completed using ARANs. These same four regional offices rely on the results of the more limited manual assessments to determine their highway rehabilitation plans.
- Although the Ministry is required to evaluate the work of engineering consultants after each design assignment, we found that the Ministry has not done so for more than 40% of the 1,416 assignments in the past 10 years. We noted that the Ministry uses these evaluations to calculate a consultant's Corporate Performance Rating, which is a key variable considered by the Ministry in awarding contracts to consultants. Failing to fully evaluate consultants after each assignment increases the risk that contracts for highway design work are awarded to poorly performing consultants.

## Liquor Control Board of Ontario: Information Technology Procurement

The most significant purchasing expense at the Liquor Control Board of Ontario (LCBO) after alcohol is information technology (IT). Over the past seven fiscal

years, the LCBO has spent a total of about \$624 million on IT. In 2021/22, annual IT procurement costs reached \$114 million, up from \$53 million in 2015/16.

As one of Ontario's largest Crown agencies, the LCBO operates a network of 680 retail stores, an e-commerce platform and special-order services, as well as wholesaling to 394 authorized independent retailers and 450 grocery stores. It is the highest financial contributor to the Province's consolidated revenue fund, and the largest retailer of alcohol in Canada.

When procuring IT related goods and services, the LCBO is bound by its own policy, the LCBO administration manual, as well as the Ontario Public Service Procurement Directive (Directive). Our audit noted that between 2019/20 and 2021/22, the LCBO did not consistently prioritize its IT projects at the enterprise level so as to avoid duplicated or wasted effort and inconsistent decision-making. In addition, IT business units did not prepare annual procurement planning documents, despite being required by its own policy to do so.

Almost all (24 of 25) of the business cases we reviewed lacked important details about costs and benefits, information required by both LCBO's administration manual and the Directive. Our review of procurement projects showed that expected project costs were determined after the vendor had been chosen. Costs were presented to the decision-makers for approval when the final contracts were already prepared, instead of obtaining approval before procuring potential vendors.

Furthermore, our audit found that the LCBO did not proactively or regularly report IT procurement progress and expenditures to senior management or the Board of Directors.

Other significant observations in our audit include:

- The LCBO had increasingly used IT contract employees for ongoing operational work such as project management. From 2019/20 to 2021, about 33% of its IT workforce were contract employees who sometimes led its IT projects and were paid significantly more than permanent staff. From a sample of five contract hires, including acting Vice-Presidents of IT and

Project Managers, we saw that in four cases the LCBO had hired the individual without a competition and could not provide interview notes. LCBO management told us some of these people may have been interviewed but could not provide sufficient evidence showing interviews had occurred.

- We found that two external consulting firms were in a long-term partnership with the LCBO's IT business units. Ten contracts totalling over \$60 million (14% of total IT expenditures) have been awarded to them since 2017/18. Even when one of these consulting firms performed poorly and under-delivered, it continued to receive IT and other contracts with the LCBO. In part, this was because the LCBO did not actually incorporate a review of vendors' past performance when assessing new bids.
- We found there was no documentation to justify that vendor selection was fair and objective. The vendor evaluation forms were incomplete in 10 of the 13 files we reviewed. These forms were to support the selection of vendors for important projects such as a major warehouse and an e-commerce platform, and were missing information such as the rationale for scores given and documentation of a final consensus meeting.
- Although contracts and their associated statements of work set out deliverables, most of the contracts we examined had no measurable performance indicators to track consultants' and contract employees' progress in achieving those deliverables. We reviewed a sample of 25 procurement projects and noted that only five included performance indicators. Moreover, neither IT business units nor the vendor management office verified whether vendors provided satisfactory service and met project milestones before issuing payment.
- We found that the LCBO outsourced the design phases of three major IT projects to consulting firms from 2017/18 to 2021/22, encompassing tasks that included project planning and procurement planning, without first evaluating

whether its internal staff could conduct the design work. The LCBO in effect relied on external parties to advise it of its business requirements and allowed the same firms that were involved in planning such projects to also conduct work for the build phase of the same projects.

## Management of Hazards and Emergencies in the Environment

As the impacts of climate change intensify and population density rises in Ontario, programs to manage natural hazards and respond to emergencies in the environment will only become more critical. Effective emergency management and response policies and procedures can ultimately save lives and protect property and the environment in the event of a hazard such as a forest fire or flood.

Several provincial ministries are assigned responsibility for preparing for and responding to emergencies. Our audit looked at two of those ministries. The Ministry of Natural Resources and Forestry is responsible for emergencies resulting from forest fires; floods; drought/low water; dam failure; incidents involving oil and gas wells; erosion; and soil and rock instability. The Ministry of Mines has responsibility for abandoned mine hazards.

Our audit found that although both ministries have measures in place to prepare for and manage emergencies, there are weaknesses in the programs, making Ontario vulnerable in the event of a large-scale emergency situation.

Our significant audit findings include:

- Ontario's level of flood preparedness is lagging, in part because of gaps in its flood mapping initiatives, which identify at-risk areas. The Natural Resources Ministry does not track or maintain a centralized repository of floodplain maps that have been completed across the province. As a result, the Ministry cannot carry out effective mitigation and preparation measures, as it does not know where all floodplains are located.

- After-action reports to assess how emergency responses were conducted are not being completed, as required by the Ministry Emergency Response Plan. We also found that Emergency Management Ontario, the overall lead, completed only one after-action report that covered flood and forest fire evacuations that took place in 2019.
- When a fire is reported initially, crews are required to be dispatched within four hours, regardless of alert level. But Ministry response times were often longer than four hours. The Ministry also did not track the average time taken by districts to dispatch a crew to a fire or to extinguish a fire. Tracking of such information could help identify performance issues and/or resource shortages.
- FireSmart is one of the Ministry's key fire prevention strategies, but it has not been used to its full potential. Over the last three fiscal years, the Ministry spent less than half of the \$1 million it budgeted for the FireSmart program, which is designed to reduce the likelihood of large uncontrollable wildfires near communities and infrastructure.
- One component of the FireSmart strategy is to create Wildfire Protection Plans, which are intended to help communities assess their wildfire risk and make recommendations to lessen the threat and impact of forest fires. As of August 2022, only 15 out of 144 municipalities in Northern Ontario had a Wildfire Protection Plan in place. The Ministry did not know how many communities required a plan, but we noted 63% of districts with a rating of extreme or very high risk of fire had no Plans in their communities.
- The Ministry has not taken steps to proactively reduce the risks to residents and properties located in areas susceptible to land erosion. It has not identified land exposed to erosion risk, particularly around Lake Erie where there is significant wave action and coastal erosion.
- Little progress has been made on the rehabilitation of hazardous abandoned mines. We found

that only 111 of the 3,942 abandoned mine sites with hazards had been partially rehabilitated, while 2,335 sites had not been rehabilitated at all.

- The Ministry has not assessed the risk of all 27,000 oil and gas wells in the province, and is therefore unable to determine whether it is focusing its proactive inspection efforts on the highest risk wells. Based on our analysis of inspection data, only 19% of oil and gas wells in the province have been inspected since 2005; 38% of these inspections occurred more than a decade ago. As well, 1,625 wells not in use have not been plugged and an additional 8,011 were plugged before 1970 with material that could have lost its integrity over time.
- Only 31% of 316 Ministry-owned dams that will reach the end of their serviceable life within 20 years have been assessed. Their cost of replacement is estimated at \$321 million. We found the Ministry's IT system did not have important information needed to prioritize dams for maintenance and construction, such as the age and condition of the dam.

## Management of Invasive Species

Animals, plants and micro-organisms that are introduced into new environments from other countries, regions or ecosystems often act as predators, competitors, parasites or diseases that put native species and their habitats at risk. Once in their new habitat, these invasive species can establish themselves, spread and cause harm to the local environment, economy and society, including people's health.

Of the Canadian provinces and territories, Ontario is among those at the highest risk for new introductions and is estimated to be home to the most invasive species, with at least 441 invasive plants and 191 non-native and invasive aquatic species in the Great Lakes. According to a 2017 study commissioned by the Invasive Species Centre, the economic impacts of invasive species to Ontario's agriculture, forestry, fisheries,

health care, tourism and recreation are an estimated \$3.6 billion each year.

The federal government is responsible for preventing the entry of invasive species into Canada and their movement between provinces. It attempts to do this by regulating key pathways including ship ballast water; fisheries; and the movement of wildlife, pathogens and pests. In Ontario, the Ministry of Natural Resources and Forestry (Ministry) leads the implementation of Ontario's Invasive Species Strategic Plan (2012) and administers the *Invasive Species Act, 2015* (Act), which provides it with legislative and regulatory powers to prevent and control the spread of invasive species across the province.

Overall, our audit found that the Ministry is not effectively monitoring and managing the introduction and spread of harmful invasive species in Ontario. The following are some of our most significant findings:

- The regulated list of invasive species has only been updated once since the Act was passed. Risk assessments for the invasive species listed in 2022 were completed on average four years before these species were ultimately regulated. For example, Carolina fanwort (an aquatic plant) was recognized as high-risk by the Ministry almost five years before it was regulated.
- The Ministry has left at least 30 harmful terrestrial invasive plants and their pathways unassessed and unregulated. Some of these species, such as Norway maple, goutweed, and creeping jenny, are available for sale in the province.
- The Ministry lacks information to detect, and processes to monitor, potentially harmful invasive species. Its monitoring programs mainly rely on incidental observations instead of a regular and risk-based approach to invasive species surveillance. Furthermore, we found that 33 invasive species identified as high risk by nearby jurisdictions were not systematically tracked by the Ministry and have been found in Ontario.
- Invasive species work is not well co-ordinated by the Ministry. Despite being the dedicated lead on implementing Ontario's Invasive Species Strategic Plan (2012), the Ministry does not provide comprehensive and organized direction to municipalities, conservation authorities and stakeholder organizations across the province to combat invasive species threats.
- There is no implementation plan associated with the Ontario Invasive Species Strategic Plan, which itself requires updating to incorporate the administration of the Act and modern detection tools.
- The Ministry has regularly delayed the approval of annual funding for transfer payment recipients such as the Invasive Species Centre and the Ontario Federation of Anglers and Hunters, limiting the planning and work that could be done in the crucial spring/summer months to tackle many invasive species issues. Moreover, due to the lack of multi-year funding agreements and uncertain funding, organizations have struggled to retain the staff needed to conduct invasive species work.
- The Ministry abruptly discontinued funding to program partners, such as the Ontario Invasive Plant Council. It did so despite recognizing this would pose a threat to provincial efforts to address invasive plants and that this organization had a history of delivering value for money and effective products.
- The Ministry has twice recognized the need for additional human resources to administer the Act and requested resources from Treasury Board/Management Board of Cabinet (TB/MBC). On both occasions, TB/MBC directed the Ministry to reallocate resources to invasive species work, which it did not do.
- Conservation officers are responsible for enforcing the Act but are not well trained to do so. Many have not been trained to identify regulated invasive species. As of March 31, 2022, these officers had issued only 11 warnings, zero warrants, and laid no charges.



## Office of the Corporate Chief Information Officer

In 1998, the government of Ontario established the Office of the Corporate Chief Information Officer (CCIO) to provide information technology (IT) support to all its provincial ministries, the Cabinet Office and the Premier's Office. For instance, the CCIO establishes and maintains IT policies, standards and best practices for information security, application development, and database management. On behalf of the ministries, it also procures and maintains hardware such as laptops and mobile phones for all Ontario Public Service (OPS) employees, and is responsible for securing the overall OPS' IT network from cyberattacks. As well, the CCIO manages two data centres, located in Guelph and Kingston, that house the servers and host the databases associated with 1,200 IT systems storing Ontarians' data.

Ministry-specific IT needs are directly addressed by eight IT service "clusters," so called because they are responsible for providing IT services and support unique to a specified group of ministries. The eight IT clusters are managed by the ministries and report to deputy ministers. The CCIO reports into the Ministry of Public and Business Service Delivery with a mandate to ensure the provincial government's IT services are effectively and efficiently delivered.

We reviewed controls related to cybersecurity assessments. Due to the nature of cybersecurity, we provided relevant details of our findings and recommendations directly to the CCIO. The CCIO agreed with the information provided and remains committed to safeguarding data entrusted to the government by the people and businesses of Ontario.

The following are some of our other significant audit findings:

- The CCIO is unable to meet its mandate of ensuring that government's IT services are managed and delivered effectively since it does not have oversight and accountability for IT operations performed by the eight IT clusters. Clusters report to their respective deputy ministers, not to the CCIO. As a result, the CCIO is not always aware of key IT decisions about procurement

under \$2 million or the safeguarding of Ontarians' data, as collected by the clusters, nor can it measure performance outcomes for cluster IT systems. IT projects valued at \$2 million or more are required to seek IT project approval from Treasury Board/Management Board of Cabinet.

- IT risks are not being identified within the CCIO and the CCIO does not have an overarching strategy across the OPS to identify IT risks and implement mitigating and remediation strategies. We noted that the CCIO relied on ministries and clusters to identify elements of IT risk that impact a specific ministry or cluster. Upon our review of these identified risks, we noted that the CCIO has not identified major IT risks that would impact the OPS, or any risks commonly identified by industry best practices.
- Ontario's primary data centre has been awarded a Tier IV rating, the highest rating available, to indicate that its IT systems are able to withstand any type of failure. At the time of our audit, Guelph Data Centre was being utilized at 30% of its capacity. The two main factors in low utilization of the data centre were:
  - its high cost to clients, which is more than double the amount charged by other Tier IV data centres; and
  - the CCIO did not have an outreach strategy to onboard other government entities.
- We found that almost half (44%) of all critical IT systems, those crucial for continuity of government services such as health, education, and drivers' licensing, do not have a disaster recovery plan. Disaster recovery plans outline detailed procedures for recovering and restoring an IT system from a disaster such as a prolonged Internet outage or a major cyberattack. In particular, we noted that the CCIO does not have a redundant secondary network provider for some of its critical operations that it could rely on during an outage to maintain functionality for its critical IT systems.
- Personal and sensitive data is not consistently secured through encryption in accordance with

the CCIO's security standard. In a sample selection of five key IT systems used by the Ministry of Health, Ministry of the Solicitor General, Ministry of Community Safety and Correctional Services, and Ministry of Public and Business Service Delivery, we discovered that personal and sensitive information was not being encrypted in any of them, as required by the security standard.

- Cybersecurity awareness training in the OPS can be strengthened. The CCIO is responsible for developing and implementing cybersecurity-related training for OPS staff. We noted that only 11,000 of 40,000 OPS staff completed the mandatory cybersecurity awareness course in 2021. Although employees' managers were responsible for ensuring this training is completed, the CCIO did not track whether the course was attended by all staff. In addition, the cybersecurity awareness training was not required for about 7,000 contract employees, nor is it provided annually to all OPS employees even though it is regarded as a best practice.

## Ontario Energy Board: Electricity Oversight and Consumer Protection

The Ontario Energy Board (OEB) is Ontario's regulator of the electricity and natural gas sectors. It is empowered by statute to set rates for rate-regulated entities, license market participants, approve applications for consolidations of Local Distribution Companies (LDCs) and approve transmission line construction.

Our audit focused on three of its legislative objectives in relation to electricity: to protect consumer interests; to promote economic efficiency and cost-effectiveness in the sector; and to help maintain a financially viable electricity industry.

Overall, our audit found that the OEB has established a transparent adjudication process which takes consumer interests into consideration by allowing public participation in applications and policy consultations. However, in some areas the OEB's ability to protect consumer interests is constrained.

Significant observations in our audit include:

- The OEB does not regulate all components of electricity bills. While one of the objectives of the OEB is to protect consumer interests with respect to electricity prices, the OEB has no authority to regulate an estimated 34% of charges on an average residential bill. The majority of the unregulated charges relate to the cost of generation. The OEB only sets the rates for electricity generated by certain assets owned and operated by Ontario Power Generation. The portions of the bill outside the OEB's oversight are largely related to electricity supply contracts managed by the Independent Electricity System Operator (IESO).
- The long-term energy planning process is lacking independent oversight. The Ministry issued Long-Term Energy Plans (LTEPs) in 2010, 2013 and 2017, but none of these LTEPs were subject to independent review by the OEB to ensure they were financially prudent. While the Ministry was required to issue the next LTEP by February 2021, a new LTEP still has not been issued and there is no definite timeline set for the next release.
- Ontario's LTEP focuses on electricity only. While the LTEP is referred to as an energy plan, historically its focus has been on electricity only, with little integration between electricity and other fuels (for example, natural gas, gasoline, fuel oils) to ensure the energy sector provides Ontarians with affordable options and supports the Province in achieving its climate change goals. Electricity makes up only 17% of the energy used in Ontario, whereas natural gas, gasoline, diesel and other fuels make up the remaining 83%. To meet Ontario's future energy needs, all energy sources need to be included in a long-term energy plan.
- The OEB does not have sufficient authority to regulate the fees charged by Unit Sub-Meter Providers (USMPs), companies that provide metering and billing services to occupants of multi-unit buildings (e.g., condominiums).

Both USMPs and LDCs can provide individual metering and billing services to multi-unit buildings. However, unlike rates charged by LDCs, USMP fees are not subject to the OEB's regulatory review and approval.

- Customers served by USMPs also have less protection against disconnection compared with LDC customers. Electricity customers who fall behind on their bills are at risk of service disconnections.
- Residential customers in certain areas with high electricity distribution charges are ineligible for Distribution Rate Protection (DRP), a taxpayer-funded subsidy program, due to outdated program criteria. The DRP program caps the monthly base distribution charges for residential customers of eight eligible LDCs that had, at the time of program implementation, among the highest distribution rates. However, we noted that in 2022 the eight eligible LDCs no longer have the highest distribution charges.
- Effectiveness of low-income and emergency subsidy programs is not sufficiently evaluated. The OEB and the provincial government have introduced a number of subsidy programs to assist customers who face financial hardship when paying their electricity bills, including the Low-income Energy Assistance Program (LEAP), the Ontario Electricity Support Program (OESP), and the time-limited COVID-19 Energy Assistance Program (CEAP). However, specific performance measures and targets are not established to determine if these programs are running efficiently and successfully assisting those who need the assistance most.

## Ontario Lottery and Gaming Corporation: Casinos, Lotteries and Internet Gaming

Ontario Lottery and Gaming Corporation is responsible for conducting and managing casinos, charitable gaming, Internet gaming and lotteries, and supporting the horse-racing industry. In 2021/22, OLG generated

\$4.5 billion in revenues from its various lines of business and provided about \$1.5 billion in net profit to the Province.

In 2012, OLG began implementing its Modernization Plan with a key focus on increasing casino revenues by privatizing the operations of its casinos and using private-sector capital investments. OLG used a lengthy procurement process to select casino operators for eight gaming regions that resulted in 20-year contracts for the winning bidders.

The final evaluation of the bids was mainly based on the present value of guaranteed minimum revenue commitments over the first 10 years and the present value of one-half of OLG's 30% share of revenues projected above the guaranteed commitments.

Bidders' capital investment plans were not considered in the scoring for any of the eight regions even though OLG acknowledged that capital investments were the main driver of long-term revenue and cash flow growth for both OLG and the casino operator.

As a result of the privatization of casinos, in 2019/20 (the last complete fiscal year revenues were not significantly impacted by COVID-19, as Ontario casinos were closed for only two weeks), the net profit to the Province from casino gaming revenues decreased for five of the eight regions and increased for three regions, resulting in an overall decrease of \$54 million.

Our audit found that after winning the bids based on revenue projections and guaranteed revenue commitments to OLG, casino operators in three regions reduced their long-term revenue projections and guaranteed revenue commitments in renegotiated agreements with OLG. OLG undermined the credibility of its own procurement process by failing to hold casino operators accountable for the financial commitments made in their winning bids.

Further details about our findings include the following:

- OLG re-negotiated significantly-reduced revenue commitments from casino operators despite signed contracts being already in place. As part of the original Casino Operating and Service Agreement (contract), only three things qualify a casino operator for financial relief: an

- external event (“force majeure”) that prevents, delays or substantially hinders either party from performing all or part of its obligations; a labour disruption; and landlord constraints. By June 2019, casino operators in the Ottawa region (Hard Rock International), North region (Gateway Casinos) and West GTA region (Great Canadian) had asked OLG for reductions to their guaranteed revenue commitments for reasons not included in the contracts. While OLG had no obligation to accept these reductions, they provided the requested relief to Great Canadian and Hard Rock because, according to OLG, not doing so could have led these casino operators to enter bankruptcy protection. However, we found OLG assessed the financial viability of these operators based solely on the regional operations without considering the overall financial health of the casino operator and their parent companies.
- OLG selected the casino operator for the Niagara region that proposed the least amount of capital investment. OLG selected Mohegan Gaming & Entertainment Inc. as the winning bidder for the Niagara region, even though OLG’s independent analyst concluded that Mohegan’s bid brought less economic and financial benefit to the province than had OLG continued to operate in the region. Along with projections of significantly higher gaming revenues, the other two bidders (Hard Rock and Caesars) proposed significantly more direct capital investment. Hard Rock’s bid included about \$857 million more than Mohegan, primarily focused on rebranding both casinos and adding a hotel to Casino Niagara.
  - OLG provided all rights for non-gaming revenue to the new casino operators despite a contract with First Ontario First Nations (2008) Limited Partnership (First Nations) to pay a share of OLG’s non-gaming revenues. OLG failed to fulfil this commitment to First Nations to pay them a share of non-gaming revenue, requiring First Nations to take them to court. The courts ruled in favour of First Nations ordering OLG to fulfil its commitment on an ongoing basis.
  - Neither OLG nor the Alcohol and Gaming Commission of Ontario (AGCO) is monitoring to ensure slot machines are connected to OLG’s central monitoring system, and that slot machines actually pay out 85% in winnings over the life of each machine as per AGCO standards. According to OLG, casino operators are required to follow AGCO standards of ensuring that a slot payout is set at 85% or higher, and the AGCO should have controls to monitor adherence to the standard. However, in our 2020 audit of the AGCO, we noted that the AGCO did not monitor, and OLG and AGCO are currently relying on casino operators to monitor and self-report any issues with slot machine payouts.
  - OLG’s responsible gaming tools are not being used by online players. OLG’s Internet gaming customers have grown from 31,000 average monthly players in 2017/18 to almost 257,000 in 2021/22. Despite this significant growth in Internet players, new players are generally not using responsible gaming tools. For example, the use of the player casino loss limits tool dropped from 33% of active players in June 2017 to only 11% of active players in June 2022. We also noted that players who exclude themselves from OLG’s website can still access iGaming Ontario’s private operator sites.
  - The growth of OLG’s Internet gaming revenues has slowed with the introduction of private-sector gaming operators. OLG faces significant competition from private gaming operators that signed an agreement with iGaming Ontario on April 4, 2022 allowing them to legally offer their games to players in Ontario. The Province receives about 45% of OLG’s Internet gaming revenue as profit, compared to only 5.7% of gaming revenue from play on private Internet platforms registered with iGaming Ontario.
  - Ontario casinos do not verify the source of funds from patrons using large amounts of cash which risks money laundering activities going undetected. In May 2021, OLG began requiring casinos to take reasonable measures to assess

the source of funds for all patrons for single transactions of \$100,000 or more, but proof of the source of funds is not required. Further, according to OLG's anti-money laundering policies, patron's play must be verified and winnings confirmed prior to the issuance of any cheque of \$3,000 or more. During our audit, we found it was possible to obtain cheques with limited play and no casino winnings.

- The reporting of suspicious transactions is low and varies among casinos. Our audit found that the value of reported suspicious transactions was less than 1% of revenues in 19 of 27 casinos, including Casino Niagara. OLG has not conducted any analysis of why these sites have few or no suspicious reports filed.

## Ontario Power Generation: Management and Maintenance of Hydroelectric Generating Stations

Hydroelectric power is Ontario's foundational electricity source, accounting for approximately 23% to 25% of Ontario's electricity supply since 2007. It is considered a form of renewable energy. To address growing concerns about climate change, Ontario has transitioned from its reliance on fossil fuels, which release large amounts of greenhouse gases that cause global warming, to using cleaner and renewable energy sources to generate electricity.

More than half of the electricity generated in Ontario is produced by Ontario Power Generation (OPG). OPG is an Ontario-based corporation whose principal business is generating and selling electricity. It produces electricity from its various energy sources, including hydroelectric, nuclear, gas and biomass.

OPG has been a reliable provider of hydroelectric power to the province. Forced outages have declined and it is addressing its work order backlog. There is opportunity to improve its incapability factor. Given the forecasted increase in electricity demand and predicted future shortfall due to the potential closure of Pickering Nuclear Generating Station in 2024/25, as well as the challenges of building new hydroelectric generating

stations, it is important that OPG adequately maintain and manage its existing stations to allow for cost-effective and efficient electricity production.

The following are some of our significant findings:

- OPG has not been able to fully utilize its hydroelectric generation capacity over the last seven years. In 2021 alone, OPG could have generated an additional 4.6 million megawatt hours (MWh) of electricity, or enough to power over 540,000 Ontario households for a year.
- OPG recorded approximately \$730 million in revenue since 2015 for spilled water without generating any power. When electricity supply exceeds demand in Ontario, OPG may be directed by the Independent Electricity System Operator (IESO) to decrease generation by releasing water when there are no remaining options to store hydroelectric energy for future use. For 54 of OPG's 66 hydroelectric generating stations, OPG is compensated at a rate that is set without considering any potential reduction to generation as a result of spilling water. We found that the amount of electricity lost as a result of spilling water in 2021 amounted to 1.9 million MWh, which is enough electricity to power approximately 220,000 households for a year.
- Opportunities for developing Ontario's future supply of hydroelectric power have not yet been fully explored to address the forecasted increase in electricity demand. Developing such capacity poses many challenges and uncertainties in terms of timing and costs. Having a long-term planning timeline in place is important.
- Aging of hydroelectric stations and equipment has led to a continuous backlog of work orders that could result in increased maintenance costs in the future. Between 2015 and 2021, the number of maintenance work orders for OPG's hydroelectric stations increased by 83%, while the related cost of these work orders increased by 48%. We found that most of these work orders were for preventative maintenance, which is typically done to keep equipment in well-working order and avoid potential issues



such as equipment failure that can lead to unplanned outages. We also found that OPG has had a continuous backlog of work orders over the last five years; the backlog was about 9,500 work orders at the end of 2021.

- One of the key tools OPG uses to assess and monitor the conditions of its hydroelectric generating stations is a Plant Condition Assessment (PCA), where engineers assess the condition of a station and its related equipment and processes. We found that OPG did not complete a PCA for approximately 20% of its 66 hydroelectric generating stations within the last 10 years.
- OPG's insufficient planning has led to delays on some capital projects and a cost overrun on one project. For example, sub-surface geotechnical investigations carried out prior to the commencement of the Niagara Tunnel Project did not adequately note the rock conditions and work required. This resulted in a 62% increase in cost (to \$1.6 billion) and a three-year delay in project completion (from 2010 to 2013).
- Of OPG's 66 hydroelectric stations, 12 stations are not subject to the Ontario Energy Board's rate regulation process. Instead, they contracted with the IESO and thus negotiated their rates directly with the IESO. As such, their rates were significantly higher than those for rate-regulated stations.

## Real Estate Council of Ontario

Effective oversight of the real estate industry is critical to ensure that consumers are protected when engaging in what may be their largest financial transaction.

In 1997, the government of Ontario created the Real Estate Council of Ontario (RECO) to regulate real estate brokerages, brokers and salespersons. RECO's mission is to promote a fair, safe and informed real estate market for consumers in Ontario through effective, innovative regulation of those who trade in real estate. The Ministry of Public and Business Service Delivery (Ministry) is responsible for overseeing RECO

and monitoring its performance to ensure RECO is meeting its mandate.

Our audit found that the activities RECO performs to ensure salespersons, brokers and brokerages comply with the *Real Estate and Business Brokers Act, 2002* (Act) and its regulations are not always effective and timely. RECO does not have a process in place to ensure a full on-site inspection is conducted at all real estate brokerages within a certain time frame to assess brokerages' compliance with the Act and its regulations.

As well, RECO does not have a process in place to monitor whether investigators complete investigations on a timely basis or whether they take appropriate action based on the findings of their investigative work. For example, we found that the proportion of investigations resulting in enforcement action differed significantly among RECO's five investigators, ranging from a low of 39% in the case of one investigator to as high as 75% in the case of another.

When RECO finds that a salesperson, broker, or brokerage's conduct related to a real estate transaction has violated its Code of Ethics, it does not have an explicit policy to consider the amount of income earned by a registrant on the related real estate transaction when determining the amount of a fine unless the registrant suffered or gained as a result of the breaches. Between 2017 and 2021, 78% of the fines were \$10,000 or less. In our review of a sample of discipline cases, we found that 67% of registrants were fined a lower amount than the commission earned in the related real estate transaction. When a fine is significantly lower than the commission earned, the fine may not act as a sufficient deterrent to future misconduct.

Additionally, RECO and the Ministry have lagged in facilitating the introduction of certain protections for consumers who engage in real estate transactions in Ontario, particularly in comparison to their counterparts in British Columbia. For example, in Ontario, there is no legislated cooling off period (a period of time when a buyer can cancel a real estate transaction without risking the loss of their deposit) for new or resale properties except for pre-construction or new condominiums.

Other significant concerns identified in our audit include:

- RECO does not have a formal policy, guidelines or a consistent process to assess whether to approve the registration of applicants with a criminal history. We reviewed a sample of 25 brokers and salespersons registered by RECO in the last three years who had self-disclosed a criminal conviction or charges in their application, and found that in 20 of these cases, RECO did not have a documented rationale for why it did not pursue action to refuse or revoke the registrant's registration.
- The proportion of inspections that identify instances of non-compliance varied significantly among RECO's five inspectors. RECO rarely followed up on violations found during inspections to confirm they had been corrected. In 88% of the 2,643 inspections completed by RECO between 2017 and 2021 where violations were identified, we found that RECO's inspectors closed the inspection file without referring the brokerage to the investigations department or conducting a follow-up inspection to confirm that the violations had been corrected. These inspections identified significant violations, including shortages in the brokerage's real estate trust account where client deposits are held.
- Although RECO's inspection process includes reviewing whether a brokerage's advertising is compliant with legal requirements for accuracy, it does not require its inspectors to verify the information included in a property listing to determine if the selling agent took reasonable steps to ensure its accuracy.
- The real estate sector rarely reports cash and suspicious real estate transactions as required to the federal agency that monitors money laundering. The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) received zero reports of large cash transactions between the 2017/18 and 2020/21 fiscal years, and just 18 reports of large cash transactions in 2021/22, from real estate brokers and salespersons.
- Lack of transparency in real estate transactions involving multiple offers puts prospective buyers at financial risk. Under the Act and its regulations, when there are competing offers on a single property, a brokerage that represents the seller must disclose the number of competing written offers to every person making a competing offer but is prohibited from disclosing the substance of competing offers on the property, including the offer price, closing date and conditions to any person including other salespersons or brokers that represent prospective buyers.
- RECO does not have a process in place to require brokerages to periodically report the number and amount of unclaimed consumer deposits held in a brokerage's trust account. Instead, RECO relies on brokerages to voluntarily comply with the requirements of the Act to remit to RECO any unclaimed consumer deposits that have not been returned to a buyer or seller after two years.
- Although RECO's role is to protect consumers, its Board is composed mainly of real estate industry representatives. At the time of our audit, only two of the 12 directors on RECO's Board were not registered members of the real estate industry.
- The Ministry does not collect sufficient information to monitor and assess RECO's performance in meeting its mandate. We found that RECO has not established performance indicators for key areas of its operations, including areas where our audit identified significant operational issues.