



Fedeli Focus on Finance

Here is what the Auditor General had to say

Volume 4: Special Edition | December, 2017



Vic Fedeli MPP
DEPUTÉ
NIPISSING

Here is what the Auditor General had to say



As with last year, the Auditor General had another very impactful year, offering a serious look at how the government spent our tax dollars – and how they accounted for the spending. In February, Bonnie Lysyk said “Show me the letter”, referring to a letter she wants to see from OPSEU and the Ontario Teachers’ Federation allowing the government to record any pension surpluses onto the government’s books. In May, she spoke to the committee reviewing the Ontario Fair Hydro Plan Act, and suggested that the government’s Act is not

in accordance with Canadian Public-Sector Accounting Standards (PSAS). In September, the Auditor issued a *qualified* audit opinion, “because the statements were not prepared following Canadian PSAS.” She added that the statements “significantly misstated” the province’s deficit as well as net debt, due to the pension and hydro issues. Finally, in October, she issued the following Special Report, *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*. She opened with, “The government’s structure will hide from Ontarians the real financial impacts of its electricity rate reduction.”

Now, we have the Auditor General’s 2017 Annual Report. The title of the News Release sums it up ... **2017 Annual Report Identifies Need for Better Government Planning to Act on Known Issues.**

The two-volume 1,119 page Annual Report contained value-for-money audits of provincial spending in agriculture, emergency management, energy, health care, education, services for newcomers, government-owned real estate, and social housing.

There are some real eye-openers again this year. School board employees are taking extra sick days, hydro customers are paying

more because energy producers were gaming the system, and, no surprise here, the books aren’t really balanced!

But the standout this year was a blistering indictment of the Independent Electricity System Operator (IESO) and their costly administering of the Standby Cost Recovery Program. This plan allows several gas and coal power generators, whose equipment needs to be warmed up, running and ready to go should the IESO need electricity quickly, to be paid for being on standby. The electricity market consists of 560 companies that either generate, export, or distribute electricity. Together, they were paid \$17.5 billion in 2016. Over the last 11 years, nine companies enrolled in the Standby Cost Recovery Program claimed \$600 million in compensation, but the audit found almost \$260 million were for ineligible costs.

Only fuel, maintenance, and operating costs that generators incur for being on standby are eligible. But the IESO was not reviewing all the cost claims before paying. As a result, generators claimed thousands of dollars annually for staff car washes, carpet cleaning, road repairs, landscaping, scuba gear, and raccoon traps. All had nothing to do with running their power plants. One generator claimed \$175,000 for coveralls and parkas, over a two-year period.

The Auditor singled out Goreway Power Station for particularly egregious activity. The Auditor stated that \$17 million in costs were claimed for which it could not provide any supporting records. An extra \$25,000 was claimed each time they started their equipment, resulting in \$5 million in total payments. Ineligible costs were claimed that included \$6.5 million for gas to fuel a steam turbine that doesn’t consume any gas! The Auditor said they charged (and were paid) \$300,000 for landscaping and they provided documents containing fictitious costs – some related to \$27 million in equipment parts they had no intention of purchasing and that would be redundant!

The saddest part in all this is that the foxes were running the chicken coop. These very generators who were gaming the system, are

the same generators the IESO has on their Market Renewal Initiative panel – to “address known issues with the current market design.” And in the ‘no surprise’ department, one of the Co-Chairs of the Initiative, is a senior representative of Goreway! You can’t make this stuff up.

In the Auditor’s section on the Public Accounts, again, the title says it all...
Government Financial Statements Becoming Increasingly Unreliable.

The government’s continued use of non-standard accounting could throw off the accuracy of the province’s bottom line by up to \$4.5 billion next year, according to the Auditor General. “There is a very real risk that the balanced books expected to be reported by the government using these accounting methods next year will conceal the true annual deficits and net debt.” “This will seriously distort the true state of the province’s finances.”

The AG also cautioned of another issue, and that is whether the government will present a Pre-election Finance Report, as required by law. The Auditor is to review the Report to determine whether it is reasonable, and release a statement before the general election, scheduled for June 7, 2018. However, this can only occur once the government passes a regulation confirming it will release the Report by a committed deadline, something that has yet to happen. I have written to the Finance Minister asking him to assure the Legislature has such a Report.

Here, in the Auditor General’s own words, are the independent analyses of the various ministries and agencies she reviewed.

Provincial Tribunals

“Large backlogs mean long delays for property owners awaiting Board decisions”

The Assessment Review Board hears appeals about assessments by the Municipal Property Assessment Corporation. Despite a decrease in the total number of appeals it received, they still have a backlog of over 16,000 unresolved

appeals. The Ontario Municipal Board hears appeals related to land-use planning matters. They scheduled only 44% of minor-variance cases within 120 days, well below their target of 85%. For complex cases, appeals took between 10 months and seven years to close.

Cancer Treatment Services

“Most cancer patients’ needs being met – with exceptions”

The limited capacity for stem cell transplants requires sending patients to the U.S. costing \$660,000 – vs \$128,000 average cost in Ontario. The full cost of cancer drugs is not covered unless administered in a hospital.



Four provinces provide full coverage for all patients, even if they’re administered at home. Wait times for transplants using a patient’s stem cells ranged between 234-259 days; 1.5 times longer than Cancer Care Ontario’s targets. With donated cells, times were up to 285 days; seven times longer.

Emergency Management

“Ontario is not fully prepared to respond to large-scale emergencies”

Emergency plans have not been updated in years, and practising is not frequently done. In fact, Cabinet’s EMC hasn’t met on this for several years. The last risk assessment was done based on emergencies experienced up to 2009. The Emergency Response Plan and the Nuclear Response Plan have not been updated since 2008 and 2009 respectively. In 2009, Emergency Management Ontario

attempted to develop and implement a province-wide IT system, but discontinued it in 2015 after spending \$7.5 million.

Agriculture Support

“Some farm support programs not meeting farmers’ needs”

Only one of three main farm support programs provide effective and timely assistance to Ontario’s 50,000 farms. The \$100-million-a-year Risk Management Program often pays farmers with little regard to individual need; only half who received payments between 2011-2015 actually reported a loss or drop in income. Agricorp, the administering provincial agency, has one IT system that is 25 years old and another that is 10 years old, resulting in 31 system-related errors regarding information and payments.

Electricity Costs

“Lack of action by IESO costs ratepayers millions”

As detailed in the opening paragraphs, the Independent Electricity System Operator has not implemented important recommendations that could have saved Ontarians millions of dollars on their power bills. In addition to the amounts previously outlined, two programs continue to pay gas generators \$30 million annually, more than necessary. A gas generator who misused another program received \$20.4 million over eight months, and had to return half the overpayment.

Laboratory Testing

“Province missed out on millions in laboratory savings”

Ontario could have saved millions of dollars on lab tests if they had updated the nearly 20-year-old price lists it pays private-sector labs for testing. Technological advances have reduced lab-testing costs resulting in a new price list. Had the list been in effect in 2015/16, the Ministry would have saved

\$39 million in that year alone. The province can save money by conducting more in-province generic testing, as opposed to the \$120 million U.S. spent on 54,000 specimens sent out of the country between 2011-16.

School Funding

“School board funding formula last fully reviewed in 2002”

In 2002, it was recommended to the Ministry of Education that it annually review and update the benchmarks in the funding formula for school boards. They were also advised to do a more comprehensive overall review every five years. Fifteen years later, the Ministry has not reviewed the funding formula. Had these reviews occurred, they would have learned that special-education funding is not being distributed where it’s needed and that \$111 million would have been dispersed differently.

Generic Drugs

“Room for more savings on generic drugs”

The Ministry of Health is spending more than it needs on generic prescription drugs. While drug prices in Ontario have dropped significantly in the past 10 years, the province still pays more than foreign countries. In 2015/16, Ontario paid \$100 million more (or about 70%) for the same drugs as New Zealand. In another sampling of common generic drugs, the Ministry paid \$271 million (or about 85%) more than some Ontario hospitals.

Health Units

“Success of public health programs in preventing chronic diseases unknown”

The province doesn’t know whether our 36 public Health Units are making progress in the fight against preventable chronic diseases. Ontario spends \$190 million on preventing diseases, but it does not measure performance of Health Units in this area. And while four modifiable risk factors that contribute to chronic disease – physical inactivity, smoking, unhealthy eating and excessive alcohol consumption – cost Ontario



\$90 billion between 2004-2013, the number of people living with these diseases is rising.

Infrastructure Ontario

“Government pays millions for hundreds of buildings that sit empty”

Ontario paid almost \$19 million in 2016/17 to operate and maintain 812 vacant buildings across Ontario; 600 of them unoccupied an average of eight years. Deferred maintenance of government-owned buildings more than doubled between 2012-17, from \$420 million to \$862 million. As a result, over the last six years, the average condition of government properties has deteriorated from excellent to almost poor. And by reducing the square footage of its office space the standard 180-sq.ft./person, they could have saved \$170 million a year.

School Boards

“Employee sick days up significantly at school boards”

School boards are struggling to effectively manage employee attendance. Between 2011-16, boards experienced added financial pressures because of an increase in sick days by their employees. During that period, total sick days increased 29% (from nine to 11.6 days per employee), and the overall sick leave paid as a percentage of payroll increased 25%. This occurred following a centrally-negotiated contract that changed sick-leave policy so that employees could no longer bank their sick days.

Newcomers

“Ministry settlement funding for newcomers needs better oversight”

Of the \$100 million the province paid community organizations to provide newcomer services in 2016/17, about \$30 million was for services to individuals who were also eligible for similar federally-funded services. As well, funding allocations should be determined based on the relative need for each service. For instance, enrolment for language training declined in each of the last five years, resulting in spending on

language training totalling \$24 million less than budgeted.

Social Housing

“Social and affordable housing needs growing, while supply has been declining”

There are more households on waiting lists for social housing than there are actually living in social housing. The wait list represents about 185,000 households, however since 2004, only about 167,000 households on average have received social housing annually. The Auditor also pointed out that there is no strategy to address the growing social housing wait lists. Social housing is provided on a first-come, first-served basis rather than on assessed need.



The screenshot shows a Facebook post from the Ontario Ministry of Energy. At the top, the profile picture and name 'Ontario Ministry of Energy' are visible, along with a thumbs-up icon. The main text of the post reads: 'Your household hydro bill won't increase beyond the rate of inflation for at least 4 years.' Below the text is a large image featuring two women in orange hard hats and safety glasses, looking at a laptop. Overlaid on the left side of this image is a large purple '25%' with 'OFF' in black below it. At the bottom of the image, the text '25% Off Starting Summer' and 'Ontario's Fair Hydro Plan' is displayed. A 'Learn More' button is located in the bottom right corner of the post area.

Government Advertising

“Government spending on advertising is at a 10-year high”

The government spent over \$58 million on advertising in 2016/17 – and 30% of that was for ads that appeared intended to make the government look good. This is the highest spending by the government on advertising since 2006/07, and it included millions on ads that would not have cleared under the old Government Advertising Act. Examples include a \$330,000 radio campaign that referred to opposition-held ridings and \$1 million on their 25% electricity discount, even before it was passed in the Legislature.

Follow-up Reports on Previous Value-for-Money Audits

"Some progress made toward implementing actions recommended – but they fully implemented only 33% of them"

Some highlights include:

- Little progress by the Education and Transportation ministries on close to 40% of recommended actions with respect to the safe transportation of students to and from schools;
- Implementation by Northern Development and Mines of just 32% of recommendations relating to abandoned mines at a high risk of posing a threat to human health and safety or to the environment;
- While 73% of Long-Term-Care-Home Quality Inspection Program recommendations were either fully-implemented or in progress, little or no progress had been made on the remaining 27%, which are important, as the number of complaints and critical incidents at the homes rose 37% between 2014-16.

Conclusion

Here is the conclusion I wrote in last year's AG Edition of Focus. You be the judge and see if anything changed:

When the government writes a cheque, the people of Ontario expect their government to ensure they are getting value for their dollar.

Unfortunately, this Auditor General's Report lays out a blistering indictment of this government's waste, mismanagement,

and scandals. It paints a picture of a tired and negligent government, incapable of successfully providing even the most basic services.

Finally, we saw far too many examples of a government doing what's in their best interest, not in the best interest of the people of Ontario. Capitalizing on the changes to the advertising rules the government brought in last year, and spending millions on self-congratulatory ads, is a prime example.

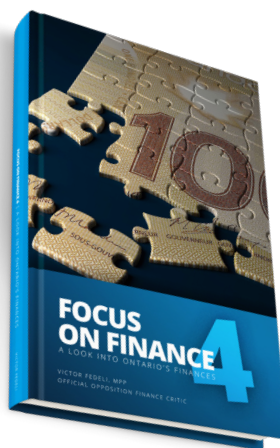
Key Questions

And I will repeat the same three questions posed in the last two AG Editions of *Focus* ...

Will the government implement all the recommendations made by the Auditor General within the timeframe recommended?

Will the government provide a credible, detailed plan to eliminate the deficit and achieve a 27% net-debt-to-GDP ratio?

Will the government heed the warnings of the Auditor General and reverse the changes made to government advertising?



Similar stories of waste, mismanagement, and scandal are disclosed in my new book, *Focus on Finance 4*.

Please go to www.fedeli.com to download your own copy of the book.

Please feel free to SHARE this report with as many people as you can!

If you would like to read previous issues of Focus on Finance, please go to www.fedeli.com or email us and we'll add you to our electronic mailing list.



Vic Fedeli MPP
DEPUTÉ
NIPISSING

Constituency Office:
165 Main Street East
North Bay, Ontario P1B 1A9

Tel: 705-474-8340
Fax: 705-474-9747
vic.fedelico@pc.ola.org
www.fedeli.com

Queen's Park Office:
Room 347, Main Legislative Building,
Queen's Park
Toronto, Ontario M7A 1A8

Tel: 416-325-3434
Fax: 416-325-3437
vic.fedeli@pc.ola.org