William,

Please find enclosed a response to the June 13\textsuperscript{th} request of the Standing Committee on Public Accounts for:

A copy of the Ministry of Health and Long-Term Care's 2008 Audit Report by Meyers Norris Penny.

Thank you,

James Stewart
Review of Air Ambulance and Related Services

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Executive Summary

Introduction

In January 2006, the Ministry of Health and Long-Term Care ("Ministry" or "MOHLTC") combined all air ambulance services with the Ontario Air Ambulance Services Co ("OAA"), through the signing of a Performance Agreement ("PA"). This created a contractual relationship between the government and the organization.

OAA was later re-branded to become Ornge which is now a registered charity. Ornge is not a crown corporation or Agency of the government. Based on the terms of the PA, Ornge is accountable to the Ministry to provide air ambulance and related services. Under the PA Article 7, the Grant Funding provided to Ornge is for the "provision of services" which services are defined as "the Communication services, Base Hospital Services, Air Ambulance Services, Helipad Maintenance Services, Organ Recovery Services, PTAC Services and other Aeromedical Services and such other services as may be agreed to in writing by parties from time to time."

The purpose of this engagement was to review specific areas relating to organizational effectiveness in connection with the delivery of air ambulance and related services provided by Ornge to the Province of Ontario as governed by the PA between the Ministry and Ornge. We did not review Ornge's operational compliance to the PA, nor did we review Ornge's compliance to the Ambulance Act, as the Ambulance Act's scope is focused on the delivery and operations of ambulance services.
This review engagement was divided into seven objectives which included the assessment of financial management processes, procurement processes, integrity of financial and service data reports, determining compliance with the PA, assessment of the enterprise risk management framework and assessment of the governance and accountability framework. This report is a review engagement, not an audit and accordingly consisted of enquiry, discussion and analytical procedures which were completed by November 30, 2008:

Overall, our review indicated that Ornge is using provincial Grant Funding economically, efficiently and for the purposes intended in providing air ambulance and related services for the Province.

Key Themes

Adhere to the Rigour of the Public Market

As an organization that receives the majority of its' funding from the government, namely MOHLTC, while operating like a publicly accountable enterprise, Ornge should adhere in all respects to the rigour of the public market. This was the overarching principle for this review.

An Evolution

By devolving responsibility through the PA, the Ministry’s role is now one of stewardship over Grant Funding, ensuring that it is allocated to Ornge and used consistently with the provisions of the PA. The Ministry has a responsibility for funding, monitoring and oversight of the Grant Funding. The Ministry is able to terminate the PA should specific circumstances arise.

Ornge’s role is to deliver air ambulance and related services (the Services) in their entirety. This includes the direct operational and tactical methods for its delivery by using the Grant Funding provided by the Ministry. As an autonomous entity, Ornge has an independent Board of Directors and management team that executes the delivery of the Services.

Ornge has commenced developing an organizational design that would support their future strategic initiatives. In each area, Ornge has used best practices as a basis for development.

Since January 2006, management advises that Ornge reviewed all aspects of the delivery model and assets devolved to them for the delivery of air ambulance and
related services and implemented changes for the long term sustainability and continuous improvement of the service delivery model.

In order to improve on the model, initiatives were undertaken by management to identify key risk areas to the organization. Some examples of areas identified by management that required immediate attention were; the communications centre disaster recovery plan, information technology systems, aging assets, lack of performance metrics, no significant public awareness and existing contractual obligations.

In order to deliver the services defined in the PA, Ornge has developed a new corporate structure to mitigate business and creditor risks and liabilities from potential third party lawsuits. This current structure is outlined in Appendix B.

**Communication between Ornge and MOHLTC**

Communication with stakeholders is critical to the success of any organization, especially when there is significant corporate evolution. The key stakeholders of Ornge include MOHLTC, hospitals, employees, health, equipment and air carrier suppliers and the residents of Ontario.

Based on our review of documents and comments received during the interviews, it was obvious that significant communication activity occurred between MOHLTC and Ornge. However, some of this activity did not result in meaningful, collaborative dialogue between Ornge and MOHLTC. This resulted in a misunderstanding of the respective party’s processes to achieve shared goals and objectives. This has caused some frustration, confusion and conflict for both Ornge and MOHLTC.

Both parties should commit to a process of continuous improvement in an effort to develop an effective communication plan which will address the needs of both parties in the fulfillment of their mandate.

**PA Compliance**

Our review of Ornge’s compliance focused on the financial aspects of the PA. The financial aspects of the PA fell within various sections and schedules, including Grant Funding and payment, reporting and records, conflict of interest, insurance, procurement, and key performance indicators.
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During our review, it was determined that Ornge was in non-compliance with various administrative clauses of the PA. Examples of administrative non-compliance findings are as follows:

- A balanced score card has not been developed and submitted within 18 months of January 3, 2006, the effective date of the PA. The 18 month deadline expired July 10, 2007.
- Ornge's Board has raised the approval-limit threshold for expenditures not already approved in the budget from $750,000 as required in the PA to $1 million. Ornge has submitted Q1, Q2, and Q3 In-Year Reports after the forty-five day deadlines. In general, the quarterly reports have been submitted a few days late (See Table 3 on page 41).

Ornge should take the necessary steps to rectify all the non-compliance items set out in our report and/or mutually agree with the MOHLTC to discuss and document requirements.

Budgeting
The budgeting process was evaluated based on frequency and timeliness, flexibility, accountability and ownership, transparency, and accuracy. Except for the following, the budgeting process has been determined to be effective.

The annual budget for March 31, 2009 was prepared in October 2007 and approved by the Board in April 2008. The time taken by Ornge to prepare the initial budget appeared to be in line with best practices; however, was not directly in line with the government's RbP timeline and the final time for approval was extensive. This time lag was partially due to discussions between Ornge and MOHLTC regarding the potential expected budget increase for the year.

Based on the PA, Ornge is required to provide the Ministry with a proposed operating budget and comments for the next fiscal year by July 1st. To ensure the annual budget is prepared on a timely basis, the approval and discussion process between MOHLTC and Ornge should be based on defined milestones (i.e. dates in the PA and the RbP process) in order for the budgeting process to be meaningful and effective.

Procurement
Our review of the policies and procedures used by the procurement department indicated that Ornge is spending provincial Grant Funding economically and
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efficiently and for the purposes intended in providing air ambulance and related services for the Province.

During our review of the procurement policies and processes, we noted that effective July 2008, Ornge's Board of Directors revised their signing authority for approval of individual items from a $750,000 limit to $2 million for items that have already been approved in the annual budget. Additionally, Board approval had been revised to a $1 million limit for those items that are not already approved in the annual budget. This is not in compliance with the PA as it is over the $750,000 threshold limit provided in the PA.

Except for the above, Ornge's procurement process is appropriate, documented and is in accordance with the PA, best practices and government directives to ensure openness, transparency, fairness, competitiveness and value for money.

Funding
An organization needs to ensure budgeted expenditures will be funded on a timely basis. The MOHLTC, through business planning and the Rbp process, should be able to indicate funding amounts prior to the operating year. Without a funding commitment, Ornge would have to rely on accumulated unrestricted surplus funds in its possession, if any.

Ornge has accumulated surplus funds over the years as a result of a number of factors. Some of the factors are a result of fixed funding in the initial years of the PA, lump sum funding received at inception, budgeting for capital assets through amortization, funds generated through interest income and third party revenues not originally accounted for in fixed funding. The current cash balance on hand is mostly earmarked to a significant deferred revenue balance, substantial accounts payable and future investment in assets. The percentage of accumulated surplus funds based on total accumulated funding over the years does not appear excessive nor does it signify any deficiencies in the budgeting process.

Reporting
We noted that both Ornge Foundation and J Smarts were not consolidated but only disclosed in the notes to the financial statements as required by the applicable not-for-profit GAAP.

In accordance with Section 1300 of PSAB, the Provincial Controller determined Ornge to be a government controlled entity for accounting purposes. This
determination was made in the context of financial accounting and does not impact Ornge’s established governance structure. Ornge presently reports its financial statements to the Province in accordance with not-for-profit GAAP and the Province consolidates the figures into the Province’s PSAB statements. MOHLTC and Ornge should discuss and document the most efficient and effective way to ensure annual financial statements are reported in the appropriate format based on the Provincial Controller’s assessment.

One of the reports being provided to MOHLTC is the In-Year report. It has been noted that the information that is included in these reports is accurate; however, these reports are not complete because they exclude results of Ornge Foundation and J Smarts. Similarly with the annual financial statements, the In-Year reports should include results of the entire Ornge group.

In addition, the PA requires that the In-Year reports are to be prepared on a quarterly basis. Due to the established practices of Ornge and the MOHLTC, reports were prepared for only the first three quarters each year.

MOHLTC reviews and analyzes these reports along with the annual financial statements. In order to make MOHLTC’s oversight of provincial Grant Funding more effective, they should be provided with a fourth quarter In-Year report to conclude their analysis.

**Discipline around Financial Reporting**

Internal Controls over Financial Reporting ("ICFR") is a system utilized by organizations to ensure funds are received and disbursed in an appropriate manner and reporting is accurate, timely and complete. Ornge has implemented internal controls within the organization.

The following are three areas of recommended enhancements to ICFR that Ornge may wish to consider as best practices:

Ornge should ensure that ICFR are tested at least annually. Any significant deficiencies identified (if any) should be reported to senior management and the Board and remediated in a timely fashion.

Notwithstanding the contents of "management’s responsibility for financial information" attached to the financial statements of Ornge; an internal control certification should be completed by senior management, which certifies the design and effectiveness of the ICFR. Similar certifications are required for
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Canadian public reporting issuers through the Canadian Securities Administrators’ National Instrument 52-109.

The new entities in the Ornge group have created the need for individual financial reporting of transactions within these entities. Presently, not all accounting records have been established for each entity. Most transactions are being processed and recorded in the accounting records of Ornge. As Ornge continues to operate through new entities, management should ensure that all transactions from inception are recorded directly in each entity’s books and records.

Governance

Overall the governance framework within Ornge appears appropriate and supportive of the mandate and strategic objectives of the organization. A few areas for improvement however were identified that will enhance and solidify the current corporate governance approach.

Ornge has developed numerous policies throughout the organization including a Conflict of Interest Policy and Code of Conduct. These policies guide all personnel at the organization to act in the appropriate manner in the delivery of air ambulance services. However, Ornge has not implemented a Whistleblower Policy. This policy would enforce the application of the Code of Conduct by ensuring individuals are able to have their complaints reported, investigated and managed. Currently union employees are covered by union agreement, and non-union employees are protected from reprisal through Harassment and Discrimination Code policies.

Risk Management

Risk management is an integral part of organizational structure in all leading organizations. Overall our review indicated that the risk management approach and capability within Ornge is effective. Risk management is driven by the Board and the CEO which sets an effective tone at the top. Risk management is embedded throughout the organization with all levels of staff being risk aware. In addition, risk identification and subsequent risk mitigation strategies is the subject of continuous reporting and monitoring to the Board.

The last organization wide risk assessment was undertaken in January 2006. Ornge's operating environment is continuously changing internally and externally and therefore an organization wide risk assessment should be considered on an ongoing basis.
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Except for the assessment made by management at financial statement reporting date relating to US dollar contracts, overall our review indicated that the risk management approach and capability within Ornge is effective. These contracts were conditional on financing which was not finalized until December 2008. Notwithstanding these contracts, the financial statements indicated that in management's opinion, Ornge is not exposed to significant currency risk. At the time of this report these contracts are valued at more than one year of Ornge's total funding, which we consider significant. This foreign currency commitment had not been hedged at the time of this review as financing was just finalized. We have been advised that management, with Board approval, is considering its hedging strategy and recommend Ornge hedge this currency risk in order to mitigate this potential exposure.

Transfer Payment Accountability Directive

MOHLTC is in compliance with the TPAD. There are ongoing reporting and monitoring improvements that can be made to ensure that MOHLTC receives the appropriate information in order to appropriately monitor performance, objectives and budget variances.

Set out below are some recommendations that have been made:

- MOHLTC and Ornge should discuss and document surplus provincial Grant Funding from the current fiscal period on an annual basis. MOHLTC should revisit the budget approval process and steps taken to facilitate a more timely approval process.
- MOHLTC should follow-up with findings such as:
  - Submission of Q4 In-Year Reports and more comprehensive detailed explanations on all In-Year reports.
  - Development and submission of the balanced scorecard.
  - Submission of the 2010 fiscal year budget.

The PA

MOHLTC and Ornge have differing opinions in relation to certain provisions of the PA. Ornge has changed its organizational structure to deliver air ambulance and related services which structure was not contemplated in the PA. In addition, there are administrative compliance related issues, communication matters and typical government provisions for funding that should be addressed. For example, the concepts relating to the creation of the various legal entities as to
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	heir purpose and impact as they relate to provincial Grant Funding should be discussed.

In order to close the gap with respect to their divergence in interpretation, understanding and meaning with respect to sections of the PA, the MOHLTC and Ornge must determine which matters can be resolved through improved communication, and which need be discussed and documented to clarify specific administrative requirements.

A summary of all the recommendations has been provided in Appendix A for ease of reference.

We would like to take this opportunity to thank all employees, management and Board representatives of Ornge and the MOHLTC for their cooperation in the completion of this engagement.
Overview

2.1 Introduction

In January 2008, the Ministry of Health and Long-Term Care ("Ministry" or "MOHLTC") combined all air ambulance services with the Ontario Air Ambulance Services Co ("OAA"), through the signing of a Performance Agreement ("PA"). This created a contractual relationship between the government and the organization. At that time, the MOHLTC transformed its responsibility into a stewardship role over the Grant Funding, moving away from service delivery.

OAA was later re-branded to become Ornge. Under the PA Article 7, the Grant Funding provided to Ornge is for the "provision of services" which services are defined as "the Communication services, Base Hospital Services, Air Ambulance Services, Helipad Maintenance Services, Organ Recovery Services, PTAC Services and other Aeromedical Services and such other services as may be agreed to in writing by parties from time to time."

2.2 Purpose

The purpose of this engagement was to review specific areas relating to organizational effectiveness in connection with the delivery of air ambulance and related services provided by Ornge to the Province of Ontario as governed by the PA between MOHLTC and Ornge.

The purpose of this report is to outline the results of the review conducted by Meyers Norris Penny LLP ("MNP") on behalf of Health Audit Service Team, Ontario Internal Audit Division, Treasury Board Office, Ministry of Finance for the
Emergency Health Services Branch, Corporate and Direct Services Division of the Ministry.

This engagement was completed under the direction of the Health Audit Service Team, Ontario Internal Audit Division. The senior management team of the Emergency Health Services Branch and Ornge were actively engaged throughout the review.

2.3 Terms of Reference
This engagement was divided into seven objectives. The work under each objective was co-ordinated and, where appropriate, integrated. The terms of reference for the engagement were initially identified in the request for services and then finalized in consultation with the Emergency Health Services Branch and Ornge.

The seven objectives which were the focus of this review are as follows (see Chapter 4 for more detailed commentary):

1. Assess Ornge’s financial management, forecasting and reporting processes and controls for the delivery of air ambulance and related services for the Province of Ontario.

2. Assess the appropriateness of Ornge’s procurement processes, specifically, Ornge’s ability to acquire required goods and services at the right time and in the most economical manner.

3. Assess the integrity of the financial and service data reports provided by Ornge to the Ministry, for air ambulance and related services, by analyzing Ornge’s supporting documentation.

4. Assess whether Ornge is in compliance with the PA signed with the Ministry.

5. Assess whether Ornge is using Provincial funds economically and efficiently in providing air ambulance and related services for the Province of Ontario, and affirm that Provincial monies were used by Ornge for the purposes intended.

6. Assess the effectiveness of Ornge’s enterprise risk management process.
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7. Assess the governance and accountability framework and mechanisms in place within the Ministry and Ornge over the management of transfer payments for air ambulance and related services (Section 7), and Ministry compliance with requirements of the Transfer Payment Accountability Directive (Section 8).

The scope of the review covered the period from 2005 to 2008, with a heightened focus on the fiscal 2007/2008 year end and current activity up to September 2008. This report is based on fieldwork and analysis completed up to November 30, 2008.

2.4 Approach
The overall approach to the review and analysis of each objective was completed in three phases – planning, fieldwork and reporting. The work performed on each objective was completed concurrently.

Planning
A work plan was developed for this review which outlines the objectives and scope of the review, as well as the criteria and procedures employed. In general, review procedures are made up of enquiry, discussion and analysis.

Review programs were developed to determine the appropriate process and procedures to be performed. The planning phase included:

- Interviews/discussions with key personnel at Ornge including management, legal representative and the Chair of the Board and MOHLTC management;

- Review of relevant documentation, such as current agreements, policies and procedures, internal control documentation, risk frameworks, procurement policies, financial statements, correspondence, reporting documents and other various reports;

- A risk based approach was applied to each objective to identify areas of focus

Fieldwork
The fieldwork phase concentrated on gathering sufficient evidence to support findings, if any, relating to Ornge’s performance in meeting each objective.
The fieldwork for the review was conducted at Ornge’s and MOHLTC’s office. Procedures included:

- Further interviews with appropriate personnel
- Review of supporting documentation, such as procurement and contract files, financial documentation, budgets, quarterly In-Year reports, financial plans, internal control documentation, Board minutes and risk management framework;
- Physical observation of practices at Ornge;
- Review of key processes such as disbursements and receipts;
- Analysis of financial and other relevant data
- Comparisons to best practices
- Review of correspondence between Ornge and MOHLTC

**Reporting**
The reporting phase begins after sufficient evidence is gathered. Detailed findings are presented with recommendations for improvement, where applicable.

The findings were analyzed and the report was prepared. This included:

- Completion of review programs and conclusions prepared on each objective
- Analysis of the findings and formulation of recommendations
- Discussion with MOHLTC and Ornge senior management on the themes covered in this report
- Preparation of draft and final reports
Ornge

3.1 Introduction
The Ontario Air Ambulance program began in 1977 with a single rotor-wing aircraft based in Toronto.

Ornge was contracted November 14, 2005 by the MOHLTC to provide air ambulance and related services in the Province of Ontario and those areas outside of Ontario serviced by the OAA (catchment area as defined under the PA).

Today, Ornge operates one of the largest and most sophisticated programs of air ambulance and related services in North America with over 18,000 admissions being dispatched annually. The organization has available 33 aircraft stationed at 22 bases across the Province.

Ornge’s strategic objectives are articulated on the following values:

- Innovation – Steadfast commitment to advancing the frontiers of transport medicine

- Compassion – Demonstrated identification with both patient care and service, and with colleagues and fellow workers for their personal and professional lives, throughout all levels of the organization.

- Collaboration – Working together internally and externally to deliver on the promise.
3.2 Business and Operating Context
Ornge is a registered charity. Ornge is not a crown corporation or Agency of the government. The contractual relationship between MOHLTC and Ornge was created through the PA. Based on the terms of the agreement, Ornge is accountable to MOHLTC to provide air ambulance and related services.

The MOHLTC's role is one of stewardship over Grant Funding, ensuring that it is allocated to Ornge and used for purposes consistent with the provisions of the PA. MOHTLC has responsibility for funding, monitoring and oversight of the Grant Funding. The Ministry is able to terminate the PA should specific circumstances arise.

Ornge’s role is to deliver the air ambulance and related services in their entirety. This includes the direct operational and tactical methods for its delivery by using the funding provided by the Ministry. As an autonomous entity, Ornge has an independent Board of Directors and management team that executes the delivery of services.

3.3 Understanding Ornge's Evolution
In January 2006 the Ministry transferred to Ornge the responsibility for the delivery of air ambulance and related services together with all its assets, contracts and personnel.

Ornge management advises that over the past few years, Ornge analyzed the current operations; developed and implemented plans to provide continuous improvement to the service delivery model to the public.

Initiatives were undertaken by management to identify key risk areas of the organization and focus was initially on high-risk areas. Some examples of the risks identified by management included; the communications centre disaster recovery plan, information technology systems, aging assets, lack of performance metrics, no significant public awareness and existing contractual obligations.

Ornge has commenced developing an organizational structure that management believes is essential for meeting the public demand for the delivery of services and will support their future strategic initiatives. In each area, Ornge has used best practices as a basis for development.

In fiscal 2008, Ornge serviced approximately 17,000 calls, of which most were hospital to hospital transfers. However, there were approximately 24,000 calls
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placed in a year which require service¹. This service gap is the largest challenge facing the organization in its mandate to deliver air ambulance and related services to the catchment area.

As a result of the evolution and changes that have occurred in the organization over the years, our review was focused on the organizational structure as it existed through to November 30, 2008.

3.4 Current Services Provided
Ornge provides a number of services to the province of Ontario. They coordinate all aspects of Ontario’s air ambulance and related services, the new critical care land transport program and the screening of air and land ambulance transfers between hospitals for patients and organ retrieval. Ornge provides training and education to medical professionals through various programs and has launched the Emergency Medical Assistance Team, a mobile field unit, which is the first of its kind in Canada. Ornge is also involved in research and development to further knowledge and innovation within the transport medicine field.

3.5 Current Corporate Structure
In developing a framework to deliver the services defined in the PA, Ornge has developed a new corporate structure. Current initiatives in all new entities reflect original corporate by-laws and objectives. Management advises that one of the main purposes behind the corporate structure is to mitigate business operating liabilities and creditor risks. Any assets purchased by these corporate entities with Grant Funding related to the provision of the Services will become the property of the Ministry, pursuant to Section 4.3 of Schedule J of the PA, should the PA be terminated for any reason. The PA does not require Ornge to obtain approval from MOHLTC for changes to the corporate structure and is silent on its relationship with any new entity established. This current structure is outlined in Appendix B and is explained below.

Ornge – Effective January 1, 2008 Ornge was registered as charitable organization. The charitable program approved by Canada Revenue Agency to obtain this status is for the delivery of air ambulance services. Therefore, the change in the entity’s legal status does not affect the delivery of services as prescribed in the PA. Charitable status allows Ornge to receive donations from individuals and the foundation, allowing Ontarians the ability to contribute to and feel a sense of ownership of Ornge. Ornge continues to house the main

¹ Ornge 2008 Annual Report, pg 5
operations for air ambulance and related services. All MOHLTC funding is received by this entity.

Ornge Foundation – Effective January 1, 2008 Ornge Foundation was registered as a charitable organization. The entity was created to provide an avenue for donors to provide philanthropic support and to hold core assets to optimize creditor proofing. Any future income generated in this entity is in support of Ornge's activities.

In the year end March 31, 2008, Ornge Foundation was allocated a specified gift from Ornge in the amount of $8.4 million.

Management has advised that the funds will be used to purchase certain mission critical systems and other strategic assets over the next few years which are essential for the delivery of air ambulance and related services. Ornge received a perpetual license to use the assets purchased or developed with this donation and the asset will be gifted over to the Province in the event that the PA is terminated. An additional reason for these mission critical systems be held in the Ornge Foundation is to protect the assets from any potential creditors of Ornge. The transaction was recorded by way of journal entry and the funds continue to remain in Ornge's bank account. Management advises that the procurement policies and procedures set up in Ornge will be used in the spending of Grant Funding by any Ornge entity.

Ornge PEEL - Incorporated October 18, 2006, as a wholly-owned (indirectly) for-profit subsidiary of Ornge, which will derive new sources of non-Ontario Government revenue from the provision of education, consulting and training services. This entity also provides management services to Ornge pursuant to a Management Services Agreement. It is intended that these management services will be leveraged across the Ornge group through similar agreements. It is further anticipated that these services could be delivered to third parties and be a source of revenue for the group.

The executive team of Ornge, with the exception of the COO of Operations, are employees of Ornge Peel and are paid with Grant Funding received by Ornge pursuant to a management agreement between Ornge and Ornge Peel. If Ornge PEEL did not exist, the executive team would be paid directly from Ornge. Presently, no net income is generated in this entity.

Orngeco – Incorporated July 10, 2007 as a not-for-profit entity, to be the intermediary entity between Ornge and Ornge Peel. Ornge, as a charitable
organization, cannot own a for-profit entity directly; therefore, Ornge is the sole member of Orngeco which owns 100% of Ornge Peel.

This entity presently has no activity, and accordingly the corporate costs such as professional fees incurred, if any for this entity will be paid by Ornge PEEL (therefore Ornge), by way of dividend. No net income is generated in this entity.

4384865 Canada Inc – Incorporated September 17, 2007, with Orngeco as the sole shareholder. This entity is not active at present.

J Smarts – Incorporated June 11, 2007 as a not-for-profit entity. Currently it has applied for charitable status. Its purpose is to promote risk management and health promotion to young people in relation to sports injury prevention.

Management advises that risk management and health promotion would meet the definition under the Education and Evaluation Programs and Air Ambulance Services provisions of the PA. With proactive measures, management’s belief is that the delivery of the curriculum to youth would reduce to some extent the demand on air ambulance services. MOHLTC does not interpret the definition of services delivered by J Smarts as defined services in the PA. However, J Smarts is entirely funded with Other Revenue and not with Grant Funding; as such its activities, revenue and expenditures fall outside the MOHLTC’s oversight.

In the past summer, J Smarts partnered with a camp operated by a third party to deliver its curriculum and accordingly purchased capital assets in the amount of $77,000. Being the first year of this program, management decided not to charge any fees for this venture and received in-kind contributions from its’ camp partner to deliver the program. However, in the future J Smarts plans to generate revenue and/or receive charitable donations.

3.6 Governance and future organization structure

The Board of Directors for all the above entities are a subset of Ornge’s Board. In addition, all entities are being managed through the same management team. In the future, management intends to add more entities to the Ornge group in connection with the acquisition of new helicopters and fixed wing aircraft.

Another concept brought forward by management includes the creation of Ornge International; potentially a for-profit subsidiary of Orngeco intended to seek other avenues for deploying its assets and exploiting its expertise. This contemplates providing air ambulance and related services outside of Ontario to private sector
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customers paid for by Governments, insurance companies, or other agencies or individuals.

MOHLTC presently has a contractual relationship with Ornge through the PA. The PA does not address MOHLTC's role over any of the entities created by Ornge after the inception of the PA and there is no requirement that the MOHLTC have a similar relationship with other entities. Should either party wish to change the relationship, to include a direct relationship between the MOHLTC and these entities, it must be agreed upon by each party and may be relevant where the entity is dependent on Grant Funding or has a direct impact on the provision of air ambulance services as currently defined in the PA.

Recommendation
1. The Organizations must discuss and document MOHLTC's concerns regarding Ornge's corporate structure and enter into agreed upon revisions to their contractual relationship, if any, that are required to give the MOHLTC more comfort regarding Ornge's corporate structure and its impact on the delivery of Air Ambulance services in the province of Ontario.

Benefit of implementing recommendation
Discussing and documenting any concerns could be beneficial to both MOHLTC and Ornge to ensure the appropriate stewardship relationship over provincial Grant Funding has been established for purposes of funding, reporting and delivery of services.
Objective 1 - Financial Management, Forecasting and Reporting Processes and Controls

1.1 Introduction

Financial management refers to an organization's ability to manage its funds appropriately ensuring that funds received are used for the programs intended. In order for Ornge to effectively manage its funds it is important that effective practices are in place to ensure proper authorization, recording, and reporting of information to senior management, the Board of Directors, and other stakeholders.

Financial management includes defining and following policies, procedures and practices that enable an organization and its Board of Directors to fulfill their mandate. Financial management includes:

- Prudent spending authority
- Effective use of funds by obtaining competitive prices
- Financial reporting requirements
- Integrated strategic financial planning and budgeting
- Managing the capital cycle
- Monitoring revenues and expenditures
- Prudent internal controls on handling and recording financial transactions
- Audit function

1.2 Prudent spending authority

The PA requires the Board of Directors to approve all purchases greater than $750,000. The Board approves all expenses reported in the annual budget in advance of expending the funds. Amounts approved in the budget are also
monitored on a quarterly basis within the context of the quarterly reporting package provided to Board members.

Effective July 2008, Ornge's Board of Directors revised their signing authority for approval of individual items from a $750,000 limit to $2 million. This was changed as the approval of the expenditures in the annual budget is sufficient to meet the requirements under the PA. By approving all items with this framework, Ornge improved operational efficiencies by allowing management to effect day-to-day transactions. The expenditures that typically fall within the $750,000 to $2 million range are the standing offer agreements which are numerous. For example, semi-monthly invoices are received from one of their vendors for use of aircraft as per the existing fixed fee contract. These charges approximate $1.3 million per invoice and include fixed fees for aircraft and bases around Ontario, 24 hr on-call for staffing, fuel, airport landing fees and hangar fees.

Board approval has been revised to a $1 million limit for those items that are not already approved in the annual budget. This is not in compliance with the PA as it is over the $750,000 threshold limit provided in the PA and the expenses in this category would not have been approved through another process. This limit should be revised to $750,000. See Objective 4 on page 43.

Aside from the above mentioned approvals, the normal expenditure cycle has the appropriate controls and levels of authority in place to control other spending.

1.3 Effective use of funds by obtaining competitive prices
Ornge has developed a procurement process to ensure funds are used economically and efficiently. See Objective 2 on page 33 for detailed commentary.

1.4 Financial reporting requirements
Ornge receives funding from MOHLTC to support administration and delivery of air ambulance and related services. In order to effectively monitor and control the receipt of funds and ensure they are used for their intended purposes, a reporting system exists for each of the reporting processes.

Ornge's reporting includes the following:
- In-Year reports
- Service reports (KPI)
- Annual budget
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- 5 Year plan
- Annual financial statements
- Internal management reports

1.5 integrated strategic financial planning and budgeting
Financial forecasting involves making projections about future performance on the basis of historical and current conditions. Some of the key attributes to effective forecasting are frequency and timeliness, flexibility, accountability and ownership, transparency, and accuracy. In order to ensure all of these attributes are reflected in the forecast, there are specific principles that should be followed.

Planning is part of the corporate culture
It is important that the corporate culture supports company-wide commitment to excellence in finance. Ornge ensures this by holding frequent Board, executive and management meetings. On an annual basis, the Board is involved with development of the strategic plan. This forms the basis for Ornge’s operating goals and objectives.

At the beginning of the year, the Director of Finance and the departmental managers prepare a budget using the prior year's actual figures as a guide. These are updated for expected expenditures based on their current understanding of the organization’s objectives.

Next, department managers will work with the Director of Finance to build a plan from the bottom-up, showing how they intend to meet those goals. A budget binder is prepared with all supporting estimates and assumptions which are presented to the Board for their review and approval.

Based on our discussions with business unit staff, they are fully aware of the direction the strategic direction and the importance of accurate forecasting in achieving the strategic and operational goals.

Align the strategic and operating plans
At Ornge, the strategic plan is incorporated into the budget which is compared to forecast throughout the year and major variances are discussed in detail at various levels of the organization. Internally restricted funds are discussed and explanations are provided to the Board on what strategic initiatives are planned (i.e. business architecture re-engineering, physical infrastructure renewal, branding, etc.).
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Ability to adapt to changing business conditions
The forecasted figures used in the In-Year Report delivered to MOHLTC are based on the approved budget, factoring in any changes in circumstance subsequent to the budget being created. Any forecast adjustments are approved by the CEO prior to being presented to the Board. Any necessary budgetary adjustments must be presented to the Board for approval.

Manage content that is material to the organization
While supporting detail can provide a trail and insight into managers’ thinking, more detail does not necessarily make a better plan. Managing material content means that an organization pays attention to whatever has a significant impact on expenses, revenues, capital or cash flow. The format of all reports reviewed at Ornge appears effective in delivering the right level of information based on the needs of the users. However, the level of detail with respect to some variances on the In-Year reports needs to be expanded. In addition, a fourth quarter In-Year report is not being filed with MOHLTC. For further commentary, see below section on “1.7 Monitoring revenues and expenditures”.

Be timely and consistent
The budgeting process should be performed in a timely and consistent manner in order to be effective and ensure the data is not stale dated. The period of time required to prepare the budget in terms of best practice, should not exceed approximately two months in order to be timely enough to provide data that is current and relevant.

The annual budget for March 31, 2008 was prepared in October 2007 and approved by the Board in April 2008. The time taken by Ornge to prepare the initial budget appeared to be in line with best practices; however, was not directly in line with the government’s RbP timeline and the final time for approval was extensive. This time lag was partially due to discussions between Ornge and MOHLTC regarding the potential expected budget increase for the year.

An organization needs to ensure budgeted expenditures will be covered. Funding amounts should be planned by the MOHLTC prior to the current operating year to ensure sufficient funding is forthcoming. Without a funding commitment from the MOHLTC, Ornge would have to rely on accumulated unrestricted surplus funds in order to deliver on its mandate.
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Under the PA, Ornge has fixed funding for a five year period ending in fiscal year 2010\(^2\). Also based on the PA, Ornge is required to provide the Ministry with a proposed operating budget and comments for the next fiscal year by July 1\(^{st}\)\(^3\).

The PA requirement to submit an operating budget becomes relevant in the preparation of the fiscal year 2011 budget.

Recommendation

2. To ensure the annual budget is prepared on a timely basis, the approval and discussion process between MOHLTC and Ornge should be based on defined milestones in light of the government’s business planning process and results based planning cycle, in order for the budgeting process to be meaningful and effective.

3. Ornge should provide their operating budget by July 1\(^{st}\) in accordance with the PA.

Benefits of implementing recommendations

By ensuring timelines are followed with respect to the annual budget and related funding requirements, all stakeholders will be better able to execute the decision making process, resulting in a more effective and efficient use of their funds.

1.6 Managing the capital cycle

Ornge receives its funding for operations through the annual budgeting process which includes an amount for amortization which essentially provides funds for acquisition of capital assets. Ornge uses these funds and debt financing described below to acquire capital assets required for the sustainability of the provision of air ambulance services.

Within the last year, Ornge has committed to acquire airplanes and helicopters which will be funded through an interim bank financing led by a major bank to be followed in early 2009 by a rated bond financing that will repay all amounts advanced under the interim financing and enable the completion of all phases of the aircraft purchase agreements to be fully funded. The purchases have been contracted by Ornge; however we are advised that these assets will be held in another entity yet to be set up within the Ornge group. As of the date of

\(^2\) PA section 7.2
\(^3\) PA Schedule “J” Grant Funding Terms, 1.2(a)
completion of our field work we were advised that Ornge was still in the process of determining the corporate structure with respect to which entity will be purchasing the assets. Although Grant Funding will not be used by Ornge to fund the completion of the aircraft purchases, it is expected that Grant Funding will be used to pay the principal and financing costs of the interim financing and the bond transaction. Ornge hired a qualified consultant to assist them through this process. Ornge has been in communication with the Ontario Financing Authority ("OFA") throughout the process. Management advises that the OFA indicated to Ornge that the interim financing through a major bank was appropriate in the circumstances. Management also advised us that the Ministry have not been requested to be nor will they be a guarantor in respect of the interim financing or the bond transaction.

It would appear that whether the OFA is involved in the financing or not, there is a contingent risk that any subsequent default by Ornge may require additional MOHLTC funding to ensure operations continue without interruption. For further commentary on this transaction, see page 56 – Risk Handling.

1.7 Monitoring revenues and expenditures

The Board of Directors' terms of reference states, "the Board shall review and approve the annual operating and capital budgets, monitor In-Year results, and approve the annual audited financial statements". Based on our review of the Board of Directors' meeting minutes, they are meeting their mandate in this regard.

Actual to budget variances presented to the Board are compared on a line by line basis and explanations are provided. Based on our review of the explanations for each variance, the written explanations appear reasonable. However, in reviewing the In-Year reports presented to MOHLTC, it appears that variances are initially not fully or effectively explained. For example, a one word reasoning of "timing" is often used. This is not effective to users and should be expanded.

For example, MOHLTC advised us that the quarter ended June 30, 2007 in-year report was discussed with Ornge and revised several times. Ornge's initial submission was on August 14, 2007, second adjusted report was submitted on August 29, 2007, third adjusted report was submitted on September 4, 2007 and final adjusted report submitted on September 11, 2007.

Based on discussion with management some of the variances relate to expenditures to be incurred in the fourth quarter. Ornge provides In-Year reports
only for the first three quarters of the year. Therefore, MOHLTC is not able to effectively monitor the variance explanations that normally relate to the fourth quarter and cannot effectively conclude their analysis for the entire year. MOHLTC receives annual financial statements at the end of the year; however, these are not in the same format as the In-Year reports and are not effective to close the loop on the In-Year report analysis prepared by MOHLTC.

Schedule "J" 1.2(b) states" within 45 days after the end of each quarter during each Fiscal Year, provide the Ministry with a completed In-Year Expenditure Report covering the cumulative expenditures and forecasted expenditures for the entire current Fiscal Year. The report will identify and explain the variance in each budget line. The Ministry may require that supporting documentation accompany the report". Neither Ornge nor the MOHLTC have interpreted the PA as requiring a fourth quarter report in the format of the In-Year reports, however we interpret this provision to mean that a fourth quarter report should be provided to MOHLTC.

Recommendation
4. Ornge should provide more comprehensive and detailed variance explanations in their In-Year reports to MOHLTC.

5. The MOHLTC and Ornge should discuss and document whether a fourth quarter In-Year report should be prepared by Ornge and submitted to MOHLTC for their review.

Benefits of recommendation
With more comprehensive explanations with respect to variances, MOHLTC will be better informed to make future funding decisions. Typical variance explanations could be: fuel is lower than forecasted because in Thunder Bay the price was $X per litre for the quarter vs. the forecasted $Y per litre or funding $'s for project X were not spent in the quarter due to a specific delay and funds are expected to be spent in 1st quarter 20XX.

By Ornge preparing and MOHLTC reviewing a fourth quarter In-Year report in the same format as the first three quarters, it will provide MOHLTC with a more consistent reporting of Grant Funding throughout the year to effectively monitor the use of funds.
1.8 Prudent internal controls on recording and reporting financial transactions

The purpose of having internal controls over financial reporting ("ICFR") is to establish a sound framework that outlines an organization’s policies and procedures with respect to accurate financial reporting. Recently, Ornge embarked upon a project to document and evaluate their ICFR, which is based on Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a commonly accepted framework.

COSO states that ICFR consists of five interrelated components – the control environment, risk assessment, control activities, information and communication, and monitoring.

Control Environment

The control environment sets the tone of the organization, influencing the control consciousness of its people. Control environment factors include the integrity; ethical values and competence of the people; management's philosophy and operating style; assignment of authority and responsibility; organization and development of its people; and the attention and direction provided by the Board of Directors.

When evaluating Ornge's entity level controls, the major focus areas were controls with respect to estimates and judgement, period end reporting, fraud risk, disclosure controls and procedures, and IT general computing controls ("ITGC"). Based on our evaluation, the overall control environment at Ornge is effective, subject to the ITGC evaluation (see comments below).

Based on our discussion with management, effective entity level controls exist, however the entity level controls had not been documented.

As discussed above, a major component of entity level controls is the organization's ITGC. Presently an ITGC documentation and evaluation exercise has not been performed. However, management advises us that an approved project chart exists which includes ITGC evaluation, SAP security redesign, and change management review.

Recommendation

6. Ornge should proceed with their plan to ensure their entity level controls including ITGC are documented and updated annually.
Benefit of implementing recommendation
Establishment and documentation of key controls is a best practice which will allow not only knowledge transfer, but also ensure the proper "tone at the top" which will assist in promoting ethics and integrity throughout the organization.

Risk Assessment
Enterprise Risk Management (i.e. the process for dealing with all risks relating to the organization — financial, operational, strategic, etc.) will be discussed further with Objective 6 starting on page 54. Risk assessment in the context of financial reporting is the identification of risks at the entity and business process level that would prevent the accurate and timely reporting of financial information to stakeholders.

In Ornge's case every financial reporting risk identified was brought into scope. Ornge is still in the early stages of internal control evaluation, however this should be a continuous process as the organizations continues to evolve.

Recommendation
7. Apply a top-down risk based approach considering the concept of materiality to determine which financial reporting risks are considered in-scope for purposes of evaluating the ICFR, after giving effect to compensating controls at the entity level.

Benefit of implementing recommendation
This will result in a more focused internal control evaluation and will allow for the most efficient use of resources and time, as it would limit the number of control activities evaluated.

Control Activities
Control activities are the policies and procedures that help ensure management directives are carried out. They include a range of activities as diverse as approvals, authorizations, reconciliations, security of assets and segregation of duties. Control activities should be supported with written financial statement policies that govern internal control procedures. Senior management, the Board and financial staff should review and upgrade the financial policies on a regular basis, and the design of internal controls should be evaluated annually.
Ornge went through a formal process through the use of an internal control consultant to document and evaluate the design of their ICFR. Overall, Ornge’s process level controls are effectively documented and include all of the required components (i.e. Financial Statement Assertion, Risk, Control Objective, Control Activity, Control Priority, Control Frequency, and Control Type).

One of the major requirements for effective ICFR is ensuring appropriate segregation of duties exist. While segregation of duties is important in preventing and/or detecting error, it is also an effective anti-fraud control. At Ornge, a segregation of duties exercise was completed by management and any roles with conflicting duties were revisited and modified to ensure effective segregation of duties exists. As a separate exercise, a full access review was performed based on SAP Support and Super User Access, SAP Business User Maintenance Access, and Cost Centre Reporting Access. Evaluation was performed against user access rights to ensure users did not have unnecessary/excessive access (i.e. super user). In cases where access was considered excessive, modifications were made.

An important requirement for ensuring effective control activities in place is having Board, senior management, and financial staff review and upgrade the financial policies on a regular basis. Once documentation and evaluation of all internal controls was completed at Ornge, the Director of Finance reviewed and approved the documents and a presentation was made to the Executive Group in June 2008 entitled “Internal Controls & Audit Project”. Subsequently the EVP of Corporate Services presented the project to the Finance and Audit Committee, and approval from the Committee was granted. Internal control is discussed at the Board level on an ongoing basis, and frequent updates are approved. Once approved internal control updates are communicated via a posting on Ornge’s intranet “toolbox”, email communications to each department, and frequent department meetings.

Information and Communication
Based on our assessment of Ornge, it is apparent that an effective level (subject to comments previously made in this section) of information and communication exists within the entity. Following is a list of ways in which information is disseminated and communicated throughout the organization:

- Regular department meetings facilitated by department heads
- Frequent email and memo communications to staff on current matters and updates

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- Daily executive meetings facilitated by the CEO, weekly at minimum
- Monthly management meetings to discuss financial results
- Quarterly meetings with the Board to discuss financial and operating results and alignment of outcomes with strategy

**Monitoring of Internal Controls**

Internal controls need to be monitored, which is a process that assesses the effectiveness of the control activity's performance over time.

At the time of our review, Ornge has not tested the operating-effectiveness of ICFR, therefore Ornge's effective monitoring over ICFR cannot be concluded upon.

When documenting ICFR an evaluation is made with respect to whether the control is key (i.e. high level of mitigation against identified risk) or secondary. Only key controls need to be tested in order for management to satisfy themselves that risks are effectively mitigated. Based on our review of Ornge’s documentation, almost all documented controls have been identified as key for purposes of testing. This is acceptable, but results in testing of more controls than necessary in order to conclude on the effectiveness of the ICFR.

**Recommendations**

8. A more risk based evaluation of ICFR should be performed and only identified key controls should be tested.

9. Ornge should ensure that ICFR are tested at least annually. Significant deficiencies identified (if any) should be reported to senior management and the Board and remediated in a timely fashion.

10. Notwithstanding the contents of "management's responsibility for financial information" attached to the financial statements of Ornge, once internal control testing has been completed; to align with best practices an internal control certification should be completed by senior management, which certifies the effectiveness of the ICFR. Similar certifications are required for Canadian public reporting issuers through the Canadian Securities Administrators' National Instrument 52-109.
Benefits of implementing recommendations
As the company grows it will become relevant to only test key controls, as the number of total controls for the organization could expand significantly.

Testing internal controls annually will ensure that any deficiencies in the operation of the controls are identified and corrected in a timely manner.

By having senior management certify the design and operating effectiveness of ICFR ensures the organization has a defined system of accountability relating to accuracy and timeliness of the information.

1.9 Audit function
In the public environment, the audit function is of extreme importance. The Board requires audited consolidated financial statements for the group and where necessary for consolidation and other filings, annual audits of individual entities in the Ornge group.

As of November 30, 2008 there was no dedicated internal audit function at Ornge; however there was one instance where Ornge requested their external auditors to perform a special audit on the Communication Centre in the transition year to determine if there were areas that could be improved in order to improve operational efficiency. The auditors had various recommendations which were implemented by Ornge.

Further, an internal control consultant was engaged on a contract basis to document and later test the organization's internal controls over financial reporting (See Section 1.8, "Prudent internal controls on handling and recording financial transactions").

Based on a letter dated February 25, 2008 to Ornge’s legal counsel regarding the Province of Ontario’s Public Accounts, the Ministry of Finance and MOHLTC applied Section 1300 of the Public Sector Accounting Board (“PSAB”) standards in determining whether Ornge would be considered a government controlled entity for accounting purposes and should be consolidated in the government’s financial statements. Ornge was assessed by the Office of the Provincial Controller in accordance with the criteria prescribed by PSAB. The Office of the Provincial Controller concluded that Ornge should be consolidated in the Province’s Financial Statements.
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For the year ended March 31, 2008, both Ornge Foundation and J Smarts were not included in the consolidated financial statements but disclosed in the notes to the annual financial statement as Ornge’s financial statements were prepared under not-for-profit GAAP.

In accordance with Section 1300 of PSAB, the Provincial Controller determined Ornge to be a government controlled entity for accounting purposes. This determination was made in the context of financial accounting and does not impact Ornge’s established governance structure. Ornge presently reports its financial statements to the Province in accordance with not-for-profit GAAP and the Province consolidates the figures into the Province’s PSAB statements. MOHLTC and Ornge should discuss and document the most efficient and effective way to ensure annual financial statements are reported in the appropriate format based on the Provincial Controller’s assessment.

Recommendations
11. MOHLTC and Ornge should discuss and document the most efficient and effective way to ensure annual financial statements are reported in the appropriate format based on the Provincial Controller’s assessment.

Benefits of implementing recommendation
The two overall principles guiding the Provincial Controller’s application of accounting standards as stated in their correspondence dated February 25, 2008, are “transparency in financial reporting and accountability for the expenditure of public funds”. Consolidated financial statements at the Ornge organization level and at the Provincial level will provide a complete, meaningful and comprehensive financial report to stakeholders which will enhance the decision making process.
Objective 2 - Procurement Process

2.1 Introduction
This objective required us to assess the appropriateness of the procurement process, policies and procedures that have been developed based on best practices and government directives. The procurement process was reviewed to assess whether the process was fair, transparent, effective and economical.

Ornge’s procurement staff are lead by the procurement director who was hired earlier in 2008. All entities within the Ornge group follow the same policies and procedures. Ornge’s process has been developed based on the requirements in the PA and best practices. In assessing the process in place, we applied principles and best practices as outlined in the Management Board of Cabinet Procurement Directive and Procurement Operating Policy. This policy and directive discusses the supporting principles which should be present in any procurement process. These principles are:

1. Openness, transparency and fairness

2. Competitiveness

3. Ability to acquire goods and services at the right time and in the most economical manner

Our review focused on the current procurement process and the ability for the organization to procure goods and services into the future.

2.2 Openness, Transparency and Fairness
Ornge’s procurement department is responsible for procurement administration functions of the organization. Its primary goal is to ensure that Ornge has ready access to those goods and services required to carry out its mandate of providing services as defined under the PA Article 7. The department is responsible for ensuring that the procurement of goods and services is done in an open and transparent manner and through the development of contracting arrangements that leverage the best value from vendors. Strategically, the department is concerned with simplifying transactions and streamlining processes while maintaining administrative compliance with the PA and government best practices and directives to ensure fairness, openness and transparency:

The procurement process commences with executive planning meetings which are held at regular intervals. These meetings assist in identifying the needs of
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various departments and allow the procurement department to plan and schedule upcoming procurement based on program rollouts and organizational goals and objectives.

Each department prepares a needs assessment or business case which is forwarded to the procurement department. Along with completing a needs analysis, a business case may also be provided and include a market analysis and a supplier/vendor analysis, as many of the goods and supplies required by Ornge are specialized. A budget for the requested procurement is also identified and assists the procurement department in selecting which implementation path to follow, such as obtaining quotes (for goods and services valued between $25,000 to $100,000) or obtaining proposals (for goods and services valued over $100,000). The dollar thresholds also dictate which level of approvals are necessary, for purchase orders, requisition forms and contracts. The signing authority policy discussed in Section 1.2 on page 20 was developed to coincide with the needs of the procurement department and requires an adjustment in order to be in compliance with the PA.

Once the procurement path has been determined, the necessary documents are prepared and the requests for quotes or proposals are issued (Ornge uses a tendering system, such as Merx and Biddingo to issue requests for proposals).

Upon receipt of quotes or proposals from vendors, a detailed evaluation is performed by a pre-selected evaluation team. The members of an evaluation team consist of representatives from the department who have placed the request and by individuals who have specialized knowledge of the goods or services being procured. Each evaluation team considers conflict of interest issues as normal practice. Based on the scoring system outlined in each procurement document, the supplier/vendor with the highest points is awarded the contract.

The procurement director has worked to establish several improvements related to documentation of the procurement policy and procedures. These improvements include the issuance of an updated detailed procurement policy to continue to guide Ornge's activities in this area, the development of a Waiver to the Competitive Process to better document non-competitively procured contracts, and the creation of a Procurement Compliance Checklist to confirm the proper completion of all aspects of the procurement process. All changes to the procurement process were effective July 2008.
The procurement processes, policies and procedures provide an appropriate documented process that is in accordance with the PA, procurement best practices and with government directives to ensure fairness, openness and transparency.

2.3 Competitiveness
As discussed in section 2.2, Ornge has a process in place to ensure that procurements meet the underlying principles of being open, transparent and fair. Competitiveness goes hand-in-hand with these principles.

Where appropriate and within the dollar threshold of procurement (over $100,000), Ornge utilizes a tendering system, which use is endorsed by best practices and government policies and directives. Using a tendering system enables Ornge to provide the public with the opportunity to bid on contracts to ensure a competitive procurement.

For procurement that is between $25,000 to $100,000, Ornge obtains quotes from pre-identified suppliers (required three) which meet the specifications and requirements of the goods and services needed. Similar to using a tendering system, obtaining multiple quotes enables Ornge to ensure that the process is competitive and fair.

Because of the specialized nature of the goods and services that Ornge needs to procure, Ornge has sole sourced certain contracts. For each sole sourced or non-competitive contract, Ornge has implemented a process where a Waiver to Competitive Procurement form is completed. This form provides documentation and analysis for the justification of the non-competitive procurement. The PA requires this type of process to be implemented. It should be noted that any non-competitive contracts for amounts at or over $100,000 require a "State of Provincial Emergency" to exist in order to not issue a competitive procurement as required by the PA. There is no requirement for Ornge for amounts below this threshold amount.

Our review indicated that Ornge has appropriately provided business cases and justification for non-competitive contracts entered into in the past years and there were was no evidence to suggest that one vendor was being favoured over

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4.17.15(d) The OAA shall include in its procurement approval policy criteria which must be met in respect of non-competitive procurements.
another. Below is a table showing all sole sourced contracts under the new non-competitive process implemented by Ornge since June 2008.

Table 1 - Sole Sourced Contracts

<table>
<thead>
<tr>
<th>Waiver #</th>
<th>Date</th>
<th>Value</th>
<th>Supplier</th>
<th>Description of Goods</th>
<th>Reason for Sole Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>25001</td>
<td>Jul-08</td>
<td>$18,155</td>
<td>Supplier #1</td>
<td>Incubator</td>
<td>one supplier of product to Ornge's specifications &amp; urgency in obtaining the equipment</td>
</tr>
<tr>
<td>25002</td>
<td>Jun-06</td>
<td>$95,800</td>
<td>Supplier #2</td>
<td>24-month contract to provide telephone services (toll free #, etc)</td>
<td>one supplier of product to Ornge's specifications (call allocator)</td>
</tr>
<tr>
<td>25003</td>
<td>Jul-08</td>
<td>$514,800</td>
<td>Supplier #3</td>
<td>Various new components for network infrastructure</td>
<td>urgent need &amp; supplier had prior knowledge of network infrastructure</td>
</tr>
</tbody>
</table>

In regards to the procurement with Supplier #3, an independent IT consultant performed an assessment and stated that core applications, servers and network faced a significant risk of failure. Previous to this assessment the network failed on several different occasions. Ornge is of the belief that a critical system failure would have resulted in a Provincial State of Emergency and based on the assessment performed by the IT consultant it would appear that management acted prudently to ensure an emergency would not occur as the network is critical to the dispatch and delivery of air ambulance services.

2.4 Economy and efficiency

Ornge has been responsible for acquiring the necessary goods and services to provide services as defined under the PA Article 7 since January 2006. This responsibility requires Ornge to assess their needs for assets, services and medical supplies and conducts research to ensure that the organization continues to deliver services to the public.

Ornge has implemented planning methods for goods and services procurement. This planning includes the preparation of business cases and purchasing analyses by the department requesting the goods or services. This analysis provides detailed asset specifications and pros and cons of various available products. It is then forwarded to management in order to receive approval by the appropriate vice-presidents and/or CEO in order to move forward with purchasing the required goods and services. The business case and analysis is also shared with the procurement department who uses the information and data within the procurement documents.
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At the time the business case and analysis is prepared, a review of the market place is also undertaken along with research on existing vendors. This review assesses what is happening in the market regarding the goods or services to be acquired and determines which vendors would be appropriate. This analysis can include discussion on technology, costs, interest rates, availability of product, manufacturers and providers of the goods and services. This planning enables Ornge to focus on acquiring the right goods at the right time and to negotiate prices, when appropriate.

Depending on the value of the procurement, as described above, either quotes are obtained from three vendors or a full proposal submission is received from interested vendors. Detailed cost evaluations are performed along with technical evaluations to document Ornge’s assessment of the goods and services’ value and availability per the quote or proposal submission. Obtaining and utilizing these quotes and proposals ensures that a competitive process has been maintained and that Ornge receives the best price and best value based on the marketplace at a certain point in time, thus ensuring economy in the use of MOHLTC funds.

Our review indicated that Ornge has been actively planning procurement by assessing their needs and analyzing their specifications and options for purchasing. This has enabled Ornge to acquire goods and services at the right time and in an economical manner.

2.5 Conclusions

We did not find any instances where Ornge’s procurement process was not followed and/or any instances where the procurement process was inappropriate.

Ornge’s procurement process is appropriate, documented and is in accordance with the PA, best practices and in the spirit of government directives, ensuring openness, transparency, fairness, competitiveness and value for money.
Objective 3 - Financial and Service Data Reports

3.1 Introduction
Reliable reporting must be based on accurate, complete, appropriate and timely information in order to allow stakeholders to arrive at appropriate decisions. Reports that are prepared at Ornge for MOHLTC and were reviewed include:

- Financial Data Reports – In-Year Reports
- Service Data Reports – Ornge Communication Centre (“OCC”) Response Times – On Scene & Emergent/Urgent or 10/20 OCC Call Response times

Following are a set of principles that were applied to assess the integrity of the reports listed above.

3.2 Oversight and monitoring exist over the reports:

Financial Data Reports
To ensure reports are reliable, Senior Management and the Board must be part of the process and provide effective oversight. Ornge is appropriately monitoring the financial data reports (See Objective 1 on page 20).

Service Data Reports
These reports reflect whether the OCC was compliant in responding to calls within 10 minutes for on-scene calls and 20 minutes for emergent/urgent calls. These reports are reviewed by the Director of Performance and Information Services and the Chief Operating Officer, prior to being sent to the MOHLTC. Based on our review of the information presented to MOHLTC and through our interviews, it appears that the monitoring and oversight of these reports is effective.

3.3 A process exists to record and report information

Financial Data Reports
Externally restricted programs each have their own In-Year report. Once the information is extracted from SAP by the cost centre (program funding designates cost centre), it is downloaded to excel and aggregated into specific categories as outlined in the In-Year reports. Forecasted figures are included in the report to allow Ornge to perform a variance analysis for the reporting period. Based on our discussion on how the information is extracted from SAP and accumulated in the In-Year reports, it appears the process is effective, with the information presented in the In-Year reports being complete.
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However, at the time of our review, a specific documented process for how reports are generated and what controls exist over creation of the documents did not exist.

Service Data Reports
The system used to capture patient call details is customized software called Optimas, introduced in May 2007. All patient information captured in Optimas is based on information manually entered by dispatch crew. Prior to Optimas, management advises that an effective system did not exist to capture this data.

Based on our review of the reports supporting the response time results, the information delivered to MOHLTC is fully supported and reconciles to Ornge's internal results captured in Optimas. Also, for fiscal 2007/2008 the response times have been improving, as reflected in the table below:

<table>
<thead>
<tr>
<th>Response Time</th>
<th>May 2007</th>
<th>June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10 Minutes</td>
<td>81%</td>
<td>99%</td>
</tr>
<tr>
<td>&lt;20 Minutes</td>
<td>37%</td>
<td>96%</td>
</tr>
<tr>
<td>Total</td>
<td>59%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Management advised that the improvement relates to both an improvement in service delivery and enhanced parameters for measuring the statistic. The results are effectively in compliance with the PA. The terms in the PA are written in absolute terms requiring 100% compliance (See Objective 4 on page 43). However, administratively MOHLTC acknowledges that the requirement of 100% is likely unattainable.

As the supporting information is extracted from Optimas, reliance is required on the integrity of Optimas and assumes that all information entered is accurate and complete. The only way to test the integrity of the inputs is to observe dispatchers entering the information when a call is received, which we have not performed. Also, we did not test the source code of Optimas.

Recommendations

Financial Data Reports
12. There should be a formal documented process on how information is extracted from SAP and accumulated within the In-Year reports.
September 10, 2010

Service Data Reports
13. MOHLTC and Ornge should discuss and document their position on the 10 / 20 call requirement and set a mutually acceptable threshold.

Benefit of Implementing recommendation
Financial Data Reports
Documentation of this methodology will provide consistent reporting, especially during times of employee turnover, and organization change.

Service Data Reports
Ornge will be deemed in compliance with the PA.

3.4 Competency exists to ensure the process is followed effectively
Based on our discussion of the process in place used to generate and report both the financial and service data reports, it is apparent that the current personnel involved in the processes are competent and knowledgeable.

3.5 Information being communicated in the reports is prepared with reasonable accuracy and is complete
In order to ensure information communicated in the reports is prepared with reasonable accuracy, the reports must be supported with valid documentary evidence of how the information was generated. Also, effective controls must exist to ensure that the data reported has no material errors.

Financial Data Reports
In-Year reports can be traced to internal accounting records generated through SAP. This procedure was conducted during our review for the June 2008 quarter. Each of the figures included in the revenue and expense accounts of the trial balance were captured in the period selected and were accounted for in the In-Year reports. We did not verify the specific allocation of each individual account, but verified account grouping totals to the In-Year reports.

Ornge currently has multiple entities in existence within its group. While the information that has been accumulated in the reports is reasonable, the results from all entities are not included in the In-Year reports. Specifically, Ornge Foundation and J Smarts' activity have not been included in the In Year reports as these entities were not required by not-for-profit GAAP to be consolidated in the group. However, J Smarts and Ornge Foundation were noted in the
consolidated financials of Ornge. Not including them in the In Year reports could result in an understatement of reported expenditures.

Notwithstanding the existence of a reporting system, the accounting records for new entities created in the summer of 2007 had not been set up at the time of this review. For example, internal purchase orders created for Ornge are used for transactions in these other entities. Transactions are then journalized between entities.

Not all transactions have been captured in the appropriate new entity. Management advises that they are in the process of developing the appropriate accounting records for each entity.

**Service Data Reports**
With respect to the Service Data Reports, results reported to the Ministry were verified to the information generated from Optimas.

**Recommendations**
14. In-Year reports should include financial information from all entities within the Ornge group.

15. Management should ensure that all transactions are recorded directly in each entity's books and records.

**Benefit of implementing recommendation**
This will provide complete, timely and transparent financial reporting to MOHLTC.

Maintaining separate books and records will provide a stronger reporting environment and allow management to analyze each entities' contribution to the group.

3.6 The reports are delivered to the users on a timely basis
In order for information in the financial and service data reports to be useful to the intended users (i.e. Senior Management and MOHLTC), it must be delivered on a timely basis. Based on our review of the submission dates for the In-Year reports, several reports were approved by senior management and delivered to the MOHLTC beyond the requirement of 45 days after quarter end.
The table shows that on several occasions management has submitted the In-Year reports to MOHLTC a few days late. Filing the In-Year report past the due date is not compliant with the PA (See Objective 4 on page 43).

The time taken between submission of the In-Year reports to the time MOHLTC accepted the reports is explained by issues in the submissions. In many instances the initial information provided was not sufficient for MOHLTC and therefore submissions required explanation or revision.

In assessing the level of communication between MOHLTC and Omge we noted that MOHLTC’s review of the reports is conducted via email. The extent of questions raised by MOHLTC appears to be in reference to forecasted over/under spending and appear cursory in nature. Questions are raised and responded to by Omge, but there is no evidence of closure regarding individual review items except for acceptance of the report by MOHLTC. Face to face meetings were not held to discuss quarterly results at the time of this review.
September 10, 2010

Objective 4 - Performance Agreement Compliance

4.1 Introduction

This objective required us to determine whether Ornge is in compliance with the PA and the Ambulance Act. Compliance was assessed by reviewing supporting documentation and inquiring of management and the MOHLTC on the various provisions of the PA.

The PA's purpose is to outline the roles and responsibilities of each of Ornge and MOHLTC for the provision of air ambulance and related services. The agreement establishes the stewardship role of the MOHLTC over Grant Funding and the structure of accountability and reporting required by Ornge in order for the MOHLTC to actively monitor and provide oversight. The PA also establishes Ornge's rights and responsibilities to provide the intended services, effectively transferring all air ambulance operations to Ornge.

Under the direction of the Health Audit Service Team, Ontario Internal Audit Division, the senior management team of the Emergency Health Services Branch and Ornge, our review of Ornge's compliance focused on the financial aspects of the PA. We did not review Ornge's operational compliance to the PA, nor did we review Ornge's compliance to the Ambulance Act, as the Ambulance Act's scope is on the delivery and operations of ambulance services.

4.2 Assessment of Ornge's Compliance to the PA

The financial aspects of the PA fall within various sections and schedules, including Grant Funding and payment, reporting and records, conflict of interest, insurance, procurement, and key performance indicators.

Ornge is not compliant with various administrative clauses of the PA. However, none of these administrative clauses affect the delivery of the Services. For certain Key Performance Indicators, the PA provides for a 30 to 120 day cure period to address non-compliant items. The non-compliance findings are reported in the chart below, have been referenced to the appropriate section or schedule of the PA and a note has been made where the item was addressed within the cure period.
### Table 4 - PA Administrative Compliance

<table>
<thead>
<tr>
<th>PA Section #</th>
<th>PA Provision</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.5 (e)</td>
<td>Insurance coverage for all air carriers must be endorsed:</td>
<td>Insurance held by air carriers provided at least 30 days instead of 60 days written notice from the insurer to Ornge and the Ministry.</td>
</tr>
<tr>
<td></td>
<td>e) to provide at least 60 days written notice from the insurer to Ornge and the</td>
<td>Minimum event of cancellation of the policy or material change thereto.</td>
</tr>
<tr>
<td></td>
<td>Ministry, in the event of cancellation of the policy or material change thereto.</td>
<td>The air carrier standing agreements inherited from the MOHLTC in 2006 also provide that at least 30 days written notice from the insurers is required.</td>
</tr>
<tr>
<td>13.5 (f)</td>
<td>Insurance coverage for all air carriers must be endorsed:</td>
<td>Insurance held by the rotor wing air carrier does not provide an acknowledgement that the aircraft will be engaged in deliberate low altitude flying.</td>
</tr>
<tr>
<td></td>
<td>f) to acknowledge that the insurance applies where the aircraft is engaged in</td>
<td></td>
</tr>
<tr>
<td></td>
<td>deliberate low altitude flying in the course of rendering any aviation services for</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ornge.</td>
<td>The rotor wing air carrier agreement that is currently in place was inherited from the MOHLTC.</td>
</tr>
<tr>
<td>17.15 (c)</td>
<td>...In addition, all OAA purchases valued at over $750,000.00 will require the</td>
<td>Ornge's Board has raised the approval limit threshold for expenditures not already approved in the budget from $750,000 to $1 million.</td>
</tr>
<tr>
<td></td>
<td>prior approval of the OAA Board.</td>
<td></td>
</tr>
<tr>
<td>17.15 (e)</td>
<td>Each agreement entered into by Ornge pursuant to this section 17.15 in respect</td>
<td>Certain contracts do not provide a clause which entitles Ornge to assign the agreement without the consent of the other party or parties to the agreement.</td>
</tr>
<tr>
<td></td>
<td>of the Services, save and except for agreements for personal services, shall</td>
<td>The specific contracts reviewed which do not provide an Ornge assignment clause are:</td>
</tr>
<tr>
<td></td>
<td>provide that Ornge is entitled to assign such agreement without the consent of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the other party or parties to the agreement.</td>
<td>• Fixed Wing Air Ambulance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standing Agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Engagement letter used for services of a Procurement Advisor for the purchase Helicopters</td>
</tr>
<tr>
<td>Sch F, 2 (e)</td>
<td>Once a balanced score card has been developed by Ornge, Ornge will prepare and</td>
<td>A balanced score card has not been developed and submitted within 18 months of January 3, 2006, the effective date of the PA. The 18 month deadline expired July 10, 2007.</td>
</tr>
<tr>
<td></td>
<td>provide to the Ministry on an annual basis a report on the measures contained therein.</td>
<td></td>
</tr>
<tr>
<td>Sch F, 3 (I)</td>
<td>We understand that there continues to be on-going communication between Ornge and MOHLTC regarding the development and submission of a balanced score card.</td>
<td></td>
</tr>
<tr>
<td>-------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Sch F, 3 (f)</td>
<td>Fiscal 2006 audited financial statements were not received on time; however, fiscal 2007 and 2008 were submitted on time. Fiscal 2006 statements were subsequently filed within the 120 day cure period.</td>
<td></td>
</tr>
<tr>
<td>Sch J, 1.2 c) &amp; Sch K, 2 c)</td>
<td>Ornge shall: c) annually, by July 1st of each fiscal year, submit to the Ministry a completed audited statement for the immediately preceding fiscal year.</td>
<td></td>
</tr>
<tr>
<td>Sch J, 1.2 (a) &amp; Sch K, 2 (a)</td>
<td>Ornge has not submitted their proposed fiscal 2009/2010 budget by the due date of July 1, 2008.</td>
<td></td>
</tr>
<tr>
<td>Sch J, 1.2 (b) &amp; Sch K, 2 (b)</td>
<td>Ornge has submitted Q1, Q2, and Q3 In-Year Reports after the 45 day deadline. The quarterly reports have been submitted late in various instances (See Table 3 on page 41). Ornge has not submitted any Q4 In-Year Reports to MOHLTC which we believe to be required. In-Year reports were subsequently filed within the 120 day cure period. Ornge Foundation and J Smarts were not included in the In-Year reports.</td>
<td></td>
</tr>
<tr>
<td>Sch J, 5.1</td>
<td>Ornge did not disclose interest income separately on the In-Year report in fiscal 2007. This was rectified by Ornge and starting in fiscal 2008, the In-Year Reports reported the interest earned on the Grant Funds.</td>
<td></td>
</tr>
</tbody>
</table>
The following could be considered effectively in compliance:

<table>
<thead>
<tr>
<th>Sch F, 2 c) (i)</th>
<th>Ornge will provide the following services:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(i) for scene calls, the caller will be advised within 10 minutes of receipt of each call on the status of Ornge’s ability to dispatch an aircraft.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sch F, 2 c) (ii)</th>
<th>Ornge will provide the following services:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(ii) for acute care air transfer, the caller will be advised within 20 minutes of each call on the status of Ornge’s ability to dispatch an aircraft.</td>
</tr>
</tbody>
</table>

| MOHLTC advises that although the provision requires 100% adherence, administratively a lower threshold is acceptable but not yet documented. |

4.3 Conclusion

Based on the items noted above, Ornge is not in compliance with various administrative sections of the PA. However, none of these issues affects the delivery of services and we have concluded that Ornge is using Grant Funding efficiently, effectively and in accordance with the provisions of the PA.

Recommendation

16. Ornge must take the necessary steps to rectify the above administrative non-compliance items and/or mutually agree with the MOHLTC to discuss and document changes to the requirements.

17. MOHLTC and Ornge must discuss and document the gap, if any, with respect to their divergence in interpretation, understanding and meaning with respect to sections of the PA.

Benefit of implementing recommendation

Addressing the above items will close any gap between Ornge and the MOHLTC with respect to their respective interpretations of the PA.
Objective 5 - Source and Use of Funds

5.1 Introduction

Ornge is to use Grant Funding, economically and efficiently, for the purposes intended under the PA.

We first reviewed the source of funds received by Ornge. Our assessment then continued into reviewing the use of the funds by Ornge to ensure that funds were used to provide air ambulance and related services economically and efficiently. This was performed in conjunction with our review of Ornge’s procurement process – see page 33. Our assessment also reviewed the present surplus funds accumulated by Ornge.

5.2 Source of Funds

Ornge receives substantially all of its funding from the MOHLTC to provide air ambulance and related services to the catchment area. In fiscal 2008, MOHLTC funding represented 97% of Ornge’s total revenue, with the remaining 3% of revenue from interest on investments, GST rebates received relating to prior years, revenue from uninsured services and from other sources, such as tuition. The table below outlines the funding by major category for the past three fiscal years as reported on the audited financial statements.

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2008</th>
<th>%</th>
<th>2007</th>
<th>%</th>
<th>2006</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOHLTC</td>
<td>129,760,000</td>
<td>97.34%</td>
<td>112,355,000</td>
<td>98.61%</td>
<td>44,464,192</td>
<td>99.59%</td>
</tr>
<tr>
<td>GST Recovery</td>
<td>1,238,000</td>
<td>0.95%</td>
<td>-</td>
<td>0.00%</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Uninsured Services</td>
<td>653,000</td>
<td>0.50%</td>
<td>584,000</td>
<td>0.60%</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Interest</td>
<td>873,000</td>
<td>0.67%</td>
<td>538,000</td>
<td>0.56%</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other</td>
<td>689,000</td>
<td>0.54%</td>
<td>296,000</td>
<td>0.23%</td>
<td>198,244</td>
<td>0.44%</td>
</tr>
<tr>
<td>Total</td>
<td>130,213,000</td>
<td>100.0%</td>
<td>113,971,000</td>
<td>100.0%</td>
<td>44,662,436</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The funds received by Ornge are consistent with Ornge’s normal course of operations and correspond to the agreements Ornge has in place to provide air ambulance and related services.

Ornge expects that the mix of funding will change once the other incorporated Ornge entities start to operate and work towards their intended objectives. Anticipated streams of funding would be from donations and additional revenue producing activities.
5.3 Use of Funds

Ornge uses MOHLTC funding to provide services as defined under the PA Article 7. This includes purchasing capital assets, medical supplies, paying fuel and air carrier costs and the administration costs including salaries and professional fees – all of which are in the normal course of operations and are for the intended purposes under the PA. The table below outlines expenses by major category for the past three fiscal years as reported on the audited financial statements.

Table 6 - Expenses

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2008</th>
<th>%</th>
<th>2007</th>
<th>%</th>
<th>2006</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier</td>
<td>73,704,000</td>
<td>67.04%</td>
<td>77,787,000</td>
<td>68.81%</td>
<td>16,093,689</td>
<td>50.16%</td>
</tr>
<tr>
<td>Salaries &amp; Benefits</td>
<td>30,890,000</td>
<td>23.91%</td>
<td>26,167,000</td>
<td>23.13%</td>
<td>12,024,621</td>
<td>38.32%</td>
</tr>
<tr>
<td>Donation</td>
<td>6,452,000</td>
<td>6.54%</td>
<td>-</td>
<td>0.00%</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Supplies</td>
<td>7,446,000</td>
<td>6.56%</td>
<td>4,016,000</td>
<td>3.62%</td>
<td>4,570,731</td>
<td>11.54%</td>
</tr>
<tr>
<td>Facilities</td>
<td>1,412,000</td>
<td>1.09%</td>
<td>954,000</td>
<td>0.86%</td>
<td>1,211,092</td>
<td>3.65%</td>
</tr>
<tr>
<td>Bad Debts</td>
<td>108,000</td>
<td>0.08%</td>
<td>187,000</td>
<td>0.17%</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Amortization</td>
<td>1,627,000</td>
<td>1.26%</td>
<td>1,566,000</td>
<td>1.41%</td>
<td>850,625</td>
<td>2.45%</td>
</tr>
<tr>
<td>Specifically Funded Programs</td>
<td>5,886,000</td>
<td>4.93%</td>
<td>1,906,000</td>
<td>1.65%</td>
<td>1,104,679</td>
<td>2.73%</td>
</tr>
<tr>
<td>Total</td>
<td>129,207,000</td>
<td>100.00%</td>
<td>113,884,000</td>
<td>100.00%</td>
<td>30,661,637</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Our review of Ornge’s financial information for the past two years disclosed that Ornge incurred substantial expenses, such as consulting and professional fees which are included in the above figures. It is reasonable for an organization that is in the start-up phase of its operations life cycle to leverage outside resources to supplement internal requirements. Most of the expenses that have been incurred relate to establishing the corporate structure, planning for future development, implementing best practices and other operating costs. Management has indicated that these expenses are expected to decrease in the future.

5.4 Processes exist for controlling the receipt and use of funds

To ensure effective financial management it is important that there are internal financial controls over the management process to prevent errors and/or misuse of funds relating to the handling of deposits, checks, cash disbursements, payroll management, etc. In this regard, it is important that senior management and financial staff understand various financial monitoring processes and apply an appropriate process to the day-to-day financial management. This would include an understanding and establishment of appropriate checks and balances into the daily financial management systems. Based on our review of Ornge’s financial policies and procedures it was evident that effective controls exist in the organization with respect to receipt and disbursement of funds.
September 10, 2010

Funding is received in accordance with Ornge’s funding agreements with the MOHLTC and controls are effective with respect to receipt, depositing, recording and reconciling of amounts.

Furthermore, the controls with respect to disbursing funds are also effective with respect to requisitioning and approval, authorization, processing, recording and reporting of expenditures.

5.5 Surplus Funds
Fund accounting is a method of segregating resources into categories to identify both the source and use of funds. This is the basis of accounting being used at Ornge to coincide with its charitable organization status. Surplus funds is a term used within the government to distinguish on an annual basis the amount of funding provided for the year which is in excess of the expenditures incurred.

As at March 31 2008, Ornge had approximately $36.2 million of cash and short-term investments. Based on the consolidated financial position, this balance is mainly set aside for future programs (i.e. deferred revenue), accounts payable, donation to Ornge Foundation and other liabilities and assets.

Table 7 - Cash Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand March 31, 2008</td>
<td>$36.2</td>
</tr>
<tr>
<td>Less: Deferred revenue (1)</td>
<td>-($14.6)</td>
</tr>
<tr>
<td>A/P I AIR net (2)</td>
<td>-($7.8)</td>
</tr>
<tr>
<td>Donation to Foundation (3)</td>
<td>-($8.7)</td>
</tr>
<tr>
<td>Internally restricted funds (4)</td>
<td>-($4.4)</td>
</tr>
<tr>
<td>Internally restricted funds fuel (5)</td>
<td>-($2.0)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-($1.3)</strong></td>
</tr>
</tbody>
</table>

1. **Deferred Revenue** -$14.6 million relates to specific projects or programs which have not been fully implemented as at March 31, 2008. The majority of this funding, $14.1 million relates to amounts received for the start-up and the ongoing operation for the Critical Care Land Ambulance Program ("CCLA"). This is detailed in the next two paragraphs and summarized in the table below.
Table 8 – Deferred Revenue breakdown

<table>
<thead>
<tr>
<th>Deferred Revenue Breakdown</th>
<th>(in $million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCLA Start Up - funds received in 2007</td>
<td>$9.4</td>
</tr>
<tr>
<td>CCLA Start Up - funds used during the year (Note 1)</td>
<td>-$5.1</td>
</tr>
<tr>
<td>---</td>
<td></td>
</tr>
<tr>
<td>CCLA Start Up - funds remaining at end of year</td>
<td>$4.3</td>
</tr>
<tr>
<td>CCLA Operations - funds received in 2007</td>
<td>$10.3</td>
</tr>
<tr>
<td>CCLA Operations - funds used during the year</td>
<td>-$0.5</td>
</tr>
<tr>
<td>CCLA Operations - funds remaining at end of year</td>
<td>$9.8</td>
</tr>
<tr>
<td>Other deferred revenue - balance at end of year</td>
<td>$0.5</td>
</tr>
<tr>
<td>Total Deferred Revenue at March 31, 2008</td>
<td>$14.6</td>
</tr>
</tbody>
</table>

Note 1 - Of the $5,100,000 spent, $900,000 was spent during fiscal 2007.

2. Accounts Payable / Accounts Receivable – The accounts payable as at March 31, 2008 is $9.6 million and the accounts receivable is $1.8. The net total represents a substantial amount owing in the near term to suppliers.

3. Specified Gift / Donation - $8.4 million specified gift to Ornge Foundation for the future purchase of capital assets. Ornge plans to invest in certain mission critical systems and strategically essential assets. These would include significant technological and other enhancements to the communications centre and investment in patient simulator technologies for educational purposes. In this analysis, this amount is considered part of the annual surplus funds as it was a management decision to allocate excess annual operating funds to capital expenditures. These were not budgeted items, as Ornge does not have a capital budget. Ornge must fund capital expenditures through its annual operating funding. Appropriation of funding to capital assets would appear reasonable in an organization that is continually on the path of improving its service delivery.

4. Other Internally Restricted Funds - $4.4 million restricted for other contingencies of Ornge, such as unforeseen events that could negatively impact the financial viability of the organization and to provide funds for future strategic initiatives to improve patient care through growth and efficiencies.

5. Internally Restricted Fuel - $2 million is restricted for future fuel costs. Ornge has set aside these funds in order to mitigate the risk of future fuel price
fluctuations. This will ensure that Ornge has these funds available if its fuel costs increase dramatically in the future.

Another way to view the surplus funds on hand at Ornge is by looking at unencumbered surplus funds. In order to appropriately analyze total surplus funds, one should start with the net assets of the entity. This provides a more useful guideline of unencumbered funds. Based on our determination of what surplus funds would consist of, our analysis below provides a breakdown of the March 31, 2008 estimated surplus funds at Ornge.

<table>
<thead>
<tr>
<th>Table 9 Surplus Funds at March 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets</td>
</tr>
<tr>
<td>Invested in equipment and leaseholds</td>
</tr>
<tr>
<td>Internally restricted</td>
</tr>
<tr>
<td>Internally restricted fuel</td>
</tr>
<tr>
<td>Unrestricted</td>
</tr>
<tr>
<td>Net assets at March 31, 2008</td>
</tr>
<tr>
<td>Add: Donation</td>
</tr>
<tr>
<td>Less: Invested in equipment and leaseholds</td>
</tr>
<tr>
<td>Total Surplus Funds at March 31, 2008</td>
</tr>
<tr>
<td>Surplus funds as a percentage of total MOH funding (inception to Mar 2008)</td>
</tr>
</tbody>
</table>

Accumulated surplus funds are 5.2% of funding and appear to be within a reasonable limit from a budgeting perspective. The percentage of surplus funds based on accumulated total funding over the years does not appear excessive nor does it signify any deficiencies in the budgeting process.

In regards to surplus funds, the PA terms do not allow for the normal government settlement process of requesting payment of surplus funds back from the recipient. MOHLTC is only able to request surplus funds as it relates to the delivery of air ambulance services upon termination of the agreement. Of note,

4. REPAYMENT OF GRANT FUNDS/TRANSFER OF ASSETS 4.1 Each payment to be made by the OAA to the Ministry hereunder shall from and after the demand therefore be deemed to be a debt due and owing to the Ministry and the OAA shall pay the amount to the Ministry immediately unless the Ministry or an arbitrator appointed under the Agreement directs otherwise.

5. INTEREST 5.2 The OAA shall use the interest for the sole purpose of fulfilling its obligations as set out in the Agreement, failing which, the OAA shall pay the interest to the Minister immediately upon request.

Specifically defined in the PA in Article 14 Term and Termination.
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we are advised that the CCLA Agreement (which forms a portion of Ornge's funding) has a clause which allows MOHLTC the ability to request surplus funds.

The surplus funds have been accumulated over the years as a result of the following factors.

a. During the first few years of operation, Ornge receive fixed funding from the Ministry pursuant to the PA. Two factors could have contributed to the surplus; costs incurred were less than fixed funding provided or Ornge found efficiencies and savings in delivering the required service.

b. The budget includes amortization (a non-cash item). From a cash flow perspective, this amount of funding could be used for capital asset purchase budgeting. Ornge does not receive separate capital funding and therefore, this is one of their sources of funds to budget for capital assets.

c. There were one-time transitional funds provided to Ornge of $5.1 million. As at March 31, 2008, Ornge had a net asset balance of approximately $9.7 million and $6.4 million which related to Internally Restricted Funds. This balance has not substantially changed over the past few years considering the level of funding being received.

d. Ornge has generated funds from other sources such as interest on cash, revenue from training and revenue from out of Province patients, all of which was not included in the original fixed funding budget. This additional income has also contributed to the build-up of surplus funds.

Essentially, the $14.8 million has been restricted for the investment in assets through the donation to Ornge Foundation, internally restricted funds in Ornge for other necessary initiatives approved by the Board and for potential impacts of fuel price fluctuations.

As a budgetary planning technique, in lieu of surplus funds accumulation, Ornge could avail themselves of a line of credit should a need arise for additional financing.
5.7 Conclusions

Overall, our review indicated that ORNGE is using provincial funds economically, efficiently and for the purposes intended in providing air ambulance and related services for the Province.

ORNGE has accumulated surplus funds, which the MOHLTC cannot request payment back unless a termination event occurs or a portion of the funds relate to the CCLA Program. The PA is unlike other typical government agreements (i.e. CCLA) where the government can normally request surplus funds to be paid back on an annual basis. In managing such a relationship, it would be appropriate for the MOHLTC and ORNGE to understand the use of funds if different from original budget to ensure MOHLTC, as stewards over Grant Funding, are informed of future plans.

Recommendations

18. Both MOHLTC and ORNGE should discuss and document the treatment of surplus funds on a quarterly basis. However, both parties have an understanding and the current practice is that any surplus is utilized in a manner in keeping with the goal of improving service delivery.

Benefits to implementing recommendations

The above recommendation will ensure funding levels are appropriate on an ongoing basis while clarifying the settlement process to cover instances where surplus funds are accumulated and the options that are available to both parties to deal with the treatment of surplus funds.
Objective 6 - Enterprise Risk Management Process

6.1 Introduction

This objective requires us to ensure that risk management policies have been adopted and are in line with best practices of other similar organizations. The risk management processes adopted by Ornge were reviewed to assess whether the processes were specified, formalized, adopted and operating effectively.

Ornge's risk management capability was assessed by using the EFQM Excellence model outlined on the next page. This assessment tool was used to review and report on performance and progress in improving risk management capability and assessing impact on improved risk handling and performance outcomes. The excellence model assists with identifying areas of performance and in establishing priorities for continuous improvement.

6.2 EFQM Excellence Model

The tool used to assess Ornge's risk management capability is outlined in the following figure and each component will be assessed below.

*Figure 1 - EFQM Excellence Model*

Adapted from the EFQM Excellence Model
Risk Leadership

Risk management within Ornge is driven from the top down through the Board and the CEO. During 2005, an external consultant was engaged to assist Ornge in establishing a risk management approach to deal with the two high risk areas in which Ornge is engaged, namely aviation and medicine. Based on the methodology recommended by the external consultant, an organization wide risk assessment was performed in January 2006 and a total of 42 risks were identified across various risk categories such as: Strategic; Financial; Operational-Transitional; Operational-Ongoing Post Restructuring; People; Technology; Legal & Regulatory; EH&S. A total of 7 risks were identified as critical.

On a quarterly basis the Board receives the risk register with an update as to the status of each of the mitigation strategies put in place. This covers a total of 20 risks and are all those that are rated critical and high. After discussion of each of the mitigation strategies the residual risk is rated again to determine whether the risk should be down-graded, upgraded or remain the same.

Risk Strategy and Policy

Ornge has not documented their risk management policy. Ornge believes risk management is engrained within their culture and directly impacts business planning, strategic objectives and the decision -making process.

The overall risk management strategy in place within Ornge is endorsed by the CEO and the Board of Directors and sets out the organization’s attitudes to risk. The ownership of risk lies clearly with the CEO and senior management with the Board providing a strong and valuable oversight role, discussing all matters of high and critical risk at each Board meeting.

The risk identification strategy allows new risks to be identified and reported upwards through the Medical Advisory Committee, Aviation Safety System and the Occupational Health and Safety Committee ("OH&S").

People

The staff is empowered with the responsibility for risk management and sees it as an inherent part of Ornge’s business and have clear reporting lines through which risk issues can be raised even where this could be interpreted as “bad news”. Staff is rewarded for taking well-managed risks and is confident that they will not
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be blamed for failure when risks have been well managed. Staff is encouraged to challenge practices, to identify new ways of doing things and to be innovative.

Partnerships
A critical part of Ornge’s risk management process is to ensure that they work effectively with MOHLTC.

Based on discussions with Ornge’s management as well as the MOHLTC, the communication between the two parties should be enhanced to improve the decision making process. For additional commentary please refer to page 61.

Processes
Risk management is an integral part of the organization’s core processes (policy, planning, delivery, etc.) and data is collected to monitor and improve risk management performance.

The last organization wide risk assessment was undertaken in January of 2006. As the organization has changed dramatically in the past two years and due to the numerous changes in both the internal and external environment, it is considered timely to undertake a complete organization-wide risk assessment which addresses all areas within the organization.

Risk Handling
Based on our discussions with the CEO and the Chairman of the Board, our review of Board minutes, risk management reports, and interviews with staff members, it appears that risks are being managed continuously and this process is embedded throughout the organization. All high and critical risks as well as their mitigation strategies are reviewed and monitored by the Board at every quarterly meeting.

An example of an enterprise risk that Ornge is faced with is business continuity. We were advised that Ornge has a complete Disaster Recovery Plan (DRP) to ensure the ongoing provision of air ambulance services. DRP documentation was reviewed and during a recent DRP fire drill test, management advised that it operated effectively.
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Ornge entered into a significant contract during the March 31, 2008 year end to acquire helicopters for approximately $121 million U.S.

The agreement is in U.S. funds whereas Ornge’s funding is entirely in Canadian dollars. In June 2008, Ornge also entered into a contract to purchase six airplanes amounting to $21 million with the option to purchase four more airplanes at a cost of $16 million. Ornge did not have a financing agreement in place at the time of contracting the aircraft and the contracts were appropriately contingent on financing.

Notwithstanding the fact Ornge entered into these agreements, the March 31, 2008 year end financial statements stated that in management’s opinion the organization is not exposed to significant currency risk. We do not agree with management’s opinion that their currency risk is not significant. Ornge’s currency risk, once the financing conditions are waived is significant and should be mitigated by a foreign currency hedge.

Hedging is an important part of risk management as the impact of not entering into a form of currency hedging on the helicopter contract could expose the organization to an additional cost of approximately $22.5 million. See below table for sample currency hedge calculations at an exchange rate of approximately 1 USD to 1.2262 CDN.

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\(^7\) From March 31, 2008 audited consolidated financial statements, note 10.

\(^8\) From March 31, 2008 audited consolidated financial statements, note 2.
### Table 10 Estimated cost of contract without hedging

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar Payments Due From March 27, 2008 to July 2011 Per Contract</td>
<td>$120,357,000</td>
<td>A</td>
</tr>
<tr>
<td>Canadian Equivalent Payments Due From March 27, 2008 to July 2011 using CAD exchange rate on March 27, 2008</td>
<td>$121,560,570</td>
<td>B</td>
</tr>
<tr>
<td>If not hedged, the Canadian Dollar equivalent would be:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD amount due multiplied by spot exchange rate on each of the relevant</td>
<td>$147,584,300</td>
<td>C</td>
</tr>
<tr>
<td>payment dates under the contract. Since four payments have already occurred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>we used the actual exchange rate on the payments from December 1, 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to March 1, 2009 inclusive. For the remaining scheduled payments we used</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the spot exchange rate at end of day on March 24, 2009.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If ORNGE entered into a series of forward contracts on March 27, 2008</td>
<td>$123,360,360</td>
<td>D</td>
</tr>
<tr>
<td>the total Canadian dollar equivalent that would have been calculated based</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on the forward rates would be.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of not hedging</td>
<td>$24,323,540</td>
<td>C-D=E</td>
</tr>
<tr>
<td>Cost of executing the hedge on March 27, 2008 calculated as difference</td>
<td>$1,779,790</td>
<td>D-B=F</td>
</tr>
<tr>
<td>between CAD equivalent at spot exchange rate on March 27, 2008 versus CAD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>equivalent had a series of forward contracts been executed on March 27, 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total potential loss from not hedging based on current rates and conditions:</td>
<td>$22,544,150</td>
<td>E-F</td>
</tr>
</tbody>
</table>

We have been advised that management sought Board approval of its foreign currency hedging strategy in September 2008 and intends to enter into a foreign currency hedge shortly after finalizing its’ financing in December 2008.

**Recommendation**

19. In situations where currency risk is significant, ORNGE should ensure their exposure to foreign currency fluctuations is mitigated.

**Benefits of implementing the recommendation**

The organization will be able to manage their budgeting, costing and funding process more effectively by avoiding currency speculation.

**Outcomes**

The risk management framework is effective in identifying, assessing and managing strategic and operational risks.
6.3 Conclusion
Except for the assessment made by management at financial statement reporting
date relating to US dollar contracts, overall our review indicated that the risk
management approach and capability within Ornge is effective. Risk
management is driven by the Board and the CEO indicating an effective tone at
the top. Risk management is embedded throughout the organization with all
levels of staff being risk aware. In addition, risk identification and subsequent risk
mitigation strategies is the subject of continuous reporting and monitoring to the
Board.

Recommendation
20. Notwithstanding that the risk management process is effective we would
recommend that an organization wide risk re-assessment be performed. The
initial organization risk assessment was conducted in January 2006. Since
Ornge’s operating environment is continuously changing internally and externally,
this assessment should be updated on an ongoing basis.

Benefits of implementing recommendations
This will ensure that all risks are identified and managed in a systematic and
disciplined process.
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Objective 7 – Governance and Accountability

7.1 Introduction
This section discusses the assessment of the governance and accountability mechanisms in place within Ornge over the management of Grant Funding for air ambulance and related services.

This section will provide commentary on Ornge’s governance in the context of the following themes:
- Stewardship of the organization
- Effective communication with stakeholders
- Board independence
- Evaluation of the CEO’s performance
- Evaluation of the Board
- Directors’ orientation and education
- Governance issues

7.2 Stewardship of the organization

Strategic Planning
Establishing the strategic direction for Ornge is the primary responsibility of the Board of Directors. Ornge’s five year strategic plan is prepared by the CEO in conjunction with executive management for discussion and approval annually by the Board. Upon presenting the strategic plan, executive management is invited to discuss the various initiatives including supporting budgets and timelines. During these discussions outside experts are often invited to provide subject matter expertise and to provide Board members with independent, objective advice. Once agreed upon, the strategic goals are extrapolated into the CEO’s balanced scorecard. At this point, operational objectives are set, which are included in the scorecards of individual managers.

Risk Management
For a detailed discussion please refer to Objective 6 on page 54.

Succession Planning
Succession planning is a critical part of corporate governance and as such it is crucial that succession planning is an agenda item discussed at Board meetings. Based on discussions held with the CEO, and review of Board minutes, succession planning has been a key focus of the Board resulting in management
developing a detailed management succession plan addressing all levels within the organization.

**Importance of Information**

Reliable, timely and sufficient information is critical for a Board to be able to fulfill its responsibilities. The information to assist the Board in formulating its strategic direction and enabling them to review the effectiveness of management's performance is sent to the Board on a regular basis. The information reports actual and forecasted results against established plans and performance targets.

Based on our discussions with the Chairman of the Board and a review of Board minutes, the Board receives all information it deems necessary to perform its duties.

7.3 Effective Communication with Stakeholders

**Communication with stakeholders**

Communication with stakeholders is critical to the success of any organization, especially when there is significant corporate evolution. The key stakeholders of Ornge include MOHLTC, the hospitals, employees, health, equipment and air carrier suppliers and ultimately the residents of Ontario.

Based on our review of documents and comments received during the interviews, it was obvious that significant communication activity occurred between MOHLTC and Ornge. However, some of this activity did not result in meaningful, collaborative dialogue between Ornge and MOHLTC. This resulted in a misunderstanding of the respective party's processes to achieve shared goals and objectives. This has caused some frustration, confusion and conflict for both Ornge and MOHLTC.

Presently, Ornge has hired a person to handle government relations and management is working with MOHLTC on improving communications.

As the Ministry is a key stakeholder, the scope of services and related reporting requirements need to be clarified by both parties to ensure the information that is provided is timely and relevant.

**Recommendation**

21. Both parties should commit to a process of continuous improvement and develop an effective formal communication plan that will more fully address the
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needs of both parties in the fulfillment of their mandate. We suggest the parties decide on a set agenda that will address the needs of both parties in the fulfillment of their mandate under the PA.

22. To ensure accurate and timely delivery of information, the stakeholder communication plan should include at a minimum the following (list represents suggestions based on interview discussions):

- The In-Year reports should be provided to MOHLTC on a timely basis to allow the MOHLTC to review and prepare comments and questions;
- Ornge and MOHLTC representatives should meet on a quarterly basis, coinciding with the quarterly In-Year reporting deadlines;
- Each meeting should include the 'right' individuals at each organization to ensure an open and transparent line of communication among those with oversight responsibility;
- Each meeting should be evidenced with minutes to ensure documentary evidence exists of the formal communications held between the two;
- The minutes should be approved by both parties to avoid subsequent confusion regarding what issues were discussed and action items decided;
- The action items developed at each meeting should be addressed and concluded at the following meeting;
- MOHLTC should be prepared to arrive at the meeting with all of their questions regarding the In-Year results, and Ornge should be prepared to respond;
- Within the communication plan, specific deliverables should be decided and agreed upon by both parties regarding the level of detail of variance analysis required with respect to the In-Year reports, as well as a breakdown of the unspent funds and specific reasons for deferring revenue or internally restricting funds;
- Plans for unspent funds, if any, should be discussed.

23. Any correspondence outside of the face to face meetings that is not documented should be kept informal and all significant decisions should be reserved for formal documented meetings. Therefore, any major decisions to be made outside of the scheduled periodic meetings should be organized and discussed separately at a formal meeting. This would ensure all significant decisions are documented and captured.

Benefits of implementing recommendation
Formal meetings can provide both parties with an opportunity to discuss progress to date, allow an open forum for understanding and provide information with
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respect to any variances or changes that may have occurred. This proactive
approach should reduce the amount of inefficiencies and frustrations experienced
by MOH TLC and Ornge staff in their back and forth communications to explain
particular events, variances or situations communicated by email and phone.
This will also allow these stakeholders to effectively discharge their fiduciary
duties.

**Working with Management**

An essential component to good corporate governance is the delineation
between governance and management but at the same time ensuring that the
Board works closely and effectively with management. From our review of Board
minutes and discussion with both the CEO and the Chairman of the Board, it is
clear that the current working relationship is constructive and positive with the
Board providing the strategic direction and delegating the day to day
management to the CEO.

7.4 Board Independence

**The Roles of the Chair and the CEO**

Effective governance would suggest splitting the roles of the Chairman of the
Board and that of the CEO, which is the governance structure in place within
Ornge. The Chairman manages the affairs of the Board and is not a member of
management while the CEO manages the day-to-day operations of Ornge.

**Meeting as a Board**

Boards usually function best when a few key members of executive management
are regularly invited to attend board meetings. Based on a review of the minutes
of Board meetings, the CEO and other members of Executive Management are in
attendance at most, if not all, Board meetings.

**The Use of Committees**

The use of committees is normally regarded as good practice where committees
examine issues and prepare recommendations to the Board. Ornge has adopted
the best practice of Board Committees. The organization has the following real
and/or ad-hoc committees in place:

- Finance and Audit Committee (standing committee)
- Operations Committee (standing committee)
- Governance and Compensation Committee (standing committee)
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- Nominating Committee – subcommittee of the Governance and Compensation Committee (standing committee)

Every Committee has specific terms of reference and reports back to the Board for full Board action and decision making.

**Conflict of Interest**

A conflict of interest arises when an individual’s private interest differs from his or her professional obligations to an organization. Every public organization should ensure that it has a conflict of interest policy to guide behaviour. The policy will clearly state what constitutes a conflict of interest, but also how to best disclose the situation to avoid or reduce potential conflict. Conflict of interest policies should include board members, employees, and representatives. Conflict of interest guidelines should be included in the organization’s personnel manual to ensure transparency of the policy throughout the organization.

Ornge has a documented conflict of interest policy dated September 2005 which is effective. The policy is communicated in Ornge’s administrative manual, and is clearly addressed to the Board members and committees, members of management staff, Ornge medical representatives, and staff and representatives. The policy outlines what is acceptable behaviour and which behaviour is not permitted. The policy also requires annual declarations by all of the above, to ensure their understanding and commitment to engaging in acceptable practices and disclosing any real or perceived conflicts. Every meeting of the Board includes a conflict of interest declaration.

7.5 Evaluation of the CEO’s Performance

The CEO’s performance is evaluated on an annual basis based on the strategic objectives set for the year which are outlined in the CEO’s balanced scorecard.

7.6 Evaluation of the Board

To assess its effectiveness and initiate an ongoing renewal process, the Board and supporting Committees should conduct an annual review of its performance (of individual directors as well as the Board and Committees as a whole) and discuss what steps may be necessary or desirable to improve its effectiveness. In addition, the Board could, in consultation with the CEO, attempt to identify the profile of skills that would best enable the Board to fulfil its responsibilities.
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Such assessments (of the Board and Committees as a whole) could focus on the written mandate of the Board, committee terms of references and the competencies and skills of each director. Areas for specific focus of director evaluations could consist of attendance records, preparedness and overall contribution. These assessments will assist the Board in identifying opportunities for enhancement in their respective roles and identify skills that require improvement.

Based on our review of the terms of reference for the Board and the individual Committees, the requirement for an annual performance evaluation is outlined only in the terms of reference of the Audit and Finance Committee. However, while not documented, in our review of the minutes, we did note that the Board, Committees and its members were evaluated in 2008 by a third party.

Recommendation
24. All committees and the Board should include a statement within their terms of reference that an annual performance evaluation will be performed.

Benefits of Implementing Recommendation
Terms of Reference for all Committees will be clear and complete. It will improve effectiveness and accountability of all members of the committees and the Board.

7.7 Directors' orientation and education
All Board members of Ornge receive an orientation manual which outlines their duties and responsibilities and provides an overview of the organization. In addition, all Board members are encouraged to attend education programs they consider appropriate to their needs.

7.8 Governance issues

**Code of Conduct**
A Code of Conduct is an important management tool which can positively shape the culture of an organization. A Code of Conduct sets out the standards of ethical behaviour expected of staff in an organization. A Code of Conduct is an important element in protecting the reputation of an organization.

An effective Code of Conduct can result in:
- More effective compliance with relevant laws
- More effective management
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- Protect the integrity and reputation of an organization.

Ornge’s Code of Conduct is contained within the document called “Ornge Workplace Norms” issued in revised format in August of 2008.

The Workplace Norms puts in place an ethical framework and guidelines for ensuring that all employees:
- Know and carry out day-to-day responsibilities within Ornge and the community to the highest standards of corporate and individual behaviour
- Respect in the Workplace
- Confidentiality of Information
- Community Involvement
- Conflict of Interest
- Compliance.

**Whistleblower Program**

In addition to implementing a Code of Conduct, it is also considered best practice to introduce a Whistleblower Protection Policy or Program (“WBPP”). The objectives of such a program are to:

- Encourage the reporting of matters that may cause financial or non-financial loss to the entity or damage to the entity’s reputation
- Enable the organization to effectively deal with reports from whistleblowers in a way that will protect the identity of the whistleblower and provide for the secure storage of the information provided
- Establish the policies for protecting whistleblowers against reprisal by any person internal or external to the organization
- Provide for the appropriate infrastructure including the appointment of a Whistleblower Protection Officer and a Whistleblower Investigations Officer independent of management to handle case management.

Once implemented an effective WBPP can result in:
- More effective compliance with relevant laws
- A healthier and safer work environment through the reporting of unsafe
practices
- More effective management regarding internal control over financial reporting
- Improved morale within the entity
- An enhanced perception and the reality that the entity is taking its governance obligations seriously.

Ornge made the conscious decision not to adopt a formal Whistleblower Policy as outlined in a memo dated January 17, 2008. The rationale given to support this decision is the fact that Ornge union staff is covered by union agreement provisions; non-union staff are protected from reprisals in the Harassment, Discrimination and Code policies.

Management advises that when Ornge took over service delivery in January 2006, the Board wanted to ensure that staff saw that the Board had complete confidence in management. While staffs were going through many changes, they did not want the staff to look beyond management for resolution of day to day items, as they felt the whistleblower policy may have become a complaint hot line.

A Whistleblower Policy goes beyond any potential harassment issues and also deals with unethical behaviour in contradiction of the Workplace Norms, compliance with relevant laws, potential fraudulent behaviour and a health and safety matter. In addition, a Whistleblower Policy would outline how potential complaints are to be reported, investigated and dealt with.

7.10 Conclusions
Overall the governance framework within Ornge appears effective and supportive of the mandate and strategic objectives of the organization. A few areas for improvement however were identified which will enhance and solidify the current corporate governance approach.

Recommendation
25. Ornge should consider introducing a Whistleblower Policy.

Benefits of Implementation of Recommendation
The policy will clearly outline the avenues available for staff to report unethical behaviour, how complaints will be dealt with and what measures will be taken once an undesirable behaviour has been identified. It is also an essential part of
an anti-fraud process which will assist in preventing and deterring incidents of fraud.

8.0 Assessment of MOHLTC’s Governance and Accountability and Compliance to the TPAD

The criteria used in the assessment of MOHLTC’s governance and accountability framework are based on the transfer payment accountability cycle. This cycle encompasses a risk-based approach and sets out principles or a process in which:

1. Expectations are clearly defined,
2. Effective agreements are established,
3. Ongoing reporting and monitoring ensure that objectives are achieved, or
4. Corrective action is taken.

8.1 TPAD Risk-Based Process

As part of good governance and accountability for the use of public funds, the Province has issued the TPAD to give direction to all Ministries and classified agencies that provide and administer transfer payments. The TPAD’s objectives are to:

1. Establish the principles and requirements for implementing controllership practices to achieve accountability for transfer payments, and to;

2. Support the efficient and effective delivery of services provided through transfer payment programs.

3. The transfer payment accountability cycle encompasses a risk-based approach and sets out a process in which the following should be achieved.

Of note, the TPAD has been updated since the PA was signed.

Clearly Defined Expectations

Under the TPAD, before a transfer payment program is approved, the Ministry must define the objectives, functions, eligibility criteria and recipient obligations for the transfer payment program. This includes confirming the program objectives, setting performance measures and targets, assessing and identifying risks, outlining accountability relationships and capacity for oversight and reporting expectations.
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Prior to the transition of air ambulance services, MOHLTC prepared the necessary analysis and expectations in order for the transfer payment process to be approved. The expectations, objectives, functions and criteria from this analysis have been incorporated into the PA and form MOHLTC's current governance and accountability framework.

**Effective Agreements**

Before transfer payments can be paid to recipients, an agreement must be in place and the recipient's governance structures and accountability processes are to be assessed by the Ministry to ensure public funds will be properly administered and managed.

Prior to Ornge receiving transfer payments, the PA was signed and in place. With MOHLTC's prior working relationship with the CEO of Ornge and ongoing communication between Ornge and the MOHLTC at that time, the MOHLTC advised us that they assessed Ornge's ability to properly administer and manage public funds.

We have previously provided comments in our report that Ornge and the MOHLTC should discuss and document agreed upon revisions to their contractual relationship, if any, that are relevant to the provision of Air Ambulance services.

**Ongoing Reporting and Monitoring**

Under the TPAD, the Ministry must have the oversight capacity to enable them to administer the program, assess risk, communicate with recipients on a regular basis, monitor the results and take corrective action when necessary. Included in this oversight is monitoring and reviewing of reporting requirements to assure that Ornge is meeting or exceeding agreed upon performance levels, and that they are complying with the terms and conditions of the PA to appropriately deliver services as defined under the PA Article 7.

As at the date of our review of Ornge's compliance to the PA, the MOHLTC has not received the balanced score card, the 2008 annual performance report, fiscal 2009/2010 budget and Ornge's fourth quarter In-Year Reports. These missing reporting documents could hinder the ability of MOHLTC to maintain effective monitoring to ensure that Ornge is meeting their performance indicators, objectives and budget.

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9 As defined in Schedule K of the PA.
In addition, we have noted in our report that Ornge is not compliant with certain administrative clauses of the PA. We are not aware if MOHLTC's monitoring previously identified all of these non-compliance items or of any corrective action implemented by MOHLTC to rectify these issues. Regarding the items relating to reporting, we are aware that MOHLTC followed up with Ornge on multiple occasions to obtain the required reports and they were ultimately received.

**Risk Based Reviews**

The TPAD requires Ministries and classified agencies to undertake risk-based reviews of transfer payment programs. A risk review would include an assessment of the risk on the program design, the activities to be funded, the basis of funding and the instrument used to provide the funding (i.e., grants, contributions, etc.), and the administrative requirements of the program. This risk review would require the MOHLTC to revisit their initial risk assessment of the Ornge transfer payment program and update it for any changes in the assessment. The initial risk assessment reported to Treasury Board/Management Board of Cabinet included examined risks such as:

- Accommodation Risks
- Communication Plan and Risks
- Inter/Intra Government risks: Legislation/Regulation and Designation Related Risks
- Procurement Related Risks
- Workforce and Labour Relations Risk
- Information Technology Related Risks
- Patient Care and Customer Service Risks
- Program/Business Continuity/Contingency Planning Risks After Consolidation

Since the TPAD came into effect after the PA was established and signed, certain risks may not have been assessed or considered by the MOHLTC at the time of the transfer. Also, many factors have changed since the establishment of this transfer payment program which may have caused new and unidentified risks for MOHLTC.

MOHLTC has conducted various forms of risk-reviews of the Ornge transfer payment program. These ongoing risk-reviews are performed through activities
such as the RbP, quarterly reports, enterprise wide forecasts, multi-year strategic plans, certification, investigations and inspections.

**Corrective Action**

MOHLTC's responsibility is to identify areas for improvement or instances of non-compliance, such as inaccurate, incomplete or untimely reporting. The Ministry must analyze this non-compliance and the impact to the program to determine the appropriate level of required corrective action.

MOHLTC has taken corrective action in aspects of the reporting framework where necessary.

**8.2 Conclusions**

MOHLTC is in compliance with the TPAD. There are ongoing reporting and monitoring improvements that can be made to ensure that MOHLTC receives the appropriate information in order to appropriately monitor performance, objectives and budget variances.

**Recommendations**

26. In order to comply with TPAD, MOHLTC should follow through on the recommendations put forward in this report. For example:

- MOHLTC should discuss and document in agreement with Ornge administrative requirements that will improve the timely flow of information, and if/where necessary agree upon updates to contractual arrangements that are relevant to the provision of air ambulance services.
- MOHLTC and Ornge should have a formal quarterly reporting framework.
- MOHLTC and Ornge should discuss the status and plans of any surplus funds balance on a quarterly basis.
- MOHLTC should clarify all reporting requirements with Ornge.
- MOHLTC should have a monitoring plan for all provisions of the PA with Ornge.
- MOHLTC should follow-up with findings such as:
  - Submission of Q4 In-Year Reports and more comprehensive detailed explanations on all In-Year reports.
  - Development and submission of the balanced scorecard.
  - Submission of the 2010 fiscal year budget.
September 10, 2010

Benefits of implementing recommendations
MÖHLTC will be able to effectively discharge their monitoring role of stewardship and accountability relating to transfer payments, activities of Ornge and related risk assessment.
Appendices
Appendix A: Summary of Recommendations

The following summary includes all of the recommendations that are outlined in this report. Additional information and commentary relating to the recommendations is provided in the main part of this report.

1. The Organizations must discuss and document MOHLTC's concerns regarding Ornge's corporate structure and enter into agreed upon revisions to their contractual relationship, if any, that are required to give the MOHLTC more comfort regarding Ornge's corporate structure and its impact on the delivery of Air Ambulance services in the province of Ontario.

2. To ensure the annual budget is prepared on a timely basis, the approval and discussion process between MOHLTC and Ornge should be based on defined milestones in light of the government's business planning process and results based planning cycle, in order for the budgeting process to be meaningful and effective.

3. Ornge should provide their operating budget by July 1st in accordance with the PA.

4. Ornge should provide more comprehensive and detailed variance explanations in their In-Year reports to MOHLTC.
5. The MOHLTC and Ornge should discuss and document whether a fourth quarter In-Year report should be prepared by Ornge and submitted to MOHLTC for their review.

6. Ornge should proceed with their plan to ensure their entity level controls including ITGC are documented and updated annually.

7. Apply a top-down risk based approach considering the concept of materiality to determine which financial reporting risks are considered in-scope for purposes of evaluating the ICFR, after giving effect to compensating controls at the entity level.

8. A more risk based evaluation of ICFR should be performed and only identified key controls should be tested.

9. Ornge should ensure that ICFR are tested at least annually. Significant deficiencies identified (if any) should be reported to senior management and the Board and remediated in a timely fashion.

10. Notwithstanding the contents of "management’s responsibility for financial information" attached to the financial statements of Ornge, once internal control testing has been completed; to align with best practices an internal control certification should be completed by senior management, which certifies the effectiveness of the ICFR. Similar certifications are required for Canadian public reporting issuers through the Canadian Securities Administrators’ National Instrument 52-109.

11. MOHLTC and Ornge should discuss and document the most efficient and effective way to ensure annual financial statements are reported in the appropriate format based on the Provincial Controller's assessment.

12. There should be a formal documented process on how information is extracted from SAP and accumulated within the In-Year reports.

13. MOHLTC and Ornge should discuss and document their position on the 10 / 20 call requirement and set a mutually acceptable threshold.

14. In-Year reports should include financial information from all entities within the Ornge group.
15. Management should ensure that all transactions are recorded directly in each entity’s books and records.

16. Ornge must take the necessary steps to rectify the above administrative non-compliance items and/or mutually agree with the MOHLTC to discuss and document changes to the requirements.

17. MOHLTC and Ornge must discuss and document the gap, if any, with respect to their divergence in interpretation, understanding and meaning with respect to sections of the PA.

18. Both MOHLTC and Ornge should discuss and document the treatment of surplus funds on a quarterly basis. However, both parties have an understanding and the current practice is that any surplus is utilized in a manner in keeping with the goal of improving service delivery.

19. In situations where currency risk is significant, Ornge should ensure their exposure to foreign currency fluctuations is mitigated.

20. Notwithstanding that the risk management process is effective we would recommend that an organization wide risk re-assessment be performed. The initial organization risk assessment was conducted in January 2006. Since Ornge’s operating environment is continuously changing internally and externally, this assessment should be updated on an ongoing basis.

21. Both parties should commit to a process of continuous improvement and develop an effective formal communication plan that will more fully address the needs of both parties in the fulfillment of their mandate. We suggest the parties decide on a set agenda that will address the needs of both parties in the fulfillment of their mandate under the PA.

22. To ensure accurate and timely delivery of information, the stakeholder communication plan should include at a minimum the following (list represents suggestions based on interview discussions):
   - The In-Year reports should be provided to MOHLTC on a timely basis to allow the MOHLTC to review and prepare comments and questions;
   - Ornge and MOHLTC representatives should meet on a quarterly basis, coinciding with the quarterly In-Year reporting deadlines;
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- Each meeting should include the ‘right’ individuals at each organization to ensure an open and transparent line of communication among those with oversight responsibility;
- Each meeting should be evidenced with minutes to ensure documentary evidence exists of the formal communications held between the two;
- The minutes should be approved by both parties to avoid subsequent confusion regarding what issues were discussed and action items decided;
- The action items developed at each meeting should be addressed and concluded at the following meeting;
- MOHLTC should be prepared to arrive at the meeting with all of their questions regarding the In-Year results, and Ornge should be prepared to respond;
- Within the communication plan, specific deliverables should be decided and agreed upon by both parties regarding the level of detail of variance analysis required with respect to the In-Year reports, as well as a breakdown of the unspent funds and specific reasons for deferring revenue or internally restricting funds;
- Plans for unspent funds, if any, should be discussed.

23. Any correspondence outside of the face to face meetings that is not documented should be kept informal and all significant decisions should be reserved for formal documented meetings. Therefore, any major decisions to be made outside of the scheduled periodic meetings should be organized and discussed separately at a formal meeting. This would ensure all significant decisions are documented and captured.

24. All committees and the Board should include a statement within their terms of reference that an annual performance evaluation will be performed.

25. Ornge should consider introducing a Whistleblower Policy.

26. In order to comply with TPAD, MOHLTC should follow through on the recommendations put forward in this report. For example:
   - MOHLTC should discuss and document in agreement with Ornge administrative requirements that will improve the timely flow of information, and if/where necessary agree upon updates to contractual arrangements that are relevant to the provision of air ambulance services.
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- MOHLTC and ORNGE should have a formal quarterly reporting framework.
- MOHLTC and ORNGE should discuss the status and plans of any surplus funds balance on a quarterly basis.
- MOHLTC should clarify all reporting requirements with ORNGE.
- MOHLTC should have a monitoring plan for all provisions of the PA with ORNGE.
- MOHLTC should follow-up with findings such as:
  - Submission of Q4 In-Year Reports and more comprehensive detailed explanations on all In-Year reports.
  - Development and submission of the balanced scorecard.
  - Submission of the 2010 fiscal year budget.
September 10, 2010

Appendix B: Organization Chart
CURRENT CORPORATE STRUCTURE OF ORNGE

Directors

Ornge (charitable organization)
Operates Core Business

Ornge Foundation (charity)
Fundraising

Orngeco (not-for-profit)

J Smarts (not-for-profit)
Risk Management and Health Promotion

Ornge PEEL Ltd. (for-profit)
Management Services

4384865 Canada Inc. (Currently Inactive Company)

Notes:
1. Directors of Ornge and Orngeco are the same.
5. Incorporated as Jumpsmart on June 11, 2007 and name was changed to J Smarts on October 9, 2007 by Supplementary Letters Patent. Ornge is the sole member of J Smarts. The board of directors is separate from Ornge with some overlap. J Smarts applied for charitable status August 29, 2008.
6. Incorporated on October 18, 2006 under the Canada Business Corporations Act as 1713892 Ontario Inc. Name of corporation was changed to Ornge PEEL Ltd. on October 2, 2007. Orngeco is the sole shareholder. Board of directors is comprised of a subset of Ornge directors.
7. Incorporated 4384865 Canada Inc. on September 17, 2007 under the Canada Business Corporations Act. Orngeco is the sole shareholder. Board of directors is comprised of a subset of Ornge directors.
September 10, 2010

Appendix C: Ornge Responses to Recommendations
<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
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<tr>
<td>1.</td>
<td>The recommendation relates to a process involved to Orange.</td>
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<tr>
<td>2.</td>
<td>Meaningful and effective.</td>
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<tr>
<td>3.</td>
<td>Orange should provide their operating budget by July 1st in order for the budgeting process to be meaningful and effective.</td>
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<tr>
<td>4.</td>
<td>The organizations must discuss and document MOHTC's oversight.</td>
</tr>
<tr>
<td>5.</td>
<td>Orange should submit a 4% Quarter in Year report.</td>
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<tr>
<td>6.</td>
<td>Controls including ITC are documented and updated annually.</td>
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<tr>
<td>7.</td>
<td>The MOHTC and Orange should discuss and document whether Orange's coordinator and internal controls are effective.</td>
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July 16, 2010
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<th>Ministry Response</th>
<th>MNP Recommendation Regardin IORGE</th>
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<tr>
<td>8.4</td>
<td>A more risk based evaluation of IORGE should be performed and</td>
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<td>any identified key controls should be tested.</td>
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<td>9</td>
<td>Orange should ensure that IORGE is tested at least annually.</td>
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<td>10.1</td>
<td>Non-financial information, specific to the financial statements of</td>
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<td>Orange, once internal control testing has been completed, to align</td>
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<td>with best practices in internal control and financial reporting.</td>
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<td>11.1</td>
<td>Controllers are assessed and deemed qualified to discuss and</td>
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<td></td>
<td>document the most appropriate financial statements on the financial</td>
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<td></td>
<td>statements. MOHLC and Orange should now report these in the</td>
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<td>consolidated financial statements.</td>
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<td>The recommendations relate to a process internal to Orange.</td>
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<td>Information is extracted from SYP and so can be used within the</td>
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<td>IORGE. Year ends. MOHLC and Orange should discuss and document the</td>
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<td>13</td>
<td>Threshold on the 10% cut-off requirement and set a mutually</td>
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<td>acceptable Schedule F, Key Performance Indicators, of the Performance</td>
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<tr>
<td></td>
<td>Schedule.</td>
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</table>
August 27, 2010

David Schell
Health Audit Service Team, Ontario Internal Audit Division
5700 Yonge Street, 2nd Floor
Toronto, ON M2M 4K5

Dear Mr. Schell,

In June of 2010, a report on the activities of Ornge was formally submitted to the Ministry of Health and Long Term Care following an engagement and review of certain aspects of our operation by Meyers Norris Penny (LFP). The review covered a period between 2005 and 2008, with an emphasis on fiscal year 2007/2008 and a focus on organizational effectiveness in connection with the delivery of air ambulance services in the province of Ontario. The Performance Agreement (PA), which establishes the contractual relationship between Ornge and the government of Ontario, framed the review.

The review concluded that overall Ornge is using provincial Grant Funding economically, efficiently and for the purposes intended in providing air ambulance and related services for the Province. This finding is a reflection of our commitment and success as the operators of one of the largest and most sophisticated transport medicine programs in North America. Ornge is proud of our leadership and approach to the delivery of transport medicine.

The review puts forward recommendations, primarily administrative in nature and none of which impact or relate directly to the delivery of transport medicine to Ontario's patients. The recommendations are reflective of an emerging relationship between a new organization responsible for the provision of services and the Ministry of Health and Long Term Care. Many of the recommendations have been addressed by new processes or have been discussed and implemented in concert with the Ministry. Our response to those recommendations is enclosed.

As Ornge moves forward, we want assure Ontarians that we are operating in a manner that is consistent with their values and expectations of our role within the health system, while being respectful of their investment. This review confirmed our commitment and our accomplishments. As our organization evolves, our priority is to continue to narrow an increasing gap between the demand for service and our ability to provide the care that all Ontarians have come to expect and rely upon from Ornge.

Should you have any questions regarding the enclosed, please contact Lisa Kirbie, Director of Regulatory Affairs and Government Relations at 647-428-2057.

Regards,

[Signature]
President and CEO
SUMMARY OF RECOMMENDATIONS AND REPSONSE
MEYERS NORRIS PENNY REVIEW – APRIL 2010

RECOMMENDATION 1:
The Organizations must discuss and document MOHLTC's concerns regarding Ornge's corporate structure and enter into agreed upon revisions to their contractual relationship, if any, that are required to give the MOHLTC more comfort regarding Ornge's corporate structure and its impact on the delivery of Air Ambulance services in the province of Ontario.

RESPONSE:
Ornge is a non-share capital corporation engaged primarily in the business of providing medical air transport services (Core Business) on a not-for-profit basis for the Province of Ontario under a long-term contract to the Ministry of Health and Long-Term Care (MOHLTC). It is also a registered charitable organization.

Ornge is independently governed by a Board of Directors that has full powers of management oversight. Ornge operates at arms' length from the Government of Ontario which is its principal customer and stakeholder. The corporation is governed and operated strictly subject to and in accordance with applicable law and regulation, as well as the corporate objects set out in its Letters Patent.

While the Performance Agreement (PA) clearly sets general standards for the delivery of the Core Business, Ornge is generally free of restrictions in structuring its organization and approach to fulfilling the PA as it, in its business judgment, deems most appropriate from the perspective of efficiency of resources, reliability of service and quality of care. The Board oversees the management of Ornge in relation to all of these matters.

Ornge makes a practice of advising the MOHLTC of changes, if any, in its organization or structure that might impact in any material way on the Core Business or the fulfillment of its obligations under the PA.

MOHLTC, both directly and through counsel designated by the Ministry of the Attorney-General, has been fully informed and advised as to the current Ornge structure and organization.

Ornge remains pleased to respond to any further questions or concerns of MOHLTC. Ornge believes that its current structure is fully in conformity with the PA and, indeed, that the strategic and public welfare/safety interests of MOHLTC in relation to the Core Business have been strengthened by the organizational and structural changes recently implemented by management and approved by the Board.
RECOMMENDATION 2:
To ensure the annual budget is prepared on a timely basis, the approval and discussion process between MOHLTC and Ornge should be based on defined milestones in light of the government's business planning process and results based planning cycle, in order for the budgeting process to be meaningful and effective.

RESPONSE:
Effective fall of 2008, Ornge has been integrated into the results-based planning process and submits required documentation within established timelines.

RECOMMENDATION 3:
Ornge should provide their operating budget by July 1st in accordance with the PA.

RESPONSE:
Effective fiscal 2009/2010, a formal presentation of Ornge's budget has been provided to the MOHLTC within an agreed timeline. However, to have a comprehensive discussion regarding Ornge's operational budget, Grant Funding allocations for the current Fiscal Year need be confirmed. In cases where Provincial Grant Funding has not been allocated before July 1st, both parties agree a presentation is not practical by the noted date and an alternate date will be selected.

RECOMMENDATION 4:
Ornge should provide more comprehensive and detailed variance explanations in their In-Year reports to MOHLTC.

RESPONSE:
Effective fall 2008, Ornge standardized reporting to ensure the MOHLTC is provided with all required information.

RECOMMENDATION 5:
The MOHLTC and Ornge should discuss and document whether a fourth quarter In-Year report should be prepared by Ornge and submitted to MOHLTC for their review.

RESPONSE:
Effective Fiscal Year 2008/2009, Ornge and the MOHLTC arranged to annually submit a Fourth Quarter report by July 1st.

RECOMMENDATION 6:
Ornge should proceed with their plan to ensure their entity level controls including ITGC are documented and updated annually.

RESPONSE:
In 2009, a SAP security redesign and change management project was completed. Changes to SAP security are properly documented and approved on an ongoing basis. Overall, ITGC is currently in the process of evaluation. ITGC are expected to be documented and included in entity level controls by the end of Fiscal Year 2010/2011.
RECOMMENDATION 7:
Apply a top-down risk based approach considering the concept of materiality to determine which financial reporting risks are considered in-scope for purposes of evaluating the ICFR, after giving effect to compensating controls at the entity level.

RESPONSE:
The ICFR is reviewed on an annual basis, unless a circumstance occurs where it is prudent to do an evaluation mid-year. A top-down, risk-based approach is applied and consideration is given to compensating controls.

RECOMMENDATION 8:
A more risk based evaluation of ICFR should be performed and only identified key controls should be tested.

RESPONSE:
During our annual review of ICFR, specific attention will be paid to differentiate between key and secondary controls. Only key controls will be tested.

RECOMMENDATION 9:
Ornge should ensure that ICFR are tested at least annually. Significant deficiencies identified (if any) should be reported to senior management and the Board and remediated in a timely fashion.

RESPONSE:
Only key controls will be tested. Control testing will be performed on an annual basis. A report outlining testing results will be prepared and presented to Senior Management and the Board.

RECOMMENDATION 10:
Notwithstanding the contents of “management's responsibility for financial information” attached to the financial statements of Ornge, once internal control testing has been completed; to align with best practices an internal control certification should be completed by senior management, which certifies the effectiveness of the ICFR. Similar certifications are required for Canadian public reporting issuers through the Canadian Securities Administrators’ National Instrument 52-109.

RESPONSE:
Ornge has a control environment that is effective and exceeds organizational needs and requirements. The cost associated with completing an internal control certification is neither necessary nor required and is not aligned with the economical and efficient allocation of Grant Funding.
RECOMMENDATION 11:
MOHLTC and Ornge should discuss and document the most efficient and effective way to ensure annual financial statements are reported in the appropriate format based on the Provincial Controller’s assessment.

RESPONSE:
Annual financial statements are fully consolidated with all entities and are in accordance with Canadian GAAP. Financial statements are submitted based upon the timelines in the PA, which is by July 1st. Any additional requirements are discussed with the MOHLTC and mutually agreeable dates are set based on those discussions. Ornge continues to focus on delivering quality statements that reflect the needs of all of our stakeholders, one of which is the MOHLTC. Our financial statements are based on the requirements of the Canadian Institute of Chartered Accountants.

RECOMMENDATION 12:
There should be a formal documented process on how information is extracted from SAP and accumulated within the In-Year reports.

RESPONSE:
This process has been documented effective fall of 2008.

RECOMMENDATION 13:
MOHLTC and Ornge should discuss and document their position on the 10 / 20 call requirement and set a mutually acceptable threshold.

RESPONSE:
Both the MOHLTC and Ornge acknowledge that a 100% requirement is neither reasonable nor achievable – and that the number was placed as a target. The Ministry and Ornge will establish a reasonable deviation from this target.

RECOMMENDATION 14:
In-Year reports should include financial information from all entities within the Ornge group.

RESPONSE:
In-Year reports reflect the results of all Ornge controlled entities and are, as specified, in the CICA handbook under section 4450 as to which entities should or should not be controlled. We believe that the presentation accurately depicts the financial results of the organization.

RECOMMENDATION 15:
Management should ensure that all transactions are recorded directly in each entity's books and records.

RESPONSE:
Management ensures that transactions for all entities are entered directly into SAP.
RECOMMENDATION 16:
Ornge must take the necessary steps to rectify the above administrative non-compliance items and/or mutually agree with the MOHLTC to discuss and document changes to the requirements.

RESPONSE:
Ornge has never been notified by the MOHLTC of any incident of administrative non-compliance with respect to the PA. However, all noted administrative non-compliance issues identified by MNP have been resolved in a manner that would be satisfactory under the Agreement with the exception of Schedule J 1.2 (a) and K 2 (a) which is the subject of Recommendation 3 and Schedule F 2 (c i-ii), which is the subject of Recommendation 13.

RECOMMENDATION 17:
MOHLTC and Ornge must discuss and document the gap, if any, with respect to their divergence in interpretation, understanding and meaning with respect to sections of the PA.

RESPONSE:
Ornge has established a number of processes to strengthen its communication with the MOHLTC. Quarterly meetings are held between Ornge and the Emergency Health Services Branch of the MOHLTC during which the parties can discuss their respective obligation under the terms of the PA and address any issues that they may have in that regard. Ornge engages its legal counsel to address any contentious issues that arise in order to ensure appropriate communications and documentation exist.

RECOMMENDATION 18:
Both MOHLTC and Ornge should discuss and document the treatment of surplus funds on a quarterly basis. However, both parties have an understanding and the current practice is that any surplus is utilized in a manner in keeping with the goal of improving service delivery.

RESPONSE:
Any surplus funds are internally restricted and articulated in our Financial Statements. This has been discussed with the MOHLTC on an annual basis.

RECOMMENDATION 19:
In situations where currency risk is significant, Ornge should ensure their exposure to foreign currency fluctuations is mitigated.

RESPONSE:
Ornge has adopted policies to manage foreign currency risk and continues to vigilantly manage all foreign currency risk exposure.
RECOMMENDATION 20:
Notwithstanding that the risk management process is effective we would recommend that an organization-wide risk re-assessment be performed. The initial organization risk assessment was conducted in January 2006. Since Ornge’s operating environment is continuously changing internally and externally, this assessment should be updated on an ongoing basis.

RESPONSE:
An enterprise-wide risk reassessment was performed in 2009. A new Ornge risk framework was developed with corresponding heat maps based on an Ornge risk ranking methodology. The risk framework and heat maps are updated semi-annually and will evolve with Ornge’s dynamic operating environment.

RECOMMENDATION 21:
Both parties should commit to a process of continuous improvement and develop an effective formal communication plan that will more fully address the needs of both parties in the fulfillment of their mandate. We suggest the parties develop a set agenda that will address the needs of both parties in the fulfillment of their mandate under the PA.

RECOMMENDATION 22:
To ensure accurate and timely delivery of information, the stakeholder communication plan should include at a minimum the following (list represents suggestions based on interview discussions):

- The In-Year reports should be provided to MOHLTC on a timely basis to allow the MOHLTC to review and prepare comments and questions;
- Ornge and MOHLTC representatives should meet on a quarterly basis, coinciding with the quarterly In-Year reporting deadlines;
- Each meeting should include the ‘right’ individuals at each organization to ensure an open and transparent line of communication among those with oversight responsibility;
- Each meeting should be evidenced with minutes to ensure documentary evidence exists of the formal communications held between the two;
- The minutes should be approved by both parties to avoid subsequent confusion regarding what issues were discussed and action items decided;
- The action items developed at each meeting should be addressed and concluded at the following meeting;
- MOHLTC should be prepared to arrive at the meeting with all of their questions regarding the In-Year results, and Ornge should be prepared to respond;
- Within the communication plan, specific deliverables should be decided and agreed upon by both parties regarding the level of detail of variance analysis required with respect to the In-Year reports, as well as a breakdown of the unspent funds and specific reasons for deferring revenue or internally restricting funds;
- Plans for unspent funds, if any, should be discussed.
RESPONSE:
Ornge has established a number of processes to strengthen its communication with the MOHLTC. In addition to the quarterly meetings, Ornge communicates directly with senior staff within the EHSB on significant and urgent matters and, where appropriate, reach consensus as to how such matters will be handled. As well, Ornge has established dedicated resources responsible for maintaining regular contact with the EHSB to provide appropriate updates on operations or to facilitate information requests from the Branch. (Refer as well to Recommendations 17 and 18).

RECOMMENDATION 23:
Any correspondence outside of the face to face meetings that is not documented should be kept informal and all significant decisions should be reserved for formal documented meetings. Therefore, any major decisions to be made outside of the scheduled periodic meetings should be organized and discussed separately at a formal meeting. This would ensure all significant decisions are documented and captured.

RESPONSE:
Ornge meets with the MOHLTC on a Quarterly basis, and all major decisions are discussed and documented through this process.

RECOMMENDATION 24:
All committees and the Board should include a statement within their terms of reference that an annual performance evaluation will be performed.

RESPONSE:
The Board exercises its stewardship over the organization through strategic guidance, oversight of resources and progress toward goals. The Board annually reviews its Terms of Reference and the performance of its Committees and members.

RECOMMENDATION 25:
Ornge should consider introducing a Whistleblower Policy.

RESPONSE:
Ornge is currently considering adopting a Whistleblower Policy.

RECOMMENDATION 26:
In order to comply with TPAD, MOHLTC should follow through on the recommendations put forward in this report. For example:
- MOHLTC should discuss and document in agreement with Ornge administrative requirements that will improve the timely flow of information, and if/where necessary agree upon updates to contractual arrangements that are relevant to the provision of air ambulance services.
- MOHLTC and Ornge should have a formal quarterly reporting framework.
- MOHLTC and Ornge should discuss the status and plans of any surplus funds balance on a quarterly basis.
- MOHLTC should clarify all reporting requirements with Ornge.
- MOHLTC should have a monitoring plan for all provisions of the PA with Ornge.
- MOHLTC should follow-up with findings such as:
  - Submission of Q4 In-Year Reports and more comprehensive detailed explanations on all In-Year reports.
  - Development and submission of the balanced scorecard.
  - Submission of the 2010 fiscal year budget.

RESPONSE:
This recommendation applies solely to the MOHLTC.
September 10, 2010

Appendix D: MOHLTC Responses to Recommendations