Legislative Assembly of Ontario

Assemblée législative de l'Ontario

Legislative Research
Information and Technology Services Division
Room 2520, Whitney Block
Queen's Park
Toronto, Ontario M7A 1A9
Telephone: (416) 325-3675

Recherche législative
Division des services de l'information et de la technologie
Bureau 2520, Edifice Whitney
Queen's Park
Toronto (Ontario) M7A 1A9
Téléphone: (416) 325-3675

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COVID-19 ECONOMIC RESPONSE AND SUPPORTS FOR BUSINESSES (2021 ANNUAL REPORT OF THE AUDITOR GENERAL OF ONTARIO) BACKGROUND MATERIAL FOR HEARINGS *

Prepared for:

Standing Committee on Public Accounts

Prepared by:

Dmitry Granovsky
Research Officer
Legislative Research

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CONTENTS

Preamble

This research package has been prepared by the Legislative Research office with input from the Office of the Auditor General (the Auditor). It provides a brief summary of the audit report, and relevant documents, for the Committee's hearings on the "Value-for-Money Audit: COVID-19 Economic Response and Supports for Businesses" (*2021 Annual Report of the Auditor General of Ontario*). Possible questions for Members to ask during the hearings are proposed below.

The following summary treats the audit as the authoritative source of information about the audit findings and related issues.

Note: Please refer to the audit itself (see Appendix item 1) when quoting the Auditor during hearings rather than to the Auditor's PowerPoint briefing as this is a confidential Committee document.

Background

The COVID-19 pandemic had a significant impact on Ontario's economic landscape, impacting businesses, the labour market, and the province's fiscal position.

Businesses experienced a decline in revenues and changes in operations brought on by public health restrictions. The impact of the pandemic and the associated restrictions varied across the different sectors of Ontario's economy. Almost 90 percent of businesses in the accommodation and food services sector saw a decline in revenues in 2020 compared to 2019. Over 70 percent of businesses in the transportation sector and the arts, entertainment and recreation sector saw revenues decline over the same time horizon. Other sectors experienced a lesser impact on revenue for various reasons (e.g., sector declared as essential, sector-specific price changes, seasonality).

In order to comply with public health restrictions, many businesses required an adjustment to their operations, with online sales becoming an important means of revenue generation. Statistics Canada reports that e-commerce (online) sales almost doubled between February 2020 and January 2021 across Canada. The Ontario labour market was also impacted, with the unemployment rate reaching 13.5 percent in May 2020. The economic impact was also evident in Ontario's fiscal standing, with deficits of $20.5 billion and $33.1 billion announced for the 2020-21 and 2021-22 fiscal years, respectively.[1]

Provincial supports for businesses

The province started approving funding for COVID-19 related initiatives in March 2020, with programs targeting individuals, businesses, and various public sectors. The Auditor noted that the majority of the supports targeted for

[1] Auditor General of Ontario (AG), "Value-for-Money Audit: COVID-19 Economic Response and Supports for Businesses," *2021 Annual* Report, pp. 6-10, 13.

businesses were programs delivered in the 2020-21 fiscal year, and that continue to be delivered in the 2020-22 fiscal year.[2]

As of August 31, 2021, the province approved $4.528 billion in funding for the five programs that were the focus of the audit. The Property Tax and Energy Cost Rebates program was designed and delivered by the Ministry of Finance (MOF) and the Ministry of Energy (MOE). The Ontario Small Business Support Grant was designed by MOF and delivered by the Ministry of Economic Development, Job Creation and Trade (MEDJCT). The 2020 Digital Main Street – Digital Transformation Grant was designed by the MEDJCT and delivered by the Ontario Business Improvement Area Association, a third party. The other programs and initiatives were designed and delivered by the MEDJCT. The Ministry of Government and Consumer Services (MGCS) managed the online application portal for all programs except for the 2020 Digital Main Street – Digital Transformation Grant.[3]

Ontario Small Business Support Grant

The objective of the grant was to provide financial relief to small businesses (100 employees or less at the enterprise level) whose revenues declined by 20 percent or more in April 2020 compared with April 2019 as a result of public health restrictions. The relief package consisted of two payments of $10,000 - $20,000, each depending on the amount of revenue decline reported. Over 200,000 businesses applied for the program, and almost $3 billion had been paid to recipients. Due to the program's scale and speed of delivery, the province hired an external consulting firm to assist with reviewing applications. The program, including the eligibility criteria, was designed by the MOF. The review of applications and payment approval was administered by the MEDJCT.[4]

Property Tax and Energy Cost Rebate

The purpose of the rebates was to reimburse businesses for their property tax and energy bills for the periods of time they were required to reduce operations or close due to public health restrictions. The rebate applied to 100 percent of reported property tax and energy bills. The program ended on July 30, 2021, at which time over $340 million had been paid to around 31,000 businesses. The MOF designed the program, reviewed applications and approved payments for the property tax rebates. The MOE reviewed applications and approved payments for the energy cost rebates.[5]

Ontario Together Fund

The objective of the program was to provide funding to businesses to manufacture personal protective equipment (PPE) and other goods and equipment; and provide technical solutions to increase domestic capacity to

[2] AG, pp. 11-12.
[3] AG, pp. 69-71.
[4] AG, pp. 18, 69.
[5] AG, pp. 26, 69.

support the province's COVID-19 emergency response and help prepare for future pandemics. The program funded up to 75 percent of eligible project costs, with a maximum of $2.5 million for businesses, and a maximum of $500,000 for municipalities. Eligible projects included investment in equipment and workspace retooling for the production of ventilators, masks and sanitization products. As of July 31, 2021, the MEDJCT had awarded contracts worth a total of $55.3 million to 54 businesses. The program was designed and delivered by the MEDJCT, and will end on March 31, 2022.[6]

PPE Rebates (Main Street Relief Grant)

The program was designed to provide funding of up to $1,000 to small businesses for required PPE as a result of COVID-19. Eligible equipment could include masks, gloves, sanitizer, thermometers, plexiglass dividers and signage. The program concluded on March 31, 2021. Almost 14,000 applications (or 80%) were approved, with applicants receiving a total of $11.6 million in funding. The MEDJCT designed and delivered the program.[7]

2020 Digital Main Street – Digital Transformation Grant

The grant is part of a larger program funded through a partnership between the MEDJCT and the Economic Development Agency for Southern Ontario (FedDev), and provides up to $2,500 to eligible businesses to adopt or improve digital tools and technologies. As of June 2021, $2.74 million had been paid to businesses. The grant is delivered by the Ontario Business Improvement Area Association, a third-party partner.[8]

2021 Audit Objective and Scope

The objective of the audit was to "assess whether the Province of Ontario used effective and efficient internal controls, systems and procedures to make informed and co-ordinated decisions for the

- design and delivery of cost-effective programs to achieve outcomes to support Ontario's economy during the COVID-19 pandemic;
- design and delivery of cost-effective programs intended to achieve outcomes to help Ontario's economy recover after the COVID-19 pandemic;
- management of COVID-19 expenditures related to economic support and recovery so that supports are provided to eligible recipients only and in a timely manner; and
- monitoring and reporting, internally and publicly, of spending against public commitments, approved amounts, distributed amounts, and the effectiveness of economic support and recovery programs."[9]

[6] AG, pp. 28, 70.
[7] AG, pp. 33, 70.
[8] AG, pp. 34, 71.
[9] AG, p. 14.

The audit focused on the design and delivery of the five programs outlined above, as well as the province's monitoring and results of the COVID-19 initiatives.

Audit Conclusions

The Auditor found that, "on the whole, the ministries did not design effective and efficient systems and procedures to deliver cost-effective programs to only eligible recipients to support Ontario's economy during the COVID-19 pandemic."[10]

In particular, the Auditor noted that:

- the province had not established any short-term or long-term objectives for the economic support programs for businesses;
- ministries did not establish outcome-based measures for evaluating program success;
- eligibility controls for some programs were missing, poorly designed, or not applied, resulting in payments made to suspicious or ineligible applicants; and
- individual program spending was not properly tracked and consolidated as COVID-19 economic support spending at the ministry level.[11]

As for the hiring of the consulting firm that assisted with reviewing applications for the Ontario Small Business Support Grant, the Auditor reported that the contract and payments to the firm followed the appropriate protocols for procuring such services.[12]

Main Points of 2021 Audit

The following provides a high-level overview of the Auditor's major findings along with possible questions for Committee Members to ask during the hearings. For more details about the audit findings and recommendations, please consult the full audit report (references to the report are provided in footnotes for Members' convenience).

Ontario Small Business Support Grant

[Recommendation 1]

The Auditor reported:

- some affected small businesses were ineligible for supports due to eligibility criteria design;

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[10] AG, p. 5.
[11] AG, pp. 2-3.
[12] AG, p. 18.

- grant amounts not proportionate to lost revenue, with almost half of grant recipients receiving an amount in excess of their reported revenue loss;
- over $200 million paid to ineligible recipients, with the debt written off as uncollectible;
- a lack of program controls to identify ineligible recipients; and
- that businesses lacked clarity on the program's purpose and application requirements.[13]

Possible Questions:

1. What lessons have been learned by the Ministry of Finance from the design and delivery of the Ontario Small Business Support Grant? Have the lessons been shared with the Ontario Jobs and Recovery Committee to inform the design of future business support programs?
2. Has there been an attempt by the Ministry of Economic Development, Job Creation and Trade to collect the amounts paid to ineligible businesses?

Property Tax and Energy Cost Rebates

[Recommendation 2]

The Auditor reported:

- only 38 percent of the approved funding was paid out, mainly due to an overestimation of application volumes by the Ministry of Finance; and
- over $16 million was paid to over 3,000 ineligible applicants due to insufficient screening controls, including a system error of $500,000 to some Property Tax Rebate recipients, with only 5.3 percent of funds recovered[14]

Possible Questions:

3. Has the application demand forecasting model been reviewed following the overestimation of the application volume for the Property Tax and Energy Cost Rebates?
4. Have steps been taken to ensure that adequate screening controls are incorporated into future tax rebate programs?
5. Has the Ministry of Finance made progress on recovering funds paid to ineligible recipients and/or due to a system error?

Ontario Together Fund

[Recommendations 3-6]

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[13] AG, pp. 18-25.
[14] AG, pp. 26-28.

The Auditor reported:

- insufficient monitoring of projects by the Ministry of Economic Development, Job Creation and Trade, with required interim reports completed for only 15 of the 25 funded projects in a sample reviewed by the audit team;
- inadequate validation of information reported by funding recipients in interim reports;
- over $1 million paid to a business that went bankrupt;
- project delays in 15 of the 54 funded projects, mainly due to logistical challenges; and
- two undeclared cases of perceived conflict of interest.[15]

Possible Questions:

6. Has the Ministry of Economic Development, Job Creation and Trade been validating information reported by funding recipients in interim reports?
7. Has the assessment criteria been amended to require additional financial information from applicants that are deemed as high financial risk?
8. Do recent contracts with funding recipients include provisions to recover funds in case a project cannot be completed?
9. Has the Ministry of Economic Development, Job Creation and Trade taken steps to identify and address any actual, potential or perceived conflict of interest? Has the importance of declaring a conflict of interest been sufficiently emphasized in the application process?

Personal Protective Equipment Rebates (Main Street Relief Grant)

The Auditor reported:

- no rationale was provided for the $1,000 maximum grant amount; and
- a low application uptake, with only $11.6 million of the budgeted $65 million spent by the end of the program.[16]

Digital Main Street – Digital Transformation Grant

The Auditor reported:

- effective program delivery through leverage of existing structures, as a variation of the program has been in existence since 2016; and

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[15] AG, pp. 28-33.
[16] AG, pp. 33-34.

- funding recipients being successful in establishing an online store or improving their digital presence.[17]

Monitoring and Results of COVID-19 Initiatives

[Recommendations 7-8]

The Auditor reported:

- a lack of COVID-19 related expenditure tracking and monitoring by the Treasury Board Secretariat, specifically the amounts authorized for spending, as well as the actual amounts spent;
- an inability to assess program success due to ineffective performance measures; and
- insufficient public information about program results.[18]

Possible Questions:

10. Has the Treasury Board Secretariat compiled COVID-19 program expenditure data from provincial ministries? Do the amounts spent match the amounts authorized for spending?
11. Does the Treasury Board Secretariat require ministries to develop clear, measurable short and long-term objectives for economic support and recovery initiatives for businesses?
12. Does the Treasury Board Secretariat publicly report on the results of the programs and initiatives aimed to financially support businesses? What is the latest available report?

APPENDIX

1. Auditor General of Ontario, COVID-19 Economic Response and Supports for Businesses – a Value-for-Money Audit in the *2021 Annual Report* of the Auditor General of Ontario
2. Auditor's News Release
3. Auditor's Summary of Report (One-pager).

[17] AG, pp. 34-45.
[18] AG, pp. 35-38.