MINISTRY OF COMMUNITY AND SOCIAL SERVICES

3.04–Support to Community Living Programs

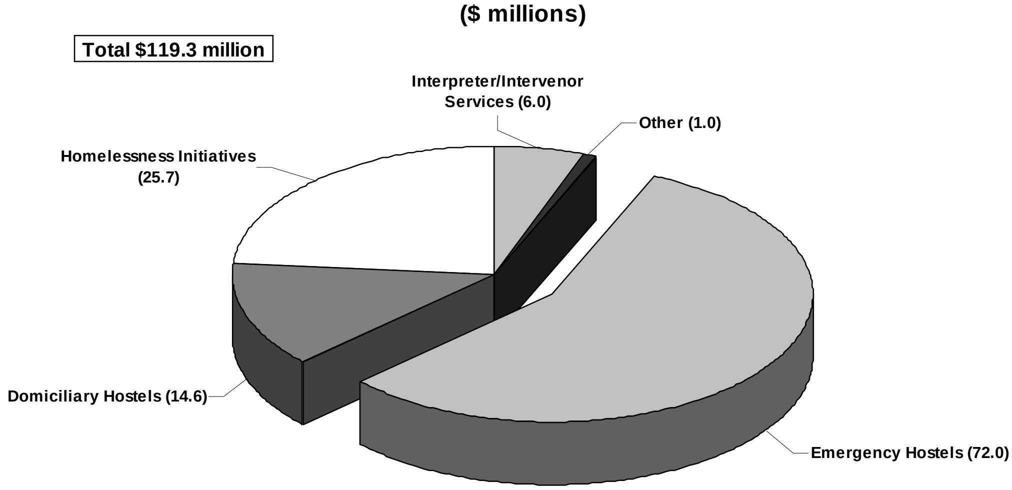
BACKGROUND

Under provisions of the *Ministry of Community and Social Services Act* and the *Child and Family Services Act*, this Ministry provides funding for a wide range of community-based support services and prevention strategies for adults and children who are disadvantaged or living in poverty. The main objectives of these services are to assist such vulnerable individuals to live as independently as possible in their communities and to reduce the need for more intrusive and costly institutional care.

Under provisions of the *Ontario Works Act*, the Ministry also provides funding for the Emergency Hostel program, which provides temporary accommodation for the homeless.

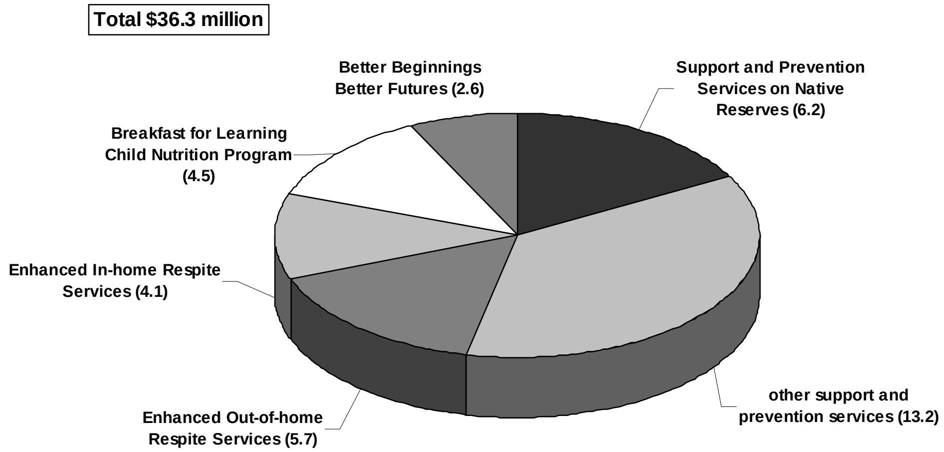
For the 2000/01 fiscal year, Ministry expenditures for Support to Community Living programs totalled $155.6 million as follows.

Adult Services and Emergency Hostels, 2000/01
($ millions)



Source of data: Ministry of Community and Social Services

Children's Services, 2000/01
($ millions)



Source of data: Ministry of Community and Social Services

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry’s administrative policies and procedures for Support to Community Living programs were adequate to ensure that:

- transfer payments were reasonable and adequately controlled; and
- services being provided were monitored and assessed to determine whether they were meeting the Ministry’s expectations.

The scope of our audit work included reviews and analyses of relevant ministry files and administrative policies and procedures, as well as interviews with appropriate staff at the Ministry’s head office and three regional offices. We also visited several municipalities and domiciliary and emergency hostels to gain a better understanding of the services being provided and to corroborate information provided to us by the Ministry.

Prior to the commencement of our audit, we identified the audit criteria that we would use to conclude on our audit objectives. These were reviewed with and agreed to by senior ministry management.

We conducted our audit work in the period October 2000 to March 2001, with an emphasis on expenditures during the 1999/2000 and the 2000/01 fiscal years. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We could not rely on the work of the Ministry’s Comprehensive Audit and Investigation Branch to reduce the extent of our work because the Branch had not issued any reports in this area in the past three years.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry's administrative policies and procedures were not adequate to ensure that transfer payments were reasonable and adequately controlled. Our main concerns were:

- The Ministry did not ensure that the per diem amounts it paid for placements in both emergency and domiciliary hostels were based on actual resident occupancies and did not exceed its set share of the costs as per the terms of its cost-sharing agreements with municipalities. As a result, the Ministry often paid more than it should have. For example:
  - Over the past three years, the Ministry paid one municipality $16.5 million more than it was required to pay for emergency hostels. The Ministry recovered overpayments from the first two years and advised us that it was in the process of recovering the overpayments from the third year.
  - For another municipality, the Ministry reimbursed 100% of domiciliary hostel costs incurred rather than the 80% required, which resulted in a $1.8-million overpayment over the past two years. At the conclusion of our audit, we were informed that the Ministry was in the process of recovering this amount.
  - The Ministry paid as much as $76 per person per day to one municipality for emergency hostel care, which significantly exceeded the maximum reimbursable amount of $27.60 per person per day (80% of the maximum allowable per diem rate of $34.50). This amounted to average overpayments totalling $370,000 per year for the past two years. The Ministry was unaware of these overpayments and had not recovered these amounts.
- Funding for other types of services (non per diem) was not based on a critical assessment of funding needs to ensure that the amounts provided were reasonable and commensurate with the level and quality of the services to be provided. For example:
  - From a sample of payments made by the Ministry to municipal service managers for homelessness initiatives, we found that payments were often made late in the year and, in many cases, significantly exceeded the amounts required for that year. For example, following a shift in funding from the fiscal year to the calendar year for one homelessness initiative, we found that six municipalities received 12-month allocations for services to be provided during the last nine months of 2000. We estimate that this resulted in excess funding totalling approximately $730,000—an overpayment the Ministry was not aware of.
  - Funding for interpreter services varied from $57 to $183 per hour without justification or explanation as to the reasonableness of these amounts or this range.
  - Budget submission packages prepared by transfer-payment agencies that offer interpreter/intervenor and children's services generally lacked sufficiently detailed and relevant information for making meaningful funding decisions. The Ministry had in most cases approved agency funding requests for the same or similar amounts to those approved in prior years without reference to changes in the demand for services to be provided.

We also concluded that the Ministry did not monitor and assess the services provided by transfer-payment recipients to ensure that they were meeting its expectations. In fact, the Ministry had not implemented the new governance and accountability framework it had developed for all of its transfer-payment recipients in 1999—a framework based on the mandatory requirements of the 1998 Management Board of Cabinet Directive on Transfer Payment Accountability. Therefore, we found little to no evidence that the Ministry was holding transfer-payment recipients accountable for the prudent use of ministry funds. Requirements of the framework that the Ministry was not complying with included:

- defining measurable program expectations and whenever possible tying funding to the achievement of those expectations;
- monitoring progress against the established program expectations; and
- taking corrective action where performance expectations have not been met.

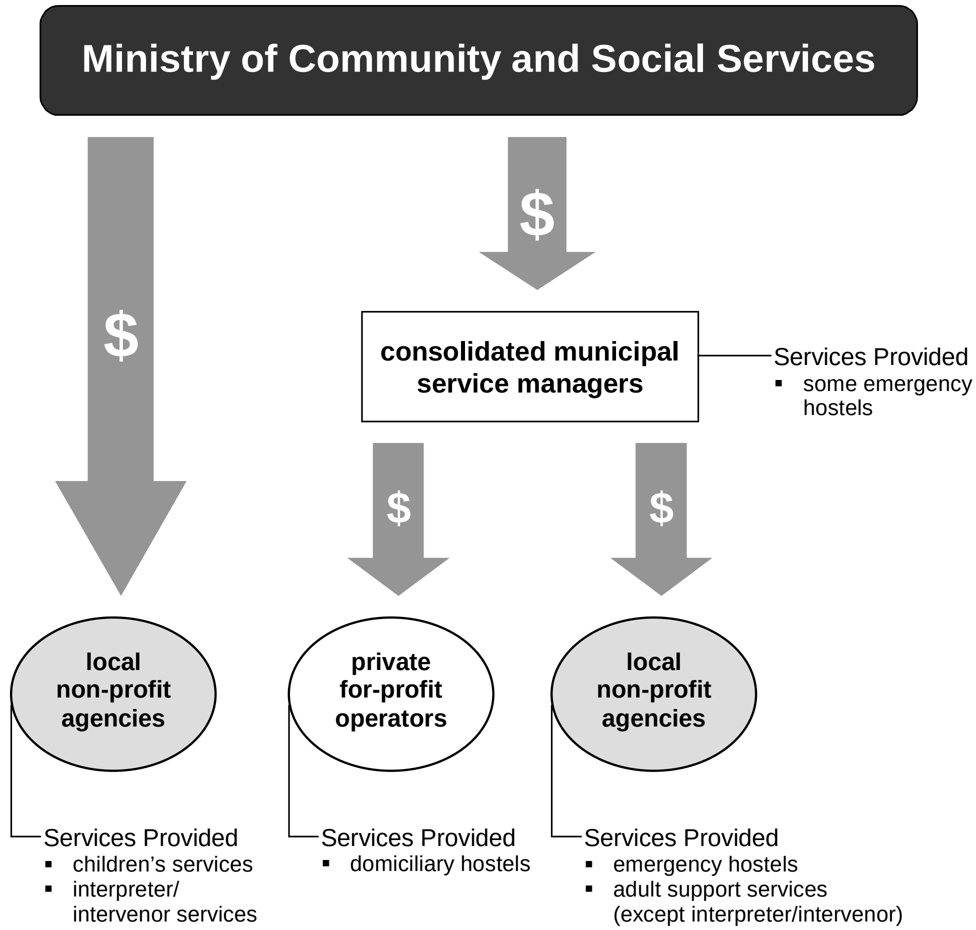
Until such time as the Ministry implements an effective accountability framework for transfer payments, it cannot ensure that services provided by transfer-payment recipients are of an acceptable and reasonably consistent standard across the province, nor that these services represent value for money spent.

In the absence of an effective accountability framework, the Ministry was essentially relying on the governance structures of transfer-payment recipients themselves to ensure cost-effectiveness. However, we found that the Ministry had not established the conditions to justify such a reliance by, for example, setting minimum requirements for financial management and the internal collection and reporting of information, as well as evaluating that these requirements are being met, and taking corrective action where necessary.

DETAILED AUDIT OBSERVATIONS

PROGRAM ADMINISTRATION

The Ministry funds Support to Community Living programs in two distinct ways, as illustrated in the following diagram.



Prepared by the Office of the Provincial Auditor

The Ministry provides funding to consolidated municipal service managers for adult services (except interpreter/intervenor services) and for hostels. A consolidated municipal service manager can be either a designated municipality (in southern Ontario) or a district social services board (in parts of northern Ontario). These consolidated municipal service managers manage and co-ordinate funding and programs in their respective jurisdictions and are accountable to one of the Ministry's nine regional offices for the prudent use of ministry funds.

With the funds provided by the Ministry, consolidated municipal service managers directly operate some of the emergency hostels themselves. For the remaining hostels and for the delivery of other adult services, consolidated municipal service managers contract with local non-profit agencies, or in the case of domiciliary hostels with private, for-profit operators. These service providers report to and are accountable to the consolidated municipal service managers.

The Ministry also provides direct funding to local non-profit agencies that are governed by independent boards of directors for the delivery of most children's services and interpreter/intervenor services. These agencies are directly accountable to the Ministry's regional offices for the funding that they receive, in accordance with the Ministry's traditional funding framework for transfer payments made directly to service providers.

Regardless of whether funding is provided to consolidated municipal service managers or directly to local service providers, the Ministry is ultimately accountable for ensuring these funds are used prudently and for the purposes intended.

PROGRAM FUNDING

The source and extent of funding for services offered under the Support to Community Living programs are generally determined in the following ways, unless otherwise noted in our report.

Source and Extent of Funding for Support to Community Living Programs

Program/Service	Source of Funding	Extent of Funding
Adult Services (except Interpreter/Intervenor and Provincial Homelessness Initiatives Fund)	80% provincial 20% municipal	limited to amounts specified in annual funding agreements
Children's Services, Interpreter/Intervenor Services, and Provincial Homelessness Initiatives Fund	100% provincial	limited to amounts specified in annual funding agreements
Emergency Hostels	80% provincial 20% municipal	not limited to predetermined amounts

Prepared by the Office of the Provincial Auditor

The Ministry shares funding 80:20 with municipalities for some services, but funds the full share of the cost for other services. The amount of funding is usually limited to amounts that are specified in annual funding agreements between the province and consolidated municipal service managers or local, direct service providers as the case may be.

No limits are placed on the number of beds that are funded at the approved per diem rates for the Emergency Hostel program. Payments made for this program are determined by monthly claims submitted by consolidated municipal service managers. These claims are supposed to be based on actual emergency hostel occupancies and approved maximum per diem rates.

Our review of the funding provided under these various arrangements found that it was not adequately controlled. For example, hostel funding was often not based on hostel occupancies or the approved per diem rates as required, while funding for other services was not based on assessed needs. Our specific concerns are noted in the following sections.

Domiciliary Hostels

Domiciliary hostels provide permanent housing (usually in private or semi-private rooms) and custodial care and support to vulnerable people who are economically disadvantaged and who are elderly and/or have significant health problems. In Ontario, there are approximately 280 domiciliary hostels that provide housing to 4,000 individuals each day.

Ministry funding for domiciliary hostels is provided to consolidated municipal service managers under a cost-sharing agreement that limits the amount of funding available each year. Under the agreement, the maximum per diem rate to December 31, 2000 was $34.50 and was increased to $40 after that date. Consolidated municipal service managers in turn contract with private, for-profit operators of domiciliary hostels in their area to deliver services.

Most residents of domiciliary hostels have a limited income, such as Ontario Disability Support Payments or Old Age Security payments, and are expected to contribute to the cost of their care. Income that exceeds the personal-needs allowance, which is currently $112 per month, is paid to the hostel operator by the resident. The difference between the resident's contribution and the maximum reimbursable per diem fee is billed by the hostel operator to the consolidated municipal service manager. The consolidated municipal service manager is in turn entitled to claim 80% of these costs from the Ministry under its annual cost-sharing agreement. In cases where a domiciliary hostel resident has no income, the consolidated municipal service manager can also claim from the Ministry 80% of the cost of providing the personal-needs allowance. The following table illustrates a typical breakdown of how the costs and funding are to be calculated for each type of resident as per provincial-municipal cost-sharing agreements.

Itemization of Costs and Funding for a Month's Placement at a Domiciliary Hostel

		Resident A (with income)	Resident B (no income)
monthly cost of care	$34.50 X 30 days $1,035.00	$1,035.00	$1,035.00
resident A's income – personal-needs allowance = amount paid by resident A to hostel operator	$800 - $112 $688	- $688.00	
resident B's personal-needs allowance	currently $112		+ $112.00
amount billed by operator to municipal service manager		$347.00	$1,147.00
portion of costs claimed by municipal service manager and paid by Ministry	80%	$277.60	$917.60
portion of costs paid by municipal service manager	20%	$69.40	$229.40

Note: Amounts are not based on actual figures—they have been prepared by the Office of the Provincial Auditor for illustrative purposes only.

Two of the three regional offices we visited funded domiciliary hostels, while the third did not. In our review of a sample of monthly payments for domiciliary hostels from these two offices, we noted that payments were generally equal to one-twelfth of the agreed-upon annual funding limit.

They were therefore not based on actual hostel occupancies or the approved, reimbursable, per diem rate as required under the cost-sharing agreement. In fact, the consolidated municipal service managers were not required to submit monthly claims forms or otherwise provide the Ministry with information about actual hostel occupancies or per diem rates paid. As a result, the Ministry could not determine the appropriateness of the amounts that it paid. This lack of information contributed to the following ministry overpayments, which were subsequently identified by consolidated municipal service managers:

- One ministry regional office reimbursed its largest consolidated municipal service manager for 100% of the domiciliary hostel cost it incurred rather than 80% as required. This resulted in an overpayment of $1.8 million over 1998 and 1999. At the conclusion of our audit, we were informed that the Ministry was in the process of recovering this amount.
- Two regional offices automatically provided funding to their consolidated municipal service managers to cover the personal-needs allowance to be provided to domiciliary hostel residents on social assistance. However, in most cases the allowance was secured out of residents' personal incomes and consolidated municipal service managers were therefore not billed by hostel operators for these allowances. This resulted in the two regional offices making overpayments that totalled $1.3 million in 1999 and $540,000 in 2000. At the conclusion of our audit, none of these amounts had been recovered.

We also noted that the Ministry did not have a process in place to periodically verify the appropriateness of the amounts that were claimed and that it paid—a process that might have identified the type of overpayments noted above.

Emergency Hostels

Emergency hostels provide temporary lodging (usually in a dormitory setting), meals, and, where needed, an allowance for personal needs to people who would otherwise be homeless. Although the Ministry could not provide us with information on the number of emergency hostels funded or the number of available beds, we estimated that during the 2000/01 fiscal year, emergency hostels provided approximately 2.1 million overnight placements.

Emergency hostels are operated by either consolidated municipal service managers themselves or, more commonly, by local, non-profit agencies under contract with a consolidated municipal service manager. In both cases, consolidated municipal service managers submit monthly claims to the Ministry for its share of the costs. Under the terms of the cost-sharing agreement between the Ministry and consolidated municipal service managers, the amounts claimed and paid should be based on actual hostel occupancies and should amount to 80% of the hostel costs up to the maximum per diem rate approved by Management Board of Cabinet. The maximum per diem rate to December 31, 2000 was $34.50 per day and was increased to $38.00 per day after that date. Consolidated municipal service managers can also claim 80% of the cost of providing the personal-needs allowance of $112 per month to eligible emergency hostel residents.

In our review of a sample of monthly claims submitted to and paid by the three ministry regional offices we visited, we noted that the claims form only demanded, and therefore only contained, information about the total amounts that were spent and being claimed. The claims form did not call for itemized information to support these totals, such as hostel occupancies and the per diem rates and personal-needs allowances paid—information that is supposed to be the basis of the claim. As a result, the Ministry could not verify the appropriateness of the amounts on the monthly claims it was paying. This lack of information contributed to the following overpayments:

- At one regional office, the monthly claim amounts paid by the Ministry for the past three years were based on actual costs, which significantly exceeded the Ministry's maximum per diem rate of $34.50. For example, amounts claimed and paid for 1998, 1999, and 2000 were based on average per diem rates of $36.73, $39.40, and $43.60 respectively. This resulted in ministry overpayments of $2.4 million, $6.1 million, and $8 million for those years respectively, which represented an average overpayment of approximately 13%. We noted that the first two amounts were recovered after the respective year-ends and that the Ministry was in the process of recovering the third.

  We understand that staff in this regional office were made aware of these overpayments by the consolidated municipal service manager after the end of each year. However, staff informed us they could not avoid similar overpayments during subsequent years, primarily because they felt that the claims form in use did not permit them to do so.

- At another regional office, approximately half of the amounts claimed and paid—about $1.5 million per year in the past two years—were based on block funding provided to service providers and not on actual hostel occupancies or the approved per diem rate as required under the cost-sharing agreement. The amounts reimbursed by the Ministry were as high as $76 per person per day, which significantly exceeded the maximum reimbursable amount of $27.60 (80% of $34.50), and resulted in an average overpayment of approximately $370,000 per year. The Ministry was unaware of these overpayments and had not recovered these amounts.

We also noted that the Ministry did not have a process in place to periodically verify the appropriateness of amounts that were claimed and that it paid—a process that might have identified the type of overpayments noted above.

Recommendation

To ensure that it is not overpaying for emergency and domiciliary hostel services and that payments are made in accordance with the cost-sharing agreement between it and consolidated municipal service managers, the Ministry should:

- **request information on actual hostel occupancies and on per diem rates and personal-needs allowances actually paid by consolidated municipal service managers to support monthly claims;**
- **verify that the monthly amounts claimed and paid do not exceed the maximum reimbursable amounts; and**
- **periodically verify the reliability of the information provided to detect ministry overpayments.**

Ministry Response

The Ministry acknowledges the need to enhance the flow and quality of information from consolidated municipal service managers with respect to the actual occupancy and costs of emergency hostel services.

The Ministry will take the necessary steps to refine the monthly reporting process and will conduct quarterly monitoring and verification to ensure that it is purchasing services in accordance with the cost-sharing agreement with municipalities.

FUNDING DUPLICATION FOR EMERGENCY HOSTEL RESIDENTS

Under the *Ontario Works Act*, individuals are entitled to either a monthly Ontario Works benefits cheque, a significant portion of which is a shelter allowance, or they are entitled to stay in an emergency shelter. They are not entitled to both.

Historically, individuals staying in emergency hostels did so for infrequent and brief periods of time so there was less risk that individuals staying at an emergency shelter might also be collecting an Ontario Works cheque with its shelter allowance. However, during our visits to emergency hostels, operators advised us that an increasing number of individuals are staying in emergency hostels for prolonged periods of time.

In fact, the 1999 report by the (Toronto) Mayors Homelessness Action Task Force, commonly referred to as the *Golden Report*, stated that only about one-quarter of emergency hostel users used the hostels for short-term emergency stays. The other three-quarters used them as “transitional housing” or were long-term “chronic hostel users.” The report asserted that “hostels have become permanent housing for far too many of their users.”

In 1998, the *Report of the Provincial Task Force on Homelessness* pointed out that there was no clear agreement as to how municipalities should respond to the situation in which people in the same month receive an Ontario Works cheque, which includes a shelter allowance, and also stay in an emergency hostel at no cost. The same report stated that “some estimates suggest this practice may involve as many as 60% of the emergency hostel client caseload.”

Given this trend and in light of the fact that consolidated municipal service managers administer both Ontario Works benefits and emergency hostel care, two of the three largest consolidated municipal service managers that we visited had procedures in place to ensure that their emergency hostel residents were not in effect “double dipping”—that is, that residents staying in emergency hostels at no cost to them were not at the same time collecting Ontario Works benefits, which includes the shelter allowance. For example:

- Staff from one consolidated municipal service manager interviewed every individual who stayed in an emergency shelter for seven consecutive days or longer to determine whether or not these individuals were also receiving Ontario Works benefits. If benefits were being received, they were terminated the following month if the individual continued to stay in an emergency hostel.
- Another consolidated municipal service manager received monthly reports from each of its emergency hostels that detailed the length of stay by each resident. Based on this

information, the consolidated municipal service manager assessed whether or not the individuals should continue to receive Ontario Works benefits.

Staff at the third consolidated municipal service manager we visited felt that it was not their responsibility to identify potential “double dippers” and therefore had no procedures in place to identify long-term emergency hostel residents who were also receiving Ontario Works benefits.

Recommendation

To comply with the *Ontario Works Act* by ensuring that individuals who reside in emergency hostels for extended periods of time are not also collecting Ontario Works benefits, which include a shelter allowance, the Ministry should:

- **formally assess the extent and impact of such occurrences; and**
- **if warranted, require that consolidated municipal service managers identify such individuals and develop procedures for taking corrective action where required.**

Ministry Response

The Ministry acknowledges the need to improve monitoring to ensure that residents of emergency hostels do not receive redundant supports. The Ministry will require that consolidated municipal service managers verify the extent to which long-term Ontario Works recipients reside in emergency shelters and resolve any shelter allowance redundancies as needed.

Homelessness Initiatives

The Provincial Task Force on Homelessness issued recommendations in October 1998. In the following months, the Ministry began to provide funding for several new homelessness initiatives. Brief descriptions of the two main initiatives—the Provincial Homelessness Initiatives Fund and the Emergency Hostel Redirection Fund—follow.

The objective of the Provincial Homelessness Initiatives Fund (PHIF) is to fund programs that will:

- move people from the street to emergency accommodations;
- move people from emergency accommodation to permanent housing; and
- help people retain permanent housing and thereby prevent homelessness.

While consolidated municipal service managers contract with local non-profit agencies for service delivery, they are not required to contribute to the cost of this initiative. PHIF funding for the 2000/01 fiscal year totalled approximately $10.4 million and was provided to consolidated municipal service managers based on their population and on 1998 expenditures for emergency hostels within their jurisdictions.

The objective of the Emergency Hostel Redirection Fund (Redirection funding) is to fund projects that move people from emergency accommodations to permanent housing and help them retain permanent housing. Total available Redirection funding for the 2000/01 fiscal year was approximately $8.7 million, of which $6 million was spent. Funding for this initiative is also provided to consolidated municipal service managers and is based on amounts requested and approved through an annual business case, and these amounts are limited in all cases to no more than 15% of their 1998 expenditures for emergency hostels. Services provided under this initiative are cost-shared with consolidated municipal service managers on an 80:20 basis. Services are provided by local non-profit agencies under agreements with the consolidated municipal service manager.

Our review of a sample of payments by the Ministry to consolidated municipal service managers for both new initiatives found that they were often made late in the year and, in many cases, significantly exceeded the consolidated municipal service managers' requirements for that year. For example:

- In October 1999, the Ministry approved $1.34 million in Redirection funding to a consolidated municipal service manager for services to be provided during the 1999 calendar year. At the time that the amount was approved, the consolidated municipal service manager noted that it could not spend these funds unless it had a firm commitment of funding for the following year—a commitment the Ministry could not make. Nevertheless, a cheque for $1.34 million was issued to the consolidated municipal service manager in November 1999. In June 2000, the consolidated municipal service manager advised the Ministry that none of the funds received in November 1999 had been spent. We were advised that the unspent funds were recovered in December 2000.
- The same consolidated municipal service manager projected a surplus of $1.5 million in Redirection funding for calendar year 2000 out of the $4.5 million provided by the Ministry. We understand that the consolidated municipal service manager instructed its service delivery agencies to add 5% to their approved allocation and to use these funds for other purposes.
- The Ministry approved another consolidated municipal service manager's business case for Redirection funding for the 2000 calendar year in November 2000. The Ministry paid the entire year's funding of $253,000 for 2000 in February 2001. Since the majority of redirection services were only being delivered as of September 2000, the Ministry provided a year's worth of funding for essentially four months of service.
- For 2000, the Ministry provided PHIF funding on a calendar-year basis, whereas in previous years PHIF initiatives were funded on a fiscal-year basis. Given this change, for 2000, PHIF funding ought to have been pro-rated for the nine-month period from April 1 to December 31. However, in our review of funding provided to eight consolidated municipal service managers, we found that six received 12-month allocations for services to be provided during the last nine months of 2000. We estimate that this resulted in excess funding totalling approximately $730,000—an overpayment the Ministry was not aware of.

Recommendation

To ensure that funding for homelessness initiatives is spent prudently and in the most effective manner for meeting the needs of the homeless, the Ministry should ensure that:

- **funding is approved and provided on a timely basis and is consistent with the recipients' ability to provide the services agreed to; and**
- **ministry funding is used only for the purposes intended.**

Ministry Response

The Ministry acknowledges that the implementation of new funding initiatives can impact the ability of municipalities and agencies to spend the new funding as intended. The Ministry will continue to work within the government's funding approval process and flow new resources in a manner that is timely and reflects the ability of consolidated municipal service managers to start up the programs as intended.

Interpreter/Intervenor and Children's Services

Ministry funding for interpreter services, which assist hearing impaired individuals, and for intervenor services, which assist individuals with both visual and hearing impairments, totalled $6 million during the 2000/01 fiscal year. For the same year, the Ministry provided funding for various children's services that totalled approximately $36.3 million. Funding for these services is generally transferred directly to local non-profit agencies that provide these services under annual service and funding agreements with the Ministry.

Annual agreements are based on agency-prepared budget submission packages that include such information as: service descriptions, the total amount of funding requested, total salaries and benefits, and other operating costs to be incurred. The Ministry is to review these budget submissions prior to funding approval, taking into consideration the type and amount of services to be provided, prior years' funding surpluses or deficits, and any other information that is available.

However, in our review of budget submission packages, we found that they generally lacked sufficiently detailed and relevant information for making meaningful funding decisions—decisions that would ensure the amount of funding approved is commensurate with the services to be provided. The Ministry had, in most cases, approved agency funding requests for the same or similar amounts to those approved in prior years without reference to, for example, changes in the services to be provided. This practice perpetuated funding inequities from prior years and contributed to the Ministry funding a number of items that were in our view questionable. For example:

- Ministry funding for interpreter services varied from $57 to $183 per hour without explanation for the reasonableness of these amounts or this range. We understand that the Ministry identified this variance in hourly cost as an issue and intends to standardize the rates it will fund in future years.

- The Ministry transferred to an agency that provided intervenor services an additional $230,000 in March 1999, the end of the agency's fiscal year. We could not locate any documentation demonstrating the need for this payment and also noted that the agency already had a $130,000 funding surplus from the $620,000 it initially received from the Ministry earlier in the year.
- A children's agency that received $1.4 million in ministry funding in turn transferred $558,000 of it to third parties to deliver services. These parties, however, were not accountable to the Ministry for how this money was used.

Recommendation

To help ensure that ministry funding is reasonable and commensurate with the underlying services to be provided and that value for money is being received for services rendered, before funding is provided the Ministry should:

- **require that agency budget submissions contain sufficiently detailed information on the services to be provided and the related costs to be incurred to enable informed funding decisions; and**
- **critically review and assess the reliability of that information.**

Ministry Response

Ministry financial policies for transfer-payment agencies require the annual negotiation of agency budgets based on a review of service data and the setting of appropriate service targets.

The Ministry recognizes the need to improve the quality and timely use of such information. As part of the annual business cycle, regional offices will ensure that information in agency budgets is of the required quality, has the required level of detail, and supports the funding decision.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Transfer-payment recipients that receive more than $75,000 in ministry funding in a year are required to complete an Annual Program Expenditure Reconciliation (APER). The purpose of an APER is to enable the Ministry to reconcile a program's eligible expenditures with the funding provided by the Ministry in order to identify inappropriate or ineligible expenditures and any funding surpluses. Where the transfer-payment recipient is not a municipality, the APER is to be accompanied by an audited financial statement. When not apparent from the audited financial statement itself, the statement is to include a note detailing any operating surpluses or deficits arising from the ministry-funded program.

We found that for the 1999/2000 fiscal year, APERs were generally received and reviewed on a timely basis. However, in our view, the process was not effective for the reasons detailed below:

- APERs are not required for the Emergency Hostel program. In fact, no expenditure reconciliation of any kind was being performed for this program.
- APERs for the Domiciliary Hostel program only compared the *total amount reported as spent on the program* to the *amount received*. The APERs provided no information on the number of placements provided during the year or the per diem rates paid—criteria that are supposed to be the basis of program funding.
- For approximately 40% of the APERs that were accompanied by audited financial statements, the accompanying financial statements lacked sufficient detail or the required disclosure note needed to identify inappropriate or ineligible expenditures. As a result, the Ministry could not reconcile audited financial statements with the APERs' reported expenditures.

We also found that even in cases where surplus funding was identified, agencies were permitted to retain the surplus funds for extended periods of time, contrary to the requirements to recover such surplus funds established by Management Board of Cabinet directive. For example:

- In April 2000, a children's agency received $90,000 for the 1999/2000 fiscal year. The Ministry advised the agency that it could carry these funds forward through to the end of the 2002/03 fiscal year.
- Another agency had been allowed to carry forward approximately $70,000 for the past three fiscal years. When the funds were finally reported as spent in 1999/2000, no information was provided to the Ministry to show that the funds were spent for the purposes for which they were originally approved.

Recommendation

To improve the effectiveness of the Ministry's Annual Program Expenditure Reconciliation (APER) process for identifying inappropriate or ineligible expenditures, returning excess program funding to the Ministry, and supporting future funding decisions, the Ministry should ensure that:

- **APERs contain sufficiently detailed and relevant information; and**
- **all surplus funds identified are returned to the Ministry on a timely basis as required by Management Board of Cabinet directive.**

Ministry Response

In order to facilitate surplus recovery and expenditure adjustment in advance of further budget negotiation, ministry financial policies require that agencies:

- ***report significant variances and potential surpluses by the third quarter; and***
- ***complete reconciliation accounting within four months of the end of the fiscal year.***

Agencies are required to provide expenditure information consistent with the Ministry's global budgeting approach.

The Ministry acknowledges the need for continued improvement in this area and will duly consider the concerns raised in the Provincial Auditor's assessment of the efficacy of the APER process. For example, the 2001/02 APER package will include updated definitions of ineligible agency expenditures. The Ministry is also considering a requirement that agencies formally certify that their APER statements comply with ministry expenditure policies.

ACCOUNTABILITY FRAMEWORK FOR AND GOVERNANCE OF TRANSFER-PAYMENT AGENCIES

In recent years, local service realignment has given municipal governments increasing responsibilities for delivering and co-ordinating local social services. This, in many cases, has blurred the lines of accountability between the primary funder of social services, the Ministry, and the ultimate service providers, the transfer-payment agencies. Nevertheless, whether funding is provided to the municipal level of government or directly to transfer-payment agencies under the Ministry's traditional funding approach, the Ministry is ultimately accountable for the prudent use of all ministry funds.

In recent years, in our audits of some of the Ministry's other transfer-payment programs, we have recommended that the Ministry significantly strengthen its accountability framework for transfer payments to ensure that funds are spent prudently. As a result of these recommendations and the Ministry's own recognition that new relationships could no longer be managed in old ways, the Ministry developed a new ministry-wide governance and accountability framework for transfer-payment recipients that was approved in June 1999. This framework is based on the mandatory requirements of the Management Board of Cabinet Directive on Transfer Payment Accountability and has at its core the following key requirements:

- The Ministry must set expectations that are consistent with core businesses, legislative and policy requirements, and approved program objectives and standards. Expectations must focus on measurable results to the greatest extent possible, and whenever possible, funding should be tied to the achievement of expected outcomes.
- Monitoring and reporting requirements must be reasonable, clearly understood, and based on established performance measures.
- Mechanisms should be in place for implementing corrective action, where necessary.

The Ministry's new framework also states that the highest standards of accountability will be applied in those situations where vulnerable clients are receiving services that affect all or most aspects of their lives, which is the case for many of the programs that are the subject of this audit.

With respect to the Ministry's new accountability framework and its stated intentions, we were advised that implementation was proceeding on a program-by-program basis. We found that in most cases, the requirements of both its own accountability framework and that of the

Management Board of Cabinet Directive on Transfer Payment Accountability were not yet implemented for this program.

Firstly, explicit and measurable expectations and program standards were often not defined. For example, the Ministry had not established any expectations or standards for emergency and domiciliary hostels—such as for staffing levels and qualifications or for residents' meal requirements—despite the fact that a 1999 ministry study found a wide variation in the standard of care provided by domiciliary hostel operators as well as in the level of monitoring by consolidated municipal service managers.

Secondly, we observed inadequate monitoring and reporting. For example, the consolidated municipal service managers we visited had different interpretations of the performance measures in use for homelessness initiatives. As a consequence, they inconsistently collected performance information or failed to collect all the performance information required; and when information was collected, we found that the reliability of it was suspect due to a lack of training and to the double counting of the number of beneficiaries. As well, agencies providing children's services were not required to report on the amount or type of services provided or the results achieved.

Finally, in the absence of defined expectations or information about the services provided or results achieved, the Ministry could not know the nature or extent of corrective action required.

In the Ministry's regional offices, staff we interviewed often indicated that they viewed their principal role to be that of a funding provider. Indeed, in many cases, they were not even aware of the Ministry's accountability framework or the need to hold all transfer-payment recipients accountable for using ministry funds prudently and for the purposes intended.

Specifically, we noted the following instances where an effective accountability framework was lacking:

- One regional ministry office was aware that a consolidated municipal service manager was having difficulty compiling its emergency hostel expenditures, which were being submitted to the Ministry for reimbursement. When we reviewed these hostel expenditures for the past three years, we found that the Ministry reimbursed $225,000 to the consolidated municipal service manager for expenditures even though there was no documented support. This situation was of particular concern given that the Ministry does not verify hostel expenditure claims and must therefore rely on proper billing by consolidated municipal service managers.
- In 1999, one consolidated municipal service manager combined its PHIF funding of $4.7 million with its own existing fund of $900,000 to create a single homelessness fund of $5.6 million. Ministry staff assumed that this consolidated municipal service manager was separately tracking the projects funded by the Ministry and those it was funding itself. We found that this consolidated municipal service manager had not tracked the projects by funding source, nor could it produce a listing of all projects funded that year. In fact, it could only account for $4.7 million of the $5.6 million combined homelessness fund.
- No agreement existed between a consolidated municipal service manager and an agency that was receiving $345,000 in ministry funds under the Emergency Hostel Redirection Fund. In fact, the agency receiving the funding was different than the agency providing the services. The consolidated municipal service manager could not explain why this arrangement existed and why no agreement had been signed.

Until such time as the Ministry implements an effective accountability framework for transfer payments, it cannot be assured that services provided are of an acceptable and reasonably consistent standard across the province, nor that funding decisions are appropriate and represent value for money.

Because of the lack of an effective accountability framework for transfer-payment recipients, the Ministry must increasingly rely on consolidated municipal service managers and the good governance of the service-delivery agencies themselves to ensure the cost-effective delivery of programs.

For such reliance to be justified, the Ministry must ensure that:

- both the Ministry and the transfer-payment agency clearly understand the roles and responsibilities of each party;
- the management of each transfer-payment agency collectively has the expertise and experience that is necessary for the discharge of its responsibilities;
- the necessary operating policies and procedures are in place at the agency so that service delivery is achieved economically, efficiently, and effectively; and
- the agency has an appropriate governance and internal reporting structure.

Although the Ministry's new governance and accountability framework contained similar requirements, we found no evidence that they had been communicated to the recipients of ministry transfer payments or that the Ministry had determined whether or not the elements of good governance were in place.

Recommendation

To help ensure that services provided are of an acceptable and reasonably consistent standard and represent value for money spent, the Ministry should implement and communicate to its staff an accountability framework that satisfies the mandatory requirements of the Management Board Directive on Transfer Payment Accountability.

To enhance and justify the reliance the Ministry can place in the cost-effective governance of transfer-payment recipients, the Ministry should ensure that the conditions for such reliance have been communicated and are in place.

Ministry Response

The Ministry has commenced implementation of an Accountability and Governance Framework for its transfer-payment agencies that will meet or exceed Management Board requirements. The Ministry has already distributed to municipal governments **Roles and Responsibilities 2001: The Provincial/ Municipal Relationship in Human Services** ***(June 2001), which includes basic requirements for the governance and accountability of transfer-payments recipients.***

The Ministry acknowledges the need to enhance agency accountability and will, in the next year, complete the process of confirming with its transfer-payment agencies that the new framework's requirements are incorporated into the annual business cycle. For instance, the 2002/03 budget package will include measurable performance indicators for all service areas.