



**Office of the Auditor General: Audit of Child
Care Services, Tabled at Audit Committee –
November 30, 2017**

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Acknowledgments

The team responsible for this audit, comprised of Suzanne Bertrand and Janet Onyango from the Office of the Auditor General (OAG) and Mario Ferrante from Virtus Consulting Inc., under the supervision of Ed Miner, Deputy Auditor General and the direction of Ken Hughes, Auditor General, would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this audit.

Original signed by:

Auditor General

Executive summary

Purpose

The audit examined the effectiveness and appropriateness of the City's practices and controls for administering child care services under a revised Provincial funding model.

Rationale

The City of Ottawa's Children Services unit plans and manages the delivery of child care programs and services on a cost-shared basis on behalf of the Province. An agreement with the Ministry of Education outlines the City's key roles. These include entering into funding agreements with local licensed service providers who deliver child care services and programs under Provincial guidelines.

A number of allocations under different funding streams are available to the local service providers including General Operating funding, Fee Subsidies and Special Needs resources. The City has contribution agreements with service providers that represent 26,550 licensed spaces (81 per cent of all licensed spaces in Ottawa). In addition, the City operates 11 child care centres with a total of 504 spaces.

The City of Ottawa's 2016 child care budget was \$119.7 million. Provincial funding made up \$93.5 million of the budget with the City contributing \$26.2 million (\$13.2 million as its legislated cost shared portion plus an additional \$13 million).

Approximately 168 full time equivalents in the Community and Social Services department (CSSD) were directly involved in service delivery for child care services.

As a result of Provincial Child Care Modernization, the City, like other municipalities was required to develop and implement a new funding framework by the end of 2015. The City's strategy for child care for the year was documented in its Service Plan which was approved by Council in April 2015. The Service Plan included investing \$11.5 million from the Child Care Reserve between 2016 and 2020. These funds would assist the not-for-profit agencies that were expected to see a drop in government funding as a result of the transition to the new funding framework.

The new model also included a significant change to how the fee subsidy is distributed. Under the new model, which came into effect on January 1, 2016, eligible parents can retain their subsidy when they move to another child care provider. The City prioritizes families that are eligible for fee subsidy based on criteria in Provincial legislation and Council approved policies.

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The City's has adapted its child care service processes in response to the significant Provincial changes. Efficient and effective controls and timely and accurate information are important to ensure that Provincial funding is used as intended and child care spaces are assigned on a priority basis within the available budget. This audit aimed to assure Council of the soundness of Children Services practices to deliver on these objectives.

Findings

The audit focused on processes, practices and controls in four key areas which were selected based on risk:

- Waitlist management, eligibility assessment and management of fee subsidy funding;
- Information provided to Committee and Council and Senior Management for decision making purposes;
- Controls to manage service levels and administrative costs and ensure that service providers use funds for intended purposes; and
- Occupational Health and Safety and succession planning for key staff.

The key findings associated with each area are as follows:

1. Waitlist management, eligibility assessment and management of fee subsidy funding

The audit found that there is a centralized waitlist and processes are in place to assess eligibility for fee subsidy and assign spaces on a priority basis. Staff promptly assess the initial applications for child care services with genuine care for applicants and recipients. However, we found that the waitlist is not accurate and that management has not reinforced key controls related to ensuring on-going eligibility for fee subsidies. There is also inadequate oversight over the assessment process. These gaps have had a significant negative financial impact.

- The City uses its waitlist to quantify and prioritize children eligible for fee subsidy who are waiting for child care spaces. The City reports the number of children on the waitlist, both eligible for fee subsidy and not eligible, in its annual Service Plan. We found the number of children reported to be on waitlist for fee subsidy is overstated by somewhere between 55 and 244 children (6 to 25%). The many manual steps used to calculate the figures increases the risk of error. The data is also not reviewed by a second person.

- The eligibility of families receiving subsidized care is to be reviewed at least annually. No annual reviews were conducted for 29 months. These reviews were reinstated by management during the course of this audit. Based on our discussions with staff, annual reviews were stopped by management in 2014 and 2015. As of May 31, 2016 there was a backlog of 2,810 annual eligibility reviews. Without these reviews many families that became ineligible continued to receive subsidized child care. We estimate that a backlog of 2,810 annual reviews has an on-going financial impact of at least \$1.477 million per year, due to the ineligible subsidies that are not discovered and terminated. In 2016 these on-going ineligible subsidies resulted in the City being unable to provide subsidies to new eligible families as the budget became exhausted.
- In addition to the annual review, City's procedures require staff to follow-up with applicants at key points, such as at the end of an education program or job search period, to confirm that they remain eligible for subsidized child care. The audit found that as of May 31, 2016, there were 2,106 such "bring forward" items in applicant files that had not been followed up.
- According to City policy, when parents are found to be ineligible for subsidy, staff are to calculate the amount of subsidy that was provided after they became ineligible. Any such amount is then to be recovered from the parents. However, staff have been treating these as administrative errors and have not been calculating or recovering overpayments. Staff informed us that this was due to a processing backlog. We were unable to estimate the amount uncollected.
- Despite an active monitoring process in place, management continued to process fee subsidy applications and place children in spaces beyond the available \$64.4¹ million fee subsidy budget. In January 2016 staff projected a deficit of \$2.3 million for the non-exempt portion² of the subsidy budget for 2016. Despite this, they continued subsidized placements and the projected deficit increased to \$3.5 million by July 2016. Despite the growing projected deficit, due in part to not complying with the policy on annual reviews, management continued to approve new subsidies. Management indicated that they planned to rely on the Child Care

¹ As per 2016-2017 Service Plan.

² The exempt portion of subsidy funding is set aside for children from the vulnerable population and emergency placements.

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Reserve to fund the projected deficit. However, the adequacy of the current uncommitted balance in the Reserve is unclear³.

- Attendance recording practices do not ensure that children who receive a fee subsidy from the City are actually attending child care. The process relies on supervisors at the service provider centres to submit attendance data. The risk is that service providers are in a conflict situation as they may have an incentive to report an absent child as attending in order to continue to receive subsidies. We note however that these attendance practices comply with Provincial guidance.
- There is limited independent review of staffs' work to reduce the risk of eligibility being incorrectly assessed. Therefore, errors in eligibility assessment and re-assessment could occur without detection. Per City policy, Team Leads are to review 2% of initial assessments files on a sample basis, or roughly 100 files per year. In the 38 files that Team Leads reviewed in 2016 up to the time of the audit, 13 (34%) had issues, primarily related to not setting up "bring forwards". Our testing of a sample of initial eligibility assessments also found errors in the calculations of parental contributions. These errors resulted in added costs to the City and/or parents, depending on the case.

2. Information provided to Committee and Council and senior management for decision making purposes

The audit found that some of the information in the 2016-2017 Service Plan and provided to Council and senior management contained inaccuracies which could result in program and budget decisions being based on inaccurate information. Specifically, we found that:

- The numbers of full fee and fee subsidy families reported to be on the waitlist in the 2016-2017 Service Plan was incorrect. The plan reported that as of February 26, 2016 there were 984 children waiting for a fee subsidy space out of a total of 8,830 waiting for a licenced child care space. The waitlist for fee subsidy figure was overstated by somewhere between 55 and 244 children (6 to 25%).
- The Service Plan report to Committee and Council did not identify the risk or additional costs associated with collecting receivables from parents. Effective January 1, 2016, the City pays the full fee to service providers and collects the non-subsidized portion from the parents/guardian, if applicable. Prior to the

³ Subsequent to the audit, the City's 2017 budget documents report that all funds in the Child Care Reserve are fully committed over the ensuing years (2016-2020). The 2016 Child Care Services deficit of \$2.2 million was funded from the City Wide reserve.

change this risk was borne by the service providers who saw the parents on daily basis. We believe the risks and costs of collection should have been elaborated.

- There has not been a full cost/benefit analysis of the 11 City run child care sites in the Municipal Child Care (MCC) program. The cover report to Committee and Council with the 2016-2017 Service Plan refers to the MCC Program Review as having been completed in 2015. We found, however, that this review was not done in 2015 and management intends to complete a full costing of the MCC program by 2018. The delay in using this full costing information to ensure that each MCC site is meeting the Council approved mandate⁴ is potentially costing the City millions of dollars annually.
- We also found that the waitlist and annual reassessment numbers and termination rates provided to Senior Management to monitor the program were not always complete, accurate and timely.

3. Controls to manage service levels and administrative costs and ensure that service providers use funds for intended purposes

In 2016, a total of \$89 million was allocated in the child care annual budget for the three main funding streams for disbursement to service providers. The audit found that controls were in place to monitor the funding provided to service providers, however they were not being adequately applied. City files did not contain all the documentation that service providers were required to submit according to the terms and conditions of the contribution agreements. There was also no documented evidence of review of files by City staff. Missing documents and inadequate monitoring could result, for example, in the City not identifying an organization in financial difficulty and providing it with funds that should not be given. The City would then not be able to recover these amounts.

The audit also found that there was no monitoring of performance against Provincial service level and administrative cost targets throughout the year to ensure that the City is on track to meet them. This limits the time that the City has to take any corrective actions, if any are needed. Unmet targets could affect funding and the budget.

4. Occupational Health and Safety and succession planning for key staff

The audit found no significant issues in these areas.

⁴ April 27, 2016 Council approved that the mandate of the Municipal Child Care programs is to serve vulnerable families in areas of the City where there are insufficient child care spaces to meet demand and no other child care operators are able to shift their service offerings.

Conclusion

Since June 2014, Child Care Services has undergone significant changes and the City's Children Services unit has worked progressively to establish structures, policies and procedures to respond to the City's expanded role in the delivery of child care and to Provincially driven changes in child care funding guidelines. Child care processes are in place to assess eligibility for fee subsidy and assign spaces on a priority basis with staff promptly assessing initial applications with genuine care for applicants and recipients. However, we observed major lapses in the reinforcement of existing controls, and inadequate oversight.

The City did not consistently meet the Provincial requirement for annual reviews or the City's own requirement for ongoing assessments of eligibility for child care fee subsidies. This failure to conduct reviews had budget implications and is the primary reason that the 2016 fee subsidy budget was forecast to be over budget and eligible parents were deprived of subsidies as the placement of new fee subsidy children had to be stopped in October 2016. The City also did not collect overpayments from ineligible parents and there was inadequate monitoring of funds used by service providers.

Information provided to Committee and Council and Senior Management in relation to the waitlist and costs of the Municipal Child Care Centres was also not complete, accurate and timely. This may impact decisions and results in the risk that the City is expending more funds than required or that it is expending its funds in a manner that does not maximize the number of eligible fee subsidized children placed.

More focus on reinforcing controls that are already present in policies and procedures is needed to ensure that Child Care funding is used as intended and benefits an optimal number of families.

Potential savings

The following are potential cost saving opportunities for Child Care Services:

- Clearing the backlog of annual reviews and reducing the number of ineligible families receiving subsidies. The estimated impact of not clearing the backlog is \$1.477 million per year.
- Retroactively recovering subsidies paid to families from the time of ineligibility.
- Comparing full cost and benefits of municipal child care sites to external service providers may identify opportunities for cost savings.
- Improving the use of technology could streamline the application, annual review and “Bring/Forward” processes.

Recommendations and responses

Recommendation #1

That the City ensure that the waitlist figures are accurate by changing the calculation to remove duplicates, children that have already been placed and children that no longer require the space.

Management response:

Management agrees with this recommendation.

As part of Child Care Modernization efforts, the City of Ottawa assumed responsibility for the management and monitoring of the CCRAW from a third party in June 2014 and developed and implemented a new technology to support greater parental choice in child care. Further system changes were made effective January 1, 2016 to meet the business objectives under the new fee subsidy model. The implementation of the new technology required the migration of historical data and a new system and process for parents and staff to enter the information into the technology. Children’s Services is working with the vendor to identify enhancements to the system that will address duplicates, children that have already been placed and children that no longer require the space to ensure they are no longer included in the waitlist figures.

The City continues to work with the system developer, internal staff, parents and members of the child care community on an ongoing basis to support the new fee subsidy model and meet the needs of parents and child care service providers as

it relates to subsidized children. As such, system enhancements continue to be identified as the accuracy of the fee subsidy waitlist remains a priority.

This recommendation will be implemented by Q1 2018.

Recommendation #2

That the City evaluate the costs and benefits of implementing a technology solution to reduce the manual effort involved in calculating the waitlist figures.

Management response:

Management agrees with this recommendation.

Management will evaluate the costs and benefits of implementing a technology solution to reduce the manual effort involved in calculating the waitlist figures by Q4 2018.

Recommendation #3

That in the next Service Plan reported to Committee and Council, the City define the extent to which children with future start dates are included in waitlist figures.

Management response:

Management agrees with this recommendation, and it has been implemented.

The waitlist system can now identify children according to their preferred start date, including current and future dates, which will be reported in the next Service Plan.

Recommendation #4

To improve the accuracy of the waitlist figures reported, that the City formalize a quality assurance and/or management review in the calculation process.

Management response:

Management agrees with this recommendation.

A quality assurance and/or management review will be developed as part of the calculation process of waitlist figures by Q2 2018.

Recommendation #5

That the City update process documentation for generating waitlist figures.

Management response:

Management agrees with this recommendation.

The current process for documenting and generating waitlist figures will be updated to reflect the steps involved in obtaining the data by Q2 2018.

Recommendation #6

That the City correct the errors in the five files in the audit sample.

Management response:

Management agrees with this recommendation, and it has been implemented.

The files requiring corrective action were assigned to a Team Lead, and the errors were corrected in December 2016.

Recommendation #7

That the City develop and implement a plan to improve the initial assessment process to ensure compliance with policies and procedures and to assess the impact of these steps in reducing the rate of errors.

Management response:

Management agrees with this recommendation.

Children's Services has undergone a significant period of change as a result of Provincial Modernization, legislative changes and internal re-organization. This included the implementation of a new funding framework, system conversion, changes to the fee subsidy program that allowed for more parental choice and an expanded role in the delivery of child care.

During this period, processes, policies and procedures were under review and were continuously updated and rolled out to support staff in order to maintain responsive service delivery to families and children while balancing priorities.

As noted in this audit, processes were in place to support the initial eligibility assessment. Within the sample subsidy applications, the calculation of the parental contribution was completed in a timely manner (e.g. average of 3 days, well within the 10-day limit) with staff promptly assessing the initial applications for child care services with genuine care for applicants and recipients. Eligibility for a fee subsidy was correctly assessed for 22 out of the 23 applications.

Management has begun consulting and developing a plan to improve the initial assessment process to further ensure compliance with guidelines and procedures. A new Subsidy Coordinator training checklist is being implemented that includes training and monitoring of the initial assessment. Management has also prioritized refresher training on the initial assessment practice and procedure for existing staff.

Management will continue to determine what strategic improvements can be made in fee subsidy operations. This recommendation will be implemented by Q2 2018.

Recommendation #8

That the City revise its procedures for Team Leads' reviews of initial assessments to:

- increase the percentage reviewed;
- obtain more representative coverage of files and employees;
- focus on files that represent a higher risk of error;
- document how files are selected; and
- address steps to take when errors are found.

Management response:

Management agrees with this recommendation.

The supervisory review of child care fee subsidy files is a mandatory requirement of business operations to ensure that decisions are made in accordance with the *Child Care and Early Years Act*, Ontario Child Care Service and Management Funding Guidelines and City of Ottawa practices and procedures. The Guidelines are silent on the amount of file reviews a Consolidated Municipal Service Manager (CMSM) must complete to be in compliance.

In addition to the new Subsidy Coordinator training checklist (which includes a double-signature process for all new staff within the probationary period), the City of Ottawa's File Review Practice and Procedure will be updated to initially increase the percentage of files reviewed from 2% to 5% per year. The methodology for file selection will include a representative sample of all staff conducting eligibility assessments.

The training plan and monitoring noted in the response to Recommendation 7 will ensure that steps are taken to address error trends identified through the file

reviews. The percentage of files reviewed may be reassessed as a decrease in the rate of error is achieved.

This work will be completed by Q2 2018.

Recommendation #9

That the City ensure that required Team Leads' reviews of initial assessments are completed each year.

Management response:

Management agrees with this recommendation.

The local File Review Practice and Procedure will be revised to include a monitoring procedure by management to ensure that file reviews are completed each year. This work will be completed by Q2 2018.

Recommendation #10

That the City conduct annual reviews, ongoing reviews and follow-up of bring forward items on a regular basis and monitor compliance.

Management response:

Management agrees with this recommendation.

As described earlier in the rationale section of the report, the audit coincided with the implementation of significant changes in the delivery of child care services. This included the implementation of a new funding framework, changes to the fee subsidy program that allowed for more parental choice and an expanded role in the delivery of child care and municipal efforts to modernize services. Even with these significant changes, staff completed annual/ongoing reviews and followed up on bring forwards where possible with actions being taken on reported changes to the client files.

Management will ensure that annual reviews continue as per the local Annual Review Practice and Procedure. A local practice and procedure will be developed for ongoing reviews and follow-up of bring forward items within the case management function to ensure regularity and monitoring of compliance by Q4 2018.

The action planned in response to Recommendation 7 will also address training and monitoring of compliance.

Recommendation #11

That the City consider changing the child care process to require parents to annually reapply for subsidized child care.

Management response:

Management agrees with this recommendation.

The current local Annual Review Practice and Procedure identifies parental and staff responsibilities in the annual review process to resubmit documents to ensure ongoing eligibility within 12 months.

Management will consider implementing a re-application process for child care subsidy while balancing the need to ensure a continuity of care for children eligible for fee subsidy by Q4 2018.

Recommendation #12

That the City consider technology options to allow parents to electronically submit documentation.

Management response:

Management agrees with this recommendation.

Technology options will be considered to allow parents to electronically submit documentation. An environmental scan will be completed by Q2 2018.

Recommendation #13

That the City establish a policy/procedure for Children Services to address potential conflicts of interest in conducting assessments and reviews.

Management response:

Management agrees with this recommendation, and it has been implemented.

Although the audit found no evidence of conflict of interest or related party transactions and subsidy staff in practice, adhered to the “Application for Assistance Made by Staff” Practice and Procedure, the Procedure was formally updated in April 2017 to specifically include child care subsidy staff. This information was shared with all staff via email on May 2, 2017.

Recommendation #14

That the City properly manage the fee subsidy budget and limit the approval of subsidized placements to the amount of the authorized budget and if required to the available reserve.

Management response:

Management agrees with this recommendation.

On January 1, 2016, the fee subsidy model shifted to allow more parental choice where subsidy funds now follow the child, not the provider. This resulted in an increase in the number of children served. As noted in the audit there have been active processes in place to monitor the fee subsidy budget since the shift to the new model.

Budget reviews in early 2016 indicated a potential overspending of the fee subsidy budget. Forecasting the total costs of subsidies in the new model was complex as it had to consider a variety of factors including: age of the children, family income and, provider per diems.

Mitigation measures were implemented by prioritizing annual reviews over a number of months. When the annual reviews did not fully mitigate the financial pressures, management initiated steps to suspend fee subsidy placements. Children continued to be placed until September 30, 2016 as suspending access to new fee subsidy placements prior to September (which is the peak period for placements in child care) may have caused significant hardship to families and service providers. A notice period of a minimum of six weeks is required to inform the sector. This notice was sent in August 2016 to advise providers that at the end of September 2016, subsidies would be suspended pending available budget.

Changes were made to the placement technology and processes in Q1 2017. Functionality was added to advise service providers when subsidy funds are no longer available and subsidized children can no longer be placed. Both of these steps contribute toward the business objective of system sustainability. Effective March 15, 2017, new fee subsidy placements became available through attrition (i.e. children exit care / families no longer eligible) to assist the highest prioritized families.

Management will continue the work started in Q1 2017 to improve the budget monitoring tool and processes to align with the new fee subsidy model that was implemented in 2016. The current budget monitoring tool and process will be

revised to reduce calculation errors, improve quality assurance and ensure placements are only approved within the available budget by Q4 2017. This response also applies to Recommendations 15 and 16.

Recommendation #15

That the City change the spreadsheets used in the fee subsidy management calculations to correct the calculation errors.

Management response:

Management agrees with this recommendation.

The spreadsheets used for fee subsidy management calculations are being reviewed and revised to ensure accuracy in reporting. This work began in Q2 2017 and is expected to be completed by Q4 2017.

Recommendation #16

That the City implement quality control and/or management review steps in the fee subsidy monitoring calculation process.

Management response:

Management agrees with this recommendation.

Management review approaches that build on work that began in Q2 2017 will include quality assurance related to the fee subsidy monitoring calculation process. This work will be completed by Q4 2017.

Recommendation #17

That the City consider the costs and benefits of expanding attendance monitoring procedures to provide assurance that the children for whom the City is paying a fee subsidy are attending the centres.

Management response:

Management agrees with this recommendation.

The City of Ottawa is currently in compliance with Provincial requirements associated with attendance reporting.

A review of attendance monitoring approaches will be completed to determine if other processes can provide any additional assurance that the children are attending the centres and submitting accurate attendance data. This work will be completed by Q4 2018.

Recommendation #18

That the City direct staff to comply with the Overpayment and Recovery procedure and quantify and recover amounts for past periods where parents did not notify the City of their change in status.

Management response:

Management agrees with this recommendation and it has been implemented.

Staff were provided comprehensive training in March 2017 on the recently reviewed and revised local Overpayment and Recovery Practice and Procedure.

Recommendation #19

That the City monitor compliance with the Overpayment and Recovery procedure.

Management response:

Management agrees with this recommendation and it has been implemented.

The audit found that procedures were in place to calculate and recover overpayments and management has also provided training as indicated in the response to Recommendation 18.

In April 2017 staff were provided with a tool to track all overpayments as a means to monitor compliance. Compliance will be further verified through the increased file reviews by the Team Leads as outlined in the response to Recommendation 8.

Recommendation #20

That the City reconcile the Aged Accounts Receivable reports for Child Care to the General Ledger account in the accounting system on an ongoing basis.

Management response:

Management agrees with this recommendation.

The Aged Accounts Receivable reports will be reconciled to the General Ledger account by Q4 2017 and then on an ongoing basis thereafter.

Recommendation #21

That the City review its inventory of CSSD procedural documents, prioritize the processes and ensure key processes are documented and updated as required.

Management response:

Management agrees with this recommendation and it has been implemented.

Despite the significant changes referenced in the audit, it was noted that a large number of process flowcharts and procedural documents exist.

As part of the Practice and Procedure work plan, Children's Services will ensure that fee subsidy practices and procedures are prioritized, documented and updated in accordance with a regular review cycle.

Recommendation #22

That the City complete the MCC Program Review as soon as possible in 2017.

Management response:

Management agrees with this recommendation.

In April 2016 Council approved the mandate of the Municipal Child Care Centres and, a viability and sustainability workgroup was established in Q3 2016. A framework is currently being developed that will include key metrics that guide recommendations and decision-making. This work will be completed by Q4 2017.

Recommendation #23

That the City document the costing methodology and standards to be used in the compilation of the cost/benefit analysis of the MCC Program.

Management response:

Management agrees with this recommendation.

The cost/benefit analysis methodology and standards will be documented as part of the framework outlined in the response to Recommendation 22. This work will be completed by Q4 2017.

Recommendation #24

That the City retain source documents and implement a quality control review of the figures in future SPs.

Management response:

Management agrees with this recommendation.

All source documents will be retained and a quality control review of the reported figures will be included in future Service Plans. This will begin in Q2 2018 to align with the next Service Plan.

Recommendation #25

That the City improve the management reporting for the annual review performance reporting dashboard.

Management response:

Management agrees with this recommendation.

Management currently receives a number of reports related to various aspects of the business, including: the waitlist, the fee subsidy budget, workload, etc. The frequency of the reports varies and may be provided on a weekly, monthly, quarterly and/or annual basis. Management disseminates the reports/data on an as-needed basis, including a dashboard of annual review measures.

Improvements to the accuracy of reporting have been made and/or are underway in areas such as the waitlist, the fee subsidy budget monitoring reports and, overpayment recoveries that will contribute to informed decision-making. This work will be completed by Q2 2018.

Recommendation #26

That the City develop and implement the use of file documentation checklists to monitor agreement compliance by service providers.

Management response:

Management agrees with this recommendation and it has been implemented.

In January 2017, management established the Children's Services Funding and Financial Accountability Branch to build on existing practices related to the monitoring, oversight and accountability of service providers.

New contribution agreements were implemented in 2016 in association with the new funding model. This includes enhanced reporting requirements that will be monitored yearly to ensure compliance. A file documentation checklist has also been developed to monitor agreement compliance by service providers.

Recommendation #27

That the City aggressively monitor and take meaningful documented actions with service providers to ensure agreement compliance.

Management response:

Management agrees with this recommendation and it has been implemented.

As described in the response to Recommendation 26, the Children's Services Funding and Financial Accountability Branch will continue to monitor ongoing agreement compliance with service providers, including documentation while balancing availability of child care spaces and continuity of service for families.

Recommendation #28

That the City implement a quality assurance/management review process to ensure completeness of service provider files and to improve oversight.

Management response:

Management agrees with this recommendation and it has been implemented.

As described in the response to Recommendation 26, the Children's Services Funding and Financial Accountability Branch has implemented a checklist that includes a review by a second party to ensure quality assurance.

Recommendation #29

That the City establish procedures to report and monitor service level and administrative cost targets with sufficient lead time to take any necessary corrective action.

Management response:

Management agrees with this recommendation.

Historically, Children's Services has met and exceeded Provincial service level targets as a result of the municipal contribution that surpassed the Provincial requirement. The service level targets for 2017 were approved by the Ministry of Education in July 2017.

The Children's Services Funding and Financial Accountability Branch have been working with the Financial Services Unit to develop a practice to monitor service level targets and administrative cost targets that includes regular reporting to align

with the 2017 Provincial contribution agreement. This work will be completed by Q3 2017.

Recommendation #30

That the City complete a development plan as part of the CSSD succession plan.

Management response:

Management agrees with this recommendation.

As mentioned in the audit critical positions required to ensure business continuity were identified and documented, including potential successors for these positions across CSSD branches.

Management continues to have regular one-to-one conversations with staff about performance and development as part of the annual performance review cycle.

Management will follow the corporate direction to develop a comprehensive succession plan. This will be completed by Q4 2018.

Recommendation #31

That the City reconstitute the Social Services Centre Joint Health and Safety Committee and recommence quarterly meetings.

Management response:

Management agrees with this recommendation and it has been implemented.

Occupational Health and Safety requirements are being addressed in a timely fashion in 14 of the 15 sites where child care services are being delivered, with monthly inspection reports being completed, hazards assessed and action planned and/or taken as required. The remaining site was able to secure quorum and recommenced quarterly meetings in July 2016.

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The detailed section of this report is currently available in English only. The French version will be available shortly. For more information, please contact Ines Santoro at 613-580-2424, extension 26052.

La partie détaillée de ce rapport n'existe qu'en anglais. Elle sera disponible en français sous peu. Pour tout renseignement, veuillez communiquer avec Ines Santoro, 613-580-2424, poste 26052.

Detailed audit report

Audit of Child Care Services

Introduction

The Audit of Child Care Services was included in the 2015 Audit Plan of the Office of the Auditor General (OAG), approved by City Council in March 2015.

Background and context

The City of Ottawa provides indirect and direct child care services. Within the City, the delivery of child care programs and services is managed by the Community and Social Services department (CSSD), Operations branch, Children Services unit. The City is a “Consolidated Municipal Service Manager” delivering this Provincial program on a cost-shared basis as outlined in the Child Care and Family Support Program Service Agreement with the Ministry of Education. The City continues to implement changes to the delivery of child care in Ottawa in response to significant ongoing Provincial changes. These changes are further detailed in the City’s annual service plans which are presented to Committee and Council and submitted to the Province.

The City of Ottawa’s total child care budget in 2016 was \$119.7 million. Of this amount, the legislated cost share portion was \$106.7 million with the Province contributing \$93.5 million and the City contributing \$13.2 million. In addition, the City is budgeting to spend an additional \$13 million (100 per cent municipal) for a total municipal expenditure of \$26.2 million. There were approximately 168 full time equivalents directly involved in service delivery for children services.

Indirect child care services are provided where the City enters into funding agreements for programs and services with local service providers (day nurseries or private-home day care agencies). A number of allocations under different funding streams are now in place to provide funding to the local service providers including General Operating

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funding, Fee Subsidies and Special Needs resources. As a result of Provincial Child Care Modernization, municipalities were required to develop and implement a new funding framework by the end of 2015. The City's plan was outlined in the 2015 Child Care Service Plan which was approved by Council in April 2015. This Service Plan included investing \$11.5 million from the Child Care Reserve between 2016 and 2020 to assist not-for-profit agencies with an expected drop in government funding to transition to the new funding framework.

Under the Ministry of Education's Child Care and Early Years Act, the Ministry is responsible for licensing, inspection and enforcement including the health, safety and welfare of children. As the licensee for City-operated facilities, the City is responsible to meet Provincial regulations for its facilities. This licensing, inspection and enforcement is a Provincial responsibility and as such we did not include it in our audit scope.

The service providers with contribution agreements with the City accounted for 19,903 centre-based licensed spaces. There are 7,174 children in spaces which the City fully or partially subsidizes. There were also 1,924 home child care service providers with 6,647 spaces. This resulted in 26,550 licensed spaces for which the City has contribution agreements, representing an estimated 81 per cent of the total licensed spaces in Ottawa. In addition, as mentioned above direct child care services are provided by City employees in 11 City operated day care centres with a total licensed capacity of 504 spaces.

Table 1 2015 licensed child care spaces in Ottawa⁵

Description	Number of licensed spaces	Percentage of licensed spaces
Non-municipal operated centres for which City has contribution agreement	19,903	61%
Non-municipal operated home-based sites for which City has contribution agreement	6,647	20%
Sub-total – Non-municipal operated for which City has contribution agreements	26,550	81%
Municipal Child Care Centres with City employees	504	2%
Total indirect and direct licensed spaces	27,054	83%
Centres / sites with no contribution agreement	5,724	17%
Total licensed spaces	32,778	100%
Portion of licensed spaces fully or partially subsidized	7,174	22%

Until the end of 2015, subsidized child care spaces were attached to specific child care service providers who received guaranteed fee subsidy funding called Maximum Confirmed Budgets (MCB). Management identified challenges with the historical MCB process including that it was considered to be administratively cumbersome for staff and child care service providers as a result of the processes attached to the allocation and recovery of funds. There were also challenges such as in 2014 and 2015 when 74 and 75 child care service providers underutilized their MCB funding in the amounts of \$3.2 million and \$5.3 million, respectively. This underutilization contributed to the City’s funding allocation being decreased by the Province by \$1.4 million in 2016. With the shift to a new fee subsidy model on January 1, 2016, child care service providers (with a signed contribution agreement with the City) are now funded based on the number of subsidized children in their centres. This model is consistent with the Provincial funding

⁵ Figures per 2016-2017 Service Plan

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guidelines which state that most Municipalities in the province follow the best practise where “the subsidy follows the child” in allocating fee subsidy funding and supports family choice for child care that best meets the child and family needs.

For qualified parents/guardians, prior to 2016, the fee subsidy was paid by the City to the service provider and the parents/guardian paid the remainder of the fee, if any, to the service provider. However, effective January 1, 2016 the City decided to pay the full fee (posted full fee rate) to the service provider and collect the non-subsidized portion, if any, from the parents/guardian. The 2016-2017 Service Plan which was reported to Council in April 27, 2016 identified that aligning the subsidized rates with full fee rates closed the gap between the fees paid by the government and those paid by full fee paying parents at an additional cost to the City of approximately \$2.4 million per year.

In June 2014, the City of Ottawa launched the Child Care Registry and Waitlist (CCRAW), a customized system for parents to apply for child care (full fee and fee subsidy) and for child care service providers to manage their waitlists. The waitlist was previously handled by a third party. As the service system manager, the City uses data from the overall registry and waitlist to plan for and respond to the needs within the child care sector. The CCRAW was further enhanced effective January 1, 2016 to meet business objectives under the new fee subsidy model including:

- Priority criteria ranking based on financial eligibility, employment activity, enrollment in an education program or training activity and/or other documented, recognized need
- Parental choice
- Vacancy reporting
- Placement by service providers, and
- Ability to turn “Fee subsidy” placements on or off depending on budget status

As reported in the 2016-2017 Service Plan, below is a profile of the families on the CCRAW as of February 2016.

- 8,830 children waiting for a licensed child care space (fee subsidy or full fee)
- 7,846 children waiting for a full fee space
- 984 children eligible for a fee subsidy and waiting for a space
- 3,131 children placed in a child care program, in receipt of a fee subsidy and requesting a transfer to a different location
- 30% of all families approved for a fee subsidy are in receipt of Ontario Works

Audit objectives and criteria

The objectives and criteria of the audit are to:

Audit objective #1

Assess the efficiency and effectiveness of controls to manage child care processes to ensure that spaces are assigned on a priority basis within the available budget, attendance is monitored and appropriate amounts are recovered from clients.

Criteria:

- The waitlist is complete, accurate and up to date
- Family eligibility for fee subsidy is properly assessed initially and reassessed as required
- Fee subsidy children are not placed beyond the available budget
- Attendance is properly and accurately recorded at both municipally and externally operated sites
- Day care fees, ineligible fee subsidy and excess days away amounts are recovered from parents
- Child care processes are efficient and effective

Audit objective #2

Assess that information provided to Committee and Council and Senior Management is complete, accurate and timely for decision making purposes.

Criteria:

- Staffing and financial Information on Municipal Child Care programs provided to Committee and Council in the 2016-2017 Service Plan is complete and accurate
- Senior Managers receive complete, accurate and timely information to manage the program

Audit objective #3

Assess the effectiveness of controls to manage that service levels and administrative costs meet the agreed Provincial targets and that service providers are using funds for the intended purposes and amounts are recovered as necessary.

Criteria:

- Service providers are only paid for services provided and are monitored to ensure that funds provided to them are used for the intended purpose or are recovered
- Service levels and administrative costs are monitored to ensure they meet agreed Provincial targets

Audit objective #4

Assess how Occupational Health and Safety and succession planning for key staff are addressed in Child Care Services.

Criteria:

- Succession planning occurs for key staff
- Occupational Health and Safety is addressed in Child Care Services

The source(s) for the criterion include: Ontario Transfer Payment Agreement, legislation and funding guidelines, service plans, City and Children Services unit legislation, agreements, policies and procedures, as applicable.

Scope

The scope of the audit includes 2015 and 2016 Child Care Services operations.

The Municipal Child Care (MCC) Review was excluded from the audit scope as the audit found that it was still being drafted (see section 2.1 below).

The audit scope also did not include the \$11.5 million committed to assist not-for-profit agencies with an expected drop in government funding as they transition to the new funding framework from 2016 to 2020.

Audit approach and methodology

The audit methodology includes the following activities:

- Interviews and process walkthroughs with staff members involved in child care services
- Review of relevant documentation, e.g., the organizational charts, training documents, bylaws, policies and procedures, contracts, service plans and reports, and
- A variety of audit testing techniques including the review and analysis of reports, testing of sample transactions and review of supporting documentation

The audit fieldwork was conducted from May to July 2016.

Audit observations and recommendations

Audit objective #1

Assess the efficiency and effectiveness of controls to manage child care processes to ensure that spaces are assigned on a priority basis within the available budget, attendance is monitored and appropriate amounts are recovered from clients.

1.1 Waitlist

The audit expected to find that the waitlist was complete, accurate and up to date. An accurate waitlist allows the City to quantify and prioritize children eligible for fee subsidy waiting for child care spaces.

The Child Care and Early Years Act prioritizes the allocation of child care fee subsidies for individuals in the Ontario Disability Support Program receiving income support, individuals on Ontario Works, who are either working or involved in activities to gain employment, and individuals who qualify based on their adjusted income. In line with the Act, the City prioritizes children that are eligible for fee subsidy and are waiting for a space based on various criterion. The criterion used to prioritize include parents who are actively seeking or engaged in employment, enrolled in an education or training program; or who have other documented or recognized needs.

The City of Ottawa 2016-2017 Service Plan (SP) outlines the City's strategy for child care for the upcoming year and was presented to Committee and Council in April 2016. The SP reported that, as of February 26, 2016, there were 7,846 children waiting for a full fee space fully paid for by their parents and 984 children that the City had assessed as eligible for fee subsidy waiting for a space as per Table 2.

Table 2: Total children waiting for a licensed child care space as at February 26, 2016

Description	Quantity
Children waiting for a fee subsidy space	984
Children waiting for a full fee space	7,846
Total children waiting for a licensed child care space	8,830

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The Child Care Registry and Waitlist (CCRAW) represents the overall registry of full fee and fee subsidy applications and is used by the City to plan for and address child care needs. The audit found that both the fee subsidy and full fee figures were overstated, however the impact of these errors could only be quantified for fee subsidy families. This is because the City does not have access to placement information for full fee spaces prior to January 1, 2016. As such, we could not quantify the amount by which the figure for full fee families is overstated.

The audit found three different types of errors in the fee subsidy figure:

- 52 children on the CCRAW had a preferred start date more than six months in the future from the February 26, 2016 report date. These future dates ranged from September 2016 to May 2018. In our opinion, it is potentially misleading to include these children as waiting for a space when they are not ready to take a space for at least another six months.
- There were 3 duplicates in the system; and
- There were 189 fee subsidy children with preferred start dates prior to January 1, 2015 that may have already been placed, be ineligible or no longer require the space. Given the early preferred start date, likely many of these were actually placed as of February 26, 2016. CSSD did not confirm if any of these children were already placed as there was no report generated for placements before January 1, 2015. As part of the sample that we examined in section 1.2, we found that of the nine children that were reported to be on the waitlist, two had already been placed as at February 26, 2016.

Table 3 summarizes these known and possible errors in the 984 children reported as eligible for a fee subsidy and waiting for a space. This waitlist figure for fee subsidy spaces is overstated by somewhere between 55 and 244 children (6 to 25%).

Although, as mentioned above, the full fee figure is also overstated, it would not be correct to apply the fee subsidy error rates to estimate the overstatement for full fee spaces.

Table 3: Errors in numbers of children on waitlist as of February 26, 2016

Description of error	Quantity	Percentage
Children where the preferred start dates were more than six months in the future from the February 26, 2016 report date	52	
Duplicate children’s names accepted in the system	3	
Sub-total known errors	55	6%
Children with preferred start dates prior to January 1, 2015	189	
Sub-total possible errors	189	
Total known and possible errors	244	25%
Number of children reported	984	100%

The CCRAW was implemented in June 2014 with further system changes made effective January 1, 2016 as described in the above Background section and represents the overall registry of full fee and fee subsidy applications.

The process to compile the waitlist numbers reported in the SP and elsewhere is a data manipulation exercise using information in the CCRAW system with many manual steps to filter out duplicates, inactive accounts and placements. The fee subsidy applications are assessed using the separate Ontario Child Care Management System (OCCMS) and results (i.e., Accepted or Declined) are then manually entered back into the CCRAW.

Effective January 1, 2016, placements were entered into CCRAW by the service providers. However, prior to January 1, 2016, placements were entered into OCCMS and there was no functionality to store this information in CCRAW. Since CCRAW contains applications for fee subsidy that were received both before and after January 1, 2016, compiling the waitlist numbers requires a comparison of the information in the two systems.

Although the above process is documented, the process documentation used to prepare the Child Care Waitlist and Placed Dashboard Statistics contains an error. The OCCMS report used for comparative purposes only uses placement data since January 1, 2015 whereas it should consider earlier dates (i.e., 2013 and 2014). The process

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documentation also does not include steps for any detailed second person quality assurance or management review.

Since waitlist numbers are also used to forecast current and future needs, errors or misleading information impacts program, budget and funding decisions. As a result of our audit, we conclude that Committee, Council and Senior Management are basing their program and budget decisions on inaccurate and potentially misleading information about the waitlist.

Overall management response

Since June 2014, Children's Services has undergone significant, transformational changes in rapid succession over a three-year period that included:

- Internal re-organization to increase integration of CSSD services in 2014;
- Assumed responsibility from a third party provider to manage and monitor the child care waitlist and registry. This required the development and implementation of a new customized Child Care Registry and Waitlist (CCRAW) technology;
- Provincial changes from a Child Care Modernization agenda with a requirement to develop and implement a new funding framework by the end of 2015; and,
- Adapted our processes to shift to a new fee subsidy model on January 1, 2016 whereby eligible parents can retain their subsidy when they move to another child care provider like other municipalities, (this model follows the Provincial best practise where "the subsidy follows the child" and supports family choice for child care that best meets the child and family needs).

Staff continues to work progressively and diligently to create, update, and implement processes, policies and procedures, communication materials and training to respond to the various changes. To that end, of the 31 recommendations in this audit, 10 have been completed at the time of providing the management responses and another 7 will be implemented by the end of 2017.

Recommendation #1

That the City ensure that the waitlist figures are accurate by changing the calculation to remove duplicates, children that have already been placed and children that no longer require the space.

Management response:

Management agrees with this recommendation.

As part of Child Care Modernization efforts, the City of Ottawa assumed responsibility for the management and monitoring of the CCRAW from a third party in June 2014 and developed and implemented a new technology to support greater parental choice in child care. Further system changes were made effective January 1, 2016 to meet the business objectives under the new fee subsidy model. The implementation of the new technology required the migration of historical data and a new system and process for parents and staff to enter the information into the technology. Children's Services is working with the vendor to identify enhancements to the system that will address duplicates, children that have already been placed and children that no longer require the space to ensure they are no longer included in the waitlist figures.

The City continues to work with the system developer, internal staff, parents and members of the child care community on an ongoing basis to support the new fee subsidy model and meet the needs of parents and child care service providers as it relates to subsidized children. As such, system enhancements continue to be identified as the accuracy of the fee subsidy waitlist remains a priority.

This recommendation will be implemented by Q1 2018.

Recommendation #2

That the City evaluate the costs and benefits of implementing a technology solution to reduce the manual effort involved in calculating the waitlist figures.

Management response:

Management agrees with this recommendation.

Management will evaluate the costs and benefits of implementing a technology solution to reduce the manual effort involved in calculating the waitlist figures by Q4 2018.

Recommendation #3

That in the next Service Plan reported to Committee and Council, the City define the extent to which children with future start dates are included in waitlist figures.

Management response:

Management agrees with this recommendation, and it has been implemented.

The waitlist system can now identify children according to their preferred start date, including current and future dates, which will be reported in the next Service Plan.

Recommendation #4

To improve the accuracy of the waitlist figures reported, that the City formalize a quality assurance and/or management review in the calculation process.

Management response:

Management agrees with this recommendation.

A quality assurance and/or management review will be developed as part of the calculation process of waitlist figures by Q2 2018.

Recommendation #5

That the City update process documentation for generating waitlist figures.

Management response:

Management agrees with this recommendation.

The current process for documenting and generating waitlist figures will be updated to reflect the steps involved in obtaining the data by Q2 2018.

1.2 Assessing eligibility

1.2.1 Assessing eligibility – Initial assessment

The audit expected to find that when a family initially applies for a fee subsidy, their application is properly assessed.

The audit found that processes are in place to support the initial eligibility assessment for a fee subsidy and calculation of the parental contribution, if any. However, 5 out of the 23 (22%) of applications assessed in the sample we reviewed contained errors. This resulted in an incorrect eligibility assessment for a subsidy in one case and incorrect parental contribution amounts for the other four cases.

We selected a random sample of 30 applications for fee subsidy. They were selected from a population of 2,967 active and not placed applications from the CCRAW system, of which 91% were entered between 2014 and February 26, 2016. The rest were entered before 2014. The sample included a mix of new and declined applications in order to assess if all applications were accurately assessed (i.e., granted or declined a fee subsidy) and were correctly identified on the waitlist.

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Of the 30 applications selected, we completed an in-depth review of 23 as summarized in Table 3. At the time of the fieldwork in June 2016, these 23 applications had been processed and their files were available for review. The other seven applications did not have files set up as they were either new and not all required documents had been received, or the applications had been rejected upfront.

Subsidy Coordinators conduct the assessment of the applications for fee subsidy after the Verification Specialists have obtained the necessary documentation from the parents. The 23 subsidy applications were processed in a timely manner. Subsidy Coordinators took an average of three days from receipt of all the required documents to providing the applicants with the result of their assessment. None of the eligibility assessments exceeded the 10 business day limit set out in the application procedure.

Eligibility for a fee subsidy was correctly assessed for 22 out of the 23 applications. To determine if an applicant is qualified to receive a subsidy, staff examine documentation that confirms the applicant's identity, family status, legal custody of the child, residency, income and need for care, such as full-time employment or enrollment in an education program. The applicant who was incorrectly assessed as being eligible for a fee subsidy did not have copies of their photo identification (such as passport or driver's license) or confirmation of their permanent residency status in Canada on file as required by the City. A Bring Forward (B/F) was also not set up to confirm that this applicant's activity that justified the need for subsidized child care had not changed after a period when a possible change could be anticipated.

In order to determine the parental contribution, if any, for child care, staff enter information from the parents' tax returns into OCCMS and any resulting parental contribution is automatically calculated. As part of the income test, the Universal Child Care Benefit (UCCB) is deducted from the adjusted income amount for applicants who received this benefit as directed by the Ontario Child Care and Family Support Program Service Management and Funding Guideline. The City's income test guidelines require that staff ask clients who do not provide a UCCB statement, whether or not they received one. If the client received a UCCB statement, the income test is to be administered with and without the UCCB to determine which outcome is more favourable for the client. If the UCCB results in a reduction in parental fee, the parent must provide their Child Care Tax Benefit Notice to prove that the parent actually had the UCCB.

We found that 4 of the 23 applications had an incorrect UCCB adjustment that affected the parental contribution. For three cases, the parents appeared eligible for UCCB, yet

there was no deduction or supporting documentation on file explaining why the UCCB was not considered. These parents would therefore be contributing slightly more for child care than if the deduction was included. For the other case, there was no supporting documentation for the UCCB amounts that were deducted from the adjusted income of each parent. We would expect to see only one deduction for UCCB for a two-parent family. As a result of having two UCCB deductions the parental contribution in the last case was less than it should have been and as a result the City’s cost was higher.

Table 4: Summary of issues found in the subsidized child care sample

Description	Number of Applications
Applications selected from the CCRAW system for testing	30
Files not available (new or rejected applications not in OCCMS)	7
Files processed in OCCMS and tested by OAG	23
Initial assessment errors	Number
Incorrectly assessed as being eligible, and B/F not set up	1
Incorrect parental contribution amount (ranging from an underpayment of \$350 to an overpayment of \$540 over 12 months)	4
Total number of initial assessment errors	5
Rate of initial assessment errors	22% (5 of 23)
Ongoing assessment errors	Number
Of the 12 files where annual reviews should have been completed, 8 had not been done	8
B/F not followed up in a timely manner	3

Description	Number of Applications
Total number of ongoing assessment errors	11
Rate of ongoing assessment errors	48% (11 of 23)

We found that there is inadequate oversight of the assessment process. Under City procedures, there is no independent sign-off or review of the Subsidy Coordinator’s assessment except for sample file reviews conducted by their Team Lead. Per the City’s Child Care File Review policy, Team Leads are to review 2% of the files. These are to be selected randomly at the time of an employee’s performance review. Based on this percentage, Team Leads would review roughly 100 of the 5,000 applicant files expected to be reviewed and assessed. In our view, reviewing 2% of the files is inadequate as it does not provide adequate coverage of the work performed by the 17 Subsidy Coordinators. In addition, the 2016 file reviews conducted excluded new staff, whose files we would expect to represent a higher risk of error. As a result, applicants with more complex situations may be incorrectly assessed by new staff that are not as familiar with all of the eligibility requirements.

For the 38 file reviews conducted to date in 2016, while the initial decisions by the Subsidy Coordinators were all found to be correct, the Team Leads’ reviews identified that 13 of the files reviewed (34%) had issues that needed to be addressed. These issues were primarily Bring Forward (B/F) items which should have been setup but were not. We believe that this is a high level of errors. (B/F items, which affect ongoing eligibility for a subsidy, are further detailed in section 1.2.2.)

The rate of error in initial eligibility assessment is too high and oversight procedures are not adequate. Undetected errors in the initial eligibility assessment and calculation of parental contributions can result in added costs to the City and/or parents. As B/F items are not being set up, reassessments are not occurring when they should be and families that have become ineligible are continuing to receive subsidized child care.

Recommendation #6

That the City correct the errors in the five files in the audit sample.

Management response:

Management agrees with this recommendation, and it has been implemented.

The files requiring corrective action were assigned to a Team Lead, and the errors were corrected in December 2016.

Recommendation #7

That the City develop and implement a plan to improve the initial assessment process to ensure compliance with policies and procedures and to assess the impact of these steps in reducing the rate of errors.

Management response:

Management agrees with this recommendation.

Children's Services has undergone a significant period of change as a result of Provincial Modernization, legislative changes and internal re-organization. This included the implementation of a new funding framework, system conversion, changes to the fee subsidy program that allowed for more parental choice and an expanded role in the delivery of child care.

During this period, processes, policies and procedures were under review and were continuously updated and rolled out to support staff in order to maintain responsive service delivery to families and children while balancing priorities.

As noted in this audit, processes were in place to support the initial eligibility assessment. Within the sample subsidy applications, the calculation of the parental contribution was completed in a timely manner (e.g. average of 3 days, well within the 10-day limit) with staff promptly assessing the initial applications for child care services with genuine care for applicants and recipients. Eligibility for a fee subsidy was correctly assessed for 22 out of the 23 applications.

Management has begun consulting and developing a plan to improve the initial assessment process to further ensure compliance with guidelines and procedures. A new Subsidy Coordinator training checklist is being implemented that includes training and monitoring of the initial assessment. Management has also prioritized refresher training on the initial assessment practice and procedure for existing staff.

Management will continue to determine what strategic improvements can be made in fee subsidy operations. This recommendation will be implemented by Q2 2018.

Recommendation #8

That the City revise its procedures for Team Leads' reviews of initial assessments to:

- increase the percentage reviewed;
- obtain more representative coverage of files and employees;
- focus on files that represent a higher risk of error;
- document how files are selected; and
- address steps to take when errors are found.

Management response:

Management agrees with this recommendation.

The supervisory review of child care fee subsidy files is a mandatory requirement of business operations to ensure that decisions are made in accordance with the *Child Care and Early Years Act*, Ontario Child Care Service and Management Funding Guidelines and City of Ottawa practices and procedures. The Guidelines are silent on the amount of file reviews a Consolidated Municipal Service Manager (CMSM) must complete to be in compliance.

In addition to the new Subsidy Coordinator training checklist (which includes a double-signature process for all new staff within the probationary period), the City of Ottawa's File Review Practice and Procedure will be updated to initially increase the percentage of files reviewed from 2% to 5% per year. The methodology for file selection will include a representative sample of all staff conducting eligibility assessments.

The training plan and monitoring noted in the response to Recommendation 7 will ensure that steps are taken to address error trends identified through the file reviews. The percentage of files reviewed may be reassessed as a decrease in the rate of error is achieved.

This work will be completed by Q2 2018.

Recommendation #9

That the City ensure that required Team Leads' reviews of initial assessments are completed each year.

Management response:

Management agrees with this recommendation.

The local File Review Practice and Procedure will be revised to include a monitoring procedure by management to ensure that file reviews are completed each year. This work will be completed by Q2 2018.

1.2.2 Assessing ongoing eligibility – Annual Reviews (AR) and Bring Forward (B/F)

The audit expected to find that family eligibility for fee subsidy is reassessed as required. According to the Province and the City, this should be done at least once per year and more frequently when circumstances warrant. The audit found that family eligibility for fee subsidy is not being reassessed annually as required and anticipated changes known as “Bring Forward” B/F items are not being systematically addressed. This is not compliant with Provincial and City policies. This has resulted in significant backlogs and fraud and waste that cannot be detected or prevented.

The Provincial legislation, Provincial guidelines and City procedures require that a parent’s eligibility for fee subsidy be reassessed at least once per year. A review may be done earlier if the parent informs the City of a change in their family situation such as when a single-parent family becomes a two-parent family. Ongoing assessment involves reviewing documentation that confirms an applicant’s residence status, family composition, family income and their need for a subsidy.

The reassessment process identifies errors or unreported changes that could result in changes to the parental contribution or ineligibility for fee subsidy. This in turn helps to ensure the City is assigning spaces to families eligible for a fee subsidy on a priority basis within the City budget. This process also has a role in monitoring attendance to ensure that the City is not paying service providers for children that have moved or stopped attending the child care centre.

As at May 31, 2016, there was a significant backlog of 2,810 outstanding annual family reviews due to be completed (there could be one or more subsidized children per family). Based on one subsidized child per family, this represents at least roughly 40% of children in spaces that are fully or partially funded by fee subsidy. Of these, more than 2,100 reviews were due to have been completed before 2016. Based on our discussions with staff, annual reviews were stopped by management in 2014 and 2015. During the course of this audit, management reinstated the annual review process after 29 months without reviews.

The financial cost of a backlog of 2,810 files is conservatively estimated to be \$1.477 million per year due to the ineligible subsidy recipients not being identified on a timely basis. Management reports provided subsequent to our audit fieldwork indicate that

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6.1%⁶ of the files that staff went to review resulted in the termination of a subsidy. As well, the average annual net cost of a subsidy is \$8,614⁷ per space.

Table 5: Estimated annual financial cost of backlog

Description	Calculation
May 31, 2016 review backlog	2,810 files
Times ineligibility rate	6.1%
Times average annual net cost per space	<u>\$8,614</u>
Equals estimated annual financial cost of backlog (based on a conservative estimate of one subsidized space per family)	<u>\$1.477 million</u>

We would expect there would be a portion of this amount that should have been treated as an overpayment and recovered from parents in accordance with the Overpayment Recovery policy. Although the City has a policy to calculate and/or recover overpayments, as addressed below in section 1.5, due to the processing backlog staff have not been calculating the impact and recovering the resulting overpayments. Therefore, we are unable to estimate the overpayment recovery that has been foregone.

In addition to the families found to be ineligible, the reinstated annual review process found instances where the parental contribution was increased as a result of improvements in their financial circumstances. We are unable to estimate the overall impact of the delay in increases to parental contributions as the City does not identify and quantify the timing of the change in parental income.

Therefore, the annual review backlog has budget implications and is the primary reason that 2016 fee subsidy spending was forecast to be over budget. In 2016, the City implemented a process to monitor the fee subsidy budget and “turn off the tap” (i.e., halt placement of new fee subsidy children) when the fee subsidy budget is expended. As

⁶ Per March 6, 2017 Annual Review Dashboard, of the population of files due for annual review, 39% of those “touched” were not currently in receipt of a subsidy. Staff reviews of the remaining 61% of the files found a 10% ineligibility rate.

⁷ Source: June 2016 CSSD Projections Spreadsheet – average annual cost net of parental contributions

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detailed in the next section, new placements of fee subsidy children were halted in early October 2016. This means that because the City is making payments to service providers on behalf of ineligible families, new eligible families are deprived as there is no subsidy budget available.

In addition to annual reviews, the City's procedures to ensure ongoing family eligibility also include re-confirming eligibility when a change in a parent's status is expected. This can be when an education program ends, when a job contract ends or when a job search period ends. Child care staff are to record these expected changes as "brought forwards" (B/Fs) in the applicant's file. The B/F is then to be followed up so that staff can determine if the family still qualifies for subsidized child care.

The audit found that B/F items are usually identified but then are either not followed up or are not followed up on a timely basis. Management indicated that B/F items, like the backlog of annual reviews, can also be addressed when staff review files during annual reviews and at the time of placement. As of May 31, 2016, there were 2,106 B/F items outstanding. In addition to annual reviews, B/F items for anticipated changes should be addressed as soon as they are due so that the City does not continue to make payments for families that are no longer eligible for full or partial subsidy. These outstanding B/F items also impact the City's ability to meet its obligation to assign fee subsidy on a priority basis within the City's budget.

Further to section 1.2.1, we have found that the Team Lead file review of the Subsidy Coordinator work is not done for re-assessments. Therefore, inadvertent or intentional errors in eligibility re-assessment could be made without detection, increasing the risk of fraud and waste.

There is no onus on parents to automatically re-apply for subsidy each year. Fee subsidies currently do not have an end or expiry date. The processing backlogs for annual reviews/re-assessments are of concern as fee subsidy continues until someone in CSSD follows up with the parents for documentation to conduct the annual review/re-assessment. This can require CSSD staff to provide several requests for documentation before assessing the file and/or terminating the subsidy.

Although parents are supposed to notify CSSD of ongoing changes, there is no onus on parents to automatically provide documentation for annual reviews/re-assessments. The current CCRAW system has no functionality for parents to provide required documents electronically when submitting or re-submitting their application. These have to be faxed, emailed, delivered or mailed separately to the support centre, an inefficient process.

Recommendation #10

That the City conduct annual reviews, ongoing reviews and follow-up of bring forward items on a regular basis and monitor compliance.

Management response:

Management agrees with this recommendation.

As described earlier in the rationale section of the report, the audit coincided with the implementation of significant changes in the delivery of child care services. This included the implementation of a new funding framework, changes to the fee subsidy program that allowed for more parental choice and an expanded role in the delivery of child care and municipal efforts to modernize services. Even with these significant changes, staff completed annual/ongoing reviews and followed up on bring forwards where possible with actions being taken on reported changes to the client files.

Management will ensure that annual reviews continue as per the local Annual Review Practice and Procedure. A local practice and procedure will be developed for ongoing reviews and follow-up of bring forward items within the case management function to ensure regularity and monitoring of compliance by Q4 2018.

The action planned in response to Recommendation 7 will also address training and monitoring of compliance.

Recommendation #11

That the City consider changing the child care process to require parents to annually reapply for subsidized child care.

Management response:

Management agrees with this recommendation.

The current local Annual Review Practice and Procedure identifies parental and staff responsibilities in the annual review process to resubmit documents to ensure ongoing eligibility within 12 months.

Management will consider implementing a re-application process for child care subsidy while balancing the need to ensure a continuity of care for children eligible for fee subsidy by Q4 2018.

Recommendation #12

That the City consider technology options to allow parents to electronically submit documentation.

Management response:

Management agrees with this recommendation.

Technology options will be considered to allow parents to electronically submit documentation. An environmental scan will be completed by Q2 2018.

1.2.3 Conflict of interest policy/procedure

In order to meet the conflict of interest requirements in the Provincial 2016 Child Care Funding Guidelines, the audit expected to find that City policies require a clear audit trail and reduce the potential for conflict of interest in conducting assessments or reviews. By way of example, Community and Support Centre City staff, formerly Employment and Financial Assistance (EFA), are not allowed to be involved with Ontario Works (OW) applications or case files for their relatives.

The Children Services unit does not have a specific policy/procedure to address Provincial conflict of interest requirements beyond the general requirements in the City's Code of Conduct. We were not made aware of any disclosures of conflicts of interest or related party transactions for child care services.

The City's Code of Conduct includes a general requirement to disclose conflicts of interest and involvement in transactions with related parties. However, the Code does not address the specific staff and management roles and responsibilities and documentation requirements with respect to not being involved in child care eligibility assessment processes for a related party. This results in the City not meeting Provincial guidelines and increases the risk that a Children Services unit employee may process a child care transaction for a related party.

Recommendation #13

That the City establish a policy/procedure for Children Services to address potential conflicts of interest in conducting assessments and reviews.

Management response:

Management agrees with this recommendation, and it has been implemented.

Although the audit found no evidence of conflict of interest or related party transactions and subsidy staff in practice, adhered to the "Application for

Assistance Made by Staff” Practice and Procedure, the Procedure was formally updated in April 2017 to specifically include child care subsidy staff. This information was shared with all staff via email on May 2, 2017.

1.3 Fee subsidy budget

The audit expected to find a procedure or process in place that ensures that new fee subsidies are not granted beyond the available budget. The audit found that although in 2016 there was a monitoring process in place, management continued to process fee subsidy applications and place children in spaces beyond the available fee subsidy budget. The fee subsidy budget for 2016 is \$64.4⁸ million including the portion for Municipal Child Care (MCC) and the exempt portion that applies to children from the vulnerable population and emergency placements. When a subsidy application is approved, a portion of the budget is committed for current and often for future fiscal years as the subsidy continues until such time as the child(ren) leave care or the family is determined to be ineligible.

Since January 2016, there has been an active process in place to monitor the fee subsidy budget which includes monitoring reports and meetings. The waitlist system (CCRAW) has also been updated to include the functionality to advise service providers when subsidy funds are no longer available and subsidized children can no longer be placed. Both these steps contribute towards the business objective of system sustainability.

In January 2016, management projected a deficit of \$2.3 million for the non-exempt portion of the subsidy budget for 2016. The projected deficit increased to \$3.5 million by July 2016. However, despite the growing projected deficit, CCSD continued to make ongoing commitments by approving new subsidies. Management indicated that they planned to stop placing fee subsidy children after the busy September placement period. This placement stop would not apply to children that are in an exempt program (i.e., from vulnerable population or emergency placement) which is funded from a separate budget or that were waiting for a transfer to another location.

Even though the full waitlist can exceed the available funding, the service providers are able to continue to place children from the full waitlist. In the future, Management indicated that they plan to only include the quantity of children prioritized for fee subsidy on the service providers’ waitlists for which there is funding available.

⁸ As per 2016-2017 Service Plan

Audit of Child Care Services

The calculations supporting the figures in the fee subsidy budget monitoring report spreadsheets contained a number of errors including:

- Budget overstated by \$544,000
- Formula and rounding errors, and
- Unexplained changes to prior month's costs

We were unable to quantify the cumulative dollar value of these errors which may further impact the amount of the projected deficit.

The fee subsidy budget monitoring reports were compiled using a multi-step manual process. Although the process is documented, there is no step in the process to reconcile the figures in the monitoring report to the City's accounting system and no requirement for a detailed second person quality assurance or management review.

Management indicated that they planned to rely on the Child Care Reserve to fund the projected deficit. However, the adequacy of the current uncommitted balance in the Reserve is unclear. As illustrated in Table 6, based on the funding allocations and commitments for the period from 2016 to 2020 reported in the 2016-2017 Service Plan, the current reserve is not adequate to fund the projected deficit and the previous commitments.

Table 6: Child Care Reserve – Projected balance

Description	Amounts (in millions)	
Actual year end 2015 cash balance ⁹	11.7	
Plus: 2015 contribution of operating year end surplus	2.4	
Plus: Transfer from Municipal Health and Safety Project	<u>1.6</u>	
Sub-total projected funds available		15.7
Less: Commitments:		
• Stabilization initiative for service providers (2016 to 2020)	-11.5	
• Emergency funding for service providers (2016 to 2020)	-3.5	
• Fee subsidy to maintain at current level for 2016	<u>-.5</u>	
Sub-total commitments		<u>-15.5</u>
Net surplus before disposition of 2016 surplus/deficit		.2
Less: Projected 2016 fee subsidy shortfall as of July 2016		<u>-3.5</u>
Projected shortfall in reserve as of July 2016 ¹⁰		<u>-3.3</u>

⁹ From 2016-2017 Service Plan

¹⁰ Subsequent to the audit, the City's 2017 budget documents report that all funds in the Child Care Reserve are fully committed over the ensuing years (2016-2020). The 2016 Child Care Services deficit of \$2.2 million was funded from the City Wide reserve.

The authorized budget and the available reserve should be the maximum amounts available to fund placements in subsidized spaces. Overspending these amounts will not leave enough funding for commitments previously made¹¹.

Recommendation #14

That the City properly manage the fee subsidy budget and limit the approval of subsidized placements to the amount of the authorized budget and if required to the available reserve.

Management response:

Management agrees with this recommendation.

On January 1, 2016, the fee subsidy model shifted to allow more parental choice where subsidy funds now follow the child, not the provider. This resulted in an increase in the number of children served. As noted in the audit there have been active processes in place to monitor the fee subsidy budget since the shift to the new model.

Budget reviews in early 2016 indicated a potential overspending of the fee subsidy budget. Forecasting the total costs of subsidies in the new model was complex as it had to consider a variety of factors including: age of the children, family income and, provider per diems.

Mitigation measures were implemented by prioritizing annual reviews over a number of months. When the annual reviews did not fully mitigate the financial pressures, management initiated steps to suspend fee subsidy placements. Children continued to be placed until September 30, 2016 as suspending access to new fee subsidy placements prior to September (which is the peak period for placements in child care) may have caused significant hardship to families and service providers. A notice period of a minimum of six weeks is required to inform the sector. This notice was sent in August 2016 to advise providers that at the end of September 2016, subsidies would be suspended pending available budget.

Changes were made to the placement technology and processes in Q1 2017. Functionality was added to advise service providers when subsidy funds are no longer available and subsidized children can no longer be placed. Both of these

¹¹ Subsequent to the audit, the City's 2017 budget documents report that all funds in the Child Care Reserve are fully committed over the ensuing years (2016-2020). The 2016 Child Care Services deficit of \$2.2 million was funded from the City Wide reserve.

steps contribute toward the business objective of system sustainability. Effective March 15, 2017, new fee subsidy placements became available through attrition (i.e. children exit care / families no longer eligible) to assist the highest prioritized families.

Management will continue the work started in Q1 2017 to improve the budget monitoring tool and processes to align with the new fee subsidy model that was implemented in 2016. The current budget monitoring tool and process will be revised to reduce calculation errors, improve quality assurance and ensure placements are only approved within the available budget by Q4 2017. This response also applies to Recommendations 15 and 16.

Recommendation #15

That the City change the spreadsheets used in the fee subsidy management calculations to correct the calculation errors.

Management response:

Management agrees with this recommendation.

The spreadsheets used for fee subsidy management calculations are being reviewed and revised to ensure accuracy in reporting. This work began in Q2 2017 and is expected to be completed by Q4 2017.

Recommendation #16

That the City implement quality control and/or management review steps in the fee subsidy monitoring calculation process.

Management response:

Management agrees with this recommendation.

Management review approaches that build on work that began in Q2 2017 will include quality assurance related to the fee subsidy monitoring calculation process. This work will be completed by Q4 2017.

1.4 Attendance recording

The audit expected to find that attendance is properly and accurately recorded at both municipally and externally operated sites to ensure that subsidized children are actually attending child care. The audit found that attendance recording practices were not adequate to ensure that the City is only subsidizing children that are actually attending child care.

The City's processes do not include on-site verification of attendance or obtaining and reviewing sign-in sheets for the subsidized children. The process is reliant on the supervisors at the service provider centres to submit attendance data. The risk is that service providers are in a conflict situation as they may have an incentive to report an absent child as attending in order to continue to receive subsidies. This could occur where children are no longer receiving care, such as those that have moved or are being cared for at home.

We would expect this risk is lower for partially subsidized children than fully subsidized children as parents are unlikely to pay their share of the cost to the City if their children are not receiving care.

We selected a sample of 15 service providers in order to assess the sign-in/sign-out procedures for each site. For each site selected, we obtained and reviewed attendance sheets for a sample period. The results of this testing were inconclusive as none of the sites required parental signatures on the attendance sheets. Although attendance needs to be taken, neither the Province nor the City require parental signatures. Only three of the service providers sampled required parents to initial the attendance sheets.

Recommendation #17

That the City consider the costs and benefits of expanding attendance monitoring procedures to provide assurance that the children for whom the City is paying a fee subsidy are attending the centres.

Management response:

Management agrees with this recommendation.

The City of Ottawa is currently in compliance with Provincial requirements associated with attendance reporting.

A review of attendance monitoring approaches will be completed to determine if other processes can provide any additional assurance that the children are attending the centres and submitting accurate attendance data. This work will be completed by Q4 2018.

1.5 Recoveries from parents

The audit expected to find that child care fees, ineligible fee subsidy and excess days away amounts are recovered from parents. We found that this was only partially the case.

Audit of Child Care Services

Effective January 1, 2016, the City changed the child care model to having it pay the full fee to service providers and collect the non-subsidized portion from the parents/guardian, if applicable. The Service Plan reports to Committee and Council did not identify the risk associated with collecting these receivables, the additional resources required or reference a separate business case analysis to support this change. The audit found that procedures were in place to calculate and collect the parent's portion of the child care fees for children on partial subsidy. There was also a procedure in place to address excess days away. These are where children are away more than the allowable 36 days per year and parents have not obtained approval from the Subsidy Coordinator for additional days away. The excess days are invoiced to the parent. However, the City's Overpayment and Recovery procedure is not consistently being followed where staff identify a family that is no longer eligible for a subsidy. The practice is to terminate the subsidy going forward. However, staff do not attempt to recover funds from parents for the past ineligible period. The total unrecovered amount is not known as the City does not quantify and document the exact timing and amount of the changes in each case. However, because of the large backlog in annual reviews, the amount is likely significant.

The Aged Accounts Receivable reports for child care list the child care customers that have not yet paid the City. The total amount outstanding was \$126K and \$123K as at December 31, 2015 and May 31, 2016, respectively. These reports are used by staff to monitor and collect the balances on a priority basis including sending termination notices and terminating care if payments are not received. The Aged Accounts Receivable reports for Child Care are not regularly reconciled to the General Ledger account in the accounting system. When we requested, Finance reconciled the Child Care Aged Accounts Receivable balance in the accounting system (\$133K as at December 31, 2015). The reconciliation identified that there were seven child care (parent) accounts that were not coded as "Child Care" in the accounting system and were therefore not included in the Aged Accounts Receivable reports. As at December 31, 2015, this resulted in the aged report being understated by approximately \$7,000 or 5%. Without regular reconciliations, the full extent of similar errors which could go undetected would not be known, resulting in outstanding accounts not being followed up on a timely basis.

Recommendation #18

That the City direct staff to comply with the Overpayment and Recovery procedure and quantify and recover amounts for past periods where parents did not notify the City of their change in status.

Management response:

Management agrees with this recommendation and it has been implemented.

Staff were provided comprehensive training in March 2017 on the recently reviewed and revised local Overpayment and Recovery Practice and Procedure.

Recommendation #19

That the City monitor compliance with the Overpayment and Recovery procedure.

Management response:

Management agrees with this recommendation and it has been implemented.

The audit found that procedures were in place to calculate and recover overpayments and management has also provided training as indicated in the response to Recommendation 18.

In April 2017 staff were provided with a tool to track all overpayments as a means to monitor compliance. Compliance will be further verified through the increased file reviews by the Team Leads as outlined in the response to Recommendation 8.

Recommendation #20

That the City reconcile the Aged Accounts Receivable reports for Child Care to the General Ledger account in the accounting system on an ongoing basis.

Management response:

Management agrees with this recommendation.

The Aged Accounts Receivable reports will be reconciled to the General Ledger account by Q4 2017 and then on an ongoing basis thereafter.

1.6 Efficient and effective child care processes

The audit expected to find child care processes that are efficient and effective.

We found the initial assessment process to be effective for the sample files reviewed. Parents apply for child care through the CCRAW, by filling in an online form, and providing documentation as required such as proof of identification, income, employment/education to Child Care Services. Applications are only reviewed by the subsidy coordinators once all supporting documents are received and confirmed complete by the verification specialists. The audit team observed that child care staff work with genuine care for applicants and recipients and that the initial assessment of cases is performed promptly once all documents were received.

Audit of Child Care Services

We did however observe gaps and inconsistencies in procedural documents which impact efficiency and effectiveness and result in errors or a lower level of client service. The City is responsible for meeting Provincial requirements including those set out in the Provincial Transfer Payment Agreement and Funding Guideline. The guideline outlines the expectation that Consolidated Municipal Service Managers, such as the City, will develop their own business practices to support the directives. As noted in prior sections, the City has implemented significant program changes. CSSD practice and procedural documents, along with communication and training, supported this change.

While there are a large number of CSSD process flowcharts and procedural descriptions, they are not all complete, accurate and clear. We reviewed documentation for four key processes. These were the Child Care Fee Subsidy Waitlist Application, the Annual Review of Child Care Fee Subsidy Eligibility, the Monitoring Subsidized Child Care Attendance and the Overpayment and Recovery processes. We noted that the application procedure had undocumented steps and inconsistencies between the procedural document and process map that may not be apparent to new staff. The annual review process also had inconsistencies between the procedural document and the process map.

As noted in prior sections, although annual review and overpayment recovery procedures were in place, they were not enforced and the monitoring attendance procedure was too reliant on the service provider.

Staff use a Provincial system (OCCMS), to support the administration of child care fee subsidy and contract management among other functions. The audit found that access to this system was generally well controlled.

Recommendation #21

That the City review its inventory of CSSD procedural documents, prioritize the processes and ensure key processes are documented and updated as required.

Management response:

Management agrees with this recommendation and it has been implemented.

Despite the significant changes referenced in the audit, it was noted that a large number of process flowcharts and procedural documents exist.

As part of the Practice and Procedure work plan, Children's Services will ensure that fee subsidy practices and procedures are prioritized, documented and updated in accordance with a regular review cycle.

Audit objective #2

Assess that information provided to Committee and Council and Senior Management is complete, accurate and timely for decision making purposes.

2.1 Municipal Child Care Centre Staffing and Financial Information in 2016-2017 Service Plan

The audit expected to find that staffing and financial information on Municipal Child Care programs provided to Committee and Council in the 2016-2017 Service Plan (SP) was complete and accurate. The SP refers to an “extensive review of the MCC program undertaken by the City”, and the Report to Committee and Council with the SP refers to the MCC Program Review as having been completed in 2015. The OAG planned to examine the costing information from this review that was reported in the SP. We found that Committee and Council made decisions using information provided in reports that was misleading, incomplete and inaccurate.

Although CSSD provided us a document entitled *Municipal Child Care Program Review*, we were subsequently informed by staff that it was a draft document. Staff informed us that it did not represent a full costing of the MCC program, rather it was “mostly an environment scan and snapshot in time”. The audit found that the CSSD had only taken some initial steps towards determining the full cost of the Municipal Child Care (MCC) program and it was in the process of preparing the Municipal Child Care Program Review. As a result, we excluded a detailed review of this draft document from the audit scope and focussed on examining the specific financial figures that were included in the SP.

There has not been a full cost/benefit analysis of the MCC program and the SP did not contain information on the full costs of the MCC program. Therefore, the City cannot know the true cost of operating its Municipal Child Care Centres. CSSD management indicated their objective is to complete a full costing of the MCC program by 2018. However, we would expect that management would complete this work as soon as possible in 2017. Delays in using this information to ensure that MCCs are meeting the April 2016 Council approved mandate¹² are potentially costing the City millions of dollars annually.

¹² April 27, 2016 Council approved that the mandate of the Municipal Child Care programs is to serve vulnerable families in areas of the City where there are insufficient child care spaces to meet demand and no other child care operators are able to shift their service offerings.

Audit of Child Care Services

CCSD also does not have a documented methodology to use in conducting this costing exercise. This would be needed to ensure that complete, accurate and relevant financial information has been analyzed and provided to Senior Management, Committee and Council for program, budget and funding decision purposes.

The SP states that the majority of costs of the MCC program are salaries and benefits (80 to 90%). While this statement is plausible, we found it was not possible to verify as the full cost of the MCC program had not yet been determined. In addition, the following problems with figures contained in the SP were identified:

- The average salary cost per licensed space reported in the SP presented to Committee and Council was \$17,000 while the average salary cost calculated by the City was \$18,000
- There was a mathematical error of 1,460 (18%) in the total number of spaces which should have been reported as 8,258 in the “Summary of Centres and Licensed Spaces” table
- Staff could not locate or recreate the source data used for calculations supporting some of the figures in the SP

These problems point to issues with quality assurance and standards for documenting supporting data.

Recommendation #22

That the City complete the MCC Program Review as soon as possible in 2017.

Management response:

Management agrees with this recommendation.

In April 2016 Council approved the mandate of the Municipal Child Care Centres and, a viability and sustainability workgroup was established in Q3 2016. A framework is currently being developed that will include key metrics that guide recommendations and decision-making. This work will be completed by Q4 2017.

Recommendation #23

That the City document the costing methodology and standards to be used in the compilation of the cost/benefit analysis of the MCC Program.

Management response:

Management agrees with this recommendation.

The cost/benefit analysis methodology and standards will be documented as part of the framework outlined in the response to Recommendation 22. This work will be completed by Q4 2017.

Recommendation #24

That the City retain source documents and implement a quality control review of the figures in future SPs.

Management response:

Management agrees with this recommendation.

All source documents will be retained and a quality control review of the reported figures will be included in future Service Plans. This will begin in Q2 2018 to align with the next Service Plan.

2.2 Information to management

The audit expected to find that Senior Management receive complete, accurate and timely information to manage the program. Expected information would include the status of various processing delays and backlogs. The audit found that the information provided to Senior Management was not always complete, accurate and timely. Although CCSD Senior Management did get reports, there were gaps and quality issues. These gaps and quality issues have been addressed in greater detail in the referenced sections of this report.

As detailed in section 1.1, Management receives the waitlist numbers; however, there were errors and a lack of quality or management review of the supporting detail which resulted in inaccurate and potentially misleading reporting. Management also receives fee subsidy budget monitoring reports and meets to review them. As reported in section 1.3 there were errors in the fee subsidy management calculations and a lack of quality control and management review during the calculation process.

Management tracks, on a weekly basis, child care workload and assignment in a number of areas including reassessments. Management receives overall statistics on the results of annual reassessments completed, the portion eligible and the portion ineligible and resulting termination notices and terminations. Management distributes a dashboard with annual review measures. However, the dashboard is incomplete as it only includes documentation packages received and not those requested or that should have been requested.

Audit of Child Care Services

As reported in section 1.5, reporting is also incomplete for amounts for past ineligible periods which are not recovered from parents and for the total unrecovered amount which the City does not quantify and document. As detailed in section 3.2, reports were also not yet developed to monitor Ministry service level targets.

The gaps and quality issues in management reporting result in incomplete, inaccurate and misleading information which may impact program, budget and funding decisions. We are unable to say what decisions may have changed but improved information may have led to more timely action on annual reviews, termination of ineligible fee subsidies, recovery of past amounts paid on behalf of parents and a reduced program budget deficit.

Recommendation #25

That the City improve the management reporting for the annual review performance reporting dashboard.

Management response:

Management agrees with this recommendation.

Management currently receives a number of reports related to various aspects of the business, including: the waitlist, the fee subsidy budget, workload, etc. The frequency of the reports varies and may be provided on a weekly, monthly, quarterly and/or annual basis. Management disseminates the reports/data on an as-needed basis, including a dashboard of annual review measures.

Improvements to the accuracy of reporting have been made and/or are underway in areas such as the waitlist, the fee subsidy budget monitoring reports and, overpayment recoveries that will contribute to informed decision-making. This work will be completed by Q2 2018.

Audit objective #3

Assess the effectiveness of controls to manage that service levels and administrative costs will meet the agreed Provincial targets and that service providers were using funds for the intended purposes and amounts were recovered as necessary.

3.1 Monitoring funds to service providers

The audit expected to find that service providers are only paid for the agreed upon services they provided and staff monitor to ensure that funds provided to the service providers are used for the intended purpose or are recovered.

Audit of Child Care Services

The City enters into agreements with child care service providers to provide Provincial and City funds to deliver child care. In 2016, there were 117 agencies under contract with the City. Table 7 illustrates these three funding types and the annual budget amounts for 2016 in millions of dollars.

Table 7: Annual budget for three main funds to service providers

Funding	Annual budget for 2016 ¹³
Fee Subsidy (does not include City directly operated centres)	\$55 million
General Operating	\$16 million
Wage Enhancement	\$18 million

The agreements contain terms and conditions that the service providers are to follow and the supporting documentation that they are to provide to the City.

We expected to see files where the City:

- Collected the required documents
- Documented the review and actions taken by staff
- Completed checklists to show the status of document collection and review
- Documented supervisory or Quality Control (QC) review of the file

Provincial guidelines require that on an annual basis the City review and reconcile the use of funds by service providers and recover funds as required. Although policies and procedures were in place to monitor the funding provided to service providers, the audit found that overall they were not adequately applied. While some monitoring occurred, there were examples where the most important activities related to completing reconciliations and resolving items and/or recovering amounts identified were not monitored.

¹³ As per 2016-2017 Service Plan

Audit of Child Care Services

We selected ten service providers and reviewed the latest files from prior years for each service provider for the three primary grant and contribution funding types:

- General Operating (prior to 2016 referred to as Wage Subsidy)
- Wage Enhancement
- Fee Subsidy (prior to 2016 this was based on allocations established through an annual budget process)

The audit found that City files did not contain the documentation required to be provided by the service providers per the terms and conditions of the contribution agreements. The files were also missing evidence documenting that City staff had reviewed the documents in the files. Examples of documents that were missing or outdated included the following:

- Insurance certificates with inadequate or expired coverage
- Missing operating licenses for service providers
- Missing T4 summaries
- Missing annual general meeting minutes
- Missing audited financial statements

These missing and inadequate documents could result in the City providing funds when they should not be provided and not being able to recover these amounts. As an example, without appropriate insurance certificates there is a risk to the City that service providers do not have insurance coverage to meet their obligations. For another example, without requesting and reviewing current audited financial statements, there is a risk that the City does not identify service providers in financial difficulty prior to releasing funds which could result in the City losing funds that cannot be recovered. The City must improve oversight of this \$89 million annual expenditure.

We also found cases where there was no satisfactory resolution of issues. In these cases, City staff identified issues. However, if there was resolution and/or follow up by City staff, it was not documented on file. These included the following examples:

- Staff identified a distribution of wage subsidy funding to a child care service provider that exceeded \$9,534 per Full Time Equivalent (FTE) which is the maximum set by the *Ontario Child Care Service Management and Funding Guideline*. There was no indication in the file that the excess was recovered.
- Staff identified salary information and supporting pay stubs submitted by service providers that did not agree. This matching is a Provincial requirement to ensure wage enhancement grant funding is used for the intended purposes. There was

no indication in the file that the differences were followed up with the service providers.

The audit also found there were checklists missing in the files and no documented supervisory or quality reviews. Checklists could be used to indicate the documents that should be on file and to demonstrate the documents collected are reviewed by City staff.

Recommendation #26

That the City develop and implement the use of file documentation checklists to monitor agreement compliance by service providers.

Management response:

Management agrees with this recommendation and it has been implemented.

In January 2017, management established the Children's Services Funding and Financial Accountability Branch to build on existing practices related to the monitoring, oversight and accountability of service providers.

New contribution agreements were implemented in 2016 in association with the new funding model. This includes enhanced reporting requirements that will be monitored yearly to ensure compliance. A file documentation checklist has also been developed to monitor agreement compliance by service providers.

Recommendation #27

That the City aggressively monitor and take meaningful documented actions with service providers to ensure agreement compliance.

Management response:

Management agrees with this recommendation and it has been implemented.

As described in the response to Recommendation 26, the Children's Services Funding and Financial Accountability Branch will continue to monitor ongoing agreement compliance with service providers, including documentation while balancing availability of child care spaces and continuity of service for families.

Recommendation #28

That the City implement a quality assurance/management review process to ensure completeness of service provider files and to improve oversight.

Management response:

Management agrees with this recommendation and it has been implemented.

As described in the response to Recommendation 26, the Children's Services Funding and Financial Accountability Branch has implemented a checklist that includes a review by a second party to ensure quality assurance.

3.2 Monitoring Provincial service level and administrative cost targets

The audit expected to find that service levels and administrative costs were monitored to ensure they met agreed Provincial targets. There are three contractual service level targets relating to the number of children served in the expense categories of fee subsidy, special needs and Ontario Works. These targets matter because if the City does not meet each of the three contractual service targets by 10% or more or 10 children or more in the aggregate, the City's entitlement and cash flow will be reduced by 1% to reflect the underachievement. The child care administration budget expenditure benchmark relates to a maximum allowable expenditure, which if exceeded, must be 100% financed by the City.

The audit found that there was no monitoring of performance against service level and administrative cost targets throughout the year to ensure that the City is on track to meet them. This would include forecasting performance to year-end and taking corrective action, as necessary. Staff focus on reporting actuals to the Province but well after year-end. At year-end, the City's external auditors review dollar values but not service level program data. Year-end reporting to the Province occurs at least five months after year-end. For 2015, it was further delayed as the City waited for clarification on an issue from the Province.

For 2016, service level targets and estimates were due to the Province September 30, 2016. However, reports to monitor the targets and estimates were still being developed as of the end of our fieldwork in July 2016. Therefore, there will likely be little time to take any corrective actions, if any are needed. If targets were not met, there can be program, funding and budget impacts.

Recommendation #29

That the City establish procedures to report and monitor service level and administrative cost targets with sufficient lead time to take any necessary corrective action.

Management response:

Management agrees with this recommendation.

Historically, Children's Services has met and exceeded Provincial service level targets as a result of the municipal contribution that surpassed the Provincial requirement. The service level targets for 2017 were approved by the Ministry of Education in July 2017.

The Children's Services Funding and Financial Accountability Branch have been working with the Financial Services Unit to develop a practice to monitor service level targets and administrative cost targets that includes regular reporting to align with the 2017 Provincial contribution agreement. This work will be completed by Q3 2017.

Audit objective #4

Assess how Occupational Health and Safety and succession planning for key staff were addressed in Child Care Services.

4.1 Succession planning

The audit expected to see that succession planning is occurring for key staff. The audit found that critical positions required to ensure business continuity were identified at the management and supervisory level and were documented in a succession plan. The plan also identified a number of potential successors for these positions across CSSD branches, which creates a larger pool of potential successors. However, the succession plan did not include a development plan. There is therefore a risk that individuals identified as successors may not develop the required skills and or competencies in time to take on the role identified for them when required.

Recommendation #30

That the City complete a development plan as part of the CSSD succession plan.

Management response:

Management agrees with this recommendation.

As mentioned in the audit critical positions required to ensure business continuity were identified and documented, including potential successors for these positions across CSSD branches.

Management continues to have regular one-to-one conversations with staff about performance and development as part of the annual performance review cycle.

Management will follow the corporate direction to develop a comprehensive succession plan. This will be completed by Q4 2018.

4.2 Occupational Health and Safety

The audit expected to find Occupational Health and Safety being addressed by Child Care Services. The audit found that Occupational Health and Safety requirements were being adequately addressed in a timely fashion in 14 of the 15 sites where child care services are being delivered.

According to Provincial legislation, workplaces with more than 20 people should have a Joint Health and Safety Committee (JHSC) that meets at least once every three months at the workplace. In addition, the JHSC is expected to name a member to inspect the physical condition of the workplace. There are 15 sites where child care services are being delivered, four Social Service Centres (SSC) and 11 Municipal Child Care Centres. All sites have recently completed a monthly inspection report. These reports show which hazards have been assessed and the actions identified or taken to address them. In addition, the audit team visited all of the SSCs and one of the Municipal Child Care Centres.

However, one SSC JHSC did not meet quarterly between October 2015 and July 2016 due to a lack of worker members on the committee. Reduced oversight on health and safety issues by the committee increases the risk of injury or harm to employees.

Recommendation #31

That the City reconstitute the Social Services Centre Joint Health and Safety Committee and recommence quarterly meetings.

Management response:

Management agrees with this recommendation and it has been implemented.

Occupational Health and Safety requirements are being addressed in a timely fashion in 14 of the 15 sites where child care services are being delivered, with monthly inspection reports being completed, hazards assessed and action planned and/or taken as required. The remaining site was able to secure quorum and recommenced quarterly meetings in July 2016.

Appendix A – Audit objectives and criteria

Overview of the audit objectives and criteria

<p>Audit objective # 1: Assess the efficiency and effectiveness of controls to manage child care processes to ensure that spaces are assigned on a priority basis within the available budget, attendance is monitored and appropriate amounts are recovered from clients.</p>	
1.1	Criteria 1: The waitlist is complete, accurate and up to date.
1.2	Criteria 2: Family eligibility for fee subsidy is properly assessed initially and reassessed as required.
1.3	Criteria 3: Fee subsidy children are not placed beyond the available budget.
1.4	Criteria 4: Attendance is properly and accurately recorded at both municipally and externally operated sites.
1.5	Criteria 5: Day care fees, ineligible fee subsidy and excess days away amounts are recovered from parents.
1.6	Criteria 6: Child care processes are efficient and effective.
<p>Audit objective # 2: Assess that information provided to Committee and Council and senior management is complete, accurate and timely for decision making purposes.</p>	
2.1	Criteria 1: Staffing and financial information on Municipal Child Care programs provided to Committee and Council in the 2016-2017 Service Plan is complete and accurate.
2.2	Criteria 2: Senior managers receive complete, accurate and timely information to manage the program.
<p>Audit objective # 3: Assess the effectiveness of controls to manage that service levels and administrative costs will meet the agreed Provincial targets and that service providers are using funds for the intended purposes and amounts are recovered as necessary.</p>	
3.1	Criteria 1: Service providers are only paid for services provided and are monitored to ensure that funds provided to them are used for the intended purpose or are recovered.

3.2	Criteria 2: Service levels and administrative costs are monitored to ensure they meet agreed Provincial targets.
Audit objective # 4: Assess how Occupational Health and Safety and succession planning for key staff are addressed in Child Care Services.	
4.1	Criteria 1: Succession planning occurs for key staff.
4.2	Criteria 2: Occupational Health and Safety is addressed in Child Care Services.