

**CHILDREN'S SERVICES DIVISION –  
REVIEW OF THE ADMINISTRATION OF  
CHILD CARE FEE SUBSIDY**

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**Auditor General's Office**

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## **EXECUTIVE SUMMARY**

Under the *Day Nurseries Act*, the Children's Services Division is the designated service system manager for child care services provided by the City of Toronto. The Division is responsible for the planning and management of a broad range of child care services including:

- licensed group centres, licensed home child care, family resource programs, summer camp programs and special needs resourcing agencies;
- entering into service contracts with independent centres and home child care agencies to purchase child care for families who qualify for subsidized child care;
- managing municipally operated child care centres and a municipal home child care agency;
- assessing and monitoring ongoing eligibility for subsidized child care;
- managing the first come first served waiting list for subsidized child care; and
- ensuring that all child care programs, with a service contract for fee subsidy with Children's Services and those that are municipally operated, comply with the City of Toronto standards outlined in the document entitled: "Toronto Children's Services' Operating Criteria".

The challenges in managing such a diverse and complex system with a range of responsibilities and limited funding are significant. Unlike most divisions in the City, the Children's Services Division is well established and was not impacted to any great extent by the 1998 amalgamation of Metropolitan Toronto and its constituent municipalities. Consequently, its processes and systems are mature and well established. While we have

identified some issues which need to be addressed, the Division in our opinion is well managed.

The Division is guided for the most part by its 2005-2009 Child Care Service Plan which is the third such plan since 1993. The development of this comprehensive Child Care Service Plan included significant consultation. The Plan serves as a road map to guide the child care system over the next number of years and forms the framework for service planning and resource allocation. In concert with the Child Care Service Plan, the Division has established its own operating standards articulated in a document called "Toronto Children's Services' Operating Criteria". In simple terms, compliance with these standards is required for child care operators who have contracts with the City.

One of the key principles and policies adopted by City Council to provide a framework for the 2005-2009 Child Care Service Plan is a requirement that there be a "first come first served" admission process to subsidized child care. The policies established by the Division to comply with this direction are not consistently being followed and in particular, there is a need to ensure that monitoring processes to ensure compliance are effective.

The Division is clearly committed to continually improving standards of care for children and is refining its Operating Criteria on an ongoing basis. While we are not suggesting that standards contained in the Operating Criteria be amended, we are of the view that the administrative cost involved be considered relative to the effectiveness of these criteria to improve the quality of child care. An end result of such a validation may result in the amendment of standards, a lowering of costs and an increase in the number of subsidized child care spaces available.

Finally, there are in our view opportunities for administrative cost savings in relation to the more effective use of technology in the Division. The administration at the moment is heavily reliant on a paper based exchange of information. The exchange of information electronically would likely be less costly, more efficient and less prone to errors.

Supporting information relating to each of these issues and other less significant concerns are contained in the body of the report.

## **BACKGROUND**

### Children's Services Division

The Children's Services Division is responsible for the planning and management of a broad range of child care services. Services are provided to over 32,000 children through:

- 58 municipally operated child care programs;
- 600 child care centres;
- 46 Family Resource centres;
- 40 summer day programs;
- 26 special needs agencies; and
- 22 licensed home child care agencies.

Children's Services has seven offices, 57 licensed child care centres and one home child care agency across the City with a staff complement of approximately 930 full time positions. In 2006, the gross expenditures for the Division were approximately \$329 million. The City, after subsidy from the Province, was responsible for funding approximately \$67.5 million. According to the *Day Nurseries Act*, the costs to subsidize child care are to be shared between the Province (80 per cent) and the City of Toronto (20 per cent). The costs of administration for the child care program are to be equally cost shared between the Province and the City. The funds available for the Toronto child care subsidy program are limited by the allocation of funds made by the Province each year.

### The Toronto 2005-2009 Child Care Service Plan

The priorities for the City's subsidized child care system are set out in the Toronto 2005-2009 Child Care Service Plan that was approved by Council in May 2005. Certain key principles adopted in this plan included access to child care fee subsidy on a first come first served basis as well as equity of access for children in each ward and in each age group.

### Child Care Options

The child care system in the City of Toronto offers three types of child care that parents may choose from, namely licensed group and home child care and informal unlicensed child care. The licensed group and home child care services are delivered by the City, not for profit and commercial organizations.

Parents using licensed child care services include those who are able to pay full child care fees and those who receive subsidy to assist them with the payment of child care fees.

Licensed child care is regulated by the provincial *Day Nurseries Act*. The Ministry of Children and Youth Services is responsible for issuing a license to all child care programs. A license must be in place before a child care centre can operate. The renewal of a child care centre's license is subject to provincial inspection and must occur every year. The *Day Nurseries Act* sets out the minimum requirements for licensed child care such as space requirements, qualifications of staff and the ratio of workers to children.

### Applying for Child Care Fee Subsidy

Children's Services is responsible for processing, assessing and approving applications for child care fee subsidy in accordance with the *Day Nurseries Act*, provincial guidelines and Council direction. Child care fee subsidy allows lower income families the opportunity to access child care which may otherwise not be an option.

Effective January 1, 2007, the amount of child care fee subsidy is based on the family net income. A family with a net income of \$20,000 or less would receive full child care fee subsidy. Families with an annual net income between \$20,000 and \$40,000 are required to pay child care fees based on incremental amounts of 10 per cent of their net income in excess of the \$20,000 and families with incomes in excess of \$40,000 must pay an additional 20 per cent on income over \$40,000 child care fees.

### Subsidizing Child Care Spaces

The City directly operates child care centres and a home child care agency. The City has service contracts in place to purchase additional spaces from approximately 600 child care operators and private home child care agencies in the City. Families receiving child care subsidy can choose either a child care centre that is City operated or one that has a contract for fee subsidy with the City.

One of the terms and conditions included in the service contracts with child care operators is the requirement that operators comply with the City's Operating Criteria. While all child care operators are legally required to comply with the minimum requirements in the *Day Nurseries Act*, only child care operators who have a service contract for fee subsidy with the City are required to comply with the City's Operating Criteria.

The contracts with child care operators set out the approved daily rates the City will pay on behalf of a child enrolled in the program whose parent has been granted subsidy. The City makes payments net of parent fees directly to child care operators for children enrolled.

Families receiving subsidy cannot place a child in privately operated child care centres where there is no service agreement for fee subsidy between the City and the centre. These centres account for approximately one-quarter of the licensed child care spaces.

## **AUDIT OBJECTIVES, METHODOLOGY AND SCOPE**

The objectives of this review were to assess the extent to which Toronto Children's Services has adequate management controls in place to ensure:

- child care subsidies are managed in a cost effective manner; and
- compliance with relevant legislation and City policies and procedures.

This audit covered the period from January 1, 2005 to June 30, 2007. This review included City operated child care centres and child care centres that have a service contract with the City. Our audit methodology included:

- a review of relevant legislation;
- a review of relevant policies and procedures;
- an examination of records maintained by Children's Services;
- a review of Children's Services – Child Care Service Plan;
- a review of audit reports issued by the Provincial Auditor General;
- survey of other municipalities;
- interviews with City staff; and
- analysis of data provided by Children's Services.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives.



## **AUDIT RESULTS – WHAT DID WE FIND**

### Compliance With Policy - Approving Applications for Child Care Subsidy

Children's Services assesses and approves applications for child care subsidy in accordance with provincial and Divisional requirements. The provincial guidelines outline the City's responsibilities in the management of child care subsidy as well as the criteria for determining an applicant's eligibility and the amount of funding that can be granted. The initial assessment for applicants includes the verification of residence and financial information. The ongoing eligibility of each applicant receiving child care subsidy is reviewed on an annual basis.

To ensure that eligibility reviews are complete and accurate, Children's Services policy requires a "second sign-off" process where each application assessed by a caseworker has a secondary review performed by an independent caseworker. Our review of a sample of applications approved for subsidy in 2006 by Children's Services identified that almost 40 per cent of the files were not reviewed by a second caseworker as required by policy. In certain cases, the secondary review was performed after the child had already been placed or six months after the initial review.

In addition, supervisors are required to review two approved subsidy files per worker per month on a test basis. Documentation of this review was inadequate in certain cases and the level of supervisory review practiced varies from office to office.

An effective monitoring system to review applications approved for child care subsidy is important to prevent or detect errors and to identify inadequate or incomplete assessments. This upfront review has the potential to minimize errors in the approval of subsidy amounts. Further, regular supervisory review of completed applications for subsidy will ensure that staff is approving subsidy applications in compliance with divisional policy.

**Recommendation:**

- 1. The General Manager, Children’s Services Division, review the policies and procedures relating to the processing of subsidy applications and ensure that all such policies and procedures are current, relevant and consistently applied. An effective quality assurance process be implemented and steps taken to address instances of non-compliance.**

Financial Assessments of Child Care Operators

Each child care centre operating under contract with the City must submit an annual budget as well as audited financial statements for each location they operate. The budget is analyzed by a staff member in Children’s Services to ensure the amounts disclosed for revenue and expenses are reasonable. There are 22 City staff that, along with other duties, perform the budget analysis as well as conduct an analysis of the audited financial statements for approximately 600 child care centres. The budget analysis performed by staff is based on standard Divisional Budget Guidelines as approved by Council.

Budget submissions by child care operators form the basis of the determination of the maximum daily rate the City will pay for a subsidized child care space. The daily rate for each age group is specified in the contract between the City and the operator. The City subsidizes the difference between maximum daily rate in the contract and the daily fee that the City assessed as payable by the family.

In addition to the annual budget analysis, which sets the daily rates to be paid for a subsidized space, Children’s Services also performs another more in-depth financial analysis of operators. This financial review is on an as needed basis when potential problems are identified and at a minimum at least once every three years.

The financial analysis included in the City's Operating Criteria, is performed independently of the annual budget process and was the subject of an internal review at the time of our audit, by the Quality Assurance Unit. This financial review conducted every three years includes an assessment of how the child care centre prepares its budget, how cash from operations, receivables and payables are accounted for as well as a detailed review of the payroll process.

Certain child care operators may be managed extremely well and the requirement to conduct an in-depth assessment every three years may not be the most appropriate use of resources. Conversely, it may be appropriate to conduct more frequent reviews for those operators who are not managed as well.

Audited financial statements issued by an independent public accountant are sometimes accompanied by a separate communication usually called a "management letter". The letter generally contains specific information on operational and internal control issues identified during the audit process. Information contained in the management letter may have relevance to the ongoing budget financial review process and should be considered during any assessment of individual child care centres.

**Recommendation:**

- 2. The General Manager, Children's Services Division, review the specific criteria relating to the frequency of detailed financial reviews of child care centres. The frequency of the reviews be tied to the level of risk such that centres which appear to be less well managed would be reviewed more often. During ongoing financial and annual budget review, consideration be given to reviewing any management letters prepared by independent audit firms.**

Equitable Access for All Children

One of the key issues outlined in the Children's Services – Child Care Service Plan 2005 – 2009 was a proposal to address the issue of equal access and equity to child care services throughout the City. Specifically the principles and policies adopted by Council to provide a framework for the 2005 – 2009 Child Care Service Plan include:

- equitable access to service; and
- first come first service admission to subsidized care.

To ensure all children have an equitable opportunity of receiving child care subsidy, a maximum number of subsidized child care spaces are allotted to each age group in the child care system. The age of children in child care can range from early infant to 12 years of age. The allocation of subsidy funds for each age group is based on census data and on the annual funding allocated by the province for child care fee subsidy.

To ensure children in each ward across the City have an equitable opportunity of receiving child care subsidy the subsidy available is further allocated to each ward in the City. The subsidy allocations for each ward also consider the distribution of low income families in each ward.

In Toronto, the demand for child care subsidy is greater than the subsidy funds available. To ensure equitable access to available subsidy funds, City Council has endorsed policies of age and geographic equity as well as a first come first serve policy. In order to comply with these policies Children's Services maintains a master waiting list for all City wide applicants. In April 2007, approximately 8,300 children were waiting for child care subsidy.

When the Children's Services Division receives a new application for subsidy, the applicant's name is added to the City master waiting list. The Children's Services Division reviews and sorts the applicants on the master list and compiles a waiting list for each ward in the City. The ward waiting list determines the order in which subsidy is made available to eligible applicants. Because families can apply for subsidy in advance

of needing child care, such as while on maternity leave or job searching, the waiting list includes families that are currently not wanting child care immediately or eligible for subsidy. Therefore, granting of subsidy may not always occur according to the date of application.

A subsidy is granted to an eligible applicant according to their position on the ward waiting list and subject to the availability of a vacant child care space at a child care program of their choice. During the first half of 2006, a total of 3,099 children were placed in subsidized child care spaces.

During the first half of 2006, applicants on the waiting list waited an average of 85 days prior to receiving a subsidized child care space. The length of time a family will wait for child care is dependant on their current eligibility status, age and geographic equity as well as the availability of a physical space at a program of their choice. However, we identified circumstances where applicants were low on the ward waiting list but for various reasons were immediately placed into a subsidized child care space.

In certain cases, applicants received subsidy on the same day that the application for child care subsidy was made. In a number of these instances, it was indicated by staff that parents had effectively bypassed the waiting list by enrolling their child into the centre and paid the full-fee for a short period prior to applying for child care subsidy. These applicants bypassed the waiting list due to the fact that they had already secured a physical space in their chosen child care centre.

In 2006, case workers were responsible for both the eligibility assessment for subsidy as well as the placement of the child in a child care centre when a vacant space was available. Each case worker was assigned a certain number of wards, and the worker was required to contact applicants according to their position on the ward wait list when subsidy became available. This was not consistently performed. We found circumstances where new subsidy applications were approved and the child was placed without checking on the status of those applicants who were already on the waiting list.

**Recommendation:**

- 3. The General Manager, Children's Services Division, ensure divisional policies for granting of subsidies are in compliance with Council's direction of first come first serve. The General Manager, Children's Services Division, develop a monitoring system to review granting of subsidy to ensure applicants are processed according to their order of priority on the ward waiting list.**

To ensure a child is granted subsidy as soon as funding and a space becomes available, the waiting list for each ward must be up-to-date. It is the applicant's responsibility to advise Children's Services of any changes in contact information. Our review of a sample of ward waiting lists found that about 20 to 30 per cent of applicants on the lists were removed at the request of the applicant and in circumstances where staff were not able to contact them.

Up-to-date information is important in facilitating the first come first serve policy while at the same time ensuring that children are placed in vacant child care spaces as quickly as possible.

**Recommendation:**

- 4. The General Manager, Children's Services Division, ensure that contact information for applicants waiting for subsidy is kept sufficiently current in order to allow for subsidy to be granted to eligible applicants on ward waiting lists on a first-come first-serve basis.**

## Toronto Children's Services' Operating Criteria

The province regulates licensed child care by setting certain minimum standards for child care operators in the *Day Nurseries Act*. All licensed child care operators in the City of Toronto must meet the minimum standards specified in the *Day Nurseries Act* in order to receive and maintain their license. In addition to these legislated requirements, Children's Services has set out its own operating criteria that outline clear expectations and more detailed standards for providing child care services and meeting the City's contractual requirements. The City's Operating Criteria outline program activities appropriate to the growth and development needs of the children in care. This level of detail is not specified in the *Day Nurseries Act*.

One of the terms and conditions in the contract between the City and child care operators is a requirement to comply with the City of Toronto's Operating Criteria. To ensure child care centres are operating in compliance with the City's Operating Criteria, City staff conduct two compliance visits per year. These compliance reviews add an administrative cost component to the City.

During our review we were advised that two other jurisdictions in the greater Toronto area have implemented a scaled down version of Toronto's Operating Criteria due to the lack of adequate resources. Another two municipalities that we contacted commented that they do not have the resources required to implement Operating Criteria at the same level as the City.

Although the City has required compliance with the Operating Criteria for more than 25 years, there has been no independent evaluation conducted to validate the cost or the effectiveness of the criteria. While we are not suggesting that the provisions contained in the Operating Criteria be eliminated, any process which has been existence for such an extended period should be the subject of an independent evaluation to determine whether

or not the basis for its establishment continues to have relevance. It is also important to ascertain the value of the Operating Criteria in light of both the costs and benefits.

**Recommendation:**

- 5. The General Manager, Children's Services Division, develop a business case to consider the costs and the benefits of Toronto Children's Services' Operating Criteria.**

Better Use of Available Technology

The administrative component in the management of the many facets of the day care program are extensive. There are a significant number of business processes in place to support the complexity of the Division's operations. These business processes include:

- the review and approval of applications for child care subsidy;
- the determination on the amount of child care fees that will be paid by the applicant;
- the determination of the per diem rates which will be subsidized; and
- the regular determination and the processing of payments to operators based on information provided by operators.

The Children's Services Information System meets many of the operational and reporting demands of the Division. The Division handles transactions for approximately 24,000 clients receiving child care subsidy. In addition, the Division handles payments to approximately 600 service providers on behalf of clients receiving subsidy.

Certain of the Division's operations continue to be extensively paper driven with significant information required from each individual child care operator. Information from operators is subsequently required to be input in to the Division's management information system for further review, analysis and processing. Approximately nine staff positions are required to process the operator accounts for payment which includes



performing data entry functions at an annual cost of approximately \$500,000.

Opportunities exist to streamline this process particularly through a requirement that operators submit much of their data electronically.

Further, certain aspects of the business require “real time” updates as soon as a change occurs, particularly those changes related to the enrolment of a new child or the withdrawal of a child from a child care centre. The timely processing of enrolment changes will help to minimize billing errors and maintain current information about child care availability.

A number of other jurisdictions we contacted have implemented an automated attendance reporting for billing purposes. Certain jurisdictions utilize the provincial information system to support their management information needs.

We have been advised that the Division is in the process of reviewing its information technology system requirements and, in particular, has had discussions concerning the electronic exchange of information between the Division and its operators. We would suggest that in view of the potential cost savings this matter be given priority.

**Recommendation:**

- 6. The General Manager, Children’s Services Division, review the potential implementation of an information system which allows for the electronic exchange of information between the Division and its operators.**

On occasions, clients have been granted excess subsidy and as a result there is a requirement to ensure that such overpayments are accounted for and recovered. Details of overpayments under \$5,000 were maintained at the district office level and were not accounted for at the divisional level. Consequently, these amounts were not recorded as receivables in the Children’s Services Information System.

**Recommendation:**

- 7. The General Manager, Children's Services Division, review the process for the accounting of subsidy overpayments with a view to ensuring that all such amounts are accounted for appropriately.**

**CONCLUSION**

The provision of a wide range of child care services for children in the City of Toronto is complex, costly and challenging to administer. Even though this review has identified certain issues which should be addressed, the Division is well managed. Issues identified during this review, were discussed with senior management and, as a result, the majority of recommendations contained in this report are in the process of being implemented.