

AUDITOR GENERAL'S REPORT

Children's Services Division Opportunities to Achieve Greater Value for Child Care from Public Funds

April 26, 2018



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EXECUTIVE SUMMARY

The Auditor General included an audit of the Children's Services Division in her 2017 Audit Work Plan. The objective of the audit was to assess the effectiveness, efficiency, and economy of child care services provided by the Division.

Division provides services mandated by the Province and specific to City policies

Among the broad range of programs and services provided by Children's Services, some are mandated by the Province under the Child Care and Early Years Act (2014), and some are provided in accordance with City policies.

Some of the Division's key functions mandated by the Province are to:

- conduct eligibility assessments of families applying for child care fee subsidies
- manage the wait list for fee subsidies
- administer service agreements with licensed child care operators
- administer base funding to licensed child care operators

Under the City's policies, the Division operates 52 licensed child care centres and one licensed home child care agency, and performs Assessment for Quality Improvement (AQI) inspections at City-run and contracted centres.

\$279 million to fund about 28,000 subsidized spaces

In 2017, Children's Services administered subsidies to 28,000 children in need of child care services for a total of \$279 million. As of December 2017, there were approximately 5,000 children on the wait list with an immediate need for a subsidy, and another 4,800 with future subsidy needs.

About 5,000 children on wait list with immediate child care needs

Areas under review where the Division performs well

Staff are compassionate and responsive to applicants' needs

We found Children's Services' staff to be compassionate and responsive to subsidy applicants' needs and circumstances. The Division is committed to continuous improvement, including the implementation of an online application form for a subsidy. It has also established an extensive set of operational policies and procedures.

The high cost of licensed child care services in Toronto

Licensed child care is unaffordable for 75% of families in Toronto

Toronto is one of the most expensive cities in the country for licensed child care services. The average monthly cost of child care for an infant is about \$1,900, \$1,500 for a toddler, and \$1,150 for a preschooler in licensed child care centres. According to a 2016 study commissioned by Children's Services, "*...licensed child care is considered either unaffordable or completely unaffordable for 75 per cent of families in Toronto*".

What we found and recommend

There are ways to achieve better value from the current level of funding

A major theme from our review results is that there are ways to achieve better value from the current level of government funds to provide more fee subsidies, to improve wages of child care sector workers, and to make child care more affordable for families.

The City can achieve greater value by:

Consider a more economically viable service delivery model

1. Choosing a more economically viable service delivery model instead of continuing with the status quo of directly operating 52 licensed child care centres. The savings from a more economical model can be re-invested to provide more subsidies and enhance wages of the entire workforce in the child care sector.

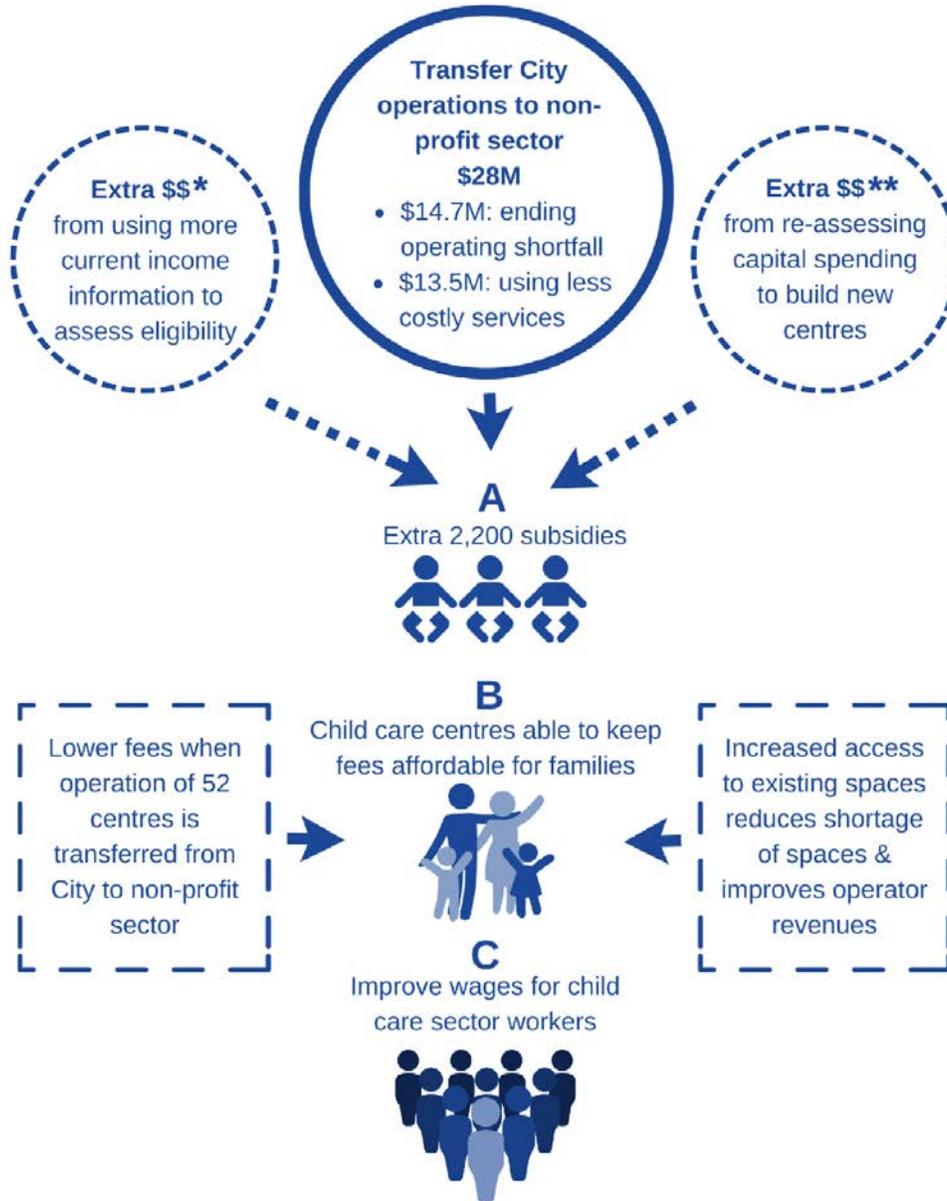
Making better use of existing licensed child care spaces

2. Making better use of existing spaces in licensed child care centres to help address the shortage of licensed spaces currently experienced by many families. This will also help reduce revenue loss due to vacant spaces in child care centres, which may minimize operators' need to raise fees to off-set their operation costs. As well, this may help alleviate the City's need to fund the construction of new child care centres.

Ensuring accurate assessment of eligibility and the amount of subsidy

- Using more current income information for the eligibility assessment to ensure the calculation of the family portion of child care fees is accurate, fair, and consistent with other provincial income-based assistance programs.

Potential Financial and Non-Financial Benefits of the Audit's Proposed Changes



The City could choose option A, B or C, or spend the savings on a combination of all three.

*Potentially millions in savings per year, contingent on changes to the provincial income assessment requirement. **Not able to estimate the amount of reduced capital spending at present, but it could be substantial because the City approved \$49 million to build an additional 1,100 spaces over 10 years.

The following is a brief explanation of each of the above key audit findings:

Assessing a more economical service delivery model

City operates 52 centres at an annual shortfall of \$14.7 million

The City has been operating its 52 child care centres at an annual operating shortfall. In 2017, the shortfall was \$14.7 million.

City centres charge the highest fees when compared with most other centres

Yet the fees parents pay at the City-run child care centres are among the most expensive in the City. The monthly child care costs in a City-run centre are:

\$2,325 for an infant
\$2,070 for a toddler
\$1,570 for a preschooler.

Ninety-three (93) per cent of children in City-run centres are subsidized.

Transfer the operations to non-profit sector could lead to long-term financial benefits

Instead of directly operating these 52 child care centres, the City can re-direct resources to develop community capacity by transferring the operations of these centres to the non-profit sector. To be clear, we are not suggesting the closure of any of the 52 City-run centres. However, there are significant long-term financial benefits in transferring the operation of these centres to the non-profit sector.

City could potentially save \$28 million per year by transferring the operations to the non-profit sector

Based on our estimate, this can, in the long-term, potentially result in annual savings of \$28.2 million; \$14.7 million from stopping the annual operating shortfall, and another \$13.5 million savings in subsidy dollars from price differences between City-run and non-profit operations. This will also help lower the fees in City-run centres, making their spaces more affordable for full-fee paying families.

Savings can be re-invested to create more child care subsidies and improve wages in the child care sector

The annual savings can be re-invested to create 2,200 more child care subsidies each year without any budget increase. In addition, a portion of the savings can be reinvested to improve wages of child care workers across the City.

Additional revenues from leasing or selling the City facilities

As the City is examining this alternate service delivery model, it may identify opportunities to consolidate or re-locate certain City-run centres to improve efficiency. Our analysis does not account for the potential revenues from leasing, selling, or repurposing the City facilities where 25 City-run centres are currently located. According to the Division's 2018 capital budget report, these 25 City-owned facilities are valued at \$53.1 million.

RECEs in City-run centres are paid more than others in the sector

Registered Early Childhood Educators (RECEs) at City-run centres are paid more than those in non-City-run centres. The hourly rate for RECEs in the City-run centres ranges from \$30.4 to \$37.1, compared to \$22.5 per hour for RECEs in centres with a service agreement with Children's Services.

There are currently 644 child care staff in the City-run centres, and about 6,100 employees in child care centres with service agreements with the Division.

An appropriately compensated workforce is important to ensure quality of care

We recognize the importance of an appropriately compensated workforce of child care staff in ensuring quality of care and stability of the sector. It is paramount that all workers in the child care sector are supported with appropriate salaries and quality jobs.

Provincial government provides wage enhancement funding

To enhance wages in the licensed child care sector, the Ministry of Education provides Provincial Wage Enhancement (PWE) funding to licensed operators to raise child care professionals' salaries. The Ministry's 2017 hourly wage maximum is set at \$26.68 per hour. All licensed child care centres, regardless of whether they have an existing service agreement with Children's Services, can apply for PWE funding.

Increasing the use of the existing supply of child care spaces

High demand for child care services in Toronto

With the significant infusions of provincial and federal funding in 2017, according to staff, the Division is faced with the challenge of finding enough licensed spaces to provide fee subsidies.

Approved capital plan to build 21 new centres at \$49 million

The Division's approved 2018 10-year capital budget includes \$49 million for the construction of 21 new child care centres to provide an additional 1,110 spaces.

Children's Services has no access to one-third of the existing licensed spaces, partly due to its own policy

Our analysis found that the Division does not have access to nearly one-third of the existing licensed spaces (not counting most commercial spaces). Part of this is due to the Division's policy and practice. For instance, the Division imposes a "ceiling" restricting the maximum number of subsidized spaces that it will purchase from each contracted child care centre. This resulted in 7,275 licensed spaces not available for subsidized families. Also the Division does not have service agreements with 144 non-profit operators which have 6,986 licensed spaces. Even if just a small percentage of these spaces are vacant, this will provide a considerable number of extra spaces that can be used for children with subsidies.

Estimate of 3,400 vacant spaces in contracted and City-run centres

According to the Division's vacancy data and our survey results, about six per cent, or 3,000 of the spaces in centres with a service agreement with the Division are vacant. There are also on average 400 vacant spaces in the 52 City-run centres.

Making better use of existing spaces is more economical than spending capital money to build new centres

In our view, increasing access to the existing spaces would be a more economical solution than spending a significant amount of money to construct new centres in the City.

Reducing vacancy in child care centres helps to keep fees lower and makes child care more affordable

Increasing the use of existing spaces can also reduce vacancy in child care centres. This may in turn help child care operators to run a more economically viable operation and alleviate their need to raise fees to offset operating costs. This will ultimately benefit all families in need of licensed child care services by making child care more affordable.

Improving the current eligibility assessment process

Under the provincial requirements, the income assessment for a child care fee subsidy is based on an applicant's annual Notice of Assessment or Canada Child Tax Benefit Notice from the Canada Revenue Agency.

Income assessment for child care fee subsidies is based on annual tax assessment while other provincial programs use more current pay stubs

This is inconsistent with other Provincial income-based assistance programs such as the Ontario Works Program for social assistance, the Ontario Disability Support Program for people with disabilities, and the Rent-Geared-To-Income Program for housing support. All of these Programs require pay stubs as a proof of applicants' income.

In reviewing a sample of case files approved for child care fee subsidies, we noted that many of them contained pay stubs which provide more current income information than the annual Notice of Assessment.

Using the more current pay stub information in 29 files, we re-calculated the subsidy amount for each case and noted that a few recipients should have received more subsidy payments while others should have received less. The net financial impact is a 13 per cent reduction in subsidy payments if pay stubs had been used for income assessment for these recipients.

Significant amount of subsidy dollars can be saved and re-invested to provide more children with subsidies

Given that the City issued \$214 million in fee subsidies (excluding Ontario Works participants) in 2017, it is likely the savings from using more current income information will be in the millions. The money saved can be used to provide subsidies to more children. We believe there is a need for the Province to review and revise its current income assessment for child care fee subsidies.

Conclusion

20 recommendations to improve controls, effectiveness, efficiency and economy

We have conducted a review of a number of key functions and services provided by the Children's Services Division. Our audit provides a total of 20 recommendations to improve the effectiveness and efficiency while ensuring child care services in the City are economically viable.

The implementation of our recommendations can result in significant savings in the delivery of subsidized child care services. These savings can then be re-invested to provide subsidies to more children, to make child care more affordable for all families, and to improve wages in the child care sector. We appreciate that decisions about how any savings are reinvested is a policy matter to be addressed by City Council.

The Auditor General has issued a separate letter to management detailing other issues that came to our attention during the audit.

We would like to express our appreciation for the co-operation and assistance that was extended to us by management and staff of the Children's Services Division.

We would also like to thank the child care centre operators who responded to our survey and shared with us their comments and insights.

BACKGROUND

Quality child care may remedy any unhealthy effects of a detrimental home environment

Studies have shown the benefits of licensed child care services to children. The Fraser Institute's 2015 report on child care in Canada¹ further indicates that a child's intellectual and emotional development is highly dependent on the quality of parenting and home life, and any unhealthy effects of a detrimental home environment may be counter balanced by good quality child care.

Demand for quality child care is driven by women's increased participation in the workforce

Increasing demand for quality child care has been driven by women's increased participation in the labour force. In Canada, as of December 2017, parents now have the option to extend maternity and parental leave for up to 18 months. Prior to this change, the maximum time allowed away from the workforce was 12 months.

Licensed child care is unaffordable for 75% of families in Toronto

Toronto has the most expensive licensed child care services in the country. The average monthly licensed child care fee for an infant is about \$1,900, \$1,500 for a toddler, and \$1,150 for a preschooler in Toronto. According to a 2016 study commissioned by the City's Children's Services Division, "*...licensed child care is considered either unaffordable or completely unaffordable for 75 per cent of families in Toronto*".

¹ Child Care in Canada: Examining the Status Quo in 2015, Fraser Institute

High costs of child care can be a barrier for many families

For many families who are not eligible to receive a child care fee subsidy, the high costs of licensed child care can be a considerable financial burden, especially for families with more than one child. The high costs of child care may also be a barrier to participation in the workforce for many families.

City's Roles Under the Child Care and Early Years Act

City's responsibilities as the Service Manager under the Child Care and Early Years Act

The City of Toronto is designated as a Consolidated Municipal Service Manager (CMSM) under the provincial Child Care and Early Years Act (2014). The Act specifies the following responsibilities for a Municipal Service Manager:

- a) develop and administer local policies respecting the operation of child care and early years programs and services;
- b) administer the delivery of financial assistance provided by the Minister in accordance with the regulations;
- c) coordinate the planning and operation of child care and early years programs and services with the planning and provision of other human services delivered by the service system manager;
- d) assess the economic viability of the child care and early years programs and services in the service area and, if necessary, make or facilitate changes to help make such programs and services economically viable.

The City may also establish, administer, operate and fund child care and early years programs and services.

Children's Services Division

The City's Children's Services Division administers the CMSM functions on behalf of the City. As the CMSM, the Division is required to complete a five-year Service Plan, a vital document that guides the Division in the planning and delivery of child care services.

Need to grow the child care service system is highlighted in the latest Service Plan

In its latest Council-approved 2015-2019 Service Plan, the Division highlighted that the current early learning and child care service system needs to grow significantly through careful planning and long-term investment in order to meet Toronto's demand for child care.

Among the broad range of programs provided by Children's Services, some are mandated by the Province as part of the CMSM functions, and some are provided as a result of City policies.

Provincially mandated functions

Key functions mandated by the Province:

- conducts eligibility assessments of families applying for child care fee subsidies
- manages the wait list for child care fee subsidies
- administers 639 contracts with licensed child care centres to purchase child care services for subsidized children
- administers 10 contracts with home child care agencies to purchase licensed child care services in private homes
- oversees 50 agencies operating 275 family resource centres
- provides support for children with special needs who are enrolled in licensed child care centres
- administers base funding to child care operators
- administers Provincial Wage Support programs
- performs service system planning

City policy drives the delivery of the following services:

Functions under City policies

- performs Assessment for Quality Improvement (AQI) inspections at City-run and contracted centres
- operates 52 licensed child care centres across the City and one licensed home child care agency

Children's Services Information System (CSIS)

The Children's Services Information System (CSIS) was developed in-house as an integrated business solution for the Division. It contains many modules which support the Division's various business processes.

Centralized subsidy wait list is managed on a first-come first-served basis

Children's Services administers a consolidated wait list of all families applying for a child care fee subsidy. Access to a child care fee subsidy is managed on a first-come first-served basis. At the end of 2017 there were more than 12,000 children on the wait list, including families with immediate or future needs for child care.

Number and Types of Licensed Child Care Spaces

\$279 million to provide subsidies to about 28,000 children

In 2017, Children's Services administered subsidies to approximately 28,000 children in need of child care services at a total cost of \$279 million.

83,587 spaces in Toronto's licensed child care centres

As of December 2017, there were a total of 83,587 licensed child care spaces in 1,033 centres in the City. The majority of spaces were provided by non-profit operators (74 per cent), followed by commercial operators (23 per cent), and City-run centres (3 per cent).

Children's Services can directly place children with fee subsidies in any of the 52 City-run centres. Children's Services maintains purchase-of-service agreements with 639 child care operators in the City. Currently, the Division does not have contracts with 342 child care centres. A detailed breakdown of the type of operator and the number of licensed spaces is provided in Table 1.

Table 1: Licensed Child Care Spaces in Toronto by Type of Child Care Centre Operator

	City Contract	Number of Centres	%	Number of Licensed Spaces	%
City	Yes	52	5%	2,921	3%
Non-profit	Yes	554	54%	54,800	66%
	No	144	14%	6,986	8%
Commercial	Yes	85	8%	7,245	9%
	No	198	19%	11,635	14%
Total		1,033	100%	83,587	100%

Figure 1 summarizes the number of licensed spaces in centres that have a purchase-of-service agreement with Children's Services.

Figure 1: Number of Licensed Child Care Spaces in Toronto

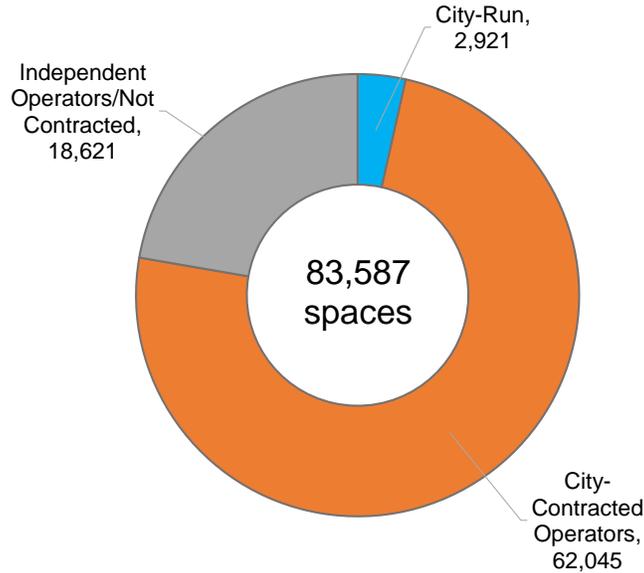


Figure 2 provides a breakdown of licensed child care spaces by age group. Nearly half of the spaces are licensed for the 0-4 age groups and the other half for the older age groups. Figure 3 provides a breakdown of child care fee subsidies by age group, excluding licensed home child care fee subsidies.

Figure 2: Licensed Child Care Spaces by Age Group in Toronto

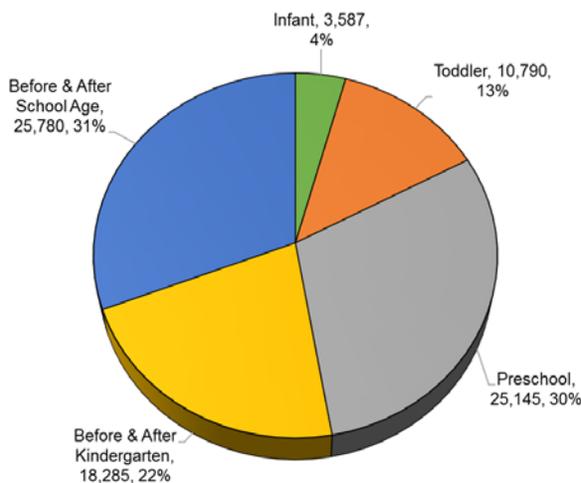
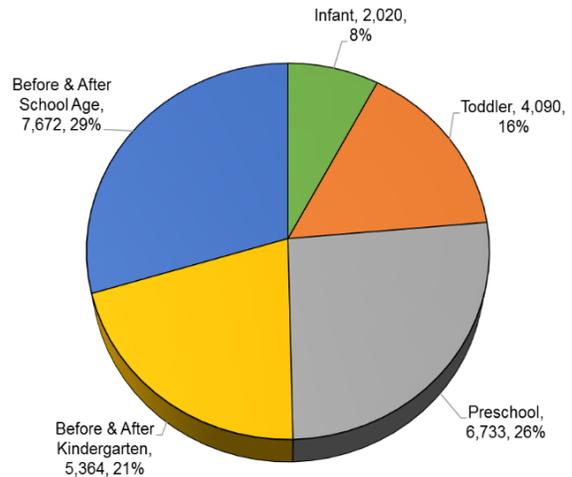


Figure 3: Number of Children Receiving Child Care Fee Subsidy by Age Group



33% of families receiving a child care fee subsidy have more than one child

Families Receiving Child Care Fee Subsidies

As of December 31, 2017, there were 20,101 families in Toronto receiving child care fee subsidies with a total of 28,367 children in care. About one-third of these families have more than one child receiving a child care fee subsidy. This is summarized in Table 2.

Table 2: Number of Families and Children Receiving Child Care Fee Subsidies, December 31, 2017

Number of Families	Number of Children per Family	Number of Children
13,362	1	13,362
5,427	2	10,854
1,122	3	3,366
168	4	672
19	5	95
3	6	18
20,101	Totals	28,367

Province and City share costs of annual early years and child care expenses

Cost Sharing Arrangements with Other Levels of Government

In accordance with the legislation, the City of Toronto and the Ministry of Education each allocates funds for early learning and child care expenses incurred by the City. Of the total amount of funding allocated to the City, the Ministry specifies the maximum amount that can be used for administration, and the costs are shared 50/50 between the Province and the City. For the provincially mandated services, in general they are either 100 per cent funded by the Province, or are split 80/20 between the Province and the City.

In addition, the City contributes beyond the legislated requirements to fund child care services from the City tax base and on occasion from various City Reserves as required.

\$56.5 million from provincial and federal governments will be used to reduce user fees, increase subsidies, enhance wages, and build new centres

In 2017, the provincial and federal governments provided significant infusions of funds for child care services. These included a contribution of \$21.5 million from the Federal Government and \$35 million from the Provincial Government.

These funds are committed to the "Child Care Growth Strategy – Phase One Implementation (2017-2019)." City Council approved these funds to make child care more affordable by reducing fees for infant, toddler and preschool children, increasing number of child care fee subsidies, and providing base funding to child care centres to raise wages or reduce fees.

Children's Services Division's Approved 2018 Operating and Capital Budgets

\$621 million approved budget for 2017 includes Federal, Provincial and Municipal funds

The 2018 approved budget for Children's Services was \$621 million gross and \$83 million net. The budget approved a total of 30,490 child care fee subsidies.

Among the Division's 1,080 approved positions, 644 are for the operation of the 52 City-run centres. Other positions include 90 caseworkers, 25 Consultants, 10 Quality Assurance Analysts, and approximately 300 staff for the provision of administrative, information technology, training and education, and supervisory functions.

\$49 million in 10-year capital plan to build 21 new child care centres with 1,110 spaces

The Division's approved 2018 10-year capital budget includes \$4.8 million to improve technology, \$13.8 million to address state of good repair, and \$49.0 million for the construction of 21 new child care centres that will provide an additional 1,110 spaces.

Child Care Operator Survey

Our audit included an anonymous survey of all the contracted child care centre operators. We sent an online questionnaire to 519 operators and the survey responses were uploaded directly into a database. A summary of survey results is provided in Exhibit 1 and certain highlights are discussed in the relevant section of the report.

AUDIT RESULTS

Among the areas we reviewed, we noted that Children's Services does well in the following areas:

Staff are responsive to applicants' needs

Based on our review of subsidy case files we found the staff in the Division to be compassionate and responsive to applicants' needs and circumstances.

Uses technology to make it easier for families to apply for subsidy

The Division is committed to continuous service improvement including the implementation of online solutions for families who apply for a child care fee subsidy, and for contracted operators to efficiently exchange information with the Division. The Division also revised and improved its operational policies and procedures during the course of our audit.

The majority of contracted operators are satisfied with the support from the Division

The majority of contracted operators are satisfied with the support and level of interaction with Children's Services in relation to operating matters. This was evident from our survey of child care operators, the results of which are summarized in Exhibit 1.

The following sections of the report contain the findings from our audit work followed by specific recommendations.

A. EXPLORE A MORE ECONOMICALLY VIABLE SERVICE DELIVERY MODEL



A.1. Operating Shortfall of the City-Run Child Care Centres

3% of Toronto's child care spaces are in the 52 City-run child care centres

Children's Services directly operates 52 child care centres with a licensed capacity for 2,921 spaces, representing about three per cent of the total 83,587 licensed child care spaces in the City.

The City-run centres provide an important share of licensed spaces for younger age groups. These centres provide about ten per cent of infant spaces, six per cent of toddler spaces, and four per cent of pre-school spaces in the City.

The City-run centres provide services to 120 subsidized children with special needs. This is approximately 10 per cent of children with special needs who receive child care support funds in the City.

Twenty-five (25) of the City child care centres are located in City facilities. The remaining 27 centres are located in the properties of the Toronto Community Housing Corporation, Toronto District School Board, or on private properties through rental or occupancy agreements.

\$2,325 is the monthly fee for an infant in care at a City-run centre

The public fees for City-run child care centres are set in the Municipal Code. These service fees are meant to fully recover costs. The fee is \$2,325 a month for infant care at a City-run centre, \$2,070 for a toddler and \$1,570 for a preschooler.

93% of children in City-run centres are subsidized

Ninety-three (93) per cent of children in the City-run centres are subsidized; only seven per cent are full-fee paying families.

16% vacancy rate in 2016 and 2017

While the licensed capacity of the 52 City-run centres are 2,921 spaces, their planned operating capacity is lower at 2,684. The actual occupancy was, on average, 2,220 spaces in 2016 and 2017. This resulted in an average vacancy rate of 16 per cent in the City-run child care centres based on operating capacity. This also means that, on average, 700 (24 per cent) of the total licensed spaces in the City-run centres were not in use.

Service Efficiency Studies of Children's Services

City Manager's service efficiency studies

In 2011, the City of Toronto launched a core services review which identified Children's Services and a number of other City Divisions that required further study. In 2013, the City retained an independent consultant to study opportunities for efficiencies in Children's Services operations.

Costs of City-run centres were 30% higher than other operators in 2013

According to the study, the operating costs of the City-run child care centres were 30 per cent higher than the costs of non-profit or commercial centres. The report noted that this was likely due to higher salary costs of City employees.

Up to \$10 million could potentially be saved annually by reducing 75% of City-run centres, according to the consultant report

The report estimated that by reducing the operations in the City-run centres by 25 to 75 per cent, the City would potentially save an estimated \$3.4 to \$10.0 million annually.

The 2013 report recommended that the City:

"Explore opportunities to optimize the mixed child care service delivery model by continually evaluating opportunities to increase non-profit sector capacity."

City Manager's final report did not explicitly address the 2013 recommendation

In November, 2015, City Council adopted the City Manager's final report of the Service Efficiency Studies. The report did not explicitly address the 2013 recommendation, but it noted the following related to City-run child care centres:

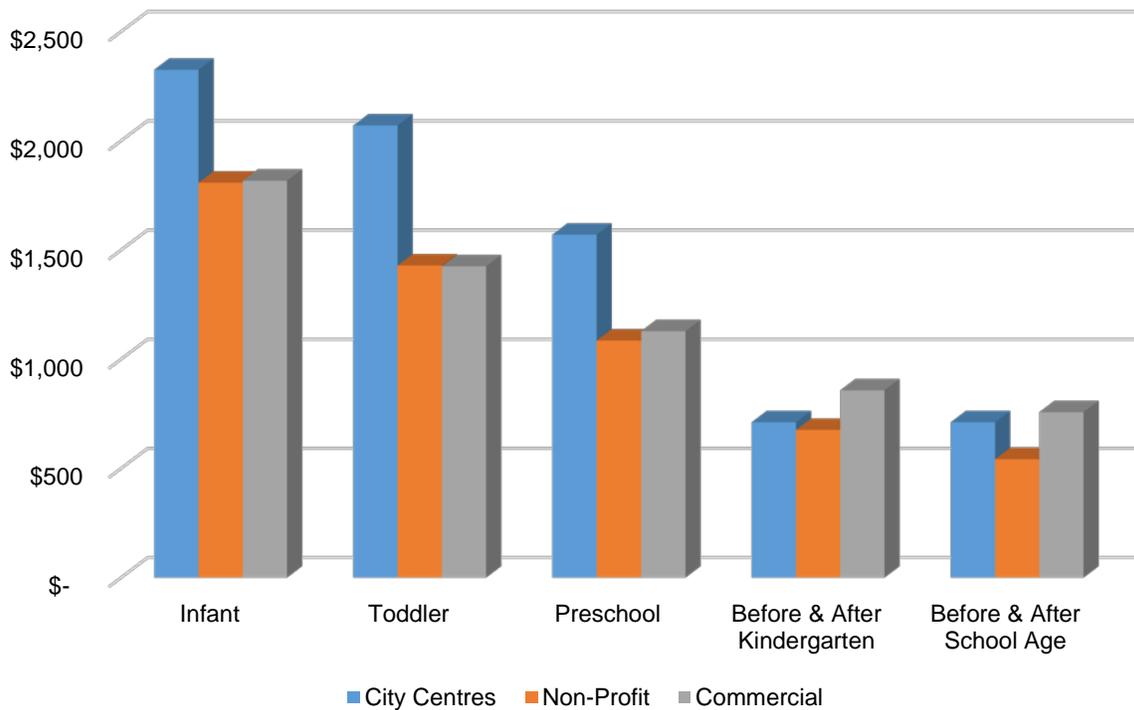
"The study validated that Toronto's directly operated childcare programs address unique needs by serving high need communities and children with special needs."

Audit Analysis of Financial Data

Fees for City-run centres are among the highest for the younger age groups

Figure 4 shows the fees charged by the City-run centres, and the average fees charged by other types of child care centres. The City-run centres charge some of the highest fees for the infant, toddler and pre-school age groups when compared with the average fees of non-profit and commercial operators. Exhibit 2 provides a detailed breakdown of the fees charged by the different types of centres.

Figure 4: Comparison of Monthly Fees Among City-run, Non-profit and Commercial Child Care Centres* that have Service Agreements with Children's Services, by Age Group



* based on average prices in Non-profit and Commercial Child Care Centres

Annual operating shortfall of \$14.7 million from the City-run centres

The public fees for the City-run child care centres are set in the Municipal Code to "fully recover costs". However, our analysis of financial data found that the City was operating the 52 centres at a shortfall of approximately \$14.7 million in 2017 (Table 3). This is because the revenue from public fees and base funding are not enough to cover the operating costs of these centres.

Table 3: Financial Summary of 2017 Operations for 52 City-run Child Care Centres

Financial Summary of 52 City-Run Centres	\$ (in Millions)
Revenue from Public Fees	\$42.0
Operating Expenditures ²	\$56.7
Operating Shortfall	\$(14.7)

² Expenditures are adjusted by general operating and wage enhancement grants provided to offset operating costs. These grants are available to operators regardless whether an operator is the City or a non-profit operator.

29% increase in public fees is needed for the City to fully recover operating costs

To fully cover the operating costs, we estimate that the child care fees would need to be increased by 29 per cent. This will raise the monthly fee for an infant from \$2,325 to \$2,999 and for a toddler from \$2,070 to \$2,670. Given that current fees are already unaffordable for most families, this is not a viable option.

A.2. An Alternate Service Delivery Model

Re-directing the resources to build community capacity

Instead of directly operating the 52 child care centres, the City could consider re-directing the resources to focus on developing community capacity by transferring its City-run operations to the non-profit sector.

Stopping the annual \$14.7 million in operating shortfall

The long-term, potential financial benefits from transferring the operation to the non-profit sector would go beyond stopping the annual operating shortfall of \$14.7 million. The City can also provide significantly more child care fee subsidies without any budget increase under this alternate service delivery model.

Table 4 highlights the price differences between City-run centres and non-profit centres for infants, toddlers and preschoolers.

Table 4: Price Comparison - City-run and Non-profit Child Care Centres

Age Group	Actual Prices for City Centres	Average Non-Profit Prices	Higher Amount Charged by City Centres	% Higher
Infant	\$106.90	\$83.14	\$23.50	28%
Toddler	\$95.16	\$65.72	\$29.44	45%
Preschool	\$72.18	\$49.89	\$22.29	45%

Because the City fees are substantially higher than the non-profit fees, the same amount of subsidized dollars can be used to purchase more spaces from non-profit operations than from City-run operations. For example:

- For every four infant spaces at City-run centre prices, the same amount of subsidy dollars could be used to buy five spaces from non-profit operations.
- For every two toddler or pre-school spaces at City-run centre prices, the same amount of subsidy dollars could be used to buy three spaces from non-profit operations.

Subsidy dollars can go further with non-profit operations

In other words, using non-profit operations instead of City-run operations will make the government pool of subsidy dollars go further. By our estimate, the savings from the price differences between City-run fees and non-profit fees will be equivalent to approximately \$13.5 million per year.

\$28 million in annual savings

Transferring the operation to the non-profit sector can, in the long-term, potentially result in annual savings of \$28 million; \$14.7 million will be saved from stopping the annual operating shortfall and another \$13.5 million will be saved from price differences between City-run and non-profit operations. This will also likely result in lower fees at the 52 centres, making it more affordable for full-fee paying families.

A detailed cost analysis of the alternate model is provided in Exhibit 3.

We are not suggesting closure of any City-run centres

To be clear, we are not suggesting closure of any of the 52 City-run centres. Rather we believe there are significant long-term financial benefits in transferring the operation of these centres to the non-profit sector. As the City is examining this alternate service delivery model, it may identify opportunities to consolidate or re-locate certain City-run centres to improve efficiency.

Potential revenues from leasing, selling, and repurposing City facilities

The above financial analysis does not account for all facility costs and the potential revenues from leasing, selling, and repurposing the City facilities where 25 City-run child care centres are located. According to the Division's 2018 capital budget report, the 25 City-owned facilities currently used for child care centre operations are valued at \$53.1 million.

A.3. Assessment of Non-Financial Factors

We recognize that many challenges and factors are needed to be thoroughly reviewed in assessing this alternate model. We have reviewed a number of the non-financial factors and our review results are summarized below:

a. Need to Ensure Sufficient Child Care Spaces in Vulnerable Communities

According to Children's Services staff, one of the reasons the City operates its own child care centres is to ensure there are sufficient child care spaces in vulnerable communities identified by City staff.

The child care landscape has significantly changed since amalgamation

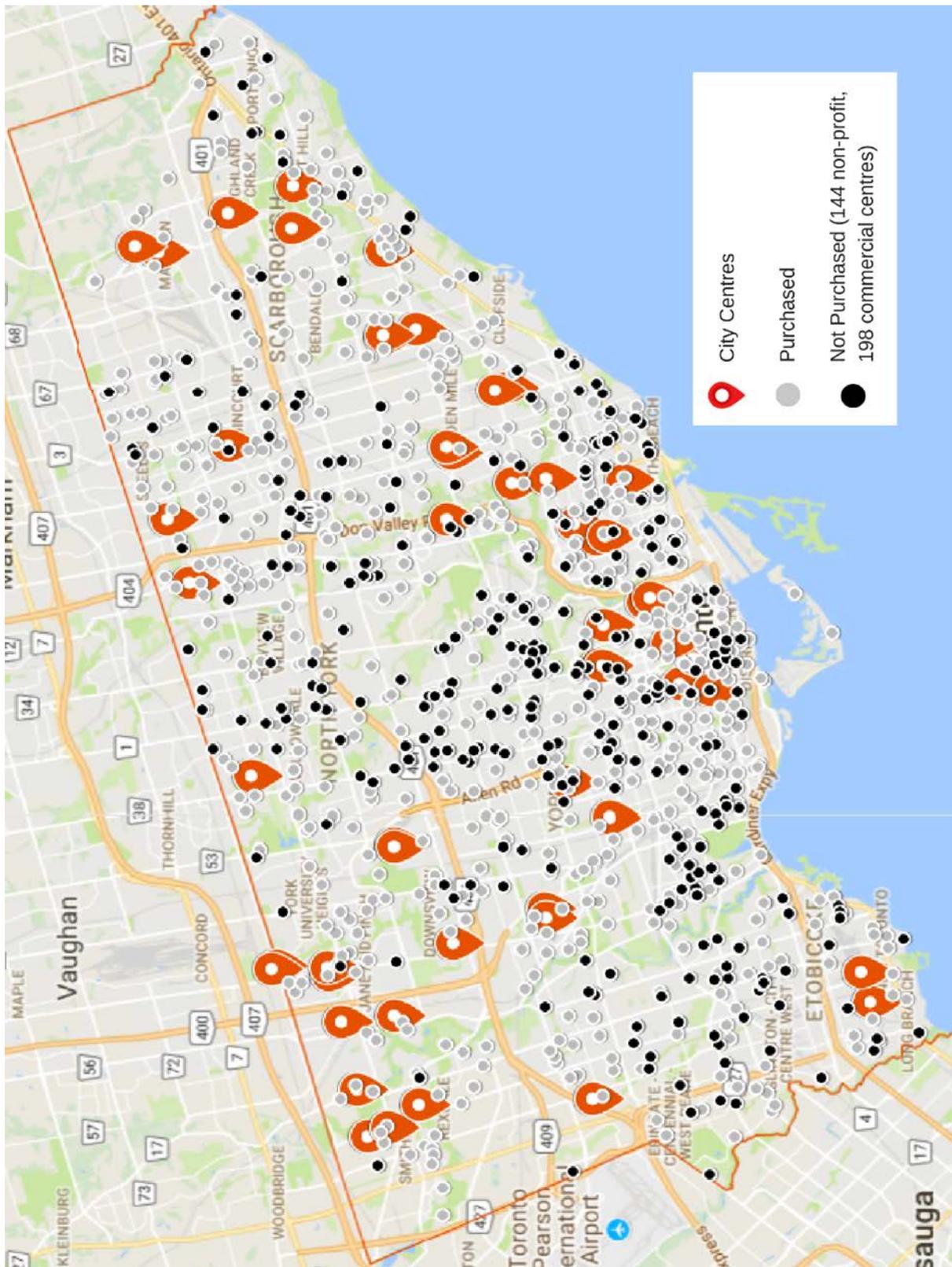
Many of the 52 City-run centres were initially established and operated by the regional municipality of Metropolitan Toronto prior to the 1998 amalgamation of the six cities and the Metropolitan Government into today's City of Toronto. Over the past three decades, the landscape of licensed child care services has changed significantly. Whether there is still a need to rely on the City-run centres to ensure sufficient licensed child care services in the City's vulnerable communities should be re-examined.

Many contracted child care centres are in the same areas as City-run centres

Our review of the distribution of child care centres in the City found that there are multiple licensed centres in the communities where the City-run centres are located. In all of the wards where the City-run centres are located, there are also a minimum of eight contracted centres in each of these wards, plus a number of non-contracted centres.

Figure 5 shows the distribution of City-run centres and other providers. Exhibit 4 provides the number of child care centres in each ward as of December 31, 2017.

Figure 5: Distribution of Licensed Child Care Centres in Toronto



b. Risk of Losing Well-Paid and Secure City Jobs

City employees are paid significantly more

Registered Early Childhood Educators (RECEs) at City-run centres are paid more than those in non-City-run centres. The hourly rate for RECEs in the City-run centres ranges from \$30.4 to \$37.1, compared to \$22.5 per hour for RECEs in centres with a fee subsidy service agreement with Children's Services.

There are currently 644 child care staff (including RECEs and other support staff) in the City-run centres: 408 full-time and 236 part-time employees. Approximately 6,100 child care professionals are currently in the 639 centres with a service agreement with Children's Services.

City run centres offer over 600 well paid and secured jobs

There is no denying that the City-run centres provide better paid jobs with benefits and security to over 600 employees. Most of these jobs are occupied by women, a sector of the population that can particularly benefit from well-paid, secure jobs. In addition, staff advised that the City-run centres are the pay equity proxy for the sector; the sector looks to the City to set the bar for salaries.

We recognize the importance of an appropriately compensated workforce of child care staff in ensuring quality of care and stability of the sector. It is paramount that all workers in the child care sector are supported with appropriate salaries and quality jobs. In the Children's Services' 10-year growth strategy, "supporting a thriving workforce" is part of the Division's vision for the child care system.

Provincial grant aimed at enhancing wages of child care workers across the sector

To enhance wages in the licensed child care sector, the Ministry of Education provides Provincial Wage Enhancement (PWE) funding to licensed operators to raise child care professionals' salaries. The intent of this wage enhancement is to close the gap between RECEs working in publicly funded schools and RECEs and other child care staff working in licensed child care settings. The Ministry's 2017 hourly wage maximum is set at \$26.68 per hour for wage enhancement. All licensed child care centres, regardless of whether they have an existing service agreement with Children's Services, can apply for PWE funding.

Savings can be re-invested to improve wages of many more child care workers in the City

In addition to the provincial wage enhancement grant, City Council may choose to further improve wages of child care workers across the City by re-investing the savings from moving to a more economical service delivery model. For example, if the projected total annual savings of \$28 million are re-invested in enhancing the wages of child care workers in the 52 centres as well as the centres with a service agreement with Children's Services, the hourly rate of the child care workers will be raised by about \$2.3.

Any change needs to be in compliance with labour law and union agreements

We recognize that any change to the current unionized staffing arrangement in the City-run centres will need to be in compliance with labour law requirements and the union collective agreement. The various options would need to be carefully assessed by City Legal and Human Resources staff.

c. Risk of Losing Quality Child Care

2008 Cleveland report commissioned by Children's Services

In May 2008, City Council adopted the recommendations in a report by Dr. Gordon Cleveland, a leading child care researcher, that pointed out potential issues related to the expansion of commercial child care in the City. The report was commissioned by Children's Services.

Study analyzed the Division's annual inspection results

A key component of Cleveland's study was an analysis of Operating Criteria results (currently Assessment for Quality Improvement AQI) from an annual evaluation of child care centres conducted by Children's Services staff.

Recommended the City to preserve the important role of City-run centres

Based on his analysis, Cleveland pointed out that City-run centres are "*virtually always of higher quality*" than other centres, and recommended the City to remain "*strongly committed to maintaining these centres and preserving their important roles.*"

Since 2008 when the Cleveland study was conducted, the provincial inspection program of licensed child care facilities has expanded. The provincial inspection results are now posted on the province's website.

We analyzed the provincial inspection results

As part of our audit, we analyzed the most recent provincial inspection results of all licensed child care centres in Toronto to assess the differences in the quality of care by type of centre. We used provincial inspection results, rather than the Division’s own AQI inspection results, for our analysis because the provincial inspections represent a third-party independent assessment.

City-run centres scored slightly better than contracted centres

Based on our analysis of provincial inspection results, City-run centres had a slightly lower percentage of high/critical instances of non-compliance (47 per cent) than the contracted centres (51 per cent). However the difference is not statistically significant, meaning the difference could occur by chance. Table 5 summarizes the Provincial inspection results.

Table 5: Comparison of Provincial Inspection Data Between City-run and Contracted Centres

Provincial Inspection Results	City-run Centres	Contracted Centres
Centres With Minor or No Issues of Non-Compliance	28 (52.8 %)	314 (49.3 %)
Centres With Instances of High or Critical Non-Compliance	25 (47.2 %)	323 (50.7 %)
Totals	53 (100 %)	637 (100 %)

Quality of care is associated with wage rate

As Cleveland pointed out in his report, the hourly wage of RECEs has a significant positive association with quality of care.

Whether the additional cost to achieve the marginally higher quality of care in the City-run centres outweighs the benefits of improved services and wages in the broader child care sector, is a decision that rests with City Council.

Study also pointed out the need to analyze the costs of higher quality care in City-run centres

In his recommendation to the City to preserve the role of the City-run centres, Cleveland also indicated that *“More analysis of the determinants and costs of higher quality care in municipal centres is warranted.”*

d. Comparison With Other Jurisdictions

The Region of Peel previously operated 12 child care centres. When full-day kindergarten was introduced, Peel Region strategically reviewed its role as the Service System Manager and whether it should continue to directly operate child care centres.

Peel Region stopped operating 12 child care centres and reinvested savings into more subsidies and eliminated their wait list

The Region decided that there was inequity in the system because a disproportionate level of funding was going to their directly operated centres. The Region transformed their role within the child care system to focus on developing community capacity. The operations of 11 centres were transferred over to community partners. One centre was permanently closed. Peel Region reinvested the funds from direct operations into creating more child care fee subsidies and eliminated their wait list.

An important enabling factor for Peel Region's transformation is that its child care centre workers were not unionized.

Many other jurisdictions do not run child care centres

In Ontario, Peel Region, Windsor, York Region and Greater Sudbury do not operate any child care centres.

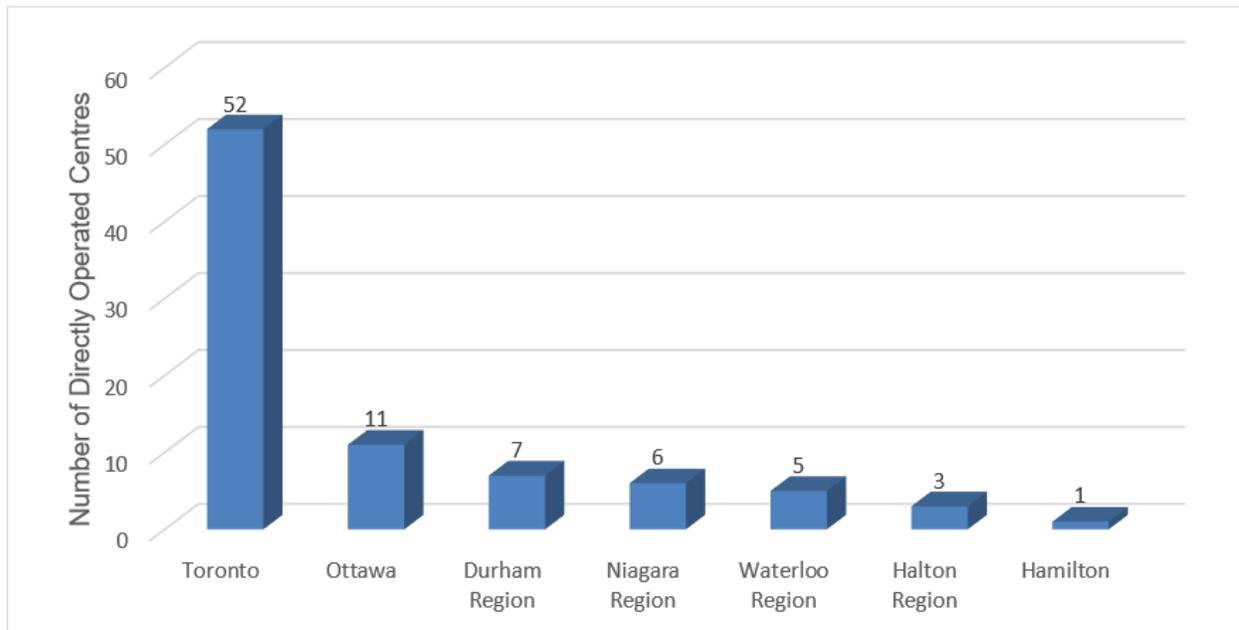
A number of Ontario municipalities continue to directly operate child care centres, but we observe that most of them appear to be smaller municipalities. These include Ottawa, Waterloo, Hamilton, Durham, Halton and Niagara Region.

We also noted that a number of large municipalities outside of Ontario, such as Vancouver, Calgary, Halifax, and Winnipeg, do not operate child care centres.

Not only is the City of Toronto the only large city in Canada which directly operates child care centres, it is also by far the largest operator in terms of the number of centres.

A comparison is shown in Figure 6.

Figure 6: Ontario Municipalities that Operate Child Care Centres



City Council decides whether the City should continue the status quo or move to a different service delivery model

The decision on whether the City should maintain the status quo and continue to operate child care centres or strategically shift to a different delivery model rests with City Council.

We believe it is important for City Council to be provided with thorough and complete information of the financial and non-financial benefits of continuing City-run centres compared to an alternate service delivery model. We have provided some of the information in this report and recommend the City Manager make a further assessment.

Recommendation:

- 1. City Council request the City Manager to examine alternate service delivery options for the City-run child care centres, including an analysis of financial and non-financial benefits, with a view to ensuring economic viability of child care services in the City and achieving optimal value from public funds. The review results are to be reported to City Council in early 2019.**

B. INCREASE CITY ACCESS TO EXISTING LICENSED SPACES



B.1. Division Policies Constrain the Use of Licensed Spaces

High demand for child care services in Toronto

In its Council-approved 2015-2019 Service Plan, Children's Services highlights that the current early learning and child care service system needs to grow significantly, through careful planning and long-term investment, in order to meet Toronto's child care demands.

Shortage of licensed child care spaces for children with subsidies

Given the significant infusion of provincial and federal funding for child care in 2017, according to staff, the challenge faced by the Division now is a shortage of licensed child care spaces that it can purchase for children who have fee subsidies.

Approved capital plan to build 21 new centres for \$49 million

The Division's approved 2018 capital budget includes \$49 million to build 21 new child care centres, which would add 1,110 spaces over 10 years. It costs on average \$62,900³ to build a new child care space, according to the Division's 2017-2026 Growth Strategy report.

Council directed not to expand agreements with commercial centres

In adopting the 2008 Cleveland report and recommendations, City Council directed Children's Services to restrict new or expanded purchase-of-service agreements to take place only in not-for-profit facilities.

Division's access is limited to about 72,000 licensed spaces in the City

Following the Council directive, Children's Services has not established any new service agreements with commercial operators. As of December 31, 2017, of the total 83,587 licensed spaces in Toronto, 11,635 spaces were in commercial centres. Since Children's Services is restricted from contracting with these operators, the Division's access is limited to the remaining 71,952 licensed spaces in Toronto and this forms the basis of the following analysis.

Access to 68% of licensed spaces

We found that a significant percentage of existing spaces are not being used by Children's Services for placement of children with subsidies. Children's Services has purchase-of-service agreements with 639 operators with 48,983 operating spaces, or 68 per cent of the available spaces in the City.

The following explains the constraints on the Division's ability to place a subsidized child in care:

³ Does not include the cost of land acquisition.

(A) 10 per cent (6,986) of the spaces are in the 144 non-profit centres which do not have service contracts with Children's Services

12% of licensed spaces are not in operation

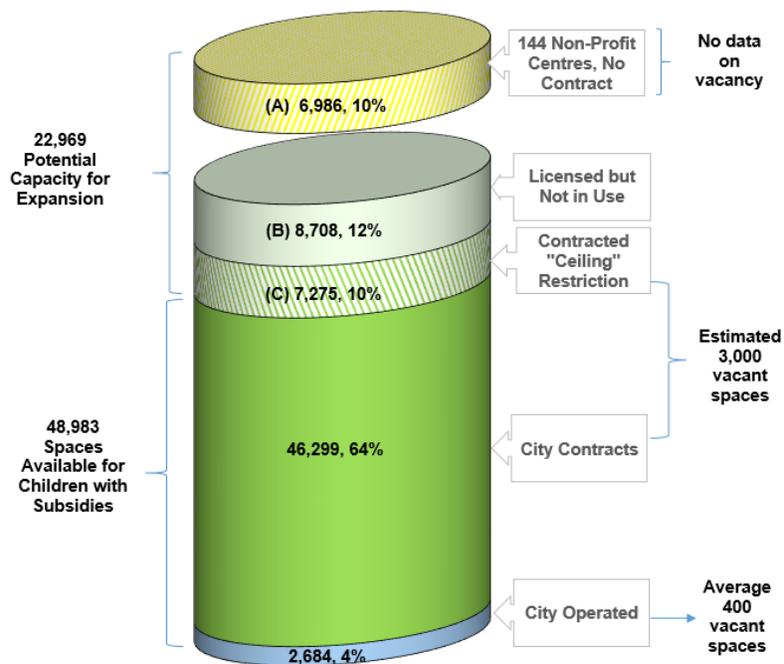
(B) Among the centres with a purchase-of-service agreement with Children's Services and the City-run centres, 12 per cent (8,708) of the licensed spaces in these centres are not in operation. Operators may choose to operate below their licensed capacity due to business or other reasons. In addition, in responding to our survey, many operators indicated that they would be interested in expanding their operating capacity to accommodate more children with subsidy.

10% of spaces are not accessible due to the Division's policy

(C) 10 per cent (7,275) of the spaces in centres with service contracts with Children's Services are not available for purchase because the Division imposes a "ceiling" restricting the maximum number of subsidized spaces that it will purchase from each contracted operator

A detailed breakdown of the spaces is shown in Figure 7.

Figure 7: Breakdown of Licensed Child Care Spaces (71,952⁴) in Toronto, December 31, 2017



⁴ Excluding 11,635 spaces with Commercial Operators which Children's Services cannot establish service agreements, as directed by City Council.

1. Lift the Division's "ceiling" which restricts the maximum number of spaces that can be purchased from each contracted centre

"Ceiling" policy limits the number of spaces available for subsidized children

Children's Services stipulates the maximum number of spaces it will purchase from each contracted centre (a.k.a. the "ceiling") to ensure equitable distribution of fee subsidies across the City. As the Division is currently faced with a shortage of licensed spaces, one would expect a change to its policy to purchase additional existing spaces from contracted centres above its previously set "ceilings". This has not happened.

"Ceiling" can affect centres' operating costs and lead to higher fees for parents

Some of the child care centre operators who responded to our survey pointed out that the "ceiling" restriction resulted in spaces left vacant in their centres.

What operators said in our survey:

"...this year is the first time I had issues regarding Centre's Ceiling Capacity. This year found most families received subsidy and even though the Centre had space the ceiling was at capacity, or there is space the system is not allowing the child to be registered..."

"...I have empty spaces in the Centre, and have Clients who are interested in starting, but I have to turn them away, as our subsidy spaces are full. This is an ongoing problem..."

Vacant spaces reduce centres' ability to off-set operating costs, and can result in centres charging higher fees to recover costs.

In our recent discussions with staff, they indicated that they are in the process of amending this policy.

Many of these spaces may be occupied, but even if just a small percentage of these spaces are vacant, this will provide a considerable number of extra spaces that can be used for children with subsidies.

16% vacancy in City-run centres equivalent to \$5.3 million inefficiency costs

2. Reduce the vacancy rate in City-run centres

Even the City-run centres have a considerable number of vacant spaces. While the licensed capacity for the 52 City-run centres is 2,921, the budgeted operating capacity in 2017 was 2,684 spaces. Our analysis found that each centre had an average of eight vacant spaces, or an overall 16 per cent average vacancy rate in 2017, which amounted to about 400 vacant spaces. The financial impact of this vacancy rate is an annual inefficiency cost of \$5.3 million.

The Division has no contract with 144 non-profit centres

3. Establish contracts with more non-profit centres

Among the 342 centres that Children's Services has no contractual agreement to purchase services, 144 of them are non-profit operators.

Staff indicated that these centres are not interested in doing business with the City

Children's Services staff indicated that they have been approaching these centres but many have not been interested in doing business with the City. It is possible that these centres are fully occupied without any vacant spaces. But given the large number of these centres, the Division should make further efforts to understand why so many of them choose not to have a service agreement with the City.

In our view, streamlining the Division's current AQI inspection program (which is further discussed in Section F) may also help encourage more non-profit operators to establish purchase-of-service agreements with the Division.

Estimated 3,400 vacant spaces in City-run and City contracted centres

According to the Division's vacancy data and our survey results, about six per cent, or 3,000 of the licensed spaces in centres with a service agreement with the Division are vacant. There are also on average 16 per cent vacancy rate, or 400 vacant spaces in the 52 City-run centres.

Important to make use of the existing spaces

As the Division continues to build new child care centres for capital expansion, in our view, it is equally important that it makes efforts to use the existing licensed spaces, which is a more economical solution.

By purchasing more subsidized spaces from existing child care centres, the Division will also help reduce vacancy in these centres. This will provide more revenue to centres to offset the need to pass on their increasing operating costs through increasing fees, thus helping to keep costs affordable.

B.2. Effective Placement of Children Requires Data on Vacant Operating Licensed Spaces

Families have six weeks to secure a space after their subsidies have been approved

Once a subsidy is allocated to a family, Children's Services allows the family six weeks to find a space. If a family cannot secure a vacant space within six weeks, the subsidy is deallocated and the family remains on the wait list until a space in their preferred centre becomes available.

When a space in the family's preferred centre is not available, to keep their subsidy, some families place their child in care in their second choice, with a request for transfer to their first choice centre when a space becomes available. Therefore, vacant space information is key for families to contemplate their options.

Lack of a centralized database for vacant space information adds pressure on families and caseworkers looking for suitable spaces

Children's Services does not maintain an up-to-date centralized database for vacant operating child care spaces in the City. Families looking for spaces need to contact multiple centres to place their child on each centre's wait list, and continue to monitor the placement of their child on these multiple wait lists to find a suitable space within the six-week period.

We estimate, on any given day, there may be over 1,500 families making calls to over 600 operators to look for and secure spaces.

Vacant space numbers is critical operating information

Centralized information about vacant spaces in Toronto is critical to families who are looking for a space for their child, as well as to the Division which is responsible for administering the subsidy.

Recommendations:

- 2. City Council request the General Manager, Children's Services Division, to take steps to increase access to the existing licensed child care spaces in the City for the purchase of services for children with subsidies. Steps should be taken, but not be limited to:**
 - a. Expanding the maximum number of spaces that can be purchased from contracted non-profit licensed child care centres**
 - b. Minimizing the vacancy rate in the City-run child care centres**
 - c. Exploring ways to access existing spaces in the non-profit licensed child care centres which do not currently have a service agreement with the Division.**
- 3. City Council request the General Manager, Children's Services Division, to expedite the process of providing centralized and up-to-date vacancy information on licensed child care spaces in Toronto to help families look for licensed child care services.**

C. IMPROVE WAIT LIST MANAGEMENT AND SUBSIDY ALLOCATION



C.1. Subsidy Wait List Data Should Be Further Broken Down to Provide an Accurate Picture

The Division is responsible for maintaining a subsidy wait list

To manage the demand for the child care fee subsidy, Children's Services maintains a wait list of all applicants. An application for child care fee subsidy may be completed over the phone, online or in person. The wait list data is maintained in the Division's information system.

As of December 31, 2017, there were a total of 12,300 children on the child care fee subsidy wait list. The wait list number is an important piece of information used for strategic planning and budget consideration.

Our analysis found that not everyone on the wait list has an immediate need for a child care fee subsidy.

41% of the children on the wait list are waiting for immediate subsidy

Figure 8 summarizes our analysis of the demand for child care fee subsidies:

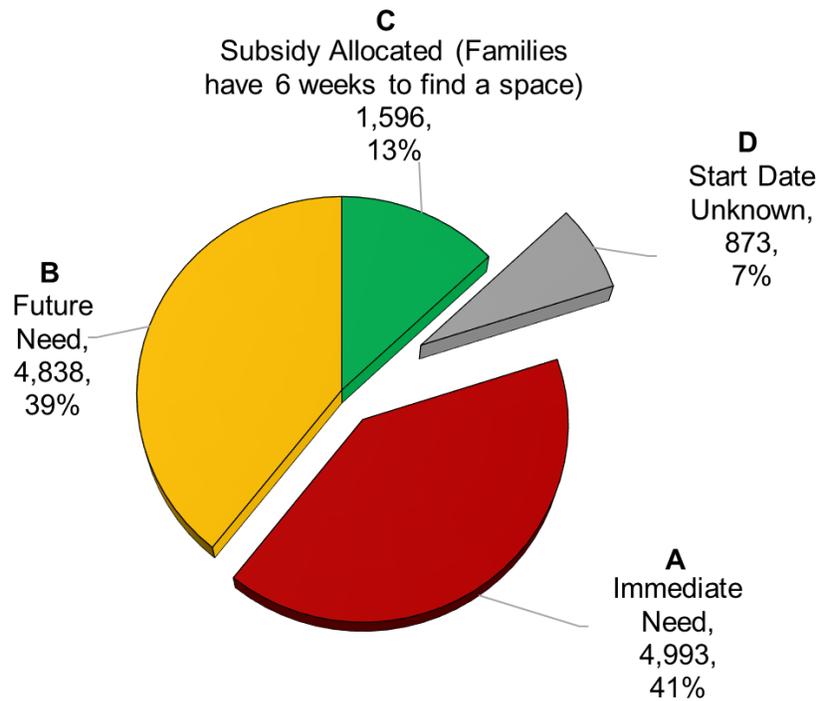
(A) 41 per cent of children on the list have an immediate need for a child care fee subsidy. Immediate need, according to the Division's current practice, are children who need care within two months.

(B) 39 per cent of children on the wait list have a future need for a child care fee subsidy. The Division's policy allows families to place their child on the wait list during pregnancy or in anticipation of an adoption

(C) 13 per cent of children have already been allocated subsidies, and the families need to secure a child care space in a licensed child care program of their choice

(D) 7 per cent of children do not have a specific child care start date

Figure 8: Demand for Child Care Fee Subsidy by When the Care is Needed, December 31, 2017 Wait List



Among applicants on the wait list for future needs, they varied from needing child care in two to six months to more than a year later. Table 6 below provides a further breakdown on when the applicants wanted to start child care.

Table 6: Child Care Fee Subsidy Wait List, December 31, 2017

Wait List Status	Number of Applicants	Percentage
A. Have immediate need for child care (Less than 2 months)	4,993	41%
B. Need to start child care in future	4,838	39%
Start Date in 2-6 months	2,299	
Start Date in 6 months to 1 year	2,307	
Start Date in more than 1 year	232	
C. Subsidy Allocated/Approved and need child care space	1,596	13%
D. No Start Date	873	7%
Total	12,300	100%

A separation of the immediate need and the future need provides more relevant information

To provide a clear picture of the demand for child care subsidies in the City, a more detailed breakdown of the wait list data should be reported. Immediate and future need for child care subsidies should be separated to provide pertinent information for the public and for elected officials to better understand the short and long-term needs in the City's child care system.

Recommendation:

- 4. City Council request the General Manager, Children's Services Division, in her reports of wait list numbers for child care subsidies, to provide a detailed breakdown of the numbers to delineate:**
 - a. Children whose subsidy has already been allocated**
 - b. Children with an immediate child care need**
 - c. Children with a future child care need.**

C.2. Ensure the First-Come, First-Served Policy is Consistently Implemented

Number of child care fee subsidies are set as part of the City's annual budget process

Each year, the provincial government allocates funds to the City for the provision of child care-related services including fee subsidies for licensed child care services. Based on the Province and the City's funding contributions, the City's annual budget process establishes the number of child care fee subsidies that will be provided along with other related services.

Fee Subsidy Manual is developed to administer Council's first-come, first-served directive

Children's Services manages applications for the child care fee subsidy on a first-come, first-served basis as approved by Council. The Division has established a Fee Subsidy Manual and Placement Directives outlining criteria and specific directions to guide staff in the administration of fee subsidies according to the first-come, first-served policy.

Families with an immediate need for a child care fee subsidy waited for an average of 3 months

Children's Services does not measure how long it takes for a family to receive a child care fee subsidy after they have applied. To determine the average wait time for a subsidy, we compared the wait list data between May 31, 2017, and December 31, 2017. We found that, among the applicants who had an immediate need for child care, the wait time for subsidy was approximately three months.

Inconsistent application of first-come, first-served policy

To assess whether staff followed the first-come, first-served policy, we reviewed a sample of 60 cases⁵ from the May 31, 2017, wait list. We found that 19 of the 60 cases had one or more instances⁶ of inconsistent application of the first-come, first-served policy. We provided our findings to the Divisional management staff to review so that we could confirm our assessment. A summary of the policy inconsistencies we observed is provided below in Table 7.

Table 7: Instances of Non-Compliance with the First-Come, First-Served Policy

Children's Services Policies and Procedures	Audit Observations
When an applicant wants a fee subsidy for an unborn or newborn sibling of a child already on the wait list or already in care, the wait list date can be backdated up to six months before the actual due date or date of birth.	In two instances, the wait list date was backdated by more than six months, the amount of time allowed by the policy. Consequently, the two applicants were allowed to "jump the line". During the course of our audit, the Division has revised the policy to stop the backdating practice.
When an applicant reapplies for the child care fee subsidy within six months of being removed from the wait list, the child can be put back on the wait list with the original wait list date.	In one instance, the applicant came back within six months after withdrawal from the wait list, but the original wait list date was not kept as required by the policy. As a result, the applicant was placed at the bottom of the wait list.
When a fee subsidy is refused, the caseworker should record the reason for the refusal. Depending on the reason, a child may be re-positioned on the wait list.	In 12 instances, staff did not clearly document the reason for subsidy refusal or update the requested start date, and hence it is unclear if the wait list dates were properly adjusted.
Approval for subsidies should be cancelled if an applicant cannot secure a physical space within the required deadline (six weeks). Clients should be removed from the wait list if an applicant does not respond to Children's Services requests by the deadline.	In seven instances, the subsidies were not cancelled or the applicants were not removed from the wait list even though the applicants did not respond by the required deadline.

⁵ Ten cases who had already been approved for subsidies were randomly selected. For each case, we reviewed five cases whose wait list dates were immediately before the selected case. Some of the cases had already been approved for subsidy while others had not. We assessed consistent policy application for each case based on the first come first-served criteria specified in the policy.

⁶ Some cases had more than one instance of non-compliance

Process to contact applicants to update the wait list needs to be improved

In order to comply with the first-come, first-served policy, Children's Services staff are required to update the wait list by sending letters to applicants at three months and six months after the initial application date to confirm their continued needs for subsidies. This is a labour intensive and inefficient process.

In our sample review, we noted a considerable number of instances where staff did not maintain regular contact with applicants. This could lead to overstating the number of applicants on the wait list as some of them might no longer require a subsidy.

Divisional staff recognized the inefficiency of the current process and is currently exploring automated notice features that can be sent to applicants electronically.

Supervisory review will improve consistency in administrative practice

Although Children's Services has a detailed procedural manual for the fee subsidy allocation, it has few requirements for supervisory review to ensure consistent application of its policy. Based on our review and discussions with staff, some caseworkers used their discretion to assist certain families, even though this might contribute to inequitable treatment of other applicants.

Lack of system controls to prevent data entry errors

Another reason causing the inconsistencies is the lack of basic system controls to prevent data entry errors by staff. For example:

- In one case, staff erroneously created a new processing date in an applicant's record which inadvertently prolonged the child's wait time for the subsidy.
- In another case, an eight-year-old has been on the wait list since Sept 24, 2009, because the requested start date for this child was erroneously entered as November 1, 2998.

Basic controls such as setting parameters for requested start dates to ensure a child's age is less than 12 can eliminate these types of data input errors.

**Data integrity issues
being addressed at the
time of our audit**

We noted many limitations in the Children's Services Information System (CSIS) that have an impact on the integrity of the data. Management could not confirm the reliability of the data and acknowledged that they were in the midst of a major data clean up at the time of our audit.

Recommendation:

- 5. City Council request the General Manager, Children's Services Division, to take the necessary steps to ensure consistent application of the first-come, first-served policy in allocating the child care fee subsidy. Such steps should include, but not be limited to:**
 - a. Developing a more efficient process to contact applicants and update the wait list**
 - b. improving supervisory review protocol**
 - c. Developing automated system controls to prevent data entry errors as well as ensuring critical data fields are completed.**

D. AVOID COSTS OF IMPROPER PAYMENTS



D.1. Ensure Fee Subsidy is Provided to Eligible Applicants

Applicants must live in Toronto, be working or attending school/training program to be eligible for a subsidy

To be eligible for a child care fee subsidy, an applicant must live in Toronto, and be working or attending school or a training program. Applicants may also be eligible for a child care fee subsidy if either the parent or child has a special need. Individuals who are eligible for the City's shelter or hostel services automatically qualify for a child care fee subsidy if needed.

Daily family fee is determined using the provincial formula

Eligibility for a child care fee subsidy is based on a family's income and is determined using the provincially mandated income test. The income test is applied to family income in order to calculate the daily family fee. Regardless of the child care fees charged by different centres, the daily family fee remains the same.

In May 2017, there were 28,103 children with a child care fee subsidy and this increased slightly to 28,367 children by December 31, 2017. The Annual Family Income and the Daily Family Fee for these recipients is summarized in Table 8.

Table 8: Distribution of Family Income and Family Fee by Number of Children Receiving a Fee Subsidy

Family Annual Income	Daily Family Fee	Children as of December 31, 2017	Percentage
Social Assistance and Disability Assistance Recipients	0	5,850	20.6%
<20,000.00	0	7,478	26.4%
20,000.00 - 39,999.99	\$ 0 - \$7.65	8,684	30.6%
40,000.00 - 59,999.99	\$7.66 - \$30.64	4,324	15.2%
60,000.00 - 79,999.99	\$30.65-\$53.63	1,322	4.7%
80,000.00 - 99,999.99	\$53.64-\$76.62	511	1.8%
100,000.00 - 120,000.00	\$76.63-\$99.62	155	0.5%
>120,000.00	>\$99.62	43	0.2%
Total		28,367	100%

Three quarters of subsidized children were from families receiving other social assistance or with an annual household income of less than \$40,000. Families making higher levels of income can qualify for child care fee subsidies, but their subsidy amounts are relatively smaller.

District caseworkers assess household eligibility for child care fee subsidy

Children's Services' District Operations staff are responsible for assessing the eligibility of new and ongoing applicants through in-person interviews and document reviews.

The Division requires annual in-person assessments with the recipients to confirm that there has not been a major change to their household income or work and/or training status prior to the subsidy's annual expiry date. Table 9 summarizes the number of eligibility reviews completed by each District Office.

Table 9: Eligibility Reviews by District Office, May 31, 2017

Eligibility Reviews	East	North	South	West	Total
Annual Review	4,210	4,096	2,475	3,466	14,247
New Admission	1,562	1,593	931	1,291	5,377
Subsidy Withdrawal	1,351	1,404	810	1,133	4,698
TOTAL	7,123	7,093	4,216	5,890	24,322

To determine whether the applications were adequately assessed for eligibility according to the legislative requirements and Divisional policies, we selected 50 files for a detailed review. These applications were assessed and approved for fee subsidies by the Division between January and May 2017. All of the exceptions noted in our review were provided to management staff for follow-up.

7 of the 50 approved applications did not have the required documents on file

Of the 50 files reviewed, we noted issues in seven cases. These cases did not have all of the required documents on file to support that the applicants met the basic eligibility criteria related to residence, approved activity, or supervisor approval for ongoing special needs.

Proof of attendance and completion of post-secondary school is not required by current Divisional policy

In addition, in four other cases, recipients were approved for a subsidy based on their enrollment in post-secondary schools/colleges. The Division's policy does not require the recipients to provide proof of attendance or completion of the school programs. This presents a risk that recipients may drop out of the programs subsequent to the subsidy approval, and will not be detected by caseworkers until the next annual assessment.

In our review of overpayment cases identified by Children's Services caseworkers, we noted that a number of recipients incurred overpayments because they were not able to provide evidence of school completion to support their continuous eligibility.

Supervisory reviews to be completed on a sample of files

Divisional policy requires District supervisors to complete a secondary review of a sample of eligibility files. Each supervisor is required to review 60 files every three months for a total of 240 files a year per district. This represents only about four per cent of all the eligibility reviews completed in 2017.

Two district offices had not completed the required supervisory reviews

At the time of our audit, supervisors in the South and North districts had not completed the required reviews. The Division's last quality assurance file review was done in 2012 by its Risk Management Review Unit. According to staff, the review found high levels of compliance and hence no subsequent Division-wide review was conducted after 2012.

In light of the importance of the eligibility assessment process, the Division should strengthen its ongoing quality assurance process to make sure subsidies are issued only to eligible applicants.

Recommendations:

- 6. City Council request the General Manager, Children's Services Division, to improve the current measures to ensure sufficient and timely supervisory review of files that are approved for child care fee subsidies.**

- 7. City Council request the General Manager, Children's Services Division, to review the current policy requirements regarding proof of attendance or completion of post-secondary school programs as an approved activity for child care fee subsidies.**

D.2. More Children Could Receive Subsidies if Most Current Income Information is Used for Assessments

Provincial legislation requires an applicant's NOA to be used for income assessment

During eligibility interviews, applicants are required by the provincial legislation to provide their Notice of Assessment (NOA) or Canada Child Tax Benefit Notice from the Canada Revenue Agency for income assessment purposes.

Income on Notice of Assessment may not be current

The income information on the NOAs can range from a few months to two years old at the time the eligibility review is conducted.

29 files contain pay stubs which indicate more current income information than NOAs

In reviewing the 50 selected files, we noted that 29 contain pay stubs which provide more current income information than NOAs. These pay stubs were not specifically collected for income assessment, but to verify the applicant's employment activities.

For the purpose of assessing the potential financial impact of using current income information, we re-calculated the fee subsidy amount for those 29 files to gauge the overall financial impact.

Among the 29 files, we found the following changes to the subsidy amount if pay stubs were used for income assessment:

- Twelve (12) recipients were earning more than what was shown on their NOAs, and would have been issued less if pay stubs were used. In two of these cases, their current income levels are so high that they would no longer be eligible for a fee subsidy. Each of these 12 cases represents an "overpayment" scenario.

- Three recipients' pay stubs show that they were earning less than their NOA income. If their pay stubs had been used for their income assessment, these recipients would have been eligible for a higher subsidy amount. This is called an "underpayment".
- No impact on 14 files

An overall 13% net overpayment based on a sample of 29 files

The net financial impact on these 29 cases, after accounting for both the under and over payments, is a 13 per cent net overpayment rate.

As our sample was not randomly selected, this affects our ability to extrapolate the overpayment rate to the entire population.

Savings from using more current income information could be significant

While we cannot confidently estimate an overall overpayment amount, it is likely that the savings from using more current income information would be significant and in the millions given that the City spent \$214 million (excluding Ontario Works subsidies) on child care fee subsidies in 2017.

Improper payment rate at 5.7% based on U.S. estimate

The United States has laws requiring governments to measure, monitor and reduce improper payments⁷. The U.S. Government Accountability Office estimated the improper payment rate for child care programs at 5.74⁸ per cent. If this rate is applied to the City's 2017 child care fee subsidy amount, the estimated funds at risk would be \$12 million per year.

Children's Services is in compliance with provincial legislation

It is important to recognize that Children's Services' current practice to use the NOA as the basis for income assessment is in compliance with the provincial requirement.

⁷ Improper payments refer to payments that should not have been made or incorrect amount was paid due to non-compliance with internal policies, insufficient documentation to support initial or ongoing eligibility, or administrative human errors.

⁸ Improper Payments: CFO Act Agencies Need to Improve Efforts to Address Compliance Issues, June 2016

Using current pay stubs is in keeping with the intent of the income assessment

We believe an applicant’s ability to pay for child care should be based on the applicant’s current income. Therefore, in our view, it is appropriate to include current pay stubs, in addition to NOAs, in the initial eligibility review and annual assessment for child care fee subsidies. Depending on their current income levels, individuals may be entitled for a higher or lower child care fee subsidy if pay stubs are required.

It is important to point out that we are not proposing that staff require fee subsidy recipients to produce pay stubs for re-assessment purposes prior to their annual assessment.

Three Provincial income-based assistance programs require pay stubs as proof of income

Furthermore, the use of current pay stubs for income assessment is a standard practice in the Province's other income-based assistance programs. These include the Ontario Works Program for social assistance, the Ontario Disability Support Program for people with disabilities, and the Rent-Geared-To-Income Program for housing support. All of these Programs require pay stubs as a proof of applicants' income.

Important to ensure fair and consistent administrative practices

To ensure consistency and fairness for all children in need of subsidies, we believe there is a need for the Province to review its current income assessment requirements for the child care fee subsidy. Adding current pay stubs to the assessment requirement will ensure the assessment is fair to subsidy applicants, and is likely to allow the government funding to benefit more children in need of child care fee subsidies.

Recommendation:

8. City Council request the General Manager, Children's Services Division, to request the Ministry of Education to review and consider including current pay stubs as part of the requirements for assessing applicants' income and eligibility for child care fee subsidies.

D.3. Adjust Subsidy Amount When Household Income Decreases or Increases

An applicant can request a re-assessment if income decreases by 20%, but no requirement to disclose income increase of 20% or more

According to Children's Services policy, families receiving a subsidy can request a re-assessment of the subsidy amount when their income decreases by 20 per cent or more. The Division has no parallel policy to require subsidy recipients to report when their income increases by 20 per cent.

Overpayment is calculated from the time the overpayment was identified, rather than from the time the income change occurred

When a recipient's income changes, the Division does not calculate the change in the subsidy amount to reflect when the change actually occurred, but when the change was identified. A change is usually identified during the annual eligibility review meeting. We noted 173 cases had their annual review conducted on average 63 days after the expiry of their subsidy. Any possible improper payments on these cases were not considered.

Because of this, a recipient may have been earning a higher income for months before the annual eligibility review meeting, and therefore was receiving an incorrect subsidy amount.

Polices need to be balanced and fair to existing recipients and applicants on the wait list

When an improper amount of a child care fee subsidy is issued to a family, or when an ineligible family continues to receive a child care fee subsidy, this reduces the amount of fee subsidy funding available for families on the wait list.

Recommendation:

- 9. City Council request the General Manager, Children's Services Division, to revise current policies pertaining to child care fee subsidy adjustments to ensure the following:**
 - a. Requiring subsidy recipients to report increases in income of 20 per cent or more and to process the appropriate subsidy adjustment**
 - b. Calculating overpayment and underpayment and any change to the subsidy amount based on the time when the income change occurs.**

D.4. Ensure the Job Search Policy is Appropriately Used

Job search policy accommodates recipients who become unemployed	<p>To assist parents who may lose their job while receiving a child care subsidy, the Division has a job search policy that allows children to remain in a child care program for 90 days in any 12-month period while parents are looking for a job.</p> <p>Our review indicates that the job search policy requires additional internal controls to ensure it is achieving its intended purpose.</p>
Caseworkers extended the job search allowance to beyond 90 days	<p>In seven out of 30 files we reviewed, caseworkers did not end the subsidy even though the 90-day job search period had ended. No information was noted on file to explain the extension. On average, clients received a subsidy for an extra 36 days following the end of the 90-day search period.</p>
Lack of IT control to track expiry date of job search period	<p>The Division confirmed that its information system (CSIS) was not effective to track job search period expiry dates because it was calculated on a rolling 12 months period. During the course of our audit, the Division remediated this issue by changing the policy to calculate job search periods on a calendar year basis.</p>
No specific criteria to verify job search activities	<p>Although the job search policy was revised in March 2014, to date the Division has not established any specific criteria or procedures to verify job search activities.</p>
Inappropriate use of job search policy to waive periods of ineligibility results in overpayment of child care fee subsidy	<p>During our review of files, we noted that caseworkers were inappropriately using the revised job search policy to waive subsidy funds issued for periods when applicants are ineligible. For example, in four of 30 subsidy withdrawal files we reviewed, the recipients could not provide documentation to verify their initial claim of employment or school activities. According to the Division's policy, funds issued to these recipients should be considered overpayments; however, no overpayment was established by caseworkers during the process of withdrawing subsidies from the four cases.</p>

We also noticed an increase in the number of "unable to find employment" withdrawals after the Division changed the policy directive to include job searches as an approved activity. The number of withdrawals due to "unable to find employment" increased steadily from 209 cases in 2014, to 427 cases in 2015, and 477 cases in 2016.

Recommendation:

- 10. City Council request the General Manager, Children's Services Division, to improve controls for the "job search" policy for child care fee subsidy recipients. These should include:**
 - a. Implementing monitoring and review processes to ensure the "job search" policy is appropriately used**
 - b. Establishing specific criteria and procedures to verify recipients' job search activities**
 - c. Ensuring adequate assessment of overpayment when subsidy recipients are found to be ineligible for the job search allowance.**

D.5. Ensure More Effective Identification of Overpayments and Recovery

Withdrawal of subsidy is usually due to recipients no longer meeting eligibility requirements

Identifying Overpayments During Subsidy Withdrawals

When Children's Services withdraw a fee subsidy from a recipient, it is generally because the recipient no longer meets the eligibility requirements or has not provided information to confirm ongoing eligibility.

Failure to report changes may affect eligibility

The Division's policy requires an eligibility re-assessment every 12 months, or when there are changes to a recipient's situation such as employment, education, residence or household composition. Failure to report a change may affect a recipient's eligibility and may result in an overpayment that they will have to pay back.

When a case is withdrawn, caseworkers should assess whether an improper payment occurred.

Audit sample of withdrawals

In our review of a sample of 30 withdrawal cases that were processed in 2016 and 2017, we noted that:

- a. District caseworkers did not always establish an overpayment when the recipient was no longer eligible

In nine of the 30 sampled cases, the subsidy was withdrawn because the recipients were not employed or could not provide the required documentation to support eligibility. Caseworkers, however, did not establish an overpayment for the period when the recipient's eligibility could not be confirmed. By our estimate, the overpayments for these nine cases were approximately \$18,000.

Funds at risk due to administrative errors is unknown

- b. Overpayments due to administrative errors by staff were not tracked or investigated

In two cases, we noted improper payments had been made to subsidy recipients.

In one case, the family was inappropriately approved for subsidy as they were visitors and did not live in Canada. The error was promptly corrected by the Division and the overpayment amount is estimated to be \$726.

In another case, an applicant was approved for full day child care, but should have been eligible for half day child care based on the hours in school. We did not have enough information to determine the overpayment amount for this case.

When staff makes an error in payment, the recipient should not be asked to pay the amount back, and consequently the loss is completely absorbed by the City.

Children's Services has no prescribed policy regarding the identification and tracking of improper payments caused by administrative errors.

Inconsistent practices in establishing overpayments

Overall, we found that current practices in processing withdrawals and establishing overpayments are inconsistent. We acknowledge that not all overpayments are recoverable; however, measures should be taken to identify the financial impact and root causes of improper payments in order to prevent future occurrences.

Recovery of Overpayments

Overpayment tracking system has many limitations, rendering the data unreliable

Overpayments are recorded and monitored in CSIS. We were advised that the system has many limitations. There are 23 overpayment categories (e.g. closed, declined, waived, in collection) and the district caseworkers are not using them consistently. Consequently, it is not always possible to determine the cause of an overpayment and the amount to be recovered.

Approximately \$7.3 million in overpayments since 2005

Since 2005, the Division has identified approximately \$7.3 million in subsidy overpayments. Approximately \$3 million in overpayments were either waived or paid, but staff could not differentiate between the amounts waived or recovered due to limitations of the system data. The outstanding balance is approximately \$4.3 million.

Overpayments under \$5,000 are reviewed and approved by staff in District Offices. Overpayments over \$5,000 are reviewed and approved by the Risk Management Unit in Children's Services.

Division has no criteria for determining the amount of repayments

The Division's Client Billing Unit is responsible for the collection of overpayments. For cases where complete repayment is not possible, a repayment plan is negotiated. Since Children's Services does not have explicit criteria to guide staff in establishing repayment plans, the general practice is to let recipients self-assess how much they are able to repay each month.

Client Billing Unit did not consistently follow up on missed payments

Furthermore, in our sample of 21 overpayment cases, eight cases had a re-payment plan set up; however, we noted two cases where regular monthly payments were not made by the recipients. We did not find any evidence of follow-up by the Client Billing Unit.

Managing Overpayments Arising from Fraud Cases

Subsidy ineligibility is reviewed by RMA unit

In cases where potential fraud is detected, the file is referred to the Risk Management and Accountability (RMA) Unit for further investigation. Unit staff review the evidence for subsidy disenrollment and calculate the overpayment, if any exists.

Based on our review, the Unit determines the amount of overpayments to be recovered rather than assessing whether the applicant intentionally withheld or misrepresented information.

Policy being developed for subsidy overpayments caused by fraud

At the time of our audit, the Division was developing formal policies and procedures to deal with subsidy overpayments caused by fraudulent claims.

Improve efficiency by establishing once centralized fraud unit for various income based assistance programs

This is an area where significant administrative efficiencies can be achieved by having one centralized fraud unit to review cases from each of the income-based assistance programs: Children's Services, Toronto Employment and Social Services, and Shelter, Support and Housing Administration.

The City has recently established a Human Services Integration Unit to streamline the delivery of income-based assistance services. The Unit is in its first phase of development. A centralized approach to support the City's various income-based assistance programs will help improve services to applicants and administrative efficiency. Consideration should also be given to incorporate a centralized fraud investigation function within the Human Services Integration Unit.

Recommendations:

- 11. City Council request the General Manager, Children's Services Division, to ensure cases of child care subsidy withdrawals are adequately assessed for potential improper payment and decisions are documented. Improper payments caused by administrative errors should be identified and tracked to ensure corrective actions are taken to prevent the recurrence of these errors.**
- 12. City Council request the General Manager, Children's Services Division, to ensure adequate controls are in place to monitor and recover overpayments related to child care fee subsidies.**

13. **City Council request the General Manager, Children's Services Division, to develop formal policies and procedures to deter and detect potential fraud among recipients of child care fee subsidies and child care centre operators.**
14. **City Council request the General Manager, Children's Services Division, to collaborate with the General Manager, Toronto Employment and Social Services and the General Manager, Shelter, Support and Housing Administration to incorporate a centralized overpayment recovery and fraud investigation function within the Human Services Integration Unit.**

D.6. Review the Appropriateness of the Policy to Provide Subsidies to Employees Not Living in the City

Current practice of providing fee subsidies to employees living outside of the City contravenes the Act

Children's Services allows City employees who do not reside in the City to be eligible for a child care fee subsidy issued by the City. As of March 2018, 14 subsidies were issued to children of City of Toronto employees who live outside of Toronto. The total annual subsidy amount is estimated at \$203,100.

The Child Care and Early Years Act specifies that the City of Toronto is the geographic service area. Therefore, providing subsidies for residents of other service areas contravenes the Act.

Staff explained that the current practice is based on a 1988 policy entitled "Metropolitan Toronto Employee Child Care Policy" from the former Metropolitan Toronto.

Recommendation:

15. **City Council request the General Manager, Children's Services Division, to review the appropriateness of the legacy policy to provide child care fee subsidies to City employees who reside outside of the City, in the context of the current legislative requirements and the City's Human Resources policies. The review results are to be reported to City Council in early 2019.**

E. IMPROVE ACCESS TO CHILD CARE SUPPORTS FOR SOCIAL ASSISTANCE RECIPIENTS



2,000 child care fee subsidies allocated to social assistance recipients each year

Historically, Children's Services has, on an annual basis, dedicated 2,000 child care fee subsidies for families receiving social assistance who are referred by Toronto Employment and Social Services (TESS) Division. TESS allocates \$10 million annually to ensure that social assistance recipients are given priority admission.

Social assistance recipients are Toronto's most vulnerable

TESS administers the provincial program that provides social assistance for Toronto's most vulnerable. Eighty-five (85) per cent of the caseload consists of the following groups in our society:

- Single parents
- Persons with disabilities who are not eligible for Ontario Disability Support Program
- Aboriginal persons
- Recent immigrants

A primary goal of this provincial program is to provide financial assistance and supports for individuals to gain and sustain employment in order to be financially independent.

Child care is an essential support for social assistance recipients to transition towards employment

Child care is an essential support that enables participants with children to take part in activities which allow them to transition towards ongoing employment. A staff report from TESS noted that social assistance recipients in Toronto experience difficulty in accessing key supports and services, such as child care, which is necessary to prepare for employment.

1,600 children, of social assistance recipients, wait for a child care fee subsidy

As of December 31, 2017, 5,850 children of social assistance recipients were receiving child care fee subsidies. There were an additional approximately 1,600 social assistance recipients on the child care wait list with an immediate need for child care. Of these, 400 applicants were given priority while the others were not according to Children's Services policies and procedures.

Social assistance recipients and lower income families get priority in other jurisdictions

At the time of our review, Children's Services was developing a strategy to ensure social assistance recipients with an immediate need for child care are consistently processed on a priority basis. Peel Region and the City of Ottawa give priority to social assistance recipients. York Region gives priority to families with incomes of \$35,000 or less.

Improving Coordination Among All Income-Based City Programs

In our sample of 30 withdrawal files, 12 were social assistance recipients (40 per cent) that were withdrawn because participants were not taking part in an approved activity or job search.

Inconsistent criteria between programs may contribute to confusion

We noted inconsistencies in the criteria for approved activities between Children's Services and the Ontario Works program for social assistance. For example, volunteering is an approved activity to qualify for Ontario Works, but not for the child care fee subsidy. This may contribute to confusion among recipients when they receive multiple subsidies with conflicting eligibility requirements.

Lack of information exchange between Divisions

We noted, in the file of one referral case from TESS, that the applicant indicated she was returning to school and therefore was eligible for a child care fee subsidy for her child starting July 2017. However, subsequent records show that the applicant deferred the educational activity but did not inform Children's Services, and continued to receive a child care fee subsidy. The applicant had provided inconsistent information to both Children's Services and TESS until February 2018. This case was being further reviewed by staff at the time of our audit.

Divisional systems have recently been enhanced to allow for exchange of case information

This case highlights the importance of integrated case management when a common client receives multiple income-based subsidies. During the course of our review, Children's Services and TESS enhanced their information systems to allow for the exchange of pertinent case management information. While this increases collaboration between caseworkers in each Division, further work is needed to achieve an integrated case management system so that staff from both Divisions can access current and accurate case information.

Interim solution needed until longer-term Human Services Integration strategy is fully implemented

The City is currently in the process of implementing a major Human Services Integration Strategy for three income support programs administered by City staff: social assistance, child care fee subsidy, and the rent geared to income subsidy.

When the strategy is fully implemented, it should eliminate the need for applicants applying for multiple subsidies to provide the same information to different staff. Since the strategy is in its early developmental stage, interim measures to improve the coordination of services across the City's various income assistance programs are needed.

Recommendations:

- 16. City Council request the General Manager, Children's Services Division, to ensure applications for the child care fee subsidy by social assistance recipients and referrals from Toronto Employment and Social Services are consistently processed and given the same priority.**

- 17. City Council request the General Manager, Children's Services Division, to collaborate with the General Manager of Employment and Social Services Division and the General Manager of Shelter Support and Housing Administration Division, to continue to identify and implement opportunities to further improve the coordination of services across the three income-based assistance programs, and to expedite the implementation of the Human Services Integration Strategy.**

**F. ENHANCE THE EFFICIENCY OF THE ASSESSMENT
QUALITY IMPROVEMENT PROGRAM**



Assessment Quality Improvement tool developed by Children's Services

Assessment for Quality Improvement (AQI) is a tool developed by Children's Services to outline clear expectations, service standards and guidelines for child care centre operators who have a contract with the City. The Division uses the AQI tool to evaluate program quality, inform professional learning, and ensure accountable use of public funds.

Contracted child care centre operators and City-run centres are subject to annual AQI inspections. Centres without service contracts are not subject to such inspections but may request one from the Division, or the operators may use the tool for a self-assessment.

AQI is a validated rating tool for measuring quality of child care

In 2008 and then in 2014, the Division worked in partnership with the Ontario Institute for Studies in Education to validate the tool. According to staff, AQI is the only validated rating system in Canada that is able to measure quality in child care centres.

AQI ratings are posted on the Children's Services website. Currently AQI covers the following areas: Infant, Toddler, Pre-school, Before and After School, Playground, Administration and Finance, and Governance.

A quality rating of 3 is a pass on a scale of 1 to 5

It consists of a five-point scoring system from 1 to 5. When a rating is less than 3, the centre must take corrective action by a prescribed date. Once the correction is made, a verification date is posted on the website to indicate the problem has been resolved.

How AQI is delivered

10 Quality Assurance Analysts to conduct annual AQI inspections

There are currently 10 Quality Assurance Analysts who are responsible for conducting annual AQI inspections. Staff reported that 752 AQI assessments were conducted in 2017. Generally, each AQI inspection takes a full day to complete. Quality Assurance Analysts also support training initiatives for child care centre operators.

Follow-up of inspection issues is done by one of the 25 Consultants

When an issue is identified during an AQI inspection, the follow-up is performed by a Children's Services Consultant. The Division has 25 Consultants who perform a wide range of functions, including capacity building related to AQI compliance and achievement.

Did AQI Make a Difference in Quality of Care?

Provincial staff conduct annual licensing inspections to ensure specific standards are met and maintained

Under the Child Care and Early Years Act, provincial staff are responsible for licensing child care facilities to ensure they meet and maintain specific provincial standards set out in the Act.

Provincial inspection staff conduct annual licensing inspections of licensed child care facilities and the inspection results are posted on the provincial website.

Provincial licensing results provide independent ratings

We tabulated and analyzed provincial licensing inspection results for the different types of child care centres in the City: City-run centres, contracted centres, and centres that do not have contracts with the Division. The first two groups receive AQI inspections whereas the last group does not. Table 10 summarizes the results of our analysis.

Table 10: Analysis Results of Provincial Inspection Data Related to High/Critical Non-Compliances by Type of Centre

Provincial Inspection Results	Centres With AQI Inspections		Centres Without AQI Inspections – Centres Do Not Have Contracts With the City
	City-Run Centres	Contract With the City	
Centres With Minor or No Issues of Non-Compliance	28 (52.8 %)	314 (49.3 %)	119 (35.5 %)
Centres with High or Critical Instances of Non-Compliance	25 (47.2 %)	323 (50.7 %)	216 (64.5 %)
Totals	53 (100 %)	637 (100 %)	335 (100 %)

AQI contributed to fewer high or critical instances of non-compliance during provincial inspection

Our analysis found that the City-run centres and the City-contracted centres scored significantly better than the independently operated centres. The difference is statistically significant. This suggests that AQI may be a contributing factor to better quality in child care centres because centres that received AQI inspections performed better than centres that did not.

It is also important to point out that all three types of centres had relatively high non-compliance rates. Even among the best performing group – the City-run centres – over 45 per cent of them were found to have high or critical instances of non-compliance during provincial inspections.

Our review of the AQI program noted several issues that should be considered in continuing the program:

Duplications with Provincial Inspections

Province is now responsible for quality of licensed child care services

Children's Services has been assessing quality in child care since 1990. The recent expansion of the provincial inspection program has raised the question about the duplication of services between the Province and Children's Services.

Children's Services is in the process of addressing the duplication between the AQI and the province's licensing requirements

In response to a 2017 Council directive, Children's Services completed an initial review of its AQI to identify the overlap of services with provincial inspections. Staff reported back that they have performed a line-by-line review to compare provincial licence requirements with the AQI rating criteria.

According to staff, while there are similarities in the broad themes, there are few areas of direct duplication. Where the two are similar, the provincial inspection tends to have more open, less defined requirements. A final report on this matter is due in the second quarter of 2018.

Audit found 53% overlap between the AQI and provincial requirements

As part of our audit, we compared AQI and provincial inspection criteria, and found that 53 per cent of the total 382 AQI annual inspection criteria⁹ (under the "meet expectations" category) are similar to provincial requirements. These areas relate mainly to physical structure, nutrition, and public health requirements. Table 11 provides a few examples of the similar areas.

⁹ For comparison purposes, we excluded criteria under Finance, Administration and Governance sections as they are not conducted annually. Only yearly inspection criteria are included in our comparison.

Table 11: Examples of Similar Criteria between City AQI Inspection and Provincial Inspection

City's AQI	Provincial Child Care Centre Licence
Stocked First Aid Kit is available at all times	There is a first-aid kit and manual on the premises. And Staff verbally confirm that the first-aid kit and manual are readily available to them by promptly identifying the location of the first-aid kit and manual.
Arrival and departure times are completed in pen.	Attendance records are available on the premises. The records include the actual time of arrival and departure for each child listed in attendance or a record that the child is absent.
Three or more developmentally-appropriate sensory equipment and/or materials are accessible.	There are enough play materials to serve the licensed capacity. The play materials are available and accessible to children throughout the day. There are alternate play materials available on site for rotation.
Sleeping area is monitored.	Each child who is younger than 12 months who receives child care at a child care centre is observed to be placed for sleep.
Room set up allows for supervision of children.	All rooms/areas should be designed for ease of supervision. Rooms with a good exterior view and natural light are desirable for all age groups.

The remaining 47 per cent of the AQI criteria evaluate educator and child interactions, learning environments, and practices to support cultural diversity, which are not explicitly included in the provincial inspection.

The Division's Survey of Operators

Positive survey results from operators, according to the Division's survey

Children's Services conducts a post-AQI assessment survey to seek feedback from child care centre operators. According to the Division's 2017 survey report, 82 per cent of the survey respondents indicated that the AQI supports "*their journey towards quality improvement*", and 73 per cent were satisfied with their AQI experience.

About one-third of the operators responded

We noted a few limitations in the survey. The 2017 survey response and completion rate was 32 per cent (240/752). The fact that the survey is sent to operators by a Children's Services staff via email might give the optics that the survey is not anonymous even though it is. We also believe that the survey results should have been broken down by whether the responses were from the City-run centres (which are operated by the Division's own staff) or from contracted centre operators.

Auditor General's Survey of Child Care Centre Operators

AQI was the area of greatest dissatisfaction among operators who responded to our survey

Our audit included an anonymous survey of all the contracted child care centre operators (excluding the 52 City-run centres). We sent an online questionnaire to 519 operators and the survey responses were uploaded directly into a database. A total of 288 operators responded, representing a high response rate of 55 per cent. A summary of the survey responses is provided in Exhibit 1.

Among the survey respondents, 54 per cent were satisfied with the AQI program, 11 per cent had no opinion, and 35 per cent were not satisfied with the program.

There were a few positive comments regarding the AQI:

"AQI is a very valuable tool to help improve quality"

"Consultant and AQI assessor have been very supportive through the process"

"I appreciate and support quality child care and the process of the AQI"

The commonly cited reasons for respondents' dissatisfaction with the AQI are:

- duplication or waste of resources
- too rigid and at times unreasonable
- punitive and subjective process
- scores are posted without explanation or an opportunity for families to assess severity of non-compliance.

What some operators said about AQI:

"AQI Program is not flexible and does not take into consideration different pressures faced by centres across the City. The rules are Black & White and some Centres like ours that operate in schools, have little control over items that are rated."

"The assessment for quality is punitive and subjective, depending on the assessor. Categories are wide reaching and leave parents with the incorrect information; for example, if a child touches a wall or toy on the way to the lunch table and the staff didn't observe this and didn't ask the child to wash their hands a second time, the centre is marked as non-compliance with hand washing"

"These marks are then reviewed by parents which just look at the scores and not the reasons for the marks i.e. no water cups in the washroom, toys not in wooden baskets. It can and does effect your business."

The Division Evaluates its Own City-run Centres

City-run centres scored high on AQI but were also found to have instances of critical non-compliance during provincial inspections

The AQI is used to assess quality in all the contracted child care centres as well as in the 52 City-run centres operated by Children's Services staff.

We compared the 2017 AQI ratings for the 52 City-run centres with the provincial inspection results for the same year. We noted that the City-run centres scored on average 4.49 out of a possible 5 in an AQI inspection. With the relatively high AQI scores, we expect similar results from the provincial inspections of these centres.

However, we noted that 20 of the 52 centres were found to have instances of more serious non-compliance during the provincial inspections despite high AQI scores. Of these 20 centres, 10 had instances of critical risks observed by provincial staff during the last inspection. Subsequently, these instances were adequately resolved.

Examples of critical instances of non-compliance

Examples of the commonly cited critical risks among these 10 City-run centres are:

- Licensee has not kept all drugs and medications in a locked container
- Licensee has not posted a list in any other area in which children may be present with names of the children and their food allergies or other food restrictions
- Not every child has been supervised by an adult at all times

Children's Services has put in place several measures to ensure objectivity in the inspection of its own centres. These measures include an Inter-Rater Reliability Process and making sure the centres are inspected by different Children's Services staff.

Important to ensure the optics of independence

Nonetheless, in our view, the optics of rating its own centres raises the question about the Division's independence in assessing the quality of its own centres.

Improving the Current AQI Program Delivery

Important to address operators' concerns

Based on our analysis, AQI appears to be a factor contributing to better quality of child care services. However, Children's Services needs to address the concerns expressed by a considerable number of child care centre operators regarding the current delivery of the program.

Division is continuing to improve the program delivery

In its 2017 staff report, the Division acknowledges that there are areas for improvement and that it "*will continue to review the tool to ensure that it complements, but does not duplicate the purpose of licensing, and provides a high level of customer service...*"

Divisional staff also indicated that the Province has committed to establishing a provincial definition of quality of care that will be included as part of the Ontario's Early Years and Child Care Policy Framework, and discussions regarding how the City and the Province can work together in this regard are underway.

A re-assessment of the need to continue the AQI program after the Provincial review

The Division should re-assess the need to continue the AQI program after the Province has completed reviewing its Policy Framework and licensing inspection program.

Moreover, in the interim, to gauge the success of the Division's continued improvements and efforts in addressing operators' concerns, after the Division has time to implement the planned improvements, we recommend that it commissions an independent survey of child care centre operators in 2019 to seek their feedback.

An independent survey in 2019 to gauge changes to operators' feedback

Recommendation:

- 18. City Council request the General Manager, Children's Services Division, to report back on the need to continue the Assessment for Quality (AQI) program after working with the Province on this matter, and to commission an independent, anonymous survey of contracted child care centre operators in 2019 to seek feedback on customer service and satisfaction levels pertaining to the delivery of the AQI program.**

G. ENSURE COMPLIANCE WITH HEALTH AND SAFETY REQUIREMENTS IN CITY-RUN CHILD CARE CENTRES



Health and safety requirements are outlined in the Act

The Child Care and Early Years Act outlines the requirements for the health, safety and well-being of children in licensed child care facilities.

Children's Services is responsible for ensuring compliance with the legislative requirements in the City-run child care centres.

Current and accurate City records provide assurance that children entrusted in the City's care are in safe environments.

Provincial inspections have reported non-compliance with the maintenance of employee records

Provincial inspections of the City-run child care centres have reported instances of non-compliance regarding how employee records are maintained. At the time of our review, management did not have reliable electronic employee records; however, hard copies were available on file. Children's Services was in the process of developing and implementing appropriate administrative practices to obtain the records.

Legislative employment requirements for child care centre employees

We reviewed a sample of employee records to assess whether City-run centres comply with the following legislative employment requirements:

- Vulnerable Sector Checks
- First Aid/CPR Certifications
- Employee Immunizations
- Registered Early Childhood Educators

Vulnerable Sector Checks

Vulnerable Sector Checks are required for staff with direct access to children

Under Regulation 137/15 of the Child Care and Early Years Act, a licensed child care centre operator is required to obtain a vulnerable sector check (VSC) form from:

"a. every employee, before the person begins their employment; and

b. every volunteer or student who is on an educational placement with the licensee, before the person begins interacting with children at the child care centre."

The VSC must be updated every five years, and an Offence Declaration must be provided every year when a VSC is not required.

Instance of non-compliance noted

We reviewed a sample of 30 employee records and found that:

- In 6 instances, the offence declaration was not obtained. The overdue dates of declarations ranged from 35 to 60 days.
- In 2 instances, a new VSC was not obtained before the expiry date of the five-year period. For one of these instances, Children's Services had put in place mitigating measures while waiting for the VSC result to come in.

VSC findings are reviewed by internal committee

According to the Division's policy, when a VSC reveals a finding, the Division's internal Vulnerable Sector Check Committee will review the finding and any additional information, and make recommendations to the Division's General Manager. The Committee is composed of management staff from Children's Services.

Thirteen VSCs contained findings

At the time of our review, 13 City employees working in City-run child care centres had findings on their VSCs. Children's Services informed us that its internal Committee, in consultation with City Human Resources and Legal Services, had undertaken detailed reviews of these cases, including assessments of the type and age of the charges and convictions, supplementary information provided by the employees, and consideration of employment law to ensure the employees are treated fairly and reasonably.

We were advised that, after the thorough reviews of the 13 cases by the Committee, the Division accepted the risks of these individuals' continued employment in the City-run child care centres.

We requested copies of the final recommendations made by the Committee, and were advised that no documentation was retained. Staff advised that they are planning on documenting the review results in the future.

Including third-party representatives in the review Committee increases objectivity

To ensure an adequate and objective review process, we believe that the Vulnerable Sector Check Committee should include representatives from Human Resources and Legal Services Divisions, and the results and rationale of the Committee's decisions should be properly documented and retained according to the City's record retention policy.

Our Concern About a Specific Case

Under the Act, no individual shall provide child care, if the individual has been convicted of an offence under any of the following sections of the Criminal Code (Canada):

- sexual interference
- child pornography
- duty of persons to provide necessaries
- murder
- infanticide.

One employee was convicted of serious charges

In reviewing the 13 employees' VSC results¹⁰, we found no employees had any criminal convictions as noted under the Act.

Continued employment of the employee is in compliance with the Act

We noted one child care employee's VSC showed multiple convictions for Criminal Code offences. None of these offences fall under the five prohibited criminal offences specified by the Act, and therefore the continued employment of this employee is **not** in violation of the Act. That said, the serious nature and pattern of the offences and convictions, of this one individual, in our view, is a cause for concern.

In our discussions with the Divisional senior management staff, they indicated that after their thorough assessments of all available information and consultations with Human Resources and Legal Services staff, and based on employment history it was decided that the level of any potential risk posed did not warrant a change to the employee's normal job functions.

We have provided our audit information relating to this case to the City Manager and requested a further review by the City Manager.

¹⁰ Employee names were redacted from the documentation provided.

First Aid/CPR Certifications

Employees First Aid / CPR certifications are current

All child care supervisors, employees, and home child care providers must have a valid standard first aid certification, including infant and child CPR. There were no exceptions noted in our audit sample.

Employee Immunization Records

Employees immunization records were not up to date

Under the Act, each person employed in a child care centre must have a health assessment and immunization as recommended by the local medical officer of health. Prior to starting work, each employee must provide their health assessment and record of immunization.

We did not review employee immunization records because the Division informed us that the electronic records are not up to date and that adjustments to the current tracking system are being made.

Early Childhood Educators

The College of Early Childhood Educators regulates Early Childhood Educators in the public interest. Registration with the College is mandatory to work as a Registered Early Childhood Educator.

Each age group of children in a licensed centre is required to have at least one registered Early Childhood Educator

In a licensed child care centre, for each age group of children, there must be at least one qualified staff member who is registered on the College of Early Childhood Educator's Public register as a member in good standing.

We did not find any exception to the above requirement in our review of a sample of 36 files.

Recommendations:

- 19. City Council request the General Manager, Children's Services Division, to strengthen the internal controls to adequately monitor and ensure that all employees working in City-run child care centres meet the legislative requirements for employment.**
- 20. City Council request the City Manager to review the Vulnerable Sector Check process for employees who work with children in City-run child care centres to ensure the process is independent and adequate to mitigate the City's risk exposure. This should include a review of the composition of the internal Vulnerable Sector Check Committee within the Children's Services Division.**

TIMELINES OF THE IMPLEMENTATION OF AUDIT RECOMMENDATIONS

Short-term actions

Among the audit recommendations we provided, many relate to internal policies and controls that can be implemented immediately by the Division. These include the recommendations for the Division to:

- provide a detailed breakdown of wait list numbers
- increase access to existing licensed spaces
- expedite the collection of up-to-date vacancy information
- strengthen internal review processes, policy requirements, and controls to ensure fee subsidies are provided only to eligible applicants

During the course of our review, management staff have already taken steps to implement the above recommendations.

Medium-term actions

A few recommendations will take longer to implement as they require the Division to collaborate with other divisions or are contingent on changes to provincial requirements. These medium-term recommendations include:

- A detailed review by the City Manager on the financial and non-financial benefits of an alternate service delivery model; results of the review to be reported to Council in early 2019
- Contingent on changes to provincial requirements, amend and implement revised income assessment policy to require current pay stubs from subsidy applicants
- Report back to Council on the need to continue the AQI program and commission an independent anonymous survey of contracted child care centre operators in 2019

Long-term actions

For the recommendation pertaining to the alternate service delivery model, we realize it is a complex issue requiring the careful review of many factors by the City Manager and her staff.

The up-to-date vacancy information on child care spaces in the City, and the Division's ability to tap into the existing licensed spaces will help to inform the City Manager's review.

As such, it will require time for the City Manager to complete her review and report back to City Council in 2019. Dependent on City Council's direction, further actions pertaining to the strategic planning and implementation of an alternate service delivery model will likely take place in late 2019 or 2020.

CONCLUSION

We have conducted a review of a number of key functions and services provided by the Children's Services Division. Our audit provides a total of 20 recommendations to help improve controls, effectiveness, and the economy of the delivery of child care services in the City.

Opportunities to make child care more affordable, increase subsidies and improve child care sector wages

Child care is crucial for parents, but the current system is unaffordable for most. This audit identified several ways the City can significantly improve how it administers child care. It also identified options that would result in significant savings if the City chooses to embrace a different service delivery model that is, in our view, more economically viable and fair to all stakeholders. The savings can be used to make child care more affordable, increase subsidies, and improve wages of child care workers in the sector.

More economical to increase the use of existing spaces compared to building

As the Division continues to build new child care centres for capital expansion, it is equally important that it makes efforts to use the existing licensed spaces, which is a more economical solution.

Ensuring child care centres operate efficiently	By purchasing more subsidized spaces from existing child care centres, the Division will also help reduce vacancy in these centres. This will provide more revenue to centres to offset the need to pass on their increasing operating costs to parents through fees.
Use current income information for eligibility assessment	To ensure consistency and fairness for all children in need of subsidies, we believe there is a need for the Province to review its current income assessment requirements for the child care fee subsidy. Adding current pay stubs to the assessment requirement will ensure the assessment is fair to subsidy applicants, and is likely to allow the government funding to benefit more children in need of child care fee subsidies.
Achieving better value will require a change to the status quo	The implementation of some of our recommendations would require a change to the status quo, which could result in significant savings in the delivery of subsidized child care services in a City known for its high child care costs.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Audit was initially included in the Auditor General's 2012 audit work plan	The Auditor General initially included an operational review of the Children's Services Division in the 2012 Audit Work Plan. The audit planning stage found that Children's Services was in the process of restructuring and in the midst of various IT initiatives to strengthen the current business practices of its Risk Management function.
Division was strengthening its Risk Management business practices	According to management, the internal initiatives that were in process were expected to be completed by the end of 2012 and any resulting changes would likely be implemented in 2013.

Service efficiency study focused on City's mixed child care delivery model

In addition, the Division was part of the City Manager's Service Efficiency Study which focused on the City's mixed child care delivery model. As the Service System Manager for Early Learning and Child Care, the Division was half way through the transition of the implementation of full-day kindergarten, which was a major transformation for the child care system. These initiatives were expected to conclude in 2013 and would likely result in recommendations directed at the Division's programs or services.

Audit was deferred until 2017 Annual Audit Work Plan

Given the reviews and significant changes that Children's Services was in the midst of, we determined that it would not be beneficial to perform an operational review at that time. The audit was deferred with the intention to re-assess the timing of the project at a future date.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU10.14>

The Auditor General included an audit of Children's Services in the 2017 Audit Work Plan. The objective of this audit was to assess the effectiveness, efficiency, and economy of child care services provided by the Children's Services Division.

More specifically, the audit includes a review of the following areas:

- Eligibility approval process for child care fee subsidies
- Allocation of fee subsidies in accordance with the wait list policies and procedures
- Compliance with legislative requirements and internal policy and procedures for the health, safety and well-being of children for all City-run child care programs
- Early Learning and Care Assessment for Quality Improvement (AQI) process for Toronto child care centres
- Economic viability of City-run child care centres.

The scope for this review covers the period from 2016 to 2018.

Our audit methodology included the following:

- Review of relevant legislation, policy or guideline requirements related to child care
- Meetings and interviews with staff of Children's Services Division and other relevant City Divisions
- Review of literature and audit reports relating to early years and child care
- Review of the City's financial information, policies and procedures
- Analysis of the City's wait list and recipient data for the child care subsidy at two points in time:
 - May 31, 2017
 - December 31, 2017
- Assessment of compliance with first come first-served policy for subsidy allocations
- Selection of different audit samples for a more detailed file examination:
 - 60 cases on the wait list
 - 50 cases receiving child care fee subsidies
 - 30 cases withdrawn from child care fee subsidy
 - 21 overpayment files
- Review of how improper payments are detected, corrected and deterred
- Review of complaints received by the City's Fraud and Waste Hotline
- Research and interviews with other Early Learning and Child Care System Service Managers in Ontario and across Canada

- Reviewed the concerns and issues raised by child care operators who approached our office during the course of our audit
- Survey of 519 contracted child care centre operators of which 288 (56 per cent) operators responded. See Exhibit 1 for a summary of the responses.

Scope limitations

We did not perform any work on the allocations of the general operating grants to contracted providers since this was the first year of implementing a new funding system.

Our review focused on licensed child care centres instead of licensed home child care agencies.

Compliance with generally accepted government auditing standards

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

EXHIBIT 1: Child Care Operator Survey Results

Child Care Operator Survey Respondents

Operator Type		
	Number of Respondents	Percentage
Commercial	45	15.6%
Non-profit	243	84.4%
Total responses	288	100.0%

District		
	Number of Respondents	Percentage
East	77	26.7%
West	69	24.0%
South	66	22.9%
North	76	26.4%
Total responses	288	100.0%

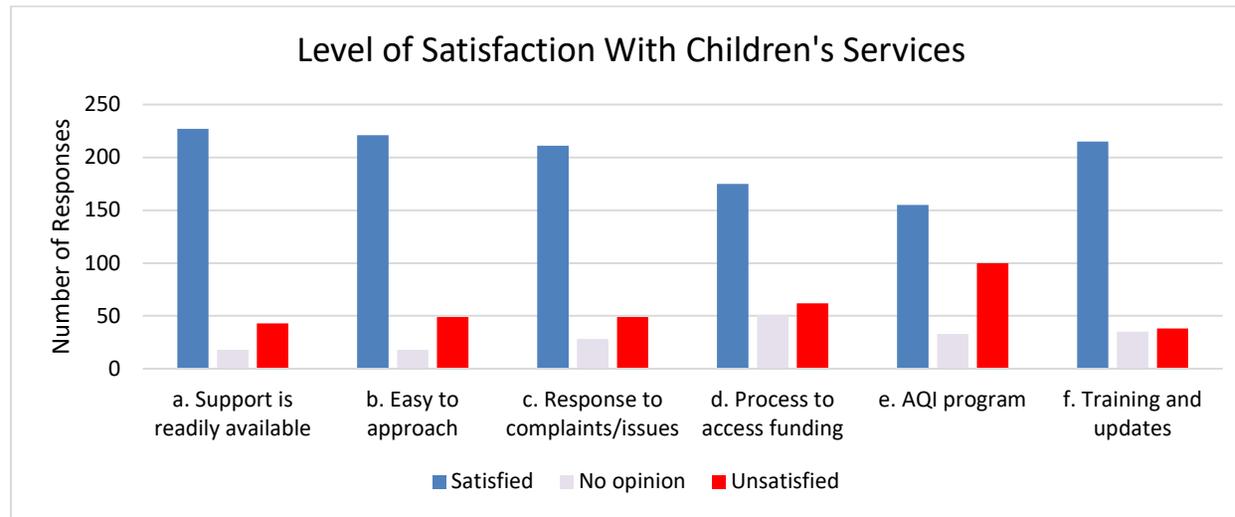


EXHIBIT 2: Comparison of Child Care Fees Charged by Different Types of Centres

	Centres With Purchase-of-Service Agreement			Independent Operator - Not Contracted ¹¹
	City Centres	Non-Profit	Commercial	
<i>Daily Fee</i>	\$	\$	\$	\$
Infant	106.90	83.14	83.53	87.74
Toddler	95.16	65.72	65.53	66.02
Preschool	72.18	49.89	51.88	54.95
Before & After Kindergarten	32.67	31.09	39.40	27.13
Before & After School Age	32.67	24.91	34.80	24.83
<i>Monthly Fee</i>	\$	\$	\$	\$
Infant	2,325	1,808	1,817	1,908
Toddler	2,070	1,429	1,425	1,436
Preschool	1,570	1,085	1,128	1,195
Before & After Kindergarten	711	676	857	590
Before & After School Age	711	542	757	540
<i>Annual Fee</i>	\$	\$	\$	\$
Infant	27,901	21,700	21,801	22,900
Toddler	24,837	17,153	17,103	17,231
Preschool	18,839	13,021	13,541	14,342
Before & After Kindergarten	8,527	8,114	10,283	7,081
Before & After School Age	8,527	6,502	9,083	6,481

¹¹ These averages are based on a certain number of independent operators where the information was available online.

EXHIBIT 3: Financial Analysis of the Alternate Service Model

	Infant	Toddler	Preschool	Kindergarten		School Age		Total
	Full Year	Full Year	Full Year	Before/After September to June (10 months)	Full day July to August (2 months)	Before/After September to June (10 months)	Full day July to August (2 months)	
Average Occupancy in City Centres	306	513	806	269	269	326	326	
Operating days	261	261	261	216	45	216	45	
City Centre Daily Fee	\$106.90	\$95.16	\$72.18	\$32.67	\$51.05	\$32.67	\$51.05	
Estimated Revenue Based on City Centre Fees	\$8,537,675	\$12,741,258	\$15,184,218	\$1,898,258	\$617,960	\$2,300,491	\$748,904	\$42,028,764
Average Per Diem ¹² for Non-Profit Sector	\$78.09	\$61.14	\$46.24	\$28.67	\$39.82	\$23.78	\$37.09	
Estimated Cost to Purchase Equivalent Number of spaces	\$6,236,736	\$8,186,218	\$9,727,324	\$1,665,842	\$482,021	\$1,674,492	\$544,110	\$28,516,743
Savings from Fee Differences	\$2,300,939	\$4,555,040	\$5,456,894	\$232,416	\$135,939	\$625,999	\$204,794	\$13,512,021
Savings from Operating Shortfall								\$14,683,097
Total								\$28,195,118

¹² The per diem rate is established between the City and each provider in the purchase of child care service agreements. These rates are usually equal to or less than the public fees.

EXHIBIT 4: Number of Child Care Centres in Each Ward

Planned Capital Projects ¹³	Ward	City Centres	With Purchase-of-Service Agreements			No Purchase-of-Service Agreements			Grand Total
			Commercial	Non-Profit	Purchased Total	Commercial	Non-Profit	Not Purchased Total	
	1	3	2	11	13	1	1	2	18
1	2	1	3	9	12	4		4	17
	3		2	12	14	4	5	9	23
	4	1	3	11	14	2	6	8	23
	5			16	16	15	5	20	36
	6	2	3	15	18	5	4	9	29
3	7	4	3	5	8		1	1	13
	8	2	6	9	15	1	2	3	20
	9	2	1	12	13		2	2	17
1	10		3	12	15	3	4	7	22
3	11	2	4	10	14				16
	12	1	2	11	13	1	2	3	17
	13			14	14	13	5	18	32
	14			11	11	5	3	8	19
	15		1	12	13	6	5	11	24
	16		1	8	9	11	9	20	29
	17	2		9	9	1	1	2	13
	18		1	10	11	2	1	3	14
	19	1	1	17	18	4	1	5	24
1	20	2		28	28	7	10	17	47
	21			13	13	1	10	11	24
	22			11	11	16	7	23	34
1	23	1		13	13	10	4	14	28
	24	1	2	13	15	6	1	7	23
	25			15	15	4	7	11	26
	26	1	2	15	17	9	2	11	29
	27	2		12	12	2	5	7	21
1	28	3		20	20	4	1	5	28
	29			14	14	7	1	8	22
	30	3		17	17	6	3	9	29
	31	2	4	12	16	2	3	5	23
	32	1		18	18	9	9	18	37
	33		2	14	16	6	1	7	23
	34	2	6	11	17	5	3	8	27
	35	3	4	13	17	1	1	2	22
	36	1	7	8	15	5	4	9	25
1	37	2	3	11	14	3		3	19
1	38		2	14	16	2		2	18
	39	1		14	14	3		3	18
	40	1	3	14	17	2	5	7	25
1	41		2	14	16	3	3	6	22
3	42	2	3	9	12	1	1	2	16
1	43	3	7	6	13	1	2	3	19
	44		2	11	13	5	4	9	22
	Grand Total	52	85	554	639	198	144	342	1,033

¹³ These 18 projects were included in the 2018 Children Services Capital Budget; 3 new projects added in 2018 are not listed

APPENDIX 1: Management's Response to the Auditor General's Report Entitled: "Children's Services Division – Opportunities to Achieve Greater Value for Child Care from Public Funds"

Recommendation 1: City Council request the City Manager to examine alternate service delivery options for the City-run child care centres, including an analysis of financial and non-financial benefits, with a view to ensuring economic viability of child care services in the City and achieving optimal value from public funds. The review results are to be reported to City Council in early 2019.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The City Manager agrees to examine City operated child care centres including service delivery options and consideration of both financial and non-financial benefits with a view to **promoting** economic viability and community sustainability.

The findings of the review would be reported out to Council in 2019. The assessment of financial implications as part of this review of directly operated services would consider the setting of fees taking account provincial directives, legislation and regulations.

Recommendation 2: City Council request the General Manager, Children's Services Division, to take steps to increase access to the existing licensed child care spaces in the City for the purchase of services for children with subsidies. Steps should be taken, but not be limited to:

- a. Expanding the maximum number of spaces that can be purchased from contracted non-profit licensed child care centres
- b. Minimizing the vacancy rate in the City-run child care centres
- c. Exploring ways to access existing spaces in the non-profit licensed child care centres which do not currently have a service agreement with the Division.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

a) Ceilings on spaces in the non-profit sector eligible for subsidy are currently being removed. We anticipate that this process will be completed by the end of 2018. This will allow an expansion of the maximum number of spaces that can be purchased from contracted non-profit licensed child care centres.

b) The Division will review the vacancy rates in directly operated child cares to determine if further steps can be taken to minimize vacancy percentages by refining enrollment practices.

It should be noted that the percentage noted in the report is an average and that actual point in time occupancy within TELCCS centres is often significantly higher. As such these are not "permanent" space vacancies that contribute to ongoing improved access. Vacancy rates also vary by age group.

c) The Division will explore whether further opportunities exist to access spaces in the non-profit licensed child care system where a service agreement with Children's Services does not exist and where service is needed and the agency in question can meet the quality and financial viability expected by the City.

Since the introduction of Full Day Kindergarten in 2010 the Division has reached out to existing non-profit child care programs to explore expansion opportunities. The requirement that all Before-and-After School Kindergarten programs have a service agreement was a catalyst to invite and include programs that did not have a service agreement to expand service and access to fee subsidies. Full day Kindergarten also resulted in vacant preschool rooms as children moved into school based spaces these also presented an opportunity to expand service. More than 20,000 new spaces were added to the system between 2011 and 2017.

The Division will revisit this process to determine whether there are operators who now wish to enter into an agreement with the City and will put a plan in place for next steps by Q1 2019.

It should be noted that expansion of spaces in existing child care centres may have a negative impact on equity targets as contracts can only be expanded where centres are currently located which may not be in alignment with equity targets.

Recommendation 3: City Council request the General Manager, Children's Services Division, to expedite the process of providing centralized and up-to-date vacancy information on licensed child care spaces in Toronto to help families look for licensed child care services.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division has a 4 year capital project, approved by Council through the 2018 Capital budget to create a system that provides centralized and up to date vacancy information on licensed child care spaces in Toronto. In scope for this project is the development of an automated system to reliably track vacancies in child care programs, capture waiting list information from operators and families and enable the system to match families to vacancies where there is a mutual interest. This system will be automated to enable operators and families access to real time information on availability of child care spaces and improve access to child care programs. Two key objectives of the system are to improve access to child care for families and to minimize the vacancy rate in all participating child care centres across the sector, including city-run child care centres. Development of this system will begin in Q4 2018.

As an interim measure to expedite parent access to vacancy information, in July 2018 the Division will begin making operators self-reported vacancy information available on the A-Z listing of child care programs which is available on line.

Recommendation 4: City Council request the General Manager, Children's Services Division, in her reports of wait list numbers for child care subsidies, to provide a detailed breakdown of the numbers to delineate:

- a. Children whose subsidy has already been allocated
- b. Children with an immediate child care need
- c. Children with a future child care need.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees that reports on wait list numbers for child care subsidies will include

- Children whose subsidy has already been allocated
- Families with an immediate child care need

- Families with a future child care need.

The Division has just completed a Waitlist Analytics project which will enable staff within the division to obtain detailed waitlist data. The tool has new management reports. These reports will be part of the new business process requirements for supervisory staff follow up at the applications office. The tool is currently being tested and the Division anticipates that it will be fully implemented by the Q3 2018.

Recommendation 5: City Council request the General Manager, Children's Services Division, to take the necessary steps to ensure consistent application of the first-come, first –served policy in allocating the child care fee subsidy. Such steps should include, but not be limited to:

- a. Developing a more efficient process to contact applicants and update the wait list
- b. Improving supervisory review protocol
- c. Developing automated system controls to prevent data entry errors as well as ensuring critical data fields are completed.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Children's Services considers its compliance with the first come first serve policy to be quite substantial however acknowledges that there is room for continued improvement:

- a) Children's Services has developed a more efficient process to contact applicants and update the waiting list. In 2017 Children's Services created and launched phase 1 of an on-line client portal (My Child Care Account) which includes mechanisms to modernize waiting list business processes, including more efficient processes for contacting clients as well as a self-serve ability for clients to update their information and waiting list choices. It is expected that this will be fully implemented in Q4 2018.
- b) The Division is in the process of developing and implementing a supervisor review protocol. The Division has just completed a Wait List Analytics project that includes the development and testing/piloting of new controls to prevent data entry errors. Several new management reports have also been developed which will enable supervisors to effectively monitor waiting list data. Full roll out of this is anticipated in Q3 2018.
- c). The Division is continually refining automated system controls to prevent data entry errors. Through the Wait List Analytics project a number of system controls have been identified and the wait list updated to prevent such errors in the future. Included in this is a control to ensure that wait list dates and birth dates align with service requested.

Recommendation 6: City Council request the General Manager, Children's Services Division, to improve the current measures to ensure sufficient and timely supervisory review of files that are approved for child care fee subsidies.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Children's Services Client Services 2018 work plan identifies improved supervisory oversight and review of files of families with approved child care fee subsidies as an area for review and update. With the support of the Risk Management and Accountability Unit, Client Services will establish new processes for file audits. The timeline for completion is Q1 2019.

Recommendation 7: City Council request the General Manager, Children's Services Division, to review the current policy requirements regarding proof of attendance or completion of post-secondary school programs as an approved activity for child care fee subsidies.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division will conduct a review to determine whether there are more effective ways to confirm post-secondary participation and course completion. This will be completed by Q1 2019

The Division already collects attendance for clients who attend high school and adult basic education programs. Post-secondary institutions do not verify attendance and as such fee subsidy clients are not able to provide this information to the Division. Current procedures require Children's Services staff to follow up with post -secondary clients at the end of each semester to confirm continued registration in order to continue to flow subsidy.

Recommendation 8: City Council request the General Manager, Children's Services Division, to request the Ministry of Education to review and consider including current pay stubs as part of the requirements for assessing applicants' income and eligibility for child care fee subsidies.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Children's Services practices currently comply with provincial regulations and legislation regarding eligibility assessment for child care fee subsidy clients. The income test is based on the annual adjusted income for the most recent available tax year.

However, the Division will consult with the Provincial Ministry of Education regarding their intent in relation to the collection of income information. The Division will also discuss with the Ministry the income threshold for eligibility which has not been adjusted since 2006.

Many clients who are eligible for subsidy are employed in precarious work which includes fluctuating income. In 2017 45% of families receiving a fee subsidy had a total family income of less than \$20,000 annually and 34% of families had a total family income of less than \$40,000 annually. Of these 55 % were single parents.

At the present time the Province has set the annual income provided in the Notice of Assessment (NOA) generated by revenue Canada as the required measure of family income. The Provincial Guidelines note that CMSM's are strongly discouraged from adopting parent fee practices that cause subsidized parents to pay fees that may exceed their ability to pay as determined by the income test.

Recommendation 9: City Council request the General Manager, Children's Services Division, to revise current policies pertaining to child care fee subsidy adjustments to ensure the following:

- a. requiring subsidy recipients to report increases in income of 20 per cent or more and to process the appropriate subsidy adjustment
- b. calculating overpayment and underpayment and any change to the subsidy amount based on the time when the income change occurs.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to adjust policies as recommended.

a) The current legislation allows for an alternate income adjustment if clients have more than a 20% reduction in income. The Division receives very few of these requests. The Division can implement a policy requiring fee subsidy recipients to report 20% increases in income. Implementation Q2 2018.

b) The Division will put in place policies and processes to ensure that over/underpayments are adjusted based on the date of income changes. Implementation Q1 2019.

Recommendation 10: City Council request the General Manager, Children's Services Division, to improve controls for the "job search" policy for child care fee subsidy recipients. These should include:

- a. Implementing monitoring and review processes to ensure the "job search" policy is appropriately used
- b. Establishing specific criteria and procedures to verify recipients' job search activities
- c. Ensuring adequate assessment of overpayment when subsidy recipients are found to be ineligible for the job search allowance.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to review job search policies and determine whether further controls can be put in place.

a. The Division's job search policy was revised in the fall of 2017 to allow for 3 months job search time within in a calendar year. This has created a policy which is much easier for both clients and staff to follow/monitor.

b. The Division will review processes for monitoring and verifying job searches including consultation with Toronto Employment and Social Services and will establish updated criteria and procedures by Q1 2019.

c. The policy change as noted in a) has allowed for more effective assessment of client's eligibility and has reduced the risk of overpayment. However the Division will continue to implement practices to ensure appropriate assessments of overpayments.

Recommendation 11: City Council request the General Manager, Children's Services Division, to ensure cases of child care subsidy withdrawals are adequately assessed for potential improper payment and decisions are documented. Improper payments caused by administrative errors should be identified and tracked to ensure corrective actions are taken to prevent the recurrence of these errors.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to explore mechanisms to enhance tracking and documentation of improper payment decisions and develop strategies to prevent recurrence of these errors.

A new capital project approved through the Capital budget, will start in last quarter of 2018. In scope for the project is a full review of the current business processes related to client eligibility reviews and associated overpayments and recoveries and the modernization of the Division IT system that is used (recoveries sub-system) to support the Division's collection, monitoring and tracking of outstanding and inactive accounts. The business process review will commence in 2019 with modernization implemented in 2020.

Children Services acknowledges that administrative errors occur and notes the possible impact of caseloads. Since 2011, 6490 new fee subsidies have been made available and the number of families assessed for and receiving fee subsidy has grown by over 15,000 families between 2012 and 2017. In 2017 Children's Service caseload size was approximately 300 families per worker in addition to processing new applicants.

Recommendation 12: City Council request the General Manager, Children's Services Division, to ensure adequate controls are in place to monitor and recover overpayments related to child care fee subsidies.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to review the processes and controls in place for recovery of overpayments including assessing whether there is a more cost effective way to manage outstanding and inactive accounts.

There is currently a process for assessing client eligibility and pursuing overpayments for recoveries under and over \$5,000. The Division has already initiated a review of its overpayment and recovery business processes. As part of this review the Risk Management and Accountability Unit is identifying interim measures that can be put in place by Q2 2019 pending the initiation of the capital project referenced in response #11. Again, in scope for this project is a full review of the current client eligibility reviews and overpayment and recovery, recoveries business processes and modernization of the Divisions IT system that is used (Recoveries sub-system) to support the Division's collection, monitoring and tracking of outstanding and inactive accounts. The business process review will commence in 2019 with modernization implemented in 2020.

Recommendation 13: City Council request the General Manager, Children's Services Division, to develop formal policies and procedures to deter and detect potential fraud among recipients of child care fee subsidies and child care centre operators.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to review the current policies and procedures in place to assess whether there are areas in which they can enhance practices. The Division anticipates that this will be completed Q2 2019.

Children's Services already has policies, procedures, and criteria in place to detect and review potential misuse of public funds. The Division also advises clients and operators regarding their responsibilities in relation to fee subsidy/funding received. Consistent monitoring is a function and requirement of Division

staff at several levels. The Fee Subsidy Manual, Operating Guidelines, Service Agreement requirements, Financial Management Criteria and various funding guidelines set terms, conditions and criteria to assess risk and processes to take corrective action. The Division has a Risk Management and Accountability Unit which supports work in this area.

Recommendation 14: City Council request the General Manager, Children's Services Division, to collaborate with the General Manager, Toronto Employment and Social Services and the General Manager, Shelter, Support and Housing Administration to incorporate a centralized overpayment recovery and fraud investigation function within the Human Services Integration Unit.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to review current collaboration in relation to fraud investigation and overpayment for common clients. Children's Services does collaborate with other Divisions when there are issues with a common client. However documentation of these processes could be improved. The Division will document current processes for consulting with other Divisions regarding overpayment, fraud and recovery within current organizational structures for completion Q1 2019.

The Human Services Integration Unit is responsible for leading Human Services integration in relation to client service delivery and therefore this may not be the correct location for an investigation function related to fraud and overpayment. The Division does anticipate that this type of function will be a natural result of the Human Services Integration project but does not anticipate a fully integrated unit for some years.

Recommendation 15: City Council request the General Manager, Children's Services Division, to review the appropriateness of the legacy policy to provide child care fee subsidies to City employees who reside outside of the City, in the context of the current legislative requirements and the City's Human Resources policies. The review results are to be reported to City Council in early 2019.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division will review the legacy policy regarding provision of child care fee subsidies to City of Toronto staff who live outside of Toronto as this practice is based on a historic policy.

The Division will report out to Council on this policy by June 2019.

Recommendation 16: City Council request the General Manager, Children's Services Division, to ensure applications for child care fee subsidy by social assistance recipients and referrals from Toronto Employment and Social Services are consistently processed and given the same priority.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division agrees to review the processing of child care fee subsidy applications by social assistance recipients.

The Division has worked with Toronto Employment and Social Services to support OW clients needing to access child care. The launch of new joint CS/TESS information sharing system in 2017 has enabled both divisions to improve service navigation for joint clients, reduce duplication in determining eligibility for fee subsidy and enabled Children's Services to expedite and track requests for fee subsidy for clients working or in an approved activity. The Division will partner with Toronto Employment and Social Services to review and document the funding of child care fee subsidies for Ontario Works participants by Q1 2019

Recommendation 17: City Council request the General Manager, Children's Services Division, to collaborate with the General Manager of Employment and Social Services Division and the General Manager of Shelter Support and Housing Administration Division, to continue to identify and implement opportunities to further improve the coordination of services across the three income-based assistance programs, and to expedite the implementation of the Human Services Integration Strategy.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Human Services Integration project was initiated in 2014 and is a partnership between Children' Services, Toronto Employment and Social Services and Shelter, Support and Housing Administration. The Human Services Integration project is explicitly designed to develop systems that will coordinate and maximize integration of services to clients from the three Divisions

Access and intake into the three income support programs (housing subsidy, child care fee subsidy and Ontario works) will be integrated – on-line, on phone and in person. An integrated phone line was implemented in Q1 2018. The design of a governance model for Human Services Integration is currently underway.

Recommendation 18: City Council request the General Manager, Children's Services Division, to report back on the need to continue the Assessment for Quality (AQI) program after working with the Province on this matter, and to commission an independent, anonymous survey of contracted child care centre operators in 2019 to seek feedback on customer service and satisfaction levels pertaining to the delivery of the AQI program.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The City strongly believes in the importance of quality child care and any efforts that continue to improve and monitor quality in the sector. The province is also committed to assessing child care quality and is in discussions with Children's Services as to how we can best work together in this regard, building on the benefits of the City's Assessment for Quality Improvement (AQI). Children's Services will report back to Council following completion of these discussions.

Prior to the commencement of this Audit and in response to some community service providers concerns Council directed Children's Services to conduct an in-depth review to identify any duplication between the AQI and the Provincial inspection criteria. The staff report identified some areas of duplication such as nutrition and some public health requirements. Council directed staff to remove the nutrition section but keep the duplication of health related items.

Recommendation 19: City Council request the General Manager, Children's Services Division, to strengthen the internal controls to adequately monitor and ensure that all employees working in the City-run child care centres meet the legislative requirements for employment.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

The Division will continue to enhance internal controls related to monitoring of legislative requirements for employment. In particular it will enhance its practices for tracking and storing of VSC's and Offence Declarations and will finalize its updated electronic tracking system regarding staff immunizations in discussion with Employee Health and Public Health. This will be completed by Q1 2019.

Recommendation 20: City Council request the City Manager to review the Criminal Reference Check process for employees who work with children in the City-run child care centres to ensure the process is independent and adequate to mitigate the City's risk exposure. This should include a review of the composition of the internal Criminal Reference Check Committee within the Children's Services Division.

Management Response: Agree Disagree

Comments/Action Plan/Time Frame:

Agreed. Children's Services will conduct a review of the processes for reviewing and recording Vulnerable Sector Checks (VSC) in partnership with Disability Management, Human Resources, Legal Services, Labour Relations and Human Rights, Access and Equity. This review will include discussions regarding the composition of the internal Vulnerable Sector Check Committee.

The Division has completed vulnerable sector checks on new employees since 2001. In 2015 new legislation was introduced and VSC's on all employees were integrated into annual employment requirements. At the time this happened situations of employees with findings were considered on a case by case basis taking into consideration the individual circumstances of the individuals involved and taking into consideration among other things the City's obligations and policies as both a service provider and an employer.

The Division welcomes the recommendation regarding independent and external support in relation to the case by case review of VSC's with findings. It is anticipated that this will be completed Q1 2019.