



ICF Marbek
an ICF International Company



Final Report

Performance Audits of Ontario Waste Diversion Programs

Performance Audit of the Blue Box Program

August 4, 2011

Submitted to: Waste Diversion Ontario

Submitted by:

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Executive Summary

Waste Diversion Ontario (WDO), a non-crown corporation created under the Ontario *Waste Diversion Act 2002* (WDA), was established to develop, implement and operate waste diversion programs in Ontario for materials which have been designated by the Ontario Minister of the Environment. The Act requires WDO to work cooperatively with an Industry Funding Organization (IFO) to develop a waste diversion plan for each category of designated waste. Following approval of the diversion plan by the Minister of the Environment, the IFO implements and operates the program under a Program Agreement.

Stewardship Ontario (SO) is an IFO created under Section 24 of the WDA to operate waste diversion programs on behalf of WDO. On February 14, 2003, SO was formally incorporated in the Province of Ontario as a corporation without share capital. The BB Program Plan (BBPP) was approved by the Minister of the Environment in December 2003 and the program commenced operations in February 2004.

In June 2010, WDO commissioned Marbek¹, in association with Stratos Inc., to conduct a performance audit of SO's Blue Box Program (BB Program) activities for the period January 1 through December 31, 2009. This performance audit was conducted by WDO in accordance with its regulatory requirements outlined in Section 5 of the *Waste Diversion Act* including to:

- 5 (a) Develop, implement, and operate waste diversion programs for designated wastes in accordance with the Waste Diversion Act and monitor the effectiveness and efficiency of those programs;
- 5 (c) Seek to ensure that waste diversion programs developed under the Waste Diversion Act affect Ontario's marketplace in a fair manner;
- 5 (d) Determine the amount of money required by WDO and IFO's to carry out their responsibilities under the Waste Diversion Act.

The BB Program is a stable program that had been operating under SO's management for five years prior to the audit period. From initiation through to the audit period, program management was outsourced to a third party service provider. In March 2009, SO made the decision to repatriate these functions within SO. They hired and trained new staff and developed an information management system throughout 2009, with SO assuming direct program management functions in March 2010.

Audit Objectives and Scope

The objectives of this performance audit are to provide reasonable assurance to WDO that SO's management control system for the BB Program enables it to ensure that:

- Financial and operational information reported is reliable and possesses integrity;
- Program operations are performed efficiently and effectively;

¹ On January 1, 2011, Marbek joined with the Canadian operations of ICF International to become ICF Marbek.

- Established program objectives are achieved (or are on track to be achieved);
- Assets are safeguarded (such as confidential information); and
- Actions and decisions of the organization are in compliance with laws, regulations, and agreements (including the original BBPP and Program Agreement).

Note that performance audits do not evaluate program design or comment on the adequacy or appropriateness of the Program Plan or Program Agreement.

The audit included activities conducted by, authorized by, or under the direct control of SO, as defined in the Program Plan and Program Agreement. This included SO management controls related to activities undertaken by service providers on behalf of SO as per contract agreements. This audit does not duplicate the scope of work completed by SO's financial auditors, who annually review and audit the financial statements and associated controls of the organization.

The temporal scope for this audit included activities conducted by, authorized by, or under the direct control of SO from January 1, 2009 through December 31, 2009.

This audit has adopted a "systems under development" approach to assess what was in place during 2009, while considering changes that have taken place to management systems and controls since that time following repatriation of program management functions.

Audit Conclusions

Based on our audit findings (summarized in the following section), there is reasonable assurance that the management controls in place during the audit period, and as subsequently strengthened following the audit time period, are adequate and effective to achieve the stated program objectives. More specifically:

- BB Program operations are generally performed efficiently and effectively. The organization operates with a strong commitment to continual improvement, and a number of enhancements have been implemented from 2009 to the present. This audit has identified areas where further efficiencies can be gained and the outcomes of BB Program activities can be measured (as identified in the recommendations).
- Stewardship Ontario has developed and implemented adequate management controls to ensure the financial and operational information it reports regarding the BB Program is reliable and possesses integrity. The quality of these controls has improved significantly since Stewardship Ontario repatriated these functions from a third party service provider in 2010.
- Program objectives with respect to diversion were achieved in 2009 and are expected to be achieved in 2010. Stewardship Ontario continues to develop and implement business plans designed to improve diversion rates in collaboration with municipalities.
- Confidential information has been safeguarded, with enhanced controls introduced when Stewardship Ontario introduced its Systems Applications and Products (SAP) data management system. There was no evidence of any breaches of the confidentiality clauses presented in the Program Agreement.

- Stewardship Ontario's actions and decisions regarding the BB Program have been in compliance with the applicable laws and regulations affecting the program. No issues of non-compliance were found during the audit; however SO's commitment to audit a minimum of 10% of the annual obligated tonnage in 2009 was not met until Q1 2010.

Stewardship Ontario has undergone substantial change since the audit period as they have developed the capacity and systems required to manage the BB Program internally. During this time, Stewardship Ontario has recruited a high quality management team and staff, reconstituted its Board of Directors, and successfully continued to implement the BB Program, including development of a revised Program Plan (awaiting approval). The management team has demonstrated a high level of competence and, in many areas, has implemented leading practices and management controls.

Audit Findings

The audit conclusions are based on the following audit findings:

Governance

- In 2009, SO established a Board of Directors in compliance with the WDA, supporting regulations and the Program Plan. In 2010, SO reconstituted its Board of Directors and the composition of the new Board continues to meet the applicable regulatory and program requirements.

Planning and Budgeting

- The fee-setting methodology was applied correctly to establish the 2010 budget and steward fees for the BB Program. This methodology was applied in compliance with the requirements presented in Schedule A of the Program Agreement.
- SO and WDO staff worked closely to apply the fee-setting methodology for the BB Program. A formal procedure that outlines the roles, responsibilities and timing for reviewing the fee-setting methodology and its supporting calculations was not found.

Performance

- During the audit period, the primary performance objective for the BB Program, as mandated by the BB Program Plan, was diversion achieved relative to the program's diversion target. A broader range of performance objectives or specific indicators to internally assess the efficiency and effectiveness of BB Program activities was not in place. However, performance measurement for the BB Program is maturing, and SO is expected to finalize and implement later this year a balanced scorecard system which includes specific performance objectives and measures for the BB Program. This will allow internal SO management to monitor important program elements that they need to assess performance internally.
- SO met and exceeded the 60% diversion target during the audit period, achieving a diversion rate of 66%. SO, through the services of a third party service provider, followed the expected methodology for calculating the diversion target for the BB Program.

- In 2010, SO enhanced the quality and reliability of program monitoring information by repatriating program management functions and developing an integrated in-house performance tracking and reporting system.
- SO continues to lead market development activities that are aligned with the principles presented in the BBPP. These activities focus on enhancing efficiencies to increase the recyclability of glass and plastic products as well as identifying opportunities to improve market opportunities for recycled products in Ontario.
- Although the audit found that regular monitoring and reporting on the status of market development activities is occurring, SO has yet to develop a formal performance measurement plan or framework to monitor and track progress towards achieving expected outcomes for its market development activities.
- SO has applied lessons learned from its glass market development efforts in the design and contracting of its subsequent plastics market development activities, demonstrating continual improvement and enhanced program management and effectiveness.
- During the audit period, SO met all of its regulatory reporting obligations, demonstrating compliance with the BBPP, Program Agreement, and the WDA. The WDA requirement is to submit an annual report by April 1 each year. However it was noted that to meet this requirement SO submits a regulatory filing to WDO that presents estimated diversion data at the end of March, and releases a public annual report in June that presents more accurate performance data.
- Beginning in 2010, WDO has been working with IFOs to standardize the content and timing of quarterly and annual performance reporting for all programs. To date, the WDO Board has approved definitions and standardized metrics for measuring performance whereas WDO and IFOs have agreed on the contents and format for reporting on program efficiency and effectiveness. The final protocol for quarterly and annual performance reporting is expected to be completed later this year.

External Operations: Transaction Processing

- While there is no formal procurement policy in place, SO management has processes they follow to develop and manage third party contracts, consistent with the organizations values, ethics and code of conduct, which in turn contributes to the achievement of program objectives.
- SO contracts are in compliance with the BBPP and the Program Agreement with regard to requirements to support important management controls such as treatment of confidential information; dispute resolution; invoicing; delegation of services; and mandatory insurance.
- While the third party service provider submitted monthly management reports to SO, SO's oversight and evaluation of the services provided were largely informal.
- During the audit period, SO's third party service provider had appropriate protocols in place to ensure the confidentiality of records and that information was maintained during the management of the steward reporting functions of the program. Since that time, SO management has continued to improve provisions for information keeping and confidentiality as a high priority within the design and implementation of their new systems and protocols.

There was no evidence of any breaches of the confidentiality clauses presented in the Program Agreement. This demonstrates compliance with the Program Agreement parameters relating to confidentiality.

- The procedures in place to register stewards during the audit period, and since that time, allow SO to achieve its objectives with respect to steward registration and reporting. Improvements made to the steward identification process and the steward registration process in 2010 and 2011 are expected to improve program effectiveness and efficiency.
- Variance checks of steward reported data were completed during the audit period. The new automatic variance checks of steward reported data built into the 2010 SAP system have increased the efficiency with which this process is undertaken.
- SO did not fulfill its auditing obligation for 2009 until Q1 2010. SO has revised its approach to conducting audits so that it is more comprehensive and addresses steward accounting and inventory systems. Enforcement activities are currently being revised.
- The audit team confirmed that the rules and payment schedule for stewards were published as required both during the audit period and since that time, demonstrating compliance with the Program Plan and Program Agreement.
- Activities undertaken by SO with respect to reducing free riders are consistent with practices undertaken by other IFOs in Canada.
- Payments to municipalities are made in a timely manner, consistent with the requirements of the Program Plan. The reliability and timeliness of the municipal payment processing function has been enhanced through the introduction of an integrated SAP system which integrates municipal reporting, invoicing and payments.

External Operations: Communications

- The lack of a formal communication protocol outlining lines of communication between SO and WDO, and between MOE and SO could lead to inefficiencies in program operations.
- Documentation reviewed has indicated that SO adheres to strict confidentiality of information clauses as outlined in its code of conduct, which demonstrates compliance with the Program Plan.
- SO's communication and interactions with stewards are reported to be positive, timely, and consistent (based on a third-party steward survey initiated by SO). SO has used the results of this survey to identify further opportunities to improve the efficiency and effectiveness of the program.
- There is evidence that SO undertook all public consultations as required by WDO during the audit period and since then, consistent with the Program Plan.

Recommendations

The audit team offers the following recommendations for continual improvement for SO's consideration. We have assigned relative priorities to each of the recommendations (High, Medium, Low) to reflect the level of positive impact we anticipate successful implementation of the recommendation could have on the efficiency and effectiveness of the BB Program.

Planning and Budgeting:

HIGH PRIORITY

R1) With the BB fee-setting methodology application process maturing, SO and WDO could enhance program efficiency by reviewing the entire fee-setting process to identify opportunities for streamlining this process and minimizing duplication. This review should provide greater clarity around respective roles at each stage of the process, including review procedures based on appropriate sampling techniques.

MEDIUM PRIORITY

R2) SO should consider preparing a concise "how to" manual for applying the fee-setting methodology to ensure continued consistent application by program staff. This guide should specify the steps and timelines for the fee-setting process, including review and approval steps, and should be shared with all parties in advance of the fee-setting process.

Performance:

HIGH PRIORITY

R3) SO should finalize and implement the balanced scorecard performance measurement system to provide a robust performance measurement framework for the BB Program. The framework should identify objectives and articulate the desired outcomes and expected results for the program, including those related to market development.

HIGH PRIORITY

R4) SO and WDO should continue to work together to implement WDO's Measures to Monitor Effectiveness and Efficiency of Diversion Programs for consistent reporting between IFOs and WDO (work led by WDO in consultation with IFOs in 2010/2011). These measures should include consistent reporting elements for required reports, including clearly established expectations on the level of detail required for WDO to exercise its oversight responsibilities.

External Operations – Transaction Processing

MEDIUM PRIORITY

R5) SO should develop a procurement policy to lend greater clarity and consistency to the contracting process, and instill a common understanding of its procurement practices within the organization and across its stakeholders.

MEDIUM PRIORITY

R6) SO should implement the new steward reporting audit procedures for the BB Program in 2011 to improve accuracy and reliability of steward reporting and to ensure compliance with the audit targets established in the Program Plan. Based on experience gained through systematic auditing, SO and WDO should review the appropriateness of the audit requirements to ensure they are establishing reasonable audit coverage targets that add value and contribute to achievement of program objectives.

MEDIUM PRIORITY

R7) SO should schedule quarterly check-in meetings with MOE Enforcement to review SO's auditing and verification program and the status of specific investigations to identify common priorities, exchange information, and align resources over the course of a year.

LOW PRIORITY

R8) SO should undertake detailed analysis to estimate the scale of the potential free rider issue in the BB Program. This information would inform program planning and contribute to improved efficiency and effectiveness of the program.

*External Operations – Communications***HIGH PRIORITY**

R9) In an effort to clarify roles and responsibilities and lines of communication among SO, WDO, and MOE, these parties should develop an overarching communication protocol. SO may also wish to designate a single point of contact for BB Program-related inquiries from MOE and WDO to provide a one window approach.

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Table of Contents

Executive Summary	i
1 Introduction	1
1.1 Objectives of this Audit.....	2
1.2 Scope and Boundaries.....	2
1.3 This Document.....	3
2 Program Profile	4
2.1 Program Context and Operating Environment	4
2.2 Governance and Organizational Structure	4
2.3 Program Plan	6
2.4 BB Program Overview.....	7
3 Audit Approach and Methodology	9
3.1 Audit Approach.....	9
3.2 Audit Methodology	9
3.3 Performance Framework.....	10
3.4 Limitations	10
4 Findings	11
4.1 GOVERNANCE.....	11
4.2 PLANNING AND BUDGETING	12
4.3 PERFORMANCE	14
4.4 EXTERNAL OPERATIONS: TRANSACTION PROCESSING	20
4.5 EXTERNAL OPERATIONS: COMMUNICATIONS.....	26
5 Audit Conclusions and Recommendations	28
5.1 Audit Conclusions	28
5.2 Summary of Recommendations	29

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List of Acronyms

CRM	Customer Resource Management
IFO	Industry Funding Organization
KPI	Key Performance Indicators
BBPP	BB Program Plan
BB Program	BB Program
MOE	Minister of the Environment
PRL	Program Request Letter
Q1, Q2	Calendar Quarter
REOI	Request for Expression of Interest
RFP	Request-for-Proposal
SAP	Systems Applications and Products
SO	Stewardship Ontario
SUD	System Under Development

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1 Introduction

Waste Diversion Ontario (WDO), a non-crown corporation created under the Ontario *Waste Diversion Act 2002* (WDA), was established to develop, implement and operate waste diversion programs in Ontario for materials which have been designated by the Ontario Minister of the Environment. The Act requires WDO to work cooperatively with an Industry Funding Organization (IFO) to develop a waste diversion plan for each category of designated waste. Following approval of the diversion plan by the Minister of the Environment, the IFO implements and operates the program under a Program Agreement.

Stewardship Ontario (SO) is an IFO created under Section 24 of the WDA to operate waste diversion programs on behalf of WDO. On February 14, 2003, SO was formally incorporated in the Province of Ontario as a corporation without share capital. The BB Program Plan (BBPP) was approved by the Minister of the Environment in December 2003 and the program commenced operations in February 2004.

In June 2010, WDO commissioned Marbek², in association with Stratos Inc. to conduct a performance audit of SO's BB Program (BB Program) activities for the period January 1 through December 31, 2009. This performance audit was conducted by WDO in accordance with its regulatory requirements outlined in Section 5 of the Waste Diversion Act including to:

- 5 (a) Develop, implement, and operate waste diversion programs for designated wastes in accordance with the Waste Diversion Act and monitor the effectiveness and efficiency of those programs;
- 5 (c) Seek to ensure that waste diversion programs developed under the Waste Diversion Act affect Ontario's marketplace in a fair manner;
- 5 (d) Determine the amount of money required by WDO and IFO's to carry out their responsibilities under the Waste Diversion Act.

The BB Program is a stable program that had been operating under SO's management for five years prior to the audit period. From initiation through to the audit period, program management was outsourced to a third party service provider. In March 2009, SO made the decision to repatriate these functions within SO. They hired and trained new staff and developed an information management system throughout 2009, with SO assuming direct program management functions in March 2010.

This audit has adopted a "systems under development" approach to assess what was in place during 2009, while considering changes that have taken place to management systems and controls since that time following repatriation of program management functions.

² On January 1, 2011, Marbek joined with the Canadian operations of ICF International to become ICF Marbek.

1.1 Objectives of this Audit

The objectives of this performance audit are to provide reasonable assurance to WDO that SO's management control system for the BB Program enables it to ensure that³:

- Financial and operational information reported is reliable and possesses integrity;
- Program operations are performed efficiently and effectively;
- Established program objectives are achieved (or are on track to be achieved);
- Assets are safeguarded (such as confidential information); and
- Actions and decisions of the organization are in compliance with laws, regulations, and agreements (including the original BBPP and Program Agreement).

Note that performance audits do not evaluate program design or comment on the adequacy or appropriateness of the Program Plan or Program Agreement.

1.2 Scope and Boundaries

Audit Scope

The audit included activities conducted by, authorized by, or under the direct control of, SO as defined in the Program Plan and Program Agreement. This included SO management controls related to activities undertaken by service providers on behalf of SO as per contract agreements. This audit does not duplicate the scope of work completed by SO's financial auditors, who annually review and audit the financial statements and associated controls of the organization.

The boundaries included in this audit are as follows:

- A. Stewards – The audit included a review of the protocols used to verify information reported by stewards and the application of those protocols during the audit period, as well as the audit program in place for steward reporting. However, the audit did not include validation or auditing of data reported by stewards.
- B. Municipalities - The audit included a review of how SO uses the data collected and provided by WDO through the annual datacall process to inform its fee setting. It did not, however, include a review or validation of the data provided by municipalities to WDO or of WDO's aggregation of these data.
- C. WDO - Other reporting conducted directly by WDO (e.g. activities associated with the annual municipal datacall, and WDO reporting to its Board of Directors) was not within the scope of this program audit.

³ Adapted from *Practice Advisory 2130-1: Assessing the Adequacy of Control Processes, Primary Related Standard 2130* of the Institute of Internal Auditors: www.theiia.org/guidance/standards-and-guidance/interactive-ippf/ and *Standard 2120-A1 from the International Professional Practices Framework*, Institute of Internal Auditors, 2009, www.theiia.org/bookstore/product/international-professional-practices-framework-ippf-1368.cfm.

The scope of the audit did not include direct engagement with stewards or municipalities to obtain their perspectives on SO's management controls.

The temporal scope for this audit included activities conducted by, authorized by, or under the direct control of, SO from January 1, 2009 through December 31, 2009.

This audit has adopted a "systems under development" approach to assess what was in place during 2009, while considering changes that have taken place to management systems and controls since that time following repatriation of program management functions.

1.3 This Document

This audit report is presented in the following sections:

- Section 2 provides an overview of the BB Program, including a discussion of the organizational environment in which the program operates;
- Section 3 outlines the audit framework and criteria, and presents an overview of the methodology;
- Section 4 presents the audit findings; and
- Section 5 presents the audit conclusions, and a summary of recommendations.

2 Program Profile

This section presents an overview of the BB Program, such as the rationale for its existence, its operating environment, governance and organizational structure, and key components of the Program Plan.

2.1 Program Context and Operating Environment

The requirements for developing and implementing a waste diversion program for Blue Box wastes⁴ are set out in the *Waste Diversion Act, 2002* (WDA), and in the Program Request Letter (PRL), dated September 23, 2002, from the Minister of Environment to WDO.

Under Section 25 (5) of the WDA, the Minister required that a diversion program for Blue Box waste provide municipalities funds to cover 50 per cent of the total net costs incurred by those municipalities as a result of the program.

In response to the PRL, WDO directed an IFO to be incorporated as per Sections 23 and 24 of the WDA in September of 2002. As a result of this directive, SO applied for incorporation on November 6, 2002 and became incorporated in 2003. In conjunction with, and on behalf of WDO, SO developed the BB Program Plan which was approved by the Minister of Environment on December 22, 2003 and commenced on February 1, 2004.

As the designated IFO for the BB Program, SO's role is to develop, implement and operate the BB Program on industry's behalf under the direction of WDO. This relationship was first formalized by the signing of a Program Agreement between WDO and SO on February 19, 2003. The Agreement spells out the relationship between WDO and SO as well as the obligations of the parties. The initial five-year term of the Program Agreement commenced upon approval of the BB Program Plan (BBPP) by the Minister on December 22, 2003 and was successively extended until December 22, 2013.

It should be noted that SO does not own the "Blue Box brand", but rather is an important partner in the program with responsibility for ensuring required funds are collected from stewards and redistributed to municipalities in accordance with the program requirements.

2.2 Governance and Organizational Structure

In 2009, SO was governed by a Board of Directors comprised of 15 industry directors. The organization is accountable to WDO for the BB Program. The WDO itself is also governed by a Board of Directors, which in turn reports directly to the Minister of the Environment.

On January 16, 2004, SO entered into an Operating Agreement with a Program Management Service Provider⁵. Under this agreement, the Program Management Service Provider was appointed the Secretariat for the BB Program and became responsible for providing the operational services (e.g. coordinating meetings, reporting, work planning, website development and online database system development) and resources (e.g. office space, staff) required to

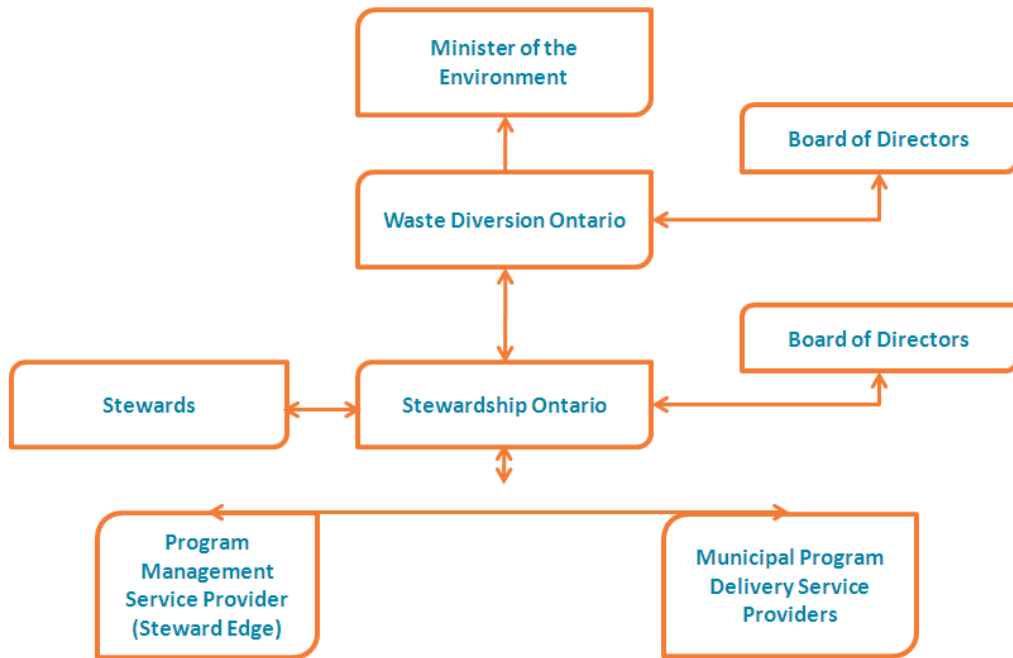
⁴ Blue Box wastes are defined by Regulation. The general classes of materials prescribed as Blue Box waste are set out in Ontario Regulation 273/02, dated September 23, 2002, and enacted under the WDA.

⁵ These two service providers merged into one service provider in late 2009.

deliver the BB Program. This agreement also confirmed that the Program Management Service Provider would license the online data system required to execute the BBPP. This agreement was set to expire on June 30, 2007 but was extended to June 30, 2010 under an Operating Extension Agreement signed on March 9, 2006.

Ontario municipalities are key partners in program delivery. They are responsible for managing collection of the blue box materials through their municipal recycling systems. They report data annually to WDO through the WDO datacall, including the tonnes of blue box waste collected and marketed, gross cost of material management and revenue generated from the sale of blue box waste.

Exhibit 1 BB Program Authorities and Delivery Structure



In 2009, SO made a strategic decision to repatriate the key decision-making and administrative responsibilities from the Program Management Service Provider (here within referred to as the third-party service provider). To support this transition, the organization invested in a centralized SAP information management system to capture and provide key program and financial information, integrating data from five previously separate systems. The formal repatriation of the business came into effect in March 2010. As such, 2009 was a year of planning and transition; SO began 2009 with two employees and ended the year with a team of 17 employees working towards repatriation of program management for both the Blue Box and the Municipal Hazardous and Special Waste programs.

2.3 Program Plan

As previously mentioned in Section 2.1, the BBPP was approved by the Minister on December 22, 2003 and commenced on February 1, 2004. The BBPP set out to achieve the following objectives:

1. To divert 50% of Printed Paper and Packaging by 2006 (a target that later increased to 60% by 2008);
2. Raise industry contributions to contribute 50% of the funds for municipal recycling by levying companies who put printed paper and packaging into the Ontario residential marketplace; and
3. Ensure consumers adopt appropriate recycling behaviours consistent with their expectations for convenience and evolving perceptions of environmental stewardship and responsibility.

The BBPP proposed a roadmap for achieving the BB Program's objectives, including how a diversion target of 60% would be achieved in Ontario, as well as how it would be cost shared between industry and municipalities. The BBPP includes the following elements:

- An overview of the BB Program Delivery Model which includes a summary of the roles and responsibilities for WDO and SO as well as key committees (i.e. Municipal-Industry Program Committee, Public Affairs Committee);
- A summary of the BB Program Design including: the approach to calculating baseline estimates; program wide Waste Diversion Target; a synopsis of the data reporting process for determining the Program's net cost; an outline of the Market Development Program; a summary of the Program's approach to Promotion and Education, the Recycling Effectiveness and Efficiency Program and the Municipal Funding Allocation Model; and
- A detailed overview of Stewardship Ontario's Governance Model, and Rules and Procedures for implementing the BBPP.

On August 14, 2009 the Minister of Environment directed WDO to revise the BBPP by:

- Establishing a diversion target of 70% to be achieved by December 31, 2011;
- Improving the methodology for calculating diversion by including additional avenues where residential Blue Box materials are collected; and
- Including packaging-like materials sold as products that are compatible with current collection and management systems.

In response to this direction, WDO directed SO to develop a plan that would respond to the Minister of Environment's requests. In April 2010, a revised BB Program Plan was submitted to the Minister of Environment for review and approval.

This Revised BB Program Plan proposes the following objectives in an effort to address the Minister's requests:

- Divert 70% of Printed Paper and Packaging from disposal by 2011
- Ensure that stewards of printed paper and packaging supplied into the Ontario marketplace contribute at least 50% of the cost of operating the municipal recycling systems, in keeping with best practices
- Ensure consumers adopt appropriate recycling behaviours consistent with their expectations for convenience and evolving perceptions of environmental stewardship and responsibility
- Provide province-wide access to curbside recycling in line with current regulations
- Implement best practices to optimize the province-wide recycling system, including the provision of recycling containers to all single-family households with curbside collection and to all multi-residential buildings receiving recycling collection
- Make direct investments to create collection infrastructure and markets that will transform materials collected from the Ontario municipal recycling system into manufacturing feed stocks or similar uses
- Calculate and report diversion in an accurate and transparent methodology covering both material supplied for use and material recycled that is subject to third party verification
- Allocate costs to stewards in a transparent and equitable methodology that provides financial incentives designed to support increased recycling, subject to third-party audit
- Expand the definition of Printed Paper and Packaging to include packaging-like products, e.g., aluminum pie plates, compatible with current collection and management systems, and
- Modify the calculation of diversion to include materials that are supplied into the residential market but not managed by municipalities.

2.4 BB Program Overview

Under the terms of the BBPP, SO collects funds from industry (i.e. stewards⁶) to pay its 50% share of operating Ontario's BB Program. Stewards of blue box wastes are defined as brand owners and first importers of products whose end-of-life waste consists of the waste materials defined in Ontario Regulation 273/02 and further defined in the BBPP. Currently, SO works with over 1,300 industry stewards who contribute funding to the BB Program. SO is also responsible for distributing payments to municipalities involved in the BB Program as well as funding market activities that can improve recycling systems, identify efficiencies and best practice, and create markets for recycled material⁷.

The BB Program Rules (as presented in the Program Agreement between WDO and SO) stipulate how stewards must register, report, and pay for their packaging and printed paper. These Rules apply to stewards of companies who put 15 tonnes or more of packaging and printed paper into the Ontario marketplace and have sales greater than \$2 million. These are called "obligated" stewards. Obligated Stewards are required to register with SO, declare the amount of packaging and printed paper they put into the marketplace each year and pay fees calculated for each material according to the Schedule that is set out in the Rules and updated annually.

⁶ Stewards of Blue Box Wastes are defined as brand owners and first importers of products whose end of life waste consists of the materials referenced in Ontario Regulation 273/02 and further defined by the BB Program Plan.

⁷ SO market development activities provide for material-specific market development strategies in two key areas: glass and plastic. Through strategic market development, SO aims to help ensure sufficient market capacity for collected Blue Box materials and increase the revenue received for marketed materials. In addition to these initiatives, WDO oversees the Continuous Improvement Fund (CIF). The CIF provides funding to municipalities in support of projects and programs that increase cost-effectiveness, increase diversion of blue box materials and/or increase the performance of Ontario's residential BB recycling programs. Currently two representatives from SO sit on the CIF Committee.

For fiscal year 2009, SO collected \$77,611,567 from its registered stewards⁸. These funds were collected from stewards and were primarily used to pay their 50% share of operating Ontario's BB Program in the form of support to cover the municipal operating costs. Municipal blue box recycling system costs are calculated using information collected annually by WDO from the Municipal Datacall.

In 2009, WDO reported that 4,912,694 householders in approximately 300 communities received service through the residential BB Program. The total reported gross cost for 2009 was \$284,577,757⁹.

⁸ Source: <http://www.wdo.ca/files/domain4116/2009%20Annual%20Report%281%29.pdf>

⁹ Source: 2009 Financial Datacall Residential Blue Box System (9/14/2010)

3 Audit Approach and Methodology

This section outlines the approach, methodology, and performance framework used to conduct the audit, noting relevant limitations.

3.1 Audit Approach

The audit team used a “system under development” (SUD) approach to the performance audit. The SUD approach is adapted to an organization or program that is changing rapidly, and because the program is not static a SUD approach provides meaningful real-time insight in a changing environment. The SUD approach looks for evidence that the organization or program being audited has taken appropriate steps to establish a solid foundation as it has moved forward. The audit includes a review of compliance with specified aspects (e.g. those outlined in a regulation or agreement) and a review of the design of current controls being built into the system or program.

For the purposes of this audit, our approach included a detailed examination of what was in place during the audit period as well as observations of what has been put in place since the audit period (i.e. 2010 and Q1 2011 – the information collection phase of this audit was completed by the end of Q1 2011, with analysis and report writing taking place during Q2 2011).

3.2 Audit Methodology

The audit plan was developed in the fall of 2010, finalized in January 2011 and approved by WDO staff in February 2011. Following this approval, the audit team executed the audit plan in three phases, each of which is described below:

3.2.1 Information Gathering

Information gathering and data collection included document review both off- and on-site, as well as interviews. The document review phase included publicly available documentation (e.g. Annual Reports, Program Plans, Rules, etc.) as well as non-publicly available documentation (e.g. agreements, plans and procedures, etc.) and confidential information. The audit team spent two days on-site at SO offices in March 2011.

Interviews were conducted with SO’s management team and staff, SO’s Board of Directors, WDO’s management team; as well as with external organizations involved in the BB Program including the third party service provider and the Ministry of Environment (MOE).

3.2.2 Analysis and Validation

The audit team’s analysis and validation work included documentation of evidence and assessment of findings in working notes and evidence collection templates, followed by a series of internal team meetings to consolidate findings. Draft findings were validated with SO to ensure accuracy.

3.2.3 Reporting

Finally, this report was prepared to present the audit findings, conclusions and recommendations.

3.3 Performance Framework

Exhibit 2 identifies the key management control areas that were examined in this performance audit. The area of management control is presented in the left hand column, and the specific objectives that correspond with each management control are presented in the right-hand column.

Exhibit 2 Key Management Control Areas for the BB Program Audit

Management Control Areas	Management Objectives
Governance¹⁰	<ul style="list-style-type: none"> ▪ A Board of Directors is established in accordance with the WDA and regulations.
Planning and Budgeting	<ul style="list-style-type: none"> ▪ A timely budget is developed appropriately. ▪ Actual budget performance in comparison with forecasts is monitored on a regular basis.
Performance	<ul style="list-style-type: none"> ▪ Management has identified appropriate performance objectives/ measures linked to planned results. ▪ Management monitors actual performance against planned results with respect to market development activities. ▪ Performance results are reported appropriately to correspond with the original Program Plan and subsequent approved revisions, and the WDA.
External Operations: Transaction Processing	<ul style="list-style-type: none"> ▪ Management has established equitable procurement policies and procedures. ▪ Records and information are maintained appropriately. ▪ Integrity and accuracy of systems are verified. ▪ Payments are made in a timely manner.
External Operations: Communications	<ul style="list-style-type: none"> ▪ Appropriate communication protocols exist and are followed including communications with stewards, municipalities, WDO and the media.

3.4 Limitations

One scope limitation was encountered during the course of the audit:

- Some Board meeting materials and minutes from 2008 and 2009 were not made available to the audit team. This limitation prevented the audit team from forming an opinion regarding the adequacy and quality of information provided to the Board during the audit period.

In addition, it should be noted that the audit team chose not to examine the information management systems used by the third party service provider during the audit period to form an opinion on the adequacy of these systems, since historical and current program performance, management and financial information is now managed through the SAP system.

¹⁰ Other audit criteria related to Governance and Risk Management were included in a separate *Operational Review* which was undertaken by the audit team on systems in place or under development in 2010 and Q1 2011. These systems were not required to be in place by the WDA or the Program Plan or Agreement, and for this reason results from the *Operational Review* have been presented to Stewardship Ontario management and its Board to support continuous improvement.

4 Findings

The audit findings correspond with the management control areas presented earlier in Exhibit 2 and are presented below in the following sub-sections:

- Governance
- Planning and Budgeting
- Performance
- External Operations: Transaction Processing
- External Operations: Communications

Each sub-section presents the expected condition and audit findings in terms of what the audit found both during the audit period, and since the audit period (2010 and Q1 2011), consistent with the System Under Development approach used for this audit. Associated conclusions and recommendations (where warranted) are also presented. The recommendations are also summarized at the end of this report, and in the Executive Summary.

4.1 GOVERNANCE

Expected Management Control: A Board of Directors is established in accordance with the Waste Diversion Act and supporting regulations.

During 2009, SO was governed by a Board of Directors elected in a manner consistent with the requirements established in the Program Plan and Ontario Regulation 33.

The Board composition was transformed in 2010. The Board initiated a professional Director recruitment campaign, with a focus on recruiting the capacities and skills required to manage an organization of the scale of Stewardship Ontario. Clear criteria were established to guide the selection process. The new Board of 14 elected members was established in June 2010. Two independent directors were added to the Board in Q1 2011. The new Board composition meets the requirements of Ontario Regulation 378/39.

The first Board evaluation conducted in Q1 2011 indicated that the Directors believe the new Board and its Committees are effective and are meeting the Board and Committee Charters.

Conclusions:

- In 2009, SO established a Board of Directors in compliance with the WDA, supporting regulations and the Program Plan. In 2010, SO reconstituted its Board of Directors and the composition of the new Board continues to meet the applicable regulatory and program requirements.

4.2 PLANNING AND BUDGETING

Expected Management Control: A timely budget is developed appropriately.

Fee-setting and Budget Preparation Process

SO, through the services of the third-party service provider, completed the fee-setting methodology in accordance with the Methodology for Calculating Stewardship Ontario Material Specific Fee Rates as presented in Schedule A of the Program Agreement in Q4 2009. SO's fee-setting methodology process was found to include an internal review process by program staff, an opportunity for review and consultation with MOE financial staff and stakeholders, review and approval by the SO Board, and review and approval by WDO staff and the WDO Board. Data to support the fee-setting calculation were made available on the SO website.

Since SO repatriated the fee-setting function from its third-party service provider in late 2009, they have undertaken a number of training sessions to understand and apply the fee-setting methodology in-house and on an annual basis. A comprehensive and formal 'how to' manual to guide SO's fee-setting responsibilities did not exist during the audit period, however a fee calculation procedure for SO staff was found to be included in the SO Orientation Guide (2010).

Fee-setting and Budget Preparation Approvals

SO Board reviewed and approved the 2010 budget and fee schedule for the BB Program at its October meeting. Following SO Board approval, SO submitted the 2010 BB Program Rules and Fees for Stewards to WDO, receiving WDO Board approval on October 28th, 2009. WDO noted that the tight timelines between the SO Board meeting and the WDO Board meeting did not provide WDO with sufficient time to complete a detailed review the Program Rules and Fees.

In addition to review and approval by both the SO and WDO Boards, the audit highlighted that the overall fee-setting process is led by SO with input from WDO and the Municipal-Industry Program Committee (MIPC). Collectively, these organizations continue to work together to ensure that the data used and calculations completed by SO are accurate and reliable for fee-setting purposes. This provides a high level of oversight to the process and ensured accurate application of the fee-setting methodology during the audit period.

Although the revised BB Program Plan (2010) provides a clear description of the fee-setting methodology, including a description of the roles and responsibilities for calculating, reviewing, and approving application of this methodology, interviewees indicated that there are a number of parties involved in the full fee-setting process (i.e. WDO, SO, MIPC) and there was some duplication of effort observed at several stages of the process. A formal schedule describing when the overall fee-setting methodology should be calculated, reviewed, and approved was not found, although the timing for each stage was consistently understood by SO program staff and external parties.

Conclusions

- The fee-setting methodology was applied correctly to establish the 2010 budget and steward fees for the BB Program. This methodology was applied in compliance with the requirements presented in Schedule A of the Program Agreement.
- SO and WDO staff worked closely to apply the fee-setting methodology for the BB Program. A formal procedure that outlines the roles, responsibilities and timing for reviewing the fee-setting methodology and its supporting calculations was not found.

Recommendations

- With the BB fee-setting methodology application process maturing, SO and WDO could enhance program efficiency by reviewing the entire fee-setting process to identify opportunities for streamlining this process and minimizing duplication. This review should provide greater clarity around respective roles at each stage of the process, including review procedures based on appropriate sampling techniques.
- SO should consider preparing a concise “how to manual” for applying the fee-setting methodology to ensure continued consistent application by program staff. This guide should specify the steps and timelines for the fee-setting process, including review and approval steps, and should be shared with all parties in advance of the fee-setting process.

4.3 PERFORMANCE

Expected Management Control: Management has identified appropriate performance objectives and measures linked to planned results.

The 60% waste diversion target established by the Minister of the Environment and reflected in the original BBPP was the primary performance target for the BB Program during the audit period.

SO developed a 2009 Strategic Business Plan Establishing Operating Capability to identify priority areas and associated actions and performance measures to support the delivery of programs at SO. In 2011, SO developed a report titled Innovation & Blue Box: Operating Plan Priorities. This report identified specific priority areas and objectives for the BB Program.

A formal internal performance measurement system to identify, monitor and track the performance of specific objectives for program activities (e.g. market development activities, auditing, variance checks, etc.) was not in place during the audit period. However in 2010, SO put in place a process to develop a corporate performance measurement system (balanced scorecard KPI system) that will include performance measures for the BB Program. SO expects to introduce this system in 2011.

Conclusion:

- During the audit period, the primary performance objective for the BB Program as mandated by the BB Program Plan was diversion achieved relative to the program's diversion target. A broader range of performance objectives or specific indicators to internally assess the efficiency and effectiveness of BB Program activities was not in place. However, performance measurement for the BB Program is maturing, and SO is expected to finalize and implement later this year a balanced scorecard system which includes specific performance objectives and measures for the BB Program. This will allow internal SO management to monitor important program elements that they need to assess performance internally.

Recommendation:

- SO should finalize and implement the balanced scorecard performance measurement system to provide a robust performance measurement framework for the BB Program. The framework should identify objectives and articulate the desired outcomes and expected results for the program, including those related to market development.

Expected Management Control: Management monitors actual performance against targets with respect to materials diverted. Diversion targets are achieved through an efficient and effective process.

Monitoring the Accuracy of Incoming Data

For this program, performance results are assessed against the diversion target outlined in the Program Plan (i.e. 60%, and interpreted by % of target achieved, rather than a straight tonnage collected/recycled target that increases each year). The tonnes of blue box waste recycled by each municipality are tracked annually by the WDO Datacall. In parallel to this process, SO calculates the tonnes of blue box waste that are available for collection.

Monitoring Performance Once Data is Received

During the audit period, a third party service provider was responsible for collecting and analyzing program information in support of calculating the diversion target for the BB Program, after WDO has provided SO with the results from the annual Datacall. The data and calculations were reviewed and approved by the SO Board of Directors. The third party service provider also submitted monthly, quarterly and annual reports to SO's management team and Board which highlighted the achievement of activities and results from its diversion calculations, including the calculations for determining the tonnes of blue box waste that are available for collection.

Since that time, SO has repatriated business management functions in-house, including data and information management, analysis and reporting relative to plan. SO has put in place a system to integrate and analyze program information (i.e. its SAP Enterprise system), which includes advanced features such as automatic variance checks to ensure that the steward data reported to SO is accurate and reliable. The SAP system was completed by March 2010 and an independent financial auditor reviewed the system, and determined that a rigorous set of processes and controls were applied during the conversion (from the former information system to the new information system), concluding that the controls can be relied upon. This new SAP system provides the platform for SO's performance monitoring system.

Performance Results

In 2009 the BB Program continued to exceed the diversion target, achieving a diversion rate of 66% as compared to its 60% target.

Conclusion:

- SO met and exceeded the 60% diversion target during the audit period, achieving a diversion rate of 66%. SO, through the services of a third party service provider, followed the expected methodology for calculating the diversion target for the BB Program.
- In 2010, SO enhanced the quality and reliability of program monitoring information by repatriating program management functions and developing an integrated in-house performance tracking and reporting system.

Expected Management Control: Management monitors actual performance against targets with respect to market development activities.

Performance monitoring and reporting

Over the course of the audit period, SO transitioned its market development activities from mixed coloured glass to blue box plastics. The design, selection, and management of these market development activities was completed by a third party service provider with oversight provided by SO.

The audit found evidence of regular reporting from the third party service provider to SO; however, no established set of performance indicators was in place to measure the effectiveness and efficiency of the activities completed during the audit period. As a result, the audit team was unable to determine if the market development activities made the expected degree of progress towards their intended outcomes during the audit period. More broadly, however, SO has reported that its market development activities have collectively had a positive effect on the Ontario marketplace and generated cost savings for Ontario municipalities.

In 2009, SO's three year financial assistance agreement with a third party entity (2006-2009) to assist with the purchase of equipment for a mixed broken glass processing plant concluded, with the successful establishment of a broken glass processing plant in southern Ontario. This plant was expected to receive glass from six municipalities resulting in estimated savings of approximately \$1.4 M as of 2009 with a long-term projected savings of approximately \$8-10 M in operating costs for Ontario municipalities over the course of seven years. While the 2009 cost savings were realized, offsetting the grant investment in April 2010, the plant in southern Ontario closed due to slower market conditions for output glass products. While this outcome was disappointing, the audit found evidence that SO applied lessons learned from this experience in its subsequent market development activities for blue box plastics (as described below).

During the audit period, SO also began to design a new 5-7 year Market Development Strategy (approved in May 2009) to identify and act on opportunities to enhance blue box plastics recovery systems and strengthen the market for recycled plastics in Ontario. Under this strategy, SO has committed to contribute \$2.4 M and seek to leverage an additional \$9 M over the next three years from its stewards. The objectives of this strategy align with the principles for market development activities presented in the original BBPP.

SO reported to WDO on the status of its market development activities on at least two occasions in 2009, as well as providing a summary in their 2009 Annual Report. These reports communicated SO's approach and rationale for transitioning the market development activities from glass to plastic, as well as providing a summary of progress on specific projects completed under the market development strategy. SO also provided details about its market development activities on its website.

Market Development Contracting

SO launched a Request for Expression of Interest (REOI) and then a competitive Request-for-Proposal (RFP) process in 2008 and 2009. This process led to the award of three contracts to support the objectives of the revised Market Development Strategy.

Evidence that SO applied lessons learned from its earlier market development experience includes:

- Prior to awarding the contracts, SO contracted an independent consultant to complete due diligence reports on the business solvency of each potential recipient and their proposed project. Contracts awarded included repayment clauses to safeguard SO in the event that the recipient was to move to a location outside of Ontario;
- The process included stronger engagement with municipalities and industry to identify a demonstrable need to address technological or market impediments or challenges to be addressed by SO's market development activities; and
- SO included milestone-based reporting requirements in the financial assistance agreements with the third parties who received financial assistance to implement the market development activities.

Conclusions:

- SO continues to lead market development activities that are aligned with the principles presented in the BBPP. These activities focus on enhancing efficiencies to increase the recyclability of glass and plastic products as well as identifying opportunities to improve market opportunities for recycled products in Ontario.
- Although the audit found that regular monitoring and reporting on the status of market development activities is occurring, SO has yet to develop a formal performance measurement plan or framework to monitor and track progress towards achieving expected outcomes for its market development activities.
- SO has applied lessons learned from its glass market development efforts in the design and contracting of its subsequent plastics market development activities, demonstrating continual improvement and enhanced program management and effectiveness.

Recommendations

See previous recommendation regarding the implementation of the balanced scorecard management system on page 14.

Expected Management Control: Performance results are reported appropriately to correspond with the approved Program Plan, any subsequent approved revisions, and the WDA.

WDA Requirements

Section 33 (1) of the WDA requires that an IFO prepare and submit a report to WDO by April 1st each year and make the report available to the public. Section 33 (2) describes what details are to be included in the annual report. The audit found that Stewardship Ontario's 2008 and 2009 annual reports were submitted to WDO on time and that these reports met the requirements outlined in the WDA.

WDO Requirements

SO fulfilled its quarterly, semi-annual and annual reporting obligations to WDO in 2009. Collectively, these reports presented information on blue box performance relative to the program's diversion target, as well information about steward registrations, fees/revenue (target vs. actual) and enforcement and audit activities. While BB Program reporting generally met WDO's expectations, WDO had noted areas where additional performance information could be provided on SO's audit activities and how performance against the recycling target is calculated.

With respect to the Annual Report, the audit team observed that competing objectives exist. For example, WDO requires detailed information on program operations and performance, while SO seeks to produce an interesting annual report suitable for public release and for a broad range of audiences. As of Q4 2010, SO and WDO have agreed that SO will submit a "Regulatory Filing" Report to WDO to fulfill its information needs and SO will also develop a separate annual report suitable for public release. For the WDO Regulatory Filing Report, WDO has been working with SO and other IFOs during 2010 and 2011 to standardize the content and presentation of these reports.

Beginning in 2010, WDO has been working with IFOs to standardize the content and timing of quarterly and annual performance reporting for all programs. Standardizing the content and timing for performance reporting will provide greater clarity for IFOs. To date, the WDO Board has approved definitions and standardized metrics for measuring performance, and WDO and IFOs have agreed on the contents and format for reporting on program efficiency and effectiveness. The final protocol for quarterly and annual performance reporting is expected to be completed later this year.

Conclusions:

- During the audit period, SO met all of its regulatory reporting obligations, demonstrating compliance with the BBPP, Program Agreement, and the WDA. The WDA requirement is to submit an annual report by April 1 each year. However it was noted that to meet this requirement SO submits a regulatory filing to WDO that presents estimated diversion data (for the BB and MHSW programs) at the end of March, and releases a public annual report in June that presents more accurate performance data.

- Beginning in 2010, WDO has been working with IFOs to standardize the content and timing of quarterly and annual performance reporting for all programs. Standardizing the content and timing for performance reporting will provide greater clarity for IFOs. To date, the WDO Board has approved definitions and standardized metrics for measuring performance, and WDO and IFOs have agreed on the contents and format for reporting on program efficiency and effectiveness. The final protocol for quarterly and annual performance reporting is expected to be completed later this year.

Recommendations:

- SO and WDO should continue to work together to implement WDO's Measures to Monitor Effectiveness and Efficiency of Diversion Programs for consistent reporting between IFOs and WDO (work led by WDO in consultation with IFOs in 2010/2011). These measures should include consistent reporting elements for required reports, including clearly established expectations on the level of detail required for WDO to exercise its oversight responsibilities.

4.4 EXTERNAL OPERATIONS: TRANSACTION PROCESSING

Expected Management Controls: Management has established processes to develop and manage agreements and third party contracts. Equitable procurement policies and procedures are in place.

Establishing Third Party Agreements

The audit found that during 2008-09, there was no formal procurement policy in place at SO or its third party service provider. However, processes followed to develop and manage third-party agreements and contracts were observed to be in line with the organization's values, ethics and the WDO Code of Conduct, and were understood by management. The Board of Directors does not have approval authority for contracts awarded to service providers to prevent potential conflicts of interest; only three members of management have been designated as signing authorities.

Request for Expression of Interest (REOI) and Request-for-Proposal (RFP) processes were used during the audit period. However, the audit team could not confirm whether there were formal procedures in place regarding when to use an RFP process (e.g. when estimated value of work is greater than a certain dollar amount) or the approval process in place at that time.

The audit found that the sample of contracts reviewed during the audit period included provisions related to treatment of confidential information; dispute resolution; invoicing; delegation of services; and mandatory insurance. Service providers were required to sign a separate non-disclosure agreement as part of their contract with SO.

Oversight of the Third Party Service Provider

During the audit period, documentary evidence confirms that processes to develop and manage third-party agreements and contracts were in line with SO's values, ethics and the WDO Code of Conduct.

Interviews with program staff and the third party service provider highlight that there was regular reporting between both parties to track progress and monitor the effectiveness of BB Program activities. The third party service provider submitted monthly financial reports to SO, as well as monthly reports describing the number of steward registrations, fees collected, and a summary of audit and enforcement activities. Informal meetings between the SO Program Lead and the Director from the third party service provider occurred on a bi-weekly and an as required basis.

The audit did not find evidence of a formal performance measurement or evaluation framework for monitoring and assessing the effectiveness of activities completed by the third party service provider for the BB Program.

Conclusions:

- While there is no formal procurement policy in place, SO management has processes they follow to develop and manage third party contracts, consistent with the organizations values, ethics and code of conduct, which in turn contributes to the achievement of program objectives.
- SO contracts are in compliance with the BBPP and the Program Agreement with regard to requirements to support important management controls such as treatment of confidential information; dispute resolution; invoicing; delegation of services; and mandatory insurance.
- While the third party service provider submitted monthly management reports to SO, SO's oversight and evaluation of the services provided were largely informal.

Recommendations:

- SO should develop a procurement policy to lend greater clarity and consistency to the contracting process, and instill a common understanding of its procurement practices within the organization and across its stakeholders.

Expected Management Control: Information keeping: Records and information are maintained appropriately.

Management of Confidential Information

In 2009, SO's third party service provider applied processes and procedures to ensure that the responsibility for managing information was assigned and understood throughout the organization.

In 2010, as SO repatriated program management services to within the organization, it ensured that strong controls were incorporated within the new SAP system. An independent financial auditor assessed the conversion of the previous information systems into the SAP system and concluded that a rigorous set of processes and controls were in place during data conversion and implementation, and that the conversion and implementation controls can be relied upon.

Responsibility was clearly assigned and communicated to SO staff upon repatriation of program management functions for development and maintenance of steward databases. Continued improvements to confidentiality protocols were observed in 2010.

Furthermore, in 2010 SO developed an internal process for staff to address suspected improprieties with ethics related to confidentiality. While a formal ethics policy has not been established, aspects of ethical behaviour are included in the Code of Conduct By-Law for the Board of Directors, and in the Orientation Guide. In 2010, the organization developed a draft Whistleblower Policy, which it plans to finalize and approve in 2011.

There was no evidence of any breach of confidentiality (as per the Program Agreement). Maintenance of confidential steward specific data was also ensured in SO's communications to WDO during the audit period.

Management of Routine Inquiries

During the audit period, SO's third party service provider used a software program to log inquiries and track responses.

Since that time, SO has repatriated this function in house and continues to log inquiries in an updated software program. They have also developed a designated Customer Resource Management (CRM) team dedicated to steward inquiries. In addition, a new online tutorial is under development in 2011 which will be available as a self-guided training session for new or existing stewards to report into the SAP system.

Conclusions:

- During the audit period, SO's third party service provider had appropriate protocols in place to ensure the confidentiality of records and that information was maintained during the management of the steward reporting functions of the program. Since that time, SO management has continued to improve provisions for information keeping and confidentiality as a high priority within the design and implementation of their new systems and protocols. There was no evidence of any breach of confidentiality as per the requirements of the Program Agreement). This demonstrates compliance with the Program Agreement parameters relating to confidentiality.

Expected Management Control: Steward Registration, Rules and Reporting Systems – Integrity and accuracy of systems are verified.

Registration and Identification

During the audit period, the procedures used to manage new steward registrations for the BB Program were undertaken by third party service providers on behalf of SO. The registration processes were considered adequate and fairly mature. While the service provider undertook some activities intended to identify new stewards, these activities were not assessed to be strategic or particularly effective (e.g. they did not target largest potential revenue/effort).

In 2010, when SO repatriated operational responsibility in-house, they adopted strategic processes for managing steward registrations and identifying new stewards.

With respect to steward reporting to SO, in 2009 stewards reported to an online information portal which was considered adequate and functioned appropriately. In 2010, reporting was further improved with the new SAP system. This system has become the platform for steward reporting, and was noted to have built-in efficiencies for stewards and program staff (e.g. boiler plate information is automatically populated, last quarter's reporting automatically populated for comparison by the steward, etc).

Free Riders

In 2009 there was activity to reduce free riders in this program. In 2010 SO expanded its activity in this area, including prospect runs (subscriptions to new business lists in Ontario), conducting mystery shopping, and an anonymous email function on their website where stewards could notify SO of suspected free riders anonymously.

Despite activities in this area the audit could not confirm the level of impact caused by free riders on the BB Program.

Verification of Steward Reporting

The first level screening to verify the accuracy and completeness of steward reporting is to conduct variance checks. The second level screening is to conduct audits of steward reported data.

During 2009, a manual protocol for reviewing data submissions was in place as a variance check and was applied to every steward submission to the information system in place at the time. Interviewees stated that this analysis was completed by a team of 4-5 individuals who would confirm whether data provided contained significant variances and whether it appeared that stewards followed a credible methodology.

In 2010, the new SAP system included an improved automatic function for identifying variances, and this function can be set by SO to be more or less stringent, depending on their objective.

With respect to auditing steward reported data, SO is required to audit no less than 10% (by weight of blue box wastes) of member's reports in any given year as described in section 9.9.1 of the BBPP. In 2009, SO was found to have completed 4 audits, covering 1% of the audit tonnage requirement and reported that a number of audits were delayed to Q1 2010 while it was

in the process of revising its audit protocol and approach to conducting audits¹¹. In April 2010, SO reported that it had completed 9 audits which covered 18% of the weight of blue box waste, exceeding the 2009 audit tonnage requirement by 8%.

In 2009, SO escalated four cases (e.g. stewards who were registered but failed to report and pay fees) to the MOE resulting in \$117,500 in assessed steward fees. The number of cases in 2009 was significantly lower than the number of cases and assessed steward fees collected in 2008 (33 cases, \$1.6 M respectively). The lower number of cases and assessed steward fees occurred as a result of SO's initiative to re-evaluate the enforcement activity that was taking place as part of the BB Program. In support of this re-evaluation, MOE Enforcement program staff stated that there would be value in developing a schedule to review SO's auditing and verification program and the status of specific investigations to identify common priorities, exchange information and align resources over the course of a year.

Steward Rules, Fees and Payment Schedule

The audit found that SO published and distributed the Rules and payment schedule for stewards in 2009 and 2010. The new SAP system has a technical interface which is used to assign the purchase orders for quarterly invoicing. Invoices were generated and distributed to stewards in accordance with the notification schedule.

The audit noted that SO reported a minor clerical error to WDO regarding the date included on the 2009 payment schedule. This change was approved by SO Board on April 16, 2009 and the error was corrected.

Conclusions:

- The procedures in place to register stewards during the audit period and since that time allow SO to achieve its objectives with respect to steward registration and reporting. Improvements made to the steward identification process and the steward registration process in 2010 and 2011 are expected to improve program effectiveness and efficiency.
- Variance checks of steward reported data were completed during the audit period. The new automatic variance checks of steward reported data built into the 2010 SAP system have increased the efficiency with which this process is undertaken.
- SO did not fulfill its auditing obligation for 2009 until Q1 2010. SO has revised its approach to conducting audits so that it is more comprehensive and addresses steward accounting and inventory systems. Enforcement activities are currently being revised.
- The audit team confirmed that the rules and payment schedule for stewards were published as required both during the audit period and since that time, demonstrating compliance with the Program Plan and Program Agreement.
- Activities undertaken by SO with respect to reducing free riders are consistent with practices undertaken by other IFOs in Canada.

¹¹ SO fully revised its Audit Protocol, Procedures and Framework in 2010. Interviewees underlined that this revised approach is intended to provide improved testing of steward accounting and inventory management systems.

Recommendations:

- SO should implement the new steward reporting audit procedures for the BB Program in 2011 to improve accuracy and reliability of steward reporting and to ensure compliance with the audit targets established in the Program Plan. Based on experience gained through systematic auditing, SO and WDO should review the appropriateness of the audit requirements to ensure they are establishing reasonable audit coverage targets that add value and contribute to achievement of program objectives.
- SO should schedule quarterly check in meetings with MOE Enforcement to review SO's auditing and verification program and the status of specific investigations to identify common priorities, exchange information, and align resources over the course of a year.
- SO should undertake detailed analysis to estimate the scale of the potential free rider issue in the BB Program. This information would inform program planning and contribute to improved efficiency and effectiveness of the program.

Expected Management Control: Transactions with municipalities – payments are made efficiently.

For the auditing period, the third party service provider was responsible for distributing payments to municipalities. Accounts payable and the dates upon which cheques were issued were documented in a database. With SO's repatriation of the BB Program responsibilities, program accounting functions are now conducted in-house, and the invoicing function is integrated within the SAP system.

A review of the database and records demonstrates that municipalities are receiving their payments in a timely manner. A documented service standard for disseminating payments to municipalities was not found, although this is not a specific program requirement.

Conclusions:

- Payments to municipalities are made in a timely manner, consistent with the requirements of the Program Plan. The reliability and timeliness of the municipal payment processing function has been enhanced through the introduction of an integrated SAP system which integrates municipal reporting, invoicing and payments.

4.5 EXTERNAL OPERATIONS: COMMUNICATIONS

Expected Management Control: Appropriate communications protocols exist and are followed including communications with stewards, municipalities, WDO and the media.

Communications Protocols / Lines of Communication

The audit did not identify a formal communication protocol or document outlining lines of communication between SO and WDO, however it was evident that both organizations maintained a collegial working relationship. There are multiple points of contact between the two organizations, and no designated single and consistent point of contact for program related inquiries (discussions take place at the working level, the VP level, etc.). This lack of a consistent point of contact may affect SO's ability to respond to WDO efficiently.

With respect to maintaining confidentiality protocols, the audit reviewed numerous formal and information communications between SO and WDO, and found that adherence to confidentiality of information (e.g. steward data) was consistent and information was only reported to WDO at a non-attributable and aggregated level. This finding applies to both the audit period and 2010-2011.

A formal communication protocol or document outlining the lines of communication between MOE and SO (except for the criteria for forwarding a file to MOE for inspection or investigation) does not exist, however it was evident that both organizations also maintained a collegial working relationship and communicated regularly. It was further noted that there is inconsistency in terms of when MOE contacts SO directly and when they go through WDO, which can cause some confusion in terms of respective roles, responsibilities and reporting relationships. This can affect program efficiency. This finding applies to both the audit period and 2010-2011.

For the audit period, communication protocols for engaging with the public or media requests were found to be informal and not documented. However, program staff confirmed that all external reporting was reviewed by an SO Vice President before distribution.

Consultations with Stewards and the Public

There is evidence that SO undertook all public consultations as required by WDO during the fee development for the BB Program in 2009.

With respect to engagement with stewards, in November 2009 SO distributed a survey to its stewards in an effort to better understand the organization's perceived strengths, weaknesses, and value to stewards. The survey responses characterized SO's communication and interactions with stewards as positive, timely, and consistent.

Website

The audit team was only able to review the current SO website (rather than the website in place during 2008-2009). The current website meets the requirements of Section 6.1 of the Program Agreement. Program staff explained that SO updates its website annually to include: the Rules

for Stewards with Respect to Payments of Fees; any revised Program Plans; and SO's Annual Report.

Conclusions

- The lack of a formal communication protocol outlining lines of communication between SO and WDO, and between MOE and SO could lead to inefficiencies in program operations.
- Documentation reviewed has indicated that SO adheres to strict confidentiality of information clauses as outlined in its code of conduct, which demonstrates compliance with the Program Plan.
- SO's communication and interactions with stewards are reported to be positive, timely, and consistent (based on a third-party steward survey initiated by SO). SO has used the results of this survey to identify further opportunities to improve the efficiency and effectiveness of the program.
- There is evidence that SO undertook all public consultations as required by WDO during the audit period and since then, consistent with the Program Plan.

Recommendations

- In an effort to clarify roles and responsibilities and lines of communication among SO, WDO, and MOE, these parties should develop an overarching communication protocol to ensure consistent application to enhance program efficiency. SO may also wish to designate a single point of contact for BB Program-related inquiries from MOE and WDO to provide a one window approach.

5 Audit Conclusions and Recommendations

5.1 Audit Conclusions

Based on our audit findings (summarized in the previous section), there is reasonable assurance that the management controls in place during the audit period, and subsequently strengthened, are adequate and effective to achieve the stated program objectives. More specifically:

- BB Program operations are generally performed efficiently and effectively. The organization operates with a strong commitment to continual improvement, and a number of enhancements have been implemented from 2009 to the present. This audit has identified areas where further efficiencies can be gained and the outcomes of BB Program activities can be measured (as identified in the recommendations).
- Stewardship Ontario has developed and implemented adequate management controls to ensure the financial and operational information it reports regarding the BB Program is reliable and possesses integrity. The quality of these controls has improved significantly since Stewardship Ontario repatriated these functions from a third party service provider in 2010.
- Program objectives with respect to diversion were achieved in 2009 and are expected to be achieved in 2010. Stewardship Ontario continues to develop and implement business plans designed to improve diversion rates in collaboration with municipalities.
- Confidential information has been safeguarded, with enhanced controls introduced when Stewardship Ontario introduced its SAP data management system. There was no evidence of any breaches of the confidentiality clauses presented in the Program Agreement.
- Stewardship Ontario's actions and decisions regarding the BB Program have been in compliance with the applicable laws and regulations affecting the program. No issues of non-compliance were found during the audit; however SO's commitment to audit a minimum of 10% of the annual obligated tonnage in 2009 was not met until Q1 2010.

Stewardship Ontario has undergone substantial change since the audit period as they have developed the capacity and systems required to manage the BB Program internally. During this time, Stewardship Ontario has recruited a high quality management team and staff, reconstituted its Board of Directors, and successfully continued to implement the BB Program, including development of a revised Program Plan (awaiting approval). The Management Team has demonstrated a high level of competence and, in many areas, has implemented leading practices and management controls.

5.2 Summary of Recommendations

The audit team offers the following recommendations for continual improvement for SO's consideration. We have assigned relative priorities to each of the recommendations (High, Medium, and Low) to reflect the level of positive impact we anticipate successful implementation of the recommendation could have on the efficiency and effectiveness of the BB Program.

Planning and Budgeting:

HIGH PRIORITY

R1) With the BB fee-setting methodology application process maturing, SO and WDO could enhance program efficiency by reviewing the entire fee-setting process to identify opportunities for streamlining this process and minimizing duplication. This review should provide greater clarity around respective roles at each stage of the process, including review procedures based on appropriate sampling techniques.

MEDIUM PRIORITY

R2) SO should consider preparing a concise "how to" manual for applying the fee-setting methodology to ensure continued consistent application by program staff. This guide should specify the steps and timelines for the fee-setting process, including review and approval steps, and should be shared with all parties in advance of the fee-setting process.

Performance:

HIGH PRIORITY

R3) SO should finalize and implement the balanced scorecard performance measurement system to provide a robust performance measurement framework for the BB Program. The framework should identify objectives and articulate the desired outcomes and expected results for the program, including those related to market development.

HIGH PRIORITY

R4) SO and WDO should continue to work together to implement WDO's Measures to Monitor Effectiveness and Efficiency of Diversion Programs for consistent reporting between IFOs and WDO (work led by WDO in consultation with IFOs in 2010/2011). These measures should include consistent reporting elements for required reports, including clearly established expectations on the level of detail required for WDO to exercise its oversight responsibilities.

External Operations – Transaction Processing**MEDIUM PRIORITY**

R5) SO should develop a procurement policy to lend greater clarity and consistency to the contracting process, and instill a common understanding of its procurement practices within the organization and across its stakeholders.

MEDIUM PRIORITY

R6) SO should implement the new steward reporting audit procedures for the BB Program in 2011 to improve accuracy and reliability of steward reporting and to ensure compliance with the audit targets established in the Program Plan. Based on experience gained through systematic auditing, SO and WDO should review the appropriateness of the audit requirements to ensure they are establishing reasonable audit coverage targets that add value and contribute to achievement of program objectives.

MEDIUM PRIORITY

R7) SO should schedule quarterly check-in meetings with MOE Enforcement to review SO's auditing and verification program and the status of specific investigations to identify common priorities, exchange information, and align resources over the course of a year.

LOW PRIORITY

R8) SO should undertake detailed analysis to estimate the scale of the potential free rider issue in the BB Program. This information would inform program planning and contribute to improved efficiency and effectiveness of the program.

External Operations – Communications**HIGH PRIORITY**

R9) In an effort to clarify roles and responsibilities and lines of communication among SO, WDO, and MOE, these parties should develop an overarching communication protocol. SO may also wish to designate a single point of contact for BB Program-related inquiries from MOE and WDO to provide a one window approach.