



Final Report

Performance Audits of Ontario Waste Diversion Programs

Performance Audit of the Municipal Hazardous or Special Waste 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, 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.

In December 2006, Stewardship Ontario (SO) was designated as the IFO responsible for implementing the Municipal Hazardous or Special Waste (MHSW) Program in Ontario. Phase 1 of the program was launched on July 1, 2008.

In June 2010, WDO commissioned Marbek¹, in association with Stratos Inc., to conduct a performance audit of the first eighteen (18) months of operation of SO's MHSW Program. This performance audit is being 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 MHSW Program is a new and rapidly evolving program within the Province of Ontario. Phase 1 of the program was launched on July 1, 2008 and covered nine (9) diverse materials, each of which required different material handling and process capabilities. During program planning and the initial years of operation, it is expected that an organization will develop and begin to implement the management systems and controls necessary to operate the program successfully; it is not expected that mature controls will be in place.

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

Audit Objectives and Scope

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

- 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 Program Plan 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 covered the first 18 months of MHSW program operations, from July 1, 2008 to December 31, 2009. The audit focused on activities, services, outputs and outcomes related to Phase 1 of the MHSW.

This audit has adopted a "systems under development" approach to assess what was in place during 2008-09, while considering changes that have taken place to management systems and controls since that time following repatriation of program management functions.

Audit Conclusion

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 particularly as subsequently strengthened since the audit period) are generally adequate and effective to achieve the stated program objectives outlined in the Program Plan and Program Agreement. More specifically:

- MHSW program operations are generally performed efficiently and effectively with respect to fulfilling the roles and responsibilities and completing the activities outlined in the Program Plan and Program Agreement. The organization operates with a strong commitment to continual improvement, and a number of operational enhancements were implemented from 2008 to the present which contribute to improved efficiency or effectiveness. These are documented in the results section of this report. This audit has identified several areas where further efficiencies could be gained (identified in the recommendations of this report).

- SO has developed and implemented adequate management controls to ensure the financial and operational information it reports regarding the MHSW Program is reliable and possesses integrity. The quality of these controls has improved significantly since SO repatriated these functions from a third party service provider in 2010.
- Established program objectives with respect to accessibility have been achieved. Program objectives with respect to material diversion for six of the nine materials covered in Phase 1 of the program were achieved, demonstrating partial achievement with the program plan's targets. SO continues to develop and implement business plans designed to improve collection and diversion rates.
- Confidential information has been safeguarded, with enhanced controls introduced when SO introduced its SAP data management system. There was no evidence of any breaches of the confidentiality clauses presented in the Program Agreement.
- SO's actions and decisions regarding the MHSW program have been in compliance with the applicable laws and regulations affecting the program. Two instances of non-compliance with the original Program Plan were noted: i) the audit program to review the accuracy and reliability of steward reporting did not meet the requirement to audit 20% of each material category in Year 1 of the program; and ii) a formalized Promotions and Education Strategy document was not produced in Year 1 of the program. SO has taken steps to formalize and improve its steward reporting audit program and its promotions and education activity since 2008/09.

Both the MHSW program and SO have undergone substantial and ongoing change since program inception. During this time, SO has recruited a high quality management team and staff, reconstituted its Board of Directors, and successfully implemented Phase 1 of the MHSW Program while developing and then launching Phase 2 in the form of the Consolidated MHSW program. While the program and associated management controls are still in their infancy, the Management Team has demonstrated a high level of competence and, in many areas, has implemented leading practices and 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 and 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 established fee-setting methodology was applied in Q4 2009 to set the fees and program budget for 2010, demonstrating compliance with the Program Plan.
- During the first 2 years of the MHSW program, SO and WDO staff worked closely to apply the fee-setting methodology. A formal fee-setting procedure outlining the roles

and responsibilities for reviewing the fee-setting methodology and its supporting calculations was not in place.

- Limits established within the fee-setting methodology and budgeting process permit the program to carry deficits in some material categories forward into future periods, creating a financial risk to the program and the organization.

Performance

- During the audit period, the primary performance objectives for the MHSW program were collection rates relative to material-specific targets. A broader range of performance objectives or specific indicators for internal SO management to use to assess the efficiency and effectiveness of the MHSW program activities was not in place. However, performance measurement for the MHSW 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 MHSW program. This will allow SO management to monitor important program elements required to assess performance internally.
- During the audit period, the management controls in place for performance monitoring were not formally documented. These management controls were implemented by third parties, and were not able to be reviewed by the audit team since the practices have changed significantly since the audit period. Since that time, SO has put in place more efficient and effective management controls to monitor and track performance. Automated and manual processes now exist to verify material tracking, as well as improvements to reporting in protocols, and in house monitoring through the SAP system which are expected to lead to increased reliability of reported performance information from late 2010 onward.
- SO achieved the material-specific diversion targets for six of the nine categories, which demonstrated partial compliance with the Program Plan. Given that this audit was conducted on the first year of program operations for a new program, it is anticipated that improved performance in achieving targets will occur as the program gains maturity.
- SO achieved the accessibility targets by the end of Year 1 of the program, demonstrating compliance with the Program Plan.
- There has been significant improvement noted in the efficiency and effectiveness of methods implemented by SO to achieve diversion performance objectives.
- During the audit period, SO management monitored results of the R&D work through a regular but informal verbal process. Formal progress updates from the service provider managing the R&D activity did not contain adequate detail for program oversight.
- The implementation of R&D work was complete for eight of the nine materials outlined in the Program Plan, demonstrating partial compliance with the Program Plan for this activity during the audit period.
- Due to the lateness of the completion of the R&D work and the lack of relevance of some of the research questions and related results, the R&D program was not as

effective or efficient as planned. SO management has applied lessons learned from this experience into its decision-making and business planning processes.

- During the audit period, SO met all of its regulatory reporting obligations, demonstrating compliance with the Program Plan and Program Agreement, and the WDA (including the requirement to submit an annual report by April 1 each year). It was noted that the April 1 reporting deadline established in the WDA renders it difficult to provide complete and accurate data due to delays in municipal and vendor reporting and provides WDO with little time for critical review prior to the preparation of its annual report. To meet this WDA requirement, SO submits a regulatory filing to WDO at the end of March that presents estimated diversion data, 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.
- In efforts to continually enhance the completeness and reliability of performance information reported to WDO, SO has implemented improved controls to reduce the need to re-state performance results; new reporting penalties for municipal timelines will contribute to improved efficiencies in SO's ability to measure diversion performance in a more timely fashion for the MHSW program.

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.
- Contracts reviewed had standard provisions in place that support important management controls such as treatment of confidential information; dispute resolution; invoicing; delegation of services; and mandatory insurance . The provisions identified in the sample of contracts reviewed indicated compliance with the Program Plan and Program Agreement, and contributed to the safeguarding of assets held by SO, and its ability to achieve program objectives. However, the overall sample reviewed was insufficient to draw overall conclusions on this topic.
- Management has increased the efficiency and effectiveness of the program through the identification of opportunities to secure greater efficiencies within the contracting process (e.g. through implementation of new municipal reporting requirements in service agreements, and new waste audit requirements for processors).
- 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 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 not consistently completed by all service providers involved in program management 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. The system can also perform these checks retroactively to 2008 if needed.
- The audit team could not confirm compliance with the auditing requirements for steward reported data in the Program Plan during the audit period or in 2010 because information was not available with respect to the material categories in which audits were completed. Improvements to the audit program were made in 2010 for implementation in 2011.
- 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.
- There were vendor standards in place during the audit period, demonstrating compliance with the Program Plan and Program Agreement.
- There was evidence to indicate that procedures used to engage vendors were fair and that these were applied consistently during the audit period.
- SO repatriated key management functions with respect to engaging with service providers in 2010, and has demonstrated continual improvement in the vendor management process and enhanced program efficiency.
- Key elements of the collector registration system were in place during the audit period, and access to this system (which involves adherences to the *standards*, *SO Terms*, and the *Orientation Guide*) appeared fair, and consistent with the Program Plan requirements. The increase in collector registrations throughout 2010 contributes to SO's increasing ability to achieve the program objectives.

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 its 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.
- The lack of a formalized Strategic Promotion and Education (P&E) / Communications Plan during Year 1 of the program and the absence of an evaluation of P&E activities undertaken during Year 1 is not compliant with the Program Plan. Evaluation of the Year 1 plan would have likely contributed valuable insight into the new communications plan being developed for Year 2.

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 MHSW program.

Planning and Budgeting:

HIGH PRIORITY

R1) The budgeting process should be reviewed in light of operating experience to date to provide greater flexibility in addressing material-specific cost overruns across budget periods and to prevent recurring deficits that could jeopardize the financial health of the program.

R2) With experience gained to date in applying the fee-setting methodology, 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

R3) 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 go beyond the steps outlined in the MHSW Program Plan and 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.

LOW PRIORITY

R4) SO plans to undertake analysis on the reconciliation of fees for containers which are part of the MHSW Program and previously in the Blue Box Program (this activity is planned for 2012 within the revised MHSW Program Plan currently under development). This step will ensure

accurate material accounting and treatment within the program. It was a requirement in the 2007 Program Plan.

R5) SO should post the MHSW fee-setting methodology spreadsheets used on the SO website on an annual basis going forward to allow the same level of public scrutiny as the Blue Box Program for its fee-setting calculations. This will ensure the application of the fee-setting methodology is transparent and will demonstrate SO's capability with confidence.

Performance:

HIGH PRIORITY

R6) SO should finalize and implement its internal balanced scorecard performance measurement system to provide a robust performance measurement framework for the MHSW program. The framework should identify objectives and articulate the desired outcomes and expected results for the program.

R7) SO management should continue to seek ways to enhance the timeliness of service provider reporting on quantities collected to improve quarterly performance tracking and inform management decision-making.

R8) 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.

MEDIUM PRIORITY

R9) WDO and SO should formally request that the April 1 annual reporting deadline prescribed in the WDA be amended to allow additional time for year-end data compilation and for WDO to be able to critically review and incorporate key elements of SO's annual report within WDO's annual report. This would enhance program efficiency by reducing the need to restate data and allow WDO to enhance the content and accuracy of its annual report.

R10) Consistent with SO management's decision, R&D work should be initiated only when needs or information gaps can be clearly defined so that the effectiveness of the activity is maximized. If R&D work is initiated, SO management is encouraged to improve its monitoring of the R&D activity, including establishing specific milestones to improve accountability.

LOW PRIORITY

R11) When developing other product stewardship program plans, WDO should encourage the IFO to assess information gaps and identify specific research needs during the first years of program implementation and develop a targeted R&D program to address those needs, rather than specify research needs as part of the program plan, unless the MOE Program Request Letter says otherwise.

External Operations – Transaction Processing**MEDIUM PRIORITY**

R12) 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.

R13) SO should implement the new steward reporting audit procedures for the MHSW 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.

R14) SO management should ensure contracts are signed with all contractors prior to a contractor beginning any formal work. This will allow SO to ensure a common understanding of the work to be completed and associated terms and conditions.

LOW PRIORITY

R15) SO should undertake detailed analysis to estimate the scale of the potential free rider issue in the MHSW program. This information would inform program planning and contribute to improved efficiency and effectiveness of the program.

External Operations – Communications**HIGH PRIORITY**

R16) 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 enhance program efficiency. SO may also wish to designate a single point of contact for MHSW program related inquiries from MOE and WDO to provide a one-window approach.

MEDIUM PRIORITY

R17) SO should conduct an evaluation on P&E activities undertaken to date to assess effectiveness and identify opportunities for improvement.

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List of Acronyms

CRM	Customer Resource Management
IFO	Industry Funding Organization
KPI	Key Performance Indicators
MHSW	Municipal Hazardous or Special Waste
MOE	Minister of the Environment
P&E	Strategic Promotion and Education
PRL	Program Request Letter
Q1, Q2	Calendar Quarter
R&D	Research and Development
REOI	Request for Expression of Interest
RFP	Request-for-Proposal
SAP	Systems Applications and Products
SO	Stewardship Ontario
SUD	System Under Development
WDA	Ontario Waste Diversion Act 2002

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1 Introduction

Waste Diversion Ontario (WDO), a non-crown corporation created under the Ontario *Waste Diversion Act 2002*, 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.

In December 2006, Stewardship Ontario (SO) was designated as the IFO responsible for implementing the Municipal Hazardous or Special Waste (MHSW) Program in Ontario. Phase 1 of the program was launched on July 1, 2008.

In June 2010, WDO commissioned Marbek², in association with Stratos Inc., to conduct a performance audit of the first eighteen (18) months of operation of SO's MHSW Program. This performance audit is being 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.

1.1 A Program in Transition

The MHSW Program is a new and rapidly evolving program within the Province of Ontario. Phase 1 of the program was launched on July 1, 2008 and covered nine (9) diverse materials, each of which required different material handling and process capabilities. During program planning and the initial years of operation, it is expected that an organization will develop and begin to implement the management systems and controls necessary to operate the program successfully; it is not expected that mature controls will be in place.

In parallel with program launch and the development of its management systems, SO was required to develop the Program Plan for an expanded program that would increase the number of materials covered by the program from nine to 22 as of July 1, 2010. This was a significant undertaking which required a high level of management involvement and resources during development and implementation of the consolidated program.

Since its initiation, the MHSW Program has faced rapid change and has not yet reached a steady state of operations.

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

Similarly, SO has undergone significant transformation since the launch of the first phase of this program. In 2008, the organization had only one full-time employee (the CEO) and all program management and delivery functions were outsourced to third party service providers. Since that time, the organization has purposefully developed the in-house capability it determined necessary to deliver a program of this magnitude; at the end of 2010, SO had a staff of 30 involved in the management of both the MHSW and the Blue Box programs.

The high degree of change affecting both the program and the organization since 2008 makes it difficult to present a meaningful snapshot of organizational management systems and performance at a given point in time. This audit has adopted a “systems under development” (SUD) approach to assess what was in place during 2008 and 2009, while considering changes that have taken place to management systems and controls since that time. This type of approach is most appropriate for newer and/or rapidly evolving programs, and is discussed in more detail in Section 3.

1.2 Objectives of this Audit

The objectives of this performance audit were to provide reasonable assurance to WDO that SO’s management control system for the MHSW 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 Program Plan 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.

1.3 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 the 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:

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.

- 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.
- Municipalities and Vendors - The audit included a review of the protocols/procedures used to verify information reported by municipalities or vendors and the application of these protocols/procedures. The audit did not include any onsite work at municipalities' or vendors' places of business to verify their reported data first hand.
- WDO - Other reporting conducted directly by WDO was not examined within the scope of this program audit.
- The scope of the audit did not include direct engagement with stewards, vendors, and municipalities to obtain their perspectives on SO's management controls.

The temporal scope for this audit covered the first 18 months of MHSW program operations, from July 1, 2008 to December 31, 2009. The audit focused on activities, services, outputs and outcomes related to Phase 1 of the MHSW.

This audit has adopted a “systems under development” (SUD) approach to assess what was in place during 2008-09, while considering changes that have taken place to management systems and controls since that time following repatriation of program management functions.

1.4 This Document

This audit report is presented in the following sections:

- Section 2 provides an overview of the Municipal Hazardous or Special Waste (MHSW) 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 the recommendations.

2 Program Profile

This section presents an overview of pertinent information about the MHSW 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

On December 12, 2006, the Ontario Minister of the Environment submitted a Program Request Letter (PRL) to the WDO Board of Directors requesting that WDO develop a waste diversion program for MHSW and stipulating that SO act as the Industry Funding Organization (IFO) for the program. The PRL outlined a three phase approach to implementation of the program, with each phase including a set of MHSW products. WDO directed that SO develop a program plan, and define the specific products to be included under the program, for which stewards would be required to report and pay fees. The MHSW Program Plan was developed for designated Phase 1 materials and was submitted to the Minister of the Environment in December of 2007. The designated Phase 1 materials were as follows:

- Paints and coatings, and the containers in which they are contained;
- Solvents, and the containers in which they are contained;
- Used oil filters;
- Containers that have a capacity of 30 litres or less and that were manufactured and used for the purpose of containing lubricating oil;
- Single use dry cell batteries;
- Antifreeze, and the containers in which it is contained;
- Pressurized containers; and
- Fertilizers, fungicides, herbicides, insecticides, or pesticides and the containers in which they are contained.

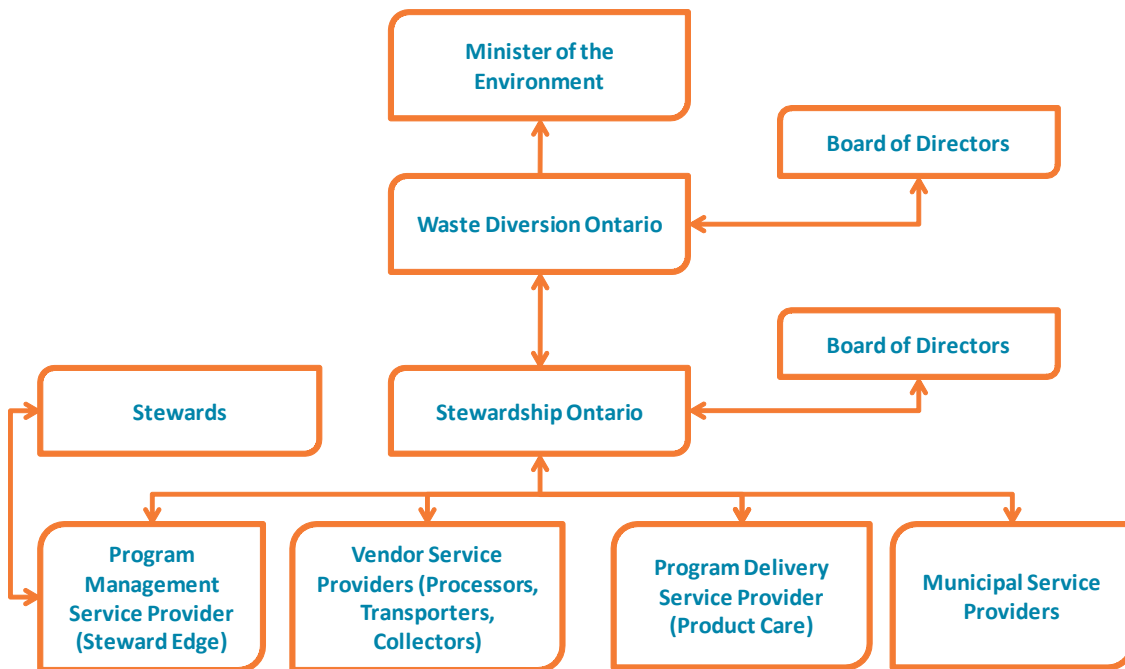
A Program Agreement between WDO and SO was signed in December 2007 and is included in the Program Plan. The agreement defines the roles and responsibilities of the two parties, sets out the operating relationships between the two parties, and ensures openness and transparency to serve the public interest. On February 19, 2008, the Minister approved the Phase 1 Program Plan. The Phase 1 MHSW Program commenced on July 1, 2008 and operated throughout 2009. The Phase 1 MHSW Program is the focus of this performance audit.

2.2 Governance and Organizational Structure

During the audit period of 2008-2009, SO was governed by a Board of Directors comprised of 15 individuals representing steward-related organizations. The organization is accountable to WDO for the MHSW program.

During 2008 and 2009, SO used relationships with a number of service providers to deliver the MHSW program, as shown in the organizational structure presented in Exhibit 1.

Exhibit 1 Organizational Structure of the MHSW Program During 2008-09



The organizational structure for the delivery of the MHSW program has evolved since the program’s inception in July 2008. Exhibit 1 presents the organizational structure in place for the first 18 months of the program. During that time, aspects of program management and delivery were outsourced to third party service providers under contract to SO. In 2009, the SO Board made a decision to repatriate key business functions within SO and the organization began to hire staff to fulfill these functions internally. As of March 2010, third party program management and program delivery service providers were no longer involved in a significant way in the MHSW Program.

Municipalities are also service providers to this program; they enter into agreement with SO with respect to MHSW material collection and, in some cases, processing and transportation services/costs. SO enters into agreements directly with other material collectors, transporters or processors as service providers as needed.

2.3 Program Plan

Diversion programs in Ontario are operated as set out in a *Program Plan*, a document that lays out the activities to be undertaken to implement a waste diversion program. The Phase 1 MHSW Program Plan was approved by both WDO and the Minister of Environment in 2007. The activities presented in the Program Plan were informed by consultation with industry stewards, affected industries, municipalities, and the general public. The Program Plan presents elements required to operationalize the plan such as diversion targets, accessibility targets, research and development activities, and promotion and education activities. The targets presented in the Program Plan are reviewed and updated annually; therefore the Program Plan is a form of “living” document. The Program Agreement (which supports implementation of the Program Plan through the signing of a contract) outlines specific roles, responsibilities, monitoring and reporting expectations between WDO and SO.

2.4 MHSW Program Overview

The goal of the MHSW program is to promote the reduction, reuse, recycling, and environmentally responsible disposal of designated Phase 1 materials managed under the program. Under this program, SO takes responsibility for these wastes by:

- Paying municipal post-collection costs (related to transportation and processing – estimated to be approximately 80%⁴ of municipal costs) of MHSW once it has been collected by municipalities through a contract (Municipal Service Agreement);
- Paying for post-collection costs (transportation and processing) for MHSW collected through retail or other collection points such as automotive service locations that have agreements with SO to become designated collection points for MHSW products; and
- Paying transporters and processors directly to transport and process materials collected from designated collection events.

Post-collection expenses to transport and process MHSW are paid by SO which recovers its costs from private sector organizations called “Stewards”, who manufacture or import MHSW products and sell MHSW products in the Ontario market. Stewards must register and report annual sales volumes of MHSW to SO. Schedule A of the MHSW Program Agreement outlines the Rules for Stewards with respect to payment of fees for MHSW for 2008/09. By the end of 2009, 495 stewards had registered with the MHSW Program. SO’s 2009 budget for the Phase 1 MHSW Program was \$25.6 million, based on steward sales.⁵

The MHSW program is a relatively new program for the province of Ontario, and the design of the program – addressing hazardous waste in a multi-material rather than single material program approach – is unique in Canada. Having the Minister of Environment stipulate that SO be the IFO for this new and unique program presented challenges for the organization since it required a very different business and management model than the Blue Box Program (which was the only stewardship program managed by SO at the time). With the launch of MHSW, SO has transitioned to become a reverse supply chain business with diverse operational aspects.

⁴ Stewardship Ontario Annual Report, 2008, p. 27.

⁵ Stewardship Ontario Annual Report, 2009, p. 21.

3 Audit Approach and Methodology

This section outlines the audit approach, methodology, and performance framework used to conduct the audit, as well as any data limitations encountered by the audit team.

3.1 Audit Approach

The audit team used a “system under development” (SUD) approach for 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 (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 conducting interviews with key personnel. The document review 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 MHSW program including third party service providers and the Ministry of Environment.

3.2.2 Analysis and Validation

The audit team’s analysis and validation work included documentation of evidence and assessment of findings in 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 MHSW Audit

Management Control Areas	Management Objectives
Governance ⁶	<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 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 targets with respect to materials diverted and accessibility. Diversion and accessibility performance objectives are achieved, and this is done through an efficient and effective process. ▪ Management monitors actual performance against planned results with respect to Research and Development (R&D) activities. ▪ Performance results are reported appropriately to correspond with the approved Program Plan, any approved subsequent revisions, and the WDA.
External Operations: Transaction Processing	<ul style="list-style-type: none"> ▪ Third party Agreements: Management has established processes to develop and manage agreements and third party contracts / Equitable procurement policies and procedures are in place. ▪ Information Keeping: Records and information are maintained appropriately. ▪ Steward registrations, rules, and reporting systems - integrity and accuracy of systems are verified. ▪ Transactions with Vendors: Standards and procedures are fair, equitable and consistently applied, and there is a protocol in place to verify this. ▪ Collector registration: Access is fair, and integrity and accuracy of system is ensured.
External Operations: Communications	<ul style="list-style-type: none"> ▪ Appropriate communication protocols exist and are followed including communications with stewards, vendors/service providers, waste generators, WDO and the media.

⁶ 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 SO management and its board to support continuous improvement.

3.4 Limitations

The following limitations were 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.
- The audit team was not granted access to all of the third party contract files in place during the audit period. Instead, a small sample (1-2) in each category was selected by SO for our review. This prevented the audit team from fully verifying the consistent application of confidentiality and ethics protocols in place for third party contracts.

In addition, it should be noted that the audit team chose not to directly examine the information management systems used by the third party service providers 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.

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.

From July 2008-December 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 SO. 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 O.Reg. 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 has established a board of directors in compliance with the WDA and supporting regulations and the Program Plan. In 2010 SO reconstituted its Board of Directors and the composition of the new board continuous 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

The established fee-setting methodology was applied for the MHSW program in Q4 2009. Application of this methodology included an internal review process by program staff, review and approval by the SO Board, as well as an opportunity for review and consultation with MOE financial staff and stakeholders (note: the fee-setting sheets for the MHSW program were not publicly posted on the SO website as the Blue Box fee-setting sheets were/are).

During the audit period, internal procedures were used to ensure that the estimated steward sales data were as accurate as possible given the data available at the time. Since the audit period, SO has been able to use real sales data to inform its estimates for each coming year. Due to the need to use estimates of material sales as part of the first program budget in 2008-09, the budget over-estimated revenues for 2009. During the budget planning and fee-setting process for 2010, SO used data based on the first 18 months of “real” program operations, which improved the accuracy of forecast revenues and expenses.

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 on an annual basis. The data manager at SO was able to accurately walk the audit team through the fee-setting methodology and demonstrated a good understanding of the methodology. No errors were identified during the audit team’s limited testing of the fee-setting spreadsheets. A comprehensive and formal “how to” manual to guide SO’s fee-setting responsibilities was not found during the audit period, however a fee calculation procedure for SO staff was found to be included in the SO Orientation Guide (2010). The MHSW Program Plan outlines the detailed steps for applying the fee-setting methodology – this is the guidance normally used by program managers.

There were no changes to the fee-setting methodology for the fees in place during the audit period.

Fee-setting and Budget Preparation Approvals

SO followed the budget setting process established in the 2007 Program Plan to set the fees for 2008-09 and for 2010. The 2010 Consolidated budget and fees were approved by the SO Board on Dec 3, 2009, and by the WDO Board on Dec 16, 2009.

Efficiency and Effectiveness of the Fee-setting and Budgeting Process

It is SO’s responsibility to apply the methodology to set the fees and develop a budget. It is WDO’s responsibility to ensure that the fee setting methodology has been followed, and to approve the fees and the budget. It is anticipated that during the first two years of a program, as all parties work through the complex fee-setting process, there will be some duplication of effort. Building from the experience gained to date, interviewees indicated there could be opportunities to streamline the process and reduce duplication

It was observed that the budgeting process estimates revenues and expenses based on the expected quantity of material that will be collected in a given year. While SO can influence the success of collection efforts by ensuring program accessibility and through its promotion and education / outreach efforts, it cannot control the volume of materials collected. If the program collects more materials than anticipated in a given year for one or more material categories, expenses will increase and the program will run a deficit for that material. Limits on the fees that can be charged and the prevention of cross-subsidization across materials means that the program is permitted to operate at a deficit for some materials and carry this deficit forward into future periods. This practice creates a financial risk to the organization and may not be sustainable over time.

In the 2007 Program Plan, there was a requirement for SO to undertake analysis on the reconciliation of fees for containers which are part of the MHSW Program and previously part of the BB Program. This step is important to ensure accurate material accounting and treatment within the program. This was not done during the audit period, but is planned for 2012.

Conclusions

- The established fee-setting methodology was applied in Q4 2009 to set the fees and program budget for 2010, demonstrating compliance with the Program Plan.
- During the first 2 years of the MHSW program, SO and WDO staff worked closely to apply the fee-setting methodology. A formal fee-setting procedure outlining the roles and responsibilities for reviewing the fee-setting methodology and its supporting calculations was not in place.
- Limits established within the fee-setting methodology and budgeting process permit the program to carry deficits in some material categories forward into future periods, creating a financial risk to the program and the organization.

Recommendations

- The budgeting process should be reviewed in light of operating experience to date to provide greater flexibility in addressing material-specific cost overruns across budget periods and to prevent recurring deficits that could jeopardize the financial health of the program.
- With experience gained to date in applying the fee-setting methodology, 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 go beyond the steps outlined in the MHSW Program Plan and 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.
- SO plans to undertake analysis on the reconciliation of fees for containers which are part of the MHSW Program and previously in the Blue Box Program (this activity is planned for 2012 within the revised MHSW Program Plan currently under development). This

step will ensure accurate material accounting and treatment within the program. It was a requirement in the 2007 Program Plan.

- SO should post the MHSW fee-setting methodology spreadsheets used on the SO website on an annual basis going forward to allow the same level of public scrutiny as the Blue Box Program for its fee-setting calculations. This will ensure the application of the fee-setting methodology is transparent and will demonstrate SO's capability with confidence.

4.3 Performance

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

The audit found that diversion performance objectives were outlined in the form of diversion targets in the Program Plan, supplemented with specific targets for R&D and accessibility. In 2009, SO primarily relied on a third party service provider for program management operations, which was responsible for tracking and reporting progress relative to these objectives. The third party provided monthly, quarterly and annual reports to SO's management team and Board.

SO developed a 2009 *Strategic Business Plan Establishing Operating Capability* to identify priority areas and associated actions and performance measures in support of the Program Plan. In 2010, SO developed a Management Operating Plan which included specific performance objectives for the MHSW 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, monitoring of 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 internal performance measures for the MHSW program. SO expects to introduce this system in 2011.

Conclusions:

- During the audit period, the primary performance objectives for the MHSW program were collection rates relative to material-specific targets. A broader range of performance objectives or specific indicators for internal SO management to use to assess the efficiency and effectiveness of the MHSW program activities was not in place. However, performance measurement for the MHSW 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 MHSW program. This will allow SO management to monitor important program elements required to assess performance internally.

Recommendation:

- SO should finalize and implement its internal balanced scorecard performance measurement system to provide a robust performance measurement framework for the MHSW program. The framework should identify objectives and articulate the desired outcomes and expected results for the program.

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

*Diversion Targets**-Monitoring the Accuracy of Incoming Data-*

SO has also implemented a number of measures to improve accuracy and timeliness of performance tracking, such as introducing a regular waste audit program at collection points, establishing deadlines for reporting costs from municipalities and processors, and introducing new auditing protocols for steward reporting.

-Monitoring Performance Once Data is Received-

During the audit period, a third party program management service provider was responsible for collecting and analyzing diversion performance data and information from multiple sources. The information systems used were not integrated (e.g. with steward and collector reporting systems and accounting systems; some materials were tracked in separate systems) and required significant manual entries and quality assurance review.

Since that time, SO has repatriated business management functions in-house, including data and information management, analysis and reporting. In addition, SO has put in place a system to more effectively monitor materials collected and processed (SAP Enterprise system), which includes features such as automatic variance checks, more frequent reporting from processors, and integration with the accounting system. 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 is the platform for SO's new performance monitoring activity. Results of quarterly performance monitoring are submitted to WDO.

-Performance Results-

In this program, performance results are assessed against targets outlined in the Program Plan, and interpreted by % of target achieved, rather than a straight tonnage collected/recycled target that increases each year. The audit found that SO achieved material-specific diversion targets for 6 out of the 9 material categories during the audit period (Year 1 of the program). Tracking performance for Year 2 of the program (ending December 2010) was challenging for SO due to the change in program targets in July 2010 as a result of the launch of a revised program. Nevertheless, the 2010 annual report to WDO demonstrates that diversion performance overall

was fairly consistent with Year 1 performance, with material-specific targets achieved for 6 of 9 categories.

Accessibility Targets

During the audit period, the third party program management service provider monitored and reported performance relative to the accessibility performance target and led activities associated with enhancing program accessibility. Since that time, SO has assumed responsibility for these activities.

With respect to accessibility performance, the audit found SO met the accessibility target for Year 1 of the program, and that steady improvements were achieved in improving accessibility from program inception to 2010. Improvements such as securing large retail outlets, automotive chains, and more efficient arrangements with municipalities contributed to improved program efficiency and effectiveness.

Performance results achieved in terms of accessibility were used to inform subsequent operating plans for this program. The audit found that SO has implemented activities outlined in the budget as presented in the Program Plan in an effort to achieve accessibility targets.

Conclusions:

- During the audit period, the management controls in place for performance monitoring were not formally documented. These management controls were implemented by third parties, and were not able to be reviewed by the audit team since the practices have changed significantly since the audit period. Since the audit period, SO has put in place more efficient and effective management controls to monitor and track performance. Automated and manual processes now exist to verify material tracking, as well as improvements to reporting in protocols, and in house monitoring through the SAP system which are expected to lead to increased reliability of reported performance information from late 2010 onward.
- SO achieved the material-specific diversion targets for six of the nine categories, which demonstrated partial compliance with the Program Plan. Given that this audit was conducted on the first year of program operations for a new program, it is anticipated that improved performance in achieving targets will occur as the program gains maturity.
- SO achieved the accessibility targets by the end of Year 1 of the program, demonstrating compliance with the Program Plan.
- There has been significant improvement noted in the efficiency and effectiveness of methods implemented by SO to achieve diversion performance objectives.

Expected Management Control: Management monitors actual performance against planned results with respect to research and development (R&D) activities.

The audit found that performance objectives for the R&D work were established within detailed R&D work plans, and that these objectives were consistent with the Program Plan. The work plans included the project management structure, expected deliverables, tasks and budgets. They were developed by the same third party service provider who was managing the majority of the operations of the MHSW program, and were reviewed and approved by SO.

The \$1.3M package of R&D work was implemented and managed by the same third party service provider. Implementation involved the development of project teams, issuing sub-contracts, and soliciting expert reviewers for the advisory groups. The R&D work was monitored on a monthly basis through verbal reports to SO. The R&D work was intended to include broad partnerships, including involvement of the private sector, provincial and federal agencies, as well as municipalities. However, when the work plans were approved, it was decided that the specialized knowledge necessary to undertake the work was only available from the private sector so the project teams only included private sector representatives.

The implementation of the R&D work was completed for eight of nine materials outlined in the Program Plan. At the implementation stage, it was decided by both the service provider and SO management that there was no value in conducting the planned R&D on batteries (the ninth material) because there were questions at the time as to whether the material would remain in the MHSW program for the long term due to the existence of another voluntary IFO who collects and manages batteries nationally.

The audit team found that progress reports from the third party service provider to SO contained few performance details. This did not allow SO to report to WDO in sufficient detail to satisfy WDO expectations. SO received a final report on the R&D work from the contractor approximately one year behind the original schedule outlined in the Program Plan. However, SO management did not find this delay to be a problem, since it became clear upon program launch that the original need for the R&D work was not well articulated in the Program Plan. For example, some of the answers to the research questions became apparent through program operations and did not warrant additional research. In 2010, SO management incorporated lessons learned from the R&D program into its decision-making and business plans. Furthermore, SO management does not intend to initiate new R&D work until specific information gaps are clearly defined.

Conclusions:

- During the audit period, SO management monitored results of the R&D work through a regular but informal verbal process. Formal progress updates from the service provider managing the R&D activity did not contain adequate detail for program oversight.
- The implementation of R&D work was complete for eight of the nine materials outlined in the Program Plan, demonstrating partial compliance with the Program Plan for this activity during the audit period.
- Due to the lateness of the completion of the R&D work and the lack of relevance of some of the research questions and related results, the R&D program was not as

effective or efficient as planned. SO management has applied lessons learned from this experience into its decision-making and business planning processes.

Recommendations

- Consistent with SO management's decision, R&D work should be initiated only when needs or information gaps can be clearly defined so that the effectiveness of the activity is maximized. If R&D work is initiated, SO management is encouraged to improve its monitoring of the R&D activity, including establishing specific milestones to improve accountability.
- When developing other product stewardship program plans, WDO should encourage the IFO to assess information gaps and identify specific research needs during the first years of program implementation and develop a targeted R&D program to address those needs, rather than specify research needs as part of the program plan, unless the MOE Program Request Letter says otherwise.

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

WDA Requirements

Sec 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. Sec 33 (2) describes what details are to be included in the annual report. The audit found that SO's 2008 and 2009 annual reports were submitted to WDO on time. These annual reports met the requirements outlined in the WDA.

WDO Requirements

SO fulfilled its quarterly, semi-annual and annual reporting obligations to WDO in 2008-09. However, WDO was not satisfied with the quality, clarity, and level of detail provided in these reports. At the same time, SO observed that reporting expectations evolved and changed a number of times since program inception, which has affected its ability to meet expectations, as well as impacting the efficiency of the reporting process.

The annual report deadline established by the WDA (April 1st of each year for the preceding calendar year) renders it challenging to provide complete and accurate data since not all data are reported by municipalities and vendors to SO within the established timelines; as a result, there is a need to restate data. The deadline also means that WDO has very little time to review the annual report before incorporating it directly within the WDO annual report.

With respect to the Annual Report, the audit team observed that there exist competing objectives: 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. SO will also develop a separate annual report suitable for public release.

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

Quarterly Reports are meant to present information on performance relative to diversion targets, as well as steward registrations, fees/revenue (target vs actual), and accessibility. During the audit period, SO routinely re-stated performance results primarily due to time lags in receiving data on material collected from collectors (e.g. municipalities), as discussed and agreed with WDO. However, the quarterly performance reports to WDO did not include sufficient information to explain the restatements (e.g. changes in the methodology or late receipt of municipal data). Clear explanations of reasons for restated data and associated implications is an important element of program transparency and assists in understanding and interpreting program results.

In 2011, SO has implemented new procedures to reduce the need to re-state performance (e.g. they have informed municipalities with which they have service agreements that they will be subject to severe penalties on their claims for cost recovery if they do not report quantities collected by the due dates). In addition, SO and WDO have agreed on specific timeframes within which they are permitted to re-state results.

Conclusions:

- During the audit period, SO met all of its regulatory reporting obligations, demonstrating compliance with the Program Plan and Program Agreement, and the WDA (including the requirement to submit an annual report by April 1 each year). It was noted that the April 1 reporting deadline established in the WDA renders it difficult to provide complete and accurate data due to delays in municipal and vendor reporting and provides WDO with little time for critical review prior to the preparation of its annual report. To meet this WDA requirement, SO submits a regulatory filing to WDO at the end of March that presents estimated diversion data, 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.
- In efforts to continually enhance the completeness and reliability of performance information reported to WDO, SO has implemented improved controls to reduce the need to re-state performance results; new reporting penalties for municipal timelines will contribute to improved efficiencies in SO's ability to measure diversion performance in a more timely fashion for the MHSW program.

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.
- WDO and SO should formally request that the April 1 annual reporting deadline prescribed in the WDA be amended to allow additional time for year-end data compilation and for WDO to be able to critically review and incorporate key elements of SO's annual report within WDO's annual report. This would enhance program efficiency by reducing the need to restate data and allow WDO to enhance the content and accuracy of its annual report.
- SO management should continue to seek ways to enhance the timeliness of service provider reporting on quantities collected to improve quarterly performance tracking and inform management decision-making.

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-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 all 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.

Since the audit team did not review all of the third party contracts signed during the audit period, we were unable to confirm whether contracts were routinely signed in a timely fashion. Of the small sample reviewed for the audit period (<10) there was one instance observed where a service provider was providing services for ten months in advance of a signed contract (which posed a risk to the service provider, as well as to SO).

Oversight of Third Party Service Providers

During the audit period, SO was in the process of ramping up the program and getting service agreements signed and in place to fully implement the program. In the sample of contracts reviewed by the audit team, they all included roles and responsibilities for monitoring by SO and reporting to SO by the service provider.

Since that time, SO has had the benefit of experience of over two years of program operations. Through this experience, they have identified opportunities to improve efficiencies. For example, new contracts for processors signed in 2010 specify quarterly reporting rather than annual (as was the case in 2009), and transporter contracts include incentives for full truck pick-ups only which was not in effect in 2009.

During the audit period, SO had little influence over the procurement practices applied by municipalities, but in 2010 they worked towards standardization of processing and transporter contracts used by municipalities. In the second year of the program (2010), SO established a number of direct contracts for transport and processing services through the use of an RFP

process. A review of a small sample of new processor contracts found that the contracts contained equitable procurement practices such as: a requirement that the vendor either not out-source any part of their services, or follow a competitive selection process to acquire related material management services.

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.
- Contracts reviewed had standard provisions in place that support important management controls such as treatment of confidential information; dispute resolution; invoicing; delegation of services; and mandatory insurance . The provisions identified in the sample of contracts reviewed indicated compliance with the Program Plan and Program Agreement, and contributed to the safeguarding of assets held by SO, and its ability to achieve program objectives. However, the overall sample reviewed was insufficient to draw overall conclusions on this topic.
- Management has increased the efficiency and effectiveness of the program through the identification of opportunities to secure greater efficiencies within the contracting process (e.g. through implementation of new municipal reporting requirements in service agreements, and new waste audit requirements for processors).

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.
- SO management should ensure contracts are signed with all contractors prior to a contractor beginning any formal work. This will allow SO to ensure a common understanding of the work to be completed and associated terms and conditions.

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

Management of Confidential Information

The audit found that 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 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 breaches of the confidentiality clauses presented in 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 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.

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 and identify new stewards for MHSW were undertaken by third party service providers on behalf of SO. The registration processes were considered adequate. While the service provider undertook some activities intended to identify new stewards, these activities were not assessed to be strategic or particularly effective (i.e. 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. The total number of MHSW stewards reporting in 2009 was 448. In 2010 it increased to 496.

With respect to steward reporting to SO, in 2008-09 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 includes built-in efficiencies for steward reporting (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 for 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.

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 2008-09, a manual protocol for reviewing data submissions was in place as a variance check by some of the third party service providers, but not all. Therefore, the variance checks were not consistently done for all materials. For the service provider that did conduct variance checks, 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 a centralized, 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, the Program Plan (Section 2.8, pg 32) outlines the audit requirement for Year 1 of the program as 20% of steward reports for each material category. During the 2008-09, the audit team was not able to identify formal documented

procedures in place for auditing steward reported data. It was found that one of SO's service providers used a "compliance review" to verify some of the steward reporting; however, the compliance reports stated that they should not be considered as audits since they did not go onsite but rather relied on steward reported data. However, other audits were performed by professionals for a total of 43 audits completed for 2009. It is unclear whether these audits represented 20% of reporting for each material category since the audit team were not provided with the breakdown of the number of audits undertaken in each material category, as required by the Program Plan.

In 2010, a total of 11 audits were conducted on stewards in two material categories - oil filters and oil containers. In 2010, SO hired professional auditors to develop new standardized audit procedures. They have also engaged a service provider to implement a formal audit program of steward data in 2011.

Steward Rules, Fees and Payment Schedule

The audit found that SO published and distributed the Rules and payment schedule for stewards for 2008-09 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.

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 not consistently completed by all service providers involved in program management 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. The system can also perform these checks retroactively to 2008 if needed.
- The audit team could not confirm compliance with the auditing requirements for steward reported data in the Program Plan during the audit period or in 2010 because information was not available with respect to the material categories in which audits were completed. Improvements to the audit program were made in 2010 for implementation in 2011.
- 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.

Recommendations:

- SO should implement the new steward reporting audit procedures for the MHSW 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 undertake detailed analysis to estimate the scale of the potential free rider issue in the MHSW program. This information would inform program planning and contribute to improved efficiency and effectiveness of the program.

Expected Management Control: Transactions with vendors – standards and procedures are fair, equitable and consistently applied, and there is a protocol in place to verify this

During the audit period, all contact with vendors was undertaken by the MHSW program service provider to SO. The audit found that vendor standards consistent with program objectives existed during the audit period, and that they were reviewed and updated in 2010. The standards were originally developed in consultation with stakeholders, and through the use of a service provider committee they addressed vendor issues as they arose during the audit period. Sample contracts reviewed from 2009 indicate that these standards were applied. SO uses standard vendor contracting language to ensure standards are applied consistently with all vendors. SO is aware of the need to ensure fair competition in the marketplace and no noted instances were identified where SO did not comply with vendor fairness objectives.

In 2010, SO hired a Vice President and an Operations Manager dedicated to the MHSW program to oversee all contracts initiated with vendors, and to ensure consistent application of the vendor rules. The MHSW program uses a Request for Proposal (RFP) process when engaging with vendors if appropriate (e.g. when issuing a competitive contract for transportation service), however the policy about when and how to use a competitive process was not documented.

Evidence indicated that SO worked to improve the efficiencies of transporter and processor contracts in 2010 (e.g. ensuring they operate on an incentive basis). The automotive and battery programs also operate on an incentive basis, which provides for more equitable treatment among service providers.

Conclusions:

- There were vendor standards in place during the audit period, demonstrating compliance with the Program Plan and Program Agreement.
- There was evidence to indicate that procedures used to engage vendors were fair and that these were applied consistently during the audit period.
- SO repatriated key management functions with respect to engaging with service providers in 2010, and has demonstrated continual improvement in the vendor management process and enhanced program efficiency.

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: Collector Registration – Access is fair, and integrity and accuracy of the system is ensured

Important elements of the collector registration system were developed and implemented during the audit period. These included:

- The *Standards for Collection Site Operators*, which define the minimum operating requirements to qualify as a SO collection site for municipal hazardous or special waste.
- Collection sites must agree to and comply with *SO's Terms and Conditions*.
- *Handbook for Registered Commercial Collection Site Operators* (organizing and operating a collection site, including signage, pickup and delivery arrangements, health and safety).
- Electronic reporting portal for all collectors (*SAP*).

At the time of program launch in July 2008, the program did not have many collection sites registered or many municipal service agreements in place. However, throughout the first year of operations the number of collectors registered improved significantly. Throughout 2010, SO was successful in securing large retail chains as collectors.

The collector access system appears fair; it involves registration and adherence to the *Standards*, *SO's Terms and Conditions*, the *Orientation Guide*, and the reporting protocols. An RFP process is not used for collector registration because the service is performed on a cost-recovery or volunteer basis (e.g. new collector volunteers to use their existing retail location as a designated collection point). In both instances, legal agreements are signed with similar codes of conduct, and other requirements as appropriate.

Conclusions:

- Key elements of the collector registration system were in place during the audit period, and access to this system (which involves adherences to the *standards*, *SO Terms*, and the *Orientation Guide*) appeared fair, and consistent with the Program Plan requirements. The increase in collector registrations throughout 2010 contributes to SO's increasing ability to achieve the program objectives.

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, with 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. 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 and can affect program efficiency (i.e. if MOE contacts them directly they don't know if WDO is aware of the information request made by MOE and subsequently have to provide letters, etc. to engage WDO on the topic at hand). This finding applies to both the audit period and 2010-2011.

With respect to maintaining confidentiality protocols, the audit reviewed numerous formal and informal communications between SO and WDO, and found that adherence to confidentiality of information (e.g. of steward data) was consistent and information was only reported to WDO at an aggregated level. 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 development of the Phase 1 MHSW program (in 2007) as well as during the development of the consolidated Phase 2 program (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.

Strategic Communications Plan

While the audit found that there was no formal and documented Strategic Promotion and Education (P&E) / Communications Plan developed during the audit period there was evidence that SO launched a Promotion and Education (P&E) / Communications Plan during the second year of the MHSW program (2010), including advertisements, posters and web based material.

SO did not perform an evaluation of the Communications Plan after Year 1 (as outlined in the Program Plan) because they received the Program Request Letter from the MOE to develop Consolidated MHSW program, which required development of a new Communications Plan for the consolidated program.

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 its 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.
- The lack of a formalized Strategic Promotion and Education / Communications Plan during Year 1 of the program and the absence of an evaluation of P&E activities undertaken during Year 1 is not compliant with the Program Plan. Evaluation of the Year 1 plan would have likely contributed valuable insight into the new communications plan being developed for year 2.

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 enhance program efficiency. SO may also wish to designate a single point of contact for MHSW program related inquiries from MOE and WDO to provide a one-window approach.
- SO should conduct an evaluation on P&E activities undertaken to date to assess effectiveness and identify opportunities for improvement.

5 Audit Conclusions and Recommendations

5.1 Audit Conclusions

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

- MHSW program operations are generally performed efficiently and effectively with respect to fulfilling the roles and responsibilities and completing the activities outlined in the Program Plan and Program Agreement. The organization operates with a strong commitment to continual improvement, and a number of operational enhancements were implemented from 2008 to the present which contribute to improved efficiency or effectiveness. These are documented in the results section of this report. This audit has identified several areas where further efficiencies could be gained (identified in the recommendations of this report).
- SO has developed and implemented adequate management controls to ensure the financial and operational information it reports regarding the MHSW Program is reliable and possesses integrity. The quality of these controls has improved significantly since SO repatriated these functions from a third party service provider in 2010.
- Established program objectives with respect to accessibility have been achieved. Program objectives with respect to material diversion for six of the nine materials covered in Phase 1 of the program were achieved, demonstrating partial achievement with the program plan's targets. SO continues to develop and implement business plans designed to improve collection and diversion rates.
- Confidential information has been safeguarded, with enhanced controls introduced when SO introduced its SAP data management system. There was no evidence of any breaches of the confidentiality clauses presented in the Program Agreement.
- SO's actions and decisions regarding the MHSW program have been in compliance with the applicable laws and regulations affecting the program. Two instances of non-compliance with the original Program Plan were noted: i) the audit program to review the accuracy and reliability of steward reporting did not meet the requirement to audit 20% of each material category in Year 1 of the program; and ii) a formalized Promotions and Education Strategy document was not produced in Year 1 of the program. SO has taken steps to formalize and improve its steward reporting audit program and its promotions and education activity since 2008/09.

Both the MHSW program and SO have undergone substantial and ongoing change since program inception. During this time, SO has recruited a high quality management team and staff, reconstituted its Board of Directors, and successfully implemented Phase 1 of the MHSW Program while developing and then launching Phase 2 in the form of the Consolidated MHSW program. While the program and associated management controls are still in their infancy, the Management Team has demonstrated a high level of competence and, in many areas, has implemented leading practices and 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, Low) to reflect the level of impact we anticipate successful implementation of the recommendation could have on the efficiency and effectiveness of the MHSW program. They have been replicated from the recommendations presented in the Findings section of this report, and are also presented in the Executive Summary.

Planning and Budgeting:

HIGH PRIORITY

R1) The budgeting process should be reviewed in light of operating experience to date to provide greater flexibility in addressing material-specific cost overruns across budget periods and to prevent recurring deficits that could jeopardize the financial health of the program.

R2) With experience gained to date in applying the fee-setting methodology, 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

R3) 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 go beyond the steps outlined in the MHSW Program Plan and 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.

LOW PRIORITY

R4) SO plans to undertake analysis on the reconciliation of fees for containers which are part of the MHSW Program and previously in the Blue Box Program (this activity is planned for 2012 within the revised MHSW Program Plan currently under development). This step will ensure accurate material accounting and treatment within the program. It was a requirement in the 2007 Program Plan.

R5) SO should post the MHSW fee-setting methodology spreadsheets used on the SO website on an annual basis going forward to allow the same level of public scrutiny as the Blue Box Program for its fee-setting calculations. This will ensure the application of the fee-setting methodology is transparent and will demonstrate SO's capability with confidence.

Performance:**HIGH PRIORITY**

R6) SO should finalize and implement its internal balanced scorecard performance measurement system to provide a robust performance measurement framework for the MHSW program. The framework should identify objectives and articulate the desired outcomes and expected results for the program.

R7) SO management should continue to seek ways to enhance the timeliness of service provider reporting on quantities collected to improve quarterly performance tracking and inform management decision-making.

R8) 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.

MEDIUM PRIORITY

R9) WDO and SO should formally request that the April 1 annual reporting deadline prescribed in the WDA be amended to allow additional time for year-end data compilation and for WDO to be able to critically review and incorporate key elements of SO's annual report within WDO's annual report. This would enhance program efficiency by reducing the need to restate data and allow WDO to enhance the content and accuracy of its annual report.

R10) Consistent with SO management's decision, R&D work should be initiated only when needs or information gaps can be clearly defined so that the effectiveness of the activity is maximized. If R&D work is initiated, SO management is encouraged to improve its monitoring of the R&D activity, including establishing specific milestones to improve accountability.

LOW PRIORITY

R11) When developing other product stewardship program plans, WDO should encourage the IFO to assess information gaps and identify specific research needs during the first years of program implementation and develop a targeted R&D program to address those needs, rather than specify research needs as part of the program plan, unless the MOE Program Request Letter says otherwise.

External Operations – Transaction Processing**MEDIUM PRIORITY**

R12) 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.

R13) SO should implement the new steward reporting audit procedures for the MHSW 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.

R14) SO management should ensure contracts are signed with all contractors prior to a contractor beginning any formal work. This will allow SO to ensure a common understanding of the work to be completed and associated terms and conditions.

LOW PRIORITY

R15) SO should undertake detailed analysis to estimate the scale of the potential free rider issue in the MHSW program. This information would inform program planning and contribute to improved efficiency and effectiveness of the program.

External Operations – Communications

HIGH PRIORITY

R16) 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 enhance program efficiency. SO may also wish to designate a single point of contact for MHSW program related inquiries from MOE and WDO to provide a one-window approach.

MEDIUM PRIORITY

R17) SO should conduct an evaluation on P&E activities undertaken to date to assess effectiveness and identify opportunities for improvement.