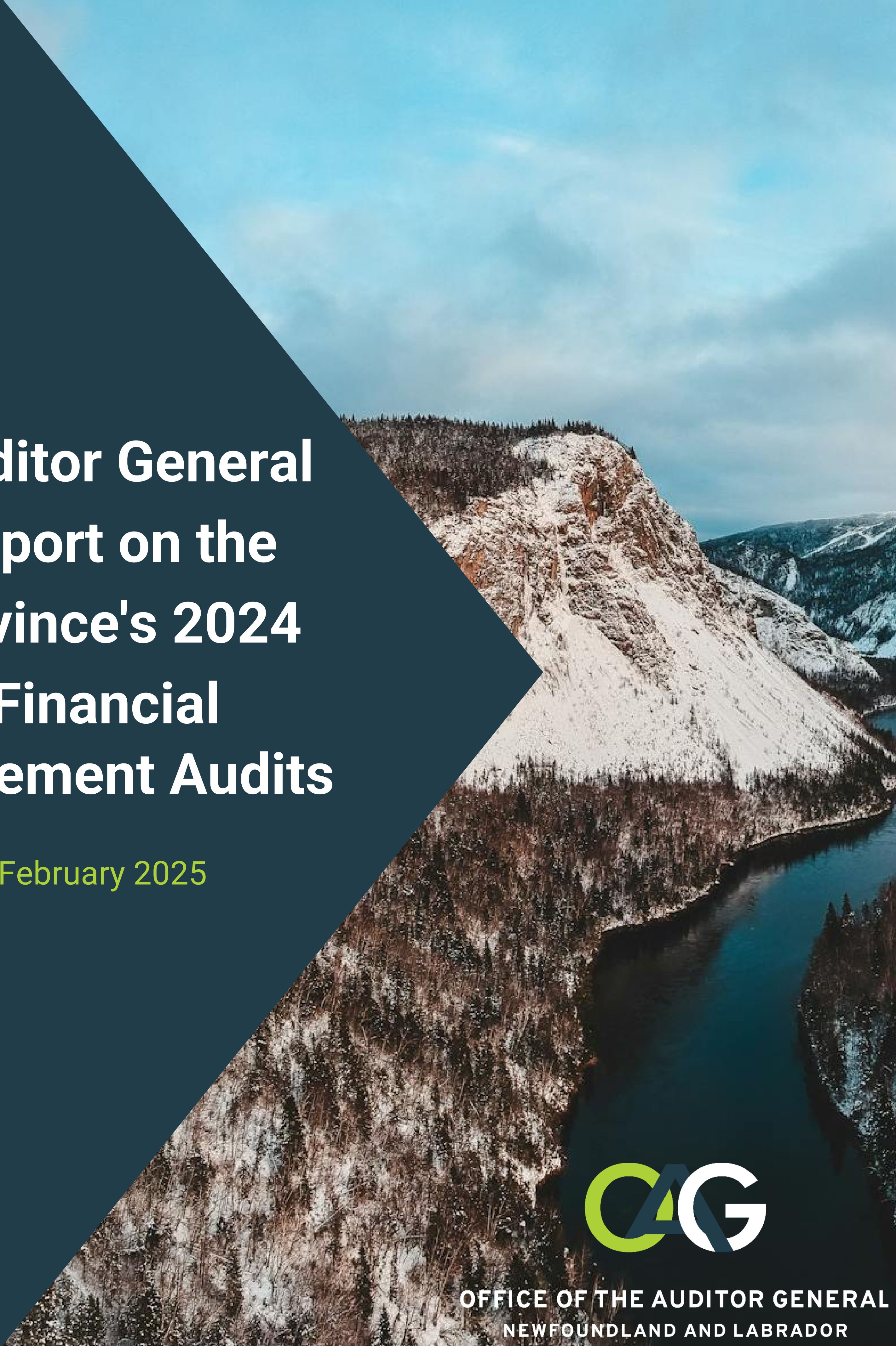
Auditor General Report on the Province's 2024 Financial Statement Audits

February 2025



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Report Overview

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Why We Report on the Province's Financial Statements

We prepared this report on the province's financial statements, for the year ended March 31, 2024, in accordance with the Auditor General Act, 2021. This report also expands on audit opinions and observations on provincial financial statements audited over the past year.

Audit Results

In 2024, the Auditor General provided a clean audit opinion on the Public Accounts. The Consolidated Summary Financial Statements have received an unqualified audit opinion for the past 30 consecutive years.

Four entities missed their statutory reporting deadlines - Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador; Newfoundland and Labrador Government Sinking Fund; C.A. Pippy Park Commission and C.A. Pippy Park Golf Course.

With recent changes to the audit portfolio, as of 2025, the Office of the Auditor General will perform financial statement audits for approximately 85 per cent of the annual revenues and expenditures of the province's public service.

Although there was no impact on the financial state of the province in the 2023-24 fiscal year because of rate mitigation, it is critical for the public to understand that future impacts are currently unknown and may be significant. Continued monitoring and assessing of the rate mitigation plan will be crucial to ensure it is effective and sustainable over the long term.

Opportunities for Improvement

There were 95 management letter points outstanding across the government reporting entity in 2024, up from 91 in 2023. Twenty-eight of these management letter points remain unresolved from prior years. It is concerning that 30 per cent of identified issues have been reported to an entity's board of directors or those charged with governance more than once. We strongly recommend that boards and those charged with governance should direct management to have issues, especially those issues identified over consecutive years, addressed and resolved.

Some Topics That Were Not Remedied from 2023:

- **Public Accounts Quality of Information:** We once again recommend the Comptroller General work with others to improve the quality of Public Accounts' submissions, including additional work beyond consolidation processes.
- **Tangible Capital Assets**: We again recommend the Comptroller General work with departments to ensure they are accurately reporting work-in-progress assets, while also performing significant analysis to ensure such errors do not continue undetected or uncorrected.
- **Office of the High Sheriff**: We again recommend government ensure appropriate resources are available so the year ending March 31, 2025, can be audited appropriately.
- **Accounts Receivable**: We again recommend government review the accounts receivable and the allowance for doubtful accounts to identify outstanding balances that should then be considered for write off.
- **Bank Reconciliations**: We again recommend government ensure bank reconciliations are approved on a timely basis, as they represent a critical element in the system of internal control.
- **Offshore Royalties**: We again recommend government should conclude its work to determine the impact the carry back of expected decommissioning costs will have on offshore royalties.
- **Newfoundland and Labrador Health Services**: We again recommend Newfoundland and Labrador Health Services create and maintain a list of all tangible capital assets; ensure all periodic user access reviews are completed; and review any IT findings and recommendations in a timely manner.
- **Newfoundland and Labrador Legal Aid Commission**: We again recommend the Commission develop an appropriate password policy and update its list of tangible capital assets.
- **Newfoundland and Labrador Housing Corporation**: We again recommend the Corporation ensure the current password configurations are consistent with policy and it complete timely periodic user access reviews per policy.

Report Overview

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Some Topics Identified in the 2024 of Public Accounts:

- **Accounts Payable Reconciliation Process:** We recommend the Comptroller General ensure accounts payable reconciliations are completed per their own guidelines.
- **Income Support Overpayments:** We recommend the Department of Children, Seniors and Social Development implement preventative measures to ensure payments are only made to individuals who are eligible to receive them. We also recommend the department determine if the methodology for determining the allowance for doubtful accounts is still appropriate and to review its overpayments to determine whether they should be considered for write off.
- **Review of General Information Technology Controls**: We recommend government ensure all general information technology control recommendations provided are addressed.
- **Constituency Allowance Review:** We recommend government perform a review of the 2007 constituency allowance receivable and determine whether it should be considered for write off.
- **Early Learning Childhood Care Agreement**: We recommend the Department of Education ensure all reporting requirements under federal agreements are completed by the required timelines.
- **Financial Management Circulars**: We recommend the Comptroller General prioritize the timely update of financial management circulars.

Some Topics Identified in the 2024 Audits of Government Entities:

- **Newfoundland and Labrador Health Services:** We recommend Newfoundland and Labrador Health Services ensure:
  - surprise cash counts are completed regularly;
  - all timesheets are approved in a timely manner;
  - re-evaluate its calculation of allowance for doubtful accounts;
  - its internal processes for recording invoices without purchase orders are reviewed; and
  - any IT findings and recommendations are reviewed in a timely manner.
- **Provincial Advisory Council on the Status of Women Newfoundland and Labrador:** We recommend the Council ensure adequate documentation is maintained to support Council purchases and consider participating in government's corporate credit card program.
- **Newfoundland and Labrador Housing Corporation:** We recommend the Corporation assess the security risk associated with end-of-life IT systems and ensure the Board of Directors' standing committees are holding meetings in accordance with their applicable terms of reference.
- **Newfoundland and Labrador Immigrant Investor Fund:** We recommend the Board of Directors ensure any winding down of the Corporation's remaining funds are approved as required in the Corporation's by-laws, as per direction of Cabinet and as required by the Financial Administration Act.
- **Heritage Foundation of Newfoundland and Labrador:** We recommend the Foundation:
  - implement controls to ensure new hires, salary changes, or step increments outside the normal government policy receive the proper written approval;
  - review their tangible capital asset listing to ensure that it is up to date and accurate;
  - should dispose of any assets identified as no longer in service;
  - ensure that leave balances are correctly carried forward; and
  - that all programs are included in the budget process, with amended budgets approved by the Board as needed.
- **Chicken Farmers of Newfoundland and Labrador:** We recommend the Chicken Farmers of Newfoundland and Labrador ensure Board members recuse themselves from discussions and voting where there is a perceived or real conflict of interest.
- **Oil and Gas Corporation of Newfoundland and Labrador:** We recommend the Corporation ensure appropriate management of leave balances and regularly update its list of tangible capital assets.
- **Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador (French School Board)**: We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador:
  - ensure accurate financial information be presented for audit;
  - maintain a cheque log to ensure all cheques are properly approved;
  - conclude its work on lease renewals and collect all outstanding rents;
  - adopt a formal policy for managing school-generated funds;
  - improve controls around the termination of employees and recover the outstanding amount from the former employee;

- limit access to employee files to appropriate personnel;
- ensure its budget is approved earlier in the fiscal year;
- implement a fraud management policy; and
- review any IT findings and recommendations in a timely manner.

- **Newfoundland and Labrador Housing Corporation:** We recommend the Corporation:
    - ensure they obtain documentation outlining rental terms and conditions for each tenant and ensure there are no changes to the agreed upon terms;
    - ensure housing officers follow-up and retain current signed rental agreements; and
    - develop a consistent review process for information management across all regions.
- **Office of the High Sheriff:** We recommend the Department of Justice and Public Safety should seek to amend the Sheriff's Act, 1991 to include a legislated deadline for completion of audited financial statements for the Office of the High Sheriff. We recommend the Office of the High Sheriff:
    - review the list of outstanding cheques and address stale-dated items;
    - review all undistributed trust accounts payable; and
    - maintain documentation to support the proper approval of journal entries and reconciliations.
- **Marble Mountain Development Corporation:** The auditors recommend that the Corporation:
    - ensure all staff follow the Corporation's policies and standard procedures;
    - ensure that contracts are signed and enforced; and
    - improve inventory controls.
- **Dairy Farmers of Newfoundland and Labrador:** The auditors recommend that the Corporation review its policies to determine if there are possibilities for segregation of duties.
- **Newfoundland and Labrador Sports Centre:** The auditors recommend that the Corporation:
    - ensure HST is calculated at the correct amount and is filed before the annual filing deadline; and
    - pursue timely collection of outstanding accounts.

Observations

Financial Health of the Province

- There is no single indicator which provides a complete picture of financial health.
- Net debt is a key indicator of sustainability. As part of Budget 2024, government announced borrowing requirements for the 2024-25 fiscal year would be another $2.8 billion, for a net debt level of almost $18 billion. It appears government is again planning to spend beyond its current means, relying on borrowing to fund provincial services.
- If the net debt grows faster than the population or the economy, it could signal future challenges in repaying debt.
- The province should consider the various indicators of financial health and potential risks when planning its current and capital spending. The province should also plan to become less exposed to the increased cost of borrowing through conscious strategies to reduce its debt .

Timing of the Consolidated Summary Financial Statements

- With a growing debt load and the province entering the European bond market, timely financial information is essential. Although the legislative deadline has been met each year, there is a need to improve on the timeliness of the Public Accounts release.
- In 2025, an election must be held by October 14, 2025. This date would require the Public Accounts to be tabled by September 29, 2025. Given past audit report dates, this may be a challenge to achieve.
- The province should strongly consider amendments to the Financial Administration Act and business process changes to reflect modern accounting and controllership practices.

Newfoundland and Labrador Health Services Bonuses

- Between April 2023 and October 2024, government paid approximately $34.8 million in physician bonuses to 705 individuals; the average payout was $49,362.
- Between April 2023 and October 2024, government paid approximately $11.5 million in nursing signing bonuses to 668 individuals; the average payout was $17,216.

- Overall, it appears the physician incentive programs and the nurse incentive programs may be having some degree of impact, in this early assessment. We note that while the nursing workforce has increased, so has the vacancy rate over the past five years.
- At this early stage, it would appear monitoring is not being performed effectively. To date, the only report that has been submitted to Treasury Board, as per their request for evaluation, has been information related to the long term care recruitment and retention bonuses.
- Given the sizable budget being spent and the difficulties surrounding recruiting across the healthcare industry, government should make it a priority to monitor the effectiveness of the incentives discussed in this report.

Management of Salary Overpayments

- Total salary overpayments, worth almost $2 million, were made up of 1,064 cases, ranging from a few cents to almost $40,000 individually.
- Since 2019, the balance of outstanding civil service salary overpayments has more than tripled, increasing by over 219 per cent yet the number of people on the civil service payroll increased by approximately two per cent for the same period. Since 2019, the balance of teachers' salary overpayments has more than tripled, increasing by $317,710 (262 per cent).
- There were 232 civil payroll and 28 teachers payroll overpayments outstanding for more than five years. Inactive employees account for 595 civil service overpayments and former teachers account for 167 teacher overpayments outstanding.
- We found 404 civil service and 186 teachers' overpayments have not had any recovery recorded as being attempted.
- Government should review their processes for civil service and teachers' payroll to address the root causes of overpayments. Preventing and detecting salary overpayments must be timely, particularly for inactive or former employees, with reporting and monitoring used to improve accountability.

Modernization of the Financial Administration Act

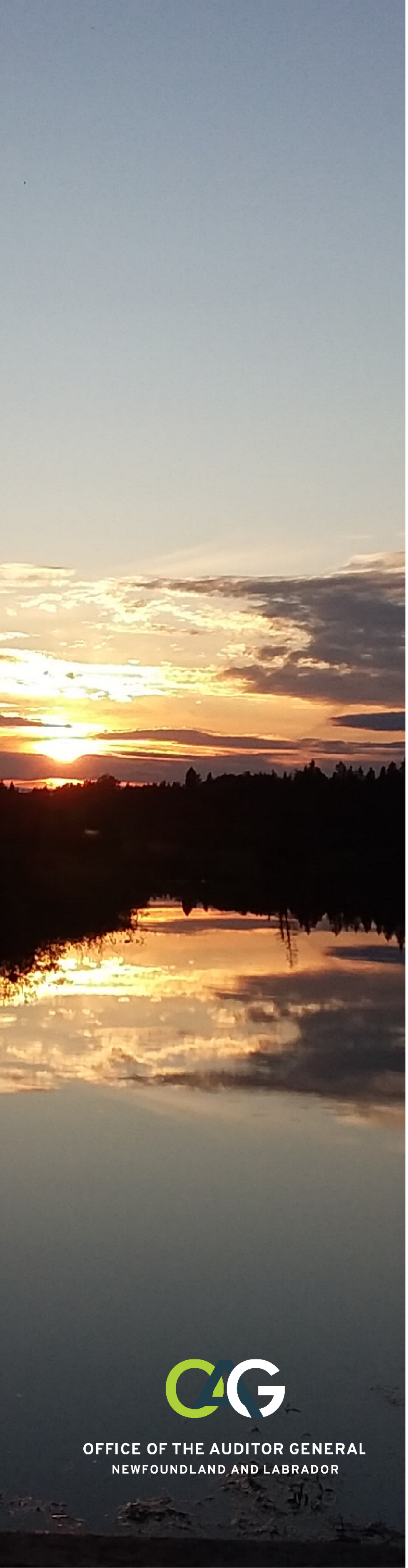
- The Act was enacted in 1973 – over fifty years ago - with minimal updates since that time. While many general principles remain the same, there have been changes to financial management and comptrollership practices, leaving the current Act with outdated language and practices.
- It is important for the Financial Administration Act to be modernized to reflect current practices and terminology.

Fraud Reporting

- Since the last report, 683 incidents came to light through audits or were reported to the Office.
    - Five hundred and eighty-two of these involved attempted cheque fraud using remote deposit, with the majority related to one-time cheques issued through the Cost-of-Living program; and
    - The Income Support program accounted for 125 (18 per cent) of all reported fraud cases.
- Eliminating the issuance of cheques in favour of direct deposit should be considered for any future benefit payment programs.
- A true culture of zero tolerance for fraud requires more than just messaging. It must be reflected in government's dealings with internal and external parties. This means clear, consistent action when incidents of fraud are found. Government is encouraged to promote fraud awareness – and the consequences of such behaviour - regarding ethical behaviour to employees and external parties.

After reading this report, you may want to ask the following questions of government:

1. Why are there still 28 management letter points outstanding from previous years?
2. Will government commit to pursuing the many opportunities for improvement proposed by the Auditor General?
3. What action is being taken to prevent salary overpayments in civil service and teachers payroll?
4. Is government considering modernizing the Financial Administration Act?
5. How will government ensure that future programs require direct deposit, to reduce the risk of loss from cheque fraud?



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Introduction

The Office of the Auditor General is legislated to conduct the financial statement audit of the Public Accounts of Newfoundland and Labrador as well as other financial audits involving government entities, claims and compliance requirements. The Office provides an audit opinion indicating whether the financial statements are fairly presented.

This report details the financial statement audit work conducted by the Office, namely the Public Accounts and 20 government reporting entities, as well as the work performed by component auditors, who conducted 17 Crown entity audits. The Office also conducted 19 other special-purpose financial audits. This report also provides additional information on observations from this audit work. It is the intention of the Office to promote accountability through communicating its financial statement audit activities and the transparent communication of audit results and opportunities for improvement.

Appendix I provides background information regarding this work.

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Audit Results

Financial Audit Opinions

The Office of the Auditor General (the Office) examines the Public Accounts and expresses an opinion, as per Section 17 of the Auditor General Act, 2021. The Public Accounts contain financial results for all organizations in the government reporting entity, including government departments and the Legislature, government organizations, government business enterprises, and a proportionate share of a government business partnership. Schedule 15 of the Consolidated Summary Financial Statements has additional details.

An unqualified audit opinion of the Consolidated Summary Financial Statements for the year ended March 31, 2024, was issued October 23, 2024; this is the 30th consecutive year that the province has received an unqualified audit opinion. It concluded that the statements were presented fairly, in all material respects, in accordance with Canadian public sector accounting standards. This audit opinion does not extend to the effectiveness of internal controls. However, if the Office identified issues during the audit that resulted in recommendations to improve controls or management practices, those issues were communicated to government through management letters. Appendix II contains my full audit opinion.

Government includes a financial statement discussion and analysis report with its Consolidated Summary Financial Statements, entitled 'Understanding the Financial Health of the Province of Newfoundland and Labrador.' The opinion on the statements does not cover the analysis report and the Office does not express any form of conclusion on it. However, generally accepted auditing standards require the Office to review the report and, in doing so, consider whether this information is materially inconsistent with the financial statements, the information obtained during the audit, or otherwise appears to be materially misstated. For the year ended March 31, 2024, there was no material misstatement identified in the analysis report presented with the Public Accounts.

Since the last annual report, the Office has issued 41 unqualified financial audit opinions for the Public Accounts, entities, special purpose statements and claims.

Statutory Deadlines

Four entities missed their statutory reporting deadlines, as their records were not presented for audit in a timely manner:

- The audit opinion for le Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador for the year ended June 30, 2023 was due December 31, 2023, but was issued on April 19, 2024;
- The audit opinion for the Newfoundland and Labrador Government Sinking Fund was due September 30, 2024, but was issued on November 1, 2024; and
- The audit opinions of Pippy Park Commission and Pippy Park Golf Course for the year ended March 31, 2024 were due September 30, 2024, but remain in progress.

Audit Portfolio

The Consolidated Summary Financial Statements are audited by the Office to support the opinion on the Public Accounts. Of the other 38 entities, 20 are audited by the Office, 17 are audited by component auditors, and one is unaudited. [1]

Crown Agencies

C.A Pippy Park Commission, including C.A. Pippy Park Golf Course
Celebrate NL Inc.
Chicken Farmers of Newfoundland and Labrador

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1. Newfoundland and Labrador Farm Products Corporation, which dissolved November 16, 2023, was inactive and no financial statements were prepared.

Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador
Credit Union Deposit Guarantee Corporation
Heritage Foundation of Newfoundland and Labrador
Innovation and Business Investment Corporation
Livestock Owners Compensation Board
Newfoundland and Labrador Arts Council
Newfoundland and Labrador Crop Insurance Agency
Newfoundland and Labrador Health Services
Newfoundland and Labrador Housing Corporation
Newfoundland and Labrador Immigrant Investor Fund Limited
Newfoundland and Labrador Industrial Development Corporation
Newfoundland and Labrador Legal Aid Commission
Newfoundland and Labrador Liquor Corporation
Newfoundland and Labrador Municipal Financial Corporation
Oil and Gas Corporation of Newfoundland and Labrador, including Bull Arm Fabrication
Provincial Advisory Council on the Status of Women – Newfoundland and Labrador
Provincial Information and Library Resources Board

For the year ended March 31, 2024, other auditors completed the financial statement audits for the following organizations:

Atlantic Lottery Corporation Inc.
Board of Commissioners of Public Utilities
College of the North Atlantic
Dairy Farmers of Newfoundland and Labrador
Egg Farmers of Newfoundland and Labrador
Marble Mountain Development Corporation
Memorial University of Newfoundland
Multi-Materials Stewardship Board
Municipal Assessment Agency Inc.
Nalcor Energy
Newfoundland and Labrador Education Foundation Inc.
Newfoundland and Labrador English School District [2]
Newfoundland and Labrador Film Development Corporation
Newfoundland and Labrador International Student Education Inc.
Newfoundland and Labrador Sports Centre Inc.
Newfoundland Hardwoods Limited
The Rooms Corporation of Newfoundland and Labrador

Since last year, the Office has added five financial statement audit clients to its legislative audit portfolio:

- Newfoundland and Labrador Health Services for the year ended March 31, 2024;
- Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador for the year ended June 30, 2023;
- Oil and Gas Corporation of Newfoundland and Labrador for the year ended December 31, 2023;
- Bull Arm Fabrication for the year ended December 31, 2023; and
- Newfoundland and Labrador Future Fund for the year ended March 31, 2024.

For the coming year, the Office will be adding the financial statement audits for Memorial University of Newfoundland and Labrador, along with its pension plan and its five separately incorporated entities.

With recent changes to the audit portfolio, **as of 2025, the Office of the Auditor General will perform financial statement audits for approximately 85 per cent of the annual revenues and expenditures of the provincial public service.**

2. The Newfoundland and Labrador English School District became part of the Department of Education effective January 1, 2024.

Rate Mitigation

The independent auditor's report on the Public Accounts includes an 'Emphasis of Matter' paragraph on the province's rate mitigation plan. This paragraph does not mean the audit opinion is in any way limited or qualified; it is meant to draw attention to matters disclosed in the financial statements which are fundamental to understanding the financial statements. Note 24 of the financial statements discusses rate mitigation.

Although there was no impact on the financial state of the province in the 2023-24 fiscal year because of rate mitigation, it is critical for the public to understand that future impacts are currently unknown and may be significant.

The Muskrat Falls project was fully commissioned in April 2023. In May 2024, government announced the finalization of the rate mitigation plan, which outlined NL Hydro's annual electricity rate increases associated with Muskrat Falls up to and including 2030. The plan came into effect in July 2024 and will limit the increase in electricity rates up to 2030, to help prevent financial hardship for consumers. The rate mitigation plan states:

- The retail rate increases to domestic rate class customers attributable to NL Hydro shall be capped at 2.25 per cent per year and for other customers, subject to Island Interconnected rates, in a manner that is compatible with the NL Hydro Target Rate increase;
- Direction that any additional funding required for NL Hydro to mitigate the Muskrat Falls Project costs for customers, subject to Island Interconnected System rates, be through NL Hydro's own sources, to the extent possible; and
- Direction for NL Hydro to retire the 2023 Supply Cost Variance Deferral Account (deferral account) balance of $271 million over the 2024-26 period, with any additional funding required to be through NL Hydro's own sources.

Additional rate mitigation plan details are disclosed in the Public Accounts, the financial statement discussion and analysis report as well as the notes to the Consolidated Summary Financial Statements. Any shortfalls between costs to provide electricity from the Muskrat Falls project and the revenues received from customers is captured in the deferral account. In March 2023, the province provided funding of $190.4 million to NL Hydro to pay the balance in this account.

Table 1 below outlines the forecasted sources and timing of annual rate mitigation funding from January 1, 2024, through the end of 2030, as well as the ending balance in the deferral account. These forecasts are based on estimates and assumptions as of October 2024, and actual results and payment timelines may differ.

Table 1
Forecasted Rate Mitigation Funding
Sources and Timing (in millions)
January 1, 2024 – December 31, 2030

	2024	2025	2026	2027	2028	2029	2030
Rate Mitigation To Be Funded (Outstanding from Prior Year)	271	515	421	321	267	249	277
Add: Rate Mitigation to be Funded This Year	484	570	541	502	497	489	446
Less: Funding from Government of Canada (Convertible Debt)	(150)	(150)	(150)	(150)	(150)	(105)	-
Less: Funding from Dividends from Lower Churchill Project	-	(90)	(70)	(85)	(98)	(107)	(79)
Less: Funding from NL Hydro Internally Generated Sources	(90)	(424)	(421)	(321)	(267)	(249)	(277)
Remaining Rate Mitigation to be Funded (Outstanding at End of Year)	515	421	321	267	249	277	367

Source: NL Hydro Implementation of the Rate Mitigation Plan Report submitted to the Public Utilities Board on October 22, 2024.

The funding to pay for rate mitigation will come from three sources:

- Government of Canada convertible debt - convertible debt is a type of borrowing where the loan may be repaid by converting part or all of it to equity shares. The first drawing from the $1 billion convertible debt happened in August 2023 for $144.7 million. This source of funding will end in 2029.
- Dividends from the Lower Churchill Project - any excess cash generated from operations associated with Lower Churchill entities will be applied to rate mitigation. These dividends represent the return on investment from the Lower Churchill Project that NL Hydro would have retained as profit had the rate mitigation plan not been finalized.
- Internally generated funding – this funding represents cash flows from operations and profits from all of NL Hydro’s lines of business. This funding is worth approximately $2 billion during the 2025-30 period, plus $367.3 million to cover the shortfall in the deferral account by 2030. Exactly how this will be accomplished is not known.

Due to the long-term nature of Muskrat Falls assets and related financing, a plan for rate mitigation will be required beyond 2030, which remains unknown.

NL Hydro is currently accounted for in the Public Accounts as a Government Business Enterprise, based on its self-sustaining capacity. Like Atlantic Lottery Corporation and the NL Liquor Corporation, NL Hydro’s income, expenses, assets, liabilities, and equity are not consolidated in the Public Accounts line by line but represented by a single line showing their consolidated contribution. Rate mitigation could have a significant impact on this accounting status, depending on whether the self-sustaining assumption can be met. A change in NL Hydro’s accounting status could have a negative impact on the financial position of the province, given any self-sustained debt would be reclassified as a provincial responsibility in the financial statements.

As of October 2024, NL Hydro was preparing the necessary analysis and evidence to file its next general rate application, planned for the second half of 2025. NL Hydro’s application will incorporate the Muskrat Falls Project costs and government’s rate mitigation plan into its updated cost of service study. Due to the uncertainty of how NL Hydro will fund the required rate mitigation and what happens after 2030, there are still significant risks to the future valuation of the province’s investment in NL Hydro.

Continued monitoring and assessing of the rate mitigation plan will be crucial to ensure it is effective and sustainable over the long term.

Opportunities for Improvement

During financial statement audits, we often identify opportunities for management to improve various areas of their operations, such as accounting practices, governance, internal controls or compliance with policies, legislation, and regulations. The Office issues management letters to explain these areas of opportunity, offer recommendations on improvements, and receive a response from the organization. Issues raised in management letters do not indicate financial statements are materially misstated; rather, the issues are deemed by the auditor to be important enough to report to an entity's board of directors or those charged with governance. By ensuring those responsible are aware of opportunities, the Office provides additional value beyond the audit opinion.

Table 2 below provides a summary of the government reporting entity's management letter topics provided by the Office and external auditors during the fiscal year 2023-24.

Table 2
Management Letter Issues for Government Reporting Entity

Categories	Public Accounts	Entities Audited by the Auditor General	Entities Audited by External Auditors	Total
Compliance	0	1	0	1
Internal Controls and Processes	3	28	4	35
Governance	0	6	1	7
Accounting Practices	11	16	6	33
General Information Technology Controls	1	18	0	19
Total	**15**	**69**	**11**	**95**

Some management letter issues are resolved in the year following the letter's release, while others remain an issue in subsequent management letters. **With respect to the 95 opportunities for improvement identified, 67 management letter points were new in the 2023-24 audits and 28 points remain unresolved from prior years.**

We acknowledge that some of the issues identified in management letters are complex and will take time to fully implement. However, **it is concerning that 30 per cent of identified issues have been reported to an entity's board of directors or those charged with governance more than once.**

Entities with management letter issues that remain unresolved for at least one year include:

- Various government departments;
- Newfoundland and Labrador Health Services;
- Legal Aid Commission; and,
- Newfoundland and Labrador Housing Corporation.

We strongly recommend boards of directors and those charged with governance should direct management to have all issues, including issues identified over consecutive years, addressed and resolved in a timely manner. We also recommend, as the statutory officer responsible for the province's records and the preparation of the province's financial statements, the Comptroller General ensure timely and appropriate responses to Auditor General recommendations and observations.

Prior Years' Topics - Public Accounts

Quality of Information – Outstanding for Multiple Years

To prepare the Public Accounts, the Office of the Comptroller General relies heavily on departments and entities to provide complete and accurate information. The Office of the Comptroller General provides fillable templates for required information, which are subsequently imported into the financial reporting system to create the Public Accounts. As a result, issues with the quality of information in those templates have a significant impact on the amount of work and time associated with creating and auditing the Public Accounts.

Each year, we provide examples of the quality issues we have identified during the audit, through the management letter issued to the province. While unique issues can differ from year to year, the topic of quality of information has been a repetitive point for multiple years. This year, significant issues were identified with the accuracy, completeness, and consistency of financial information provided by departments and entities. These errors caused delays and adjustments in the preparation and audit of the Public Accounts, as well as increased the audit work required to ensure something significant was not misrepresented.

Some examples of these issues include:

- The Department of Transportation and Infrastructure excluded $150 million in federal initiatives for His Majesty's Penitentiary;
- The Department of Education required seven significant revisions to its Public Accounts submission;
- Expenses of $3.4 billion for Newfoundland and Labrador Health Services were omitted; and
- Tangible capital asset coding errors led to adjustments of $7 million.

We once again recommend the Office of the Comptroller General work with departments, entities, and internal staff to improve the quality of Public Accounts' submissions and the consolidation process. By performing additional work beyond consolidation, the Office of the Comptroller General may be able to reduce the volume of corrections from errors and omissions seen in the annual audit work.

Preparation of Public Accounts – Outstanding for Multiple Years

Concerns continue to be raised with respect to some processes and systems used to prepare the Consolidated Summary Financial Statements. The system relies heavily on manual processes, which are prone to error or omission. During the audit, we observed numerous instances where submissions were incorrect and required correction by the Office of the Comptroller General.

Government's financial management system operates on a modified cash basis of accounting, in accordance with the 'write back' requirements of the Financial Administration Act. Customizations have been made to the Oracle financial management system as a result but the system does not produce full accrual financial information. Information on assets and liabilities, that would be included in a statement of financial position, and full accrual information is a reasonable expectation from government's financial management system.

Further, the write back period is an impediment to an earlier Public Accounts release date, because it requires the province's books to remain open for up to one month after the year-end (to April 30), to facilitate processing certain transactions, which relate to the previous year. Newfoundland and Labrador is the only Canadian jurisdiction to follow this cash-based logic regarding year end procedures and we remain among the latest of all provinces to finalize public accounts.

We again recommend government review the Financial Administration Act to reassess the requirement for government's financial management system to operate on the modified cash basis of accounting. Even without legislative change, the Office of the Comptroller General should continue its efforts to have departments, Crown corporations and agencies provide complete and accurate information for consolidation in a timely manner, as well as expend significant effort to detect errors and make corrections. Training to the individuals involved with the applications used would also assist in the timely and accurate preparation of the Public Accounts.

Tangible Capital Assets – Work-in-Progress – Outstanding for at Least Two Years

In prior management letters, we noted that accuracy of the work-in-progress assets are a significant area of concern. Tangible capital assets represent a significant expenditure of public money; however, year over year, the Office notes a severe lack of oversight in the financial reporting of these expenditures.

During the audit, we tested 13 work-in-progress assets to determine whether they were in service. Testing showed four assets should have been removed from work-in-progress status because construction was complete, and all were in service. The total cost of these assets was $64.4 million; also, as a result, $5.8 million of asset amortization was not recorded.

During the testing, we also identified:

- A Department of Transportation and Infrastructure road project costing $42.3 million was recorded as a work-in-progress asset. However, on investigation, it was determined the asset was not owned by the province and was subsequently removed altogether;
- The Department of Transportation and Infrastructure recorded a $1.4 million work-in-progress road project at an incorrect cost of $42.7 million, However, on further investigation, it was determined this asset should have been moved into service in the prior year and, as a result, amortization of $42,000 was not recorded; and
- A boardwalk trail asset was incorrectly recorded as having an in-service date in the 2023-24 fiscal year by the Department of Fisheries, Forestry and Agriculture. However, on further investigation, the asset was not in-service until after March 31, 2024, making it a 2024-25 addition.

We reviewed the entire listing of work-in-progress assets and discovered there were numerous roads, buildings, and equipment assets that should have been removed from the current and prior year's work-in-progress lists but were not. The total value of these assets was $85.3 million (with related unrecorded amortization of $7.9 million). Government subsequently made the corrections in the current year. In the prior year, we identified $91.8 million of work-in-progress assets that should have been moved into service (with related unrecorded amortization of $3.0 million). Most errors we found year-over-year related to the Department of Transportation and Infrastructure, which is operationally responsible for most of these types of transactions.

In the prior year's management letter, we recommended the Office of the Comptroller General require departments to review work-in-progress assets at least annually and that they provide us with an accurate list of work-in-progress assets, certified by the applicable Deputy Minister, for inclusion with the departments' Public Accounts submissions. Based on the review of the departmental Public Accounts submissions, there was no evidence of a work-in-progress assets listing certified by the applicable Deputy Minister from any department.

We again recommend the Office of the Comptroller General work with departments to ensure they are accurately reporting work-in-progress asset, while also performing significant analysis to ensure such errors do not continue undetected or uncorrected. We recommend this process require a list of work-in-progress assets to be certified by the applicable Deputy Minister at least annually, for submission to the Secretary of Treasury Board, to ensure appropriate oversight occurs.

Office of the High Sheriff – Outstanding for at Least Two Years

As noted in prior years' management letters, the Office of the High Sheriff was behind by several years in presenting financial statements for audit. The Office of the High Sheriff has made a significant effort to provide us with the outstanding financial statements for audit. Currently, audit work is underway for the fiscal year ended March 31, 2023, and records have been received related to the year ended March 31, 2024.

We again recommend government continue to ensure appropriate resources are available so that the year ended March 31, 2025, can be audited appropriately. Appropriate resources should continue to be made available to ensure the timely submission of financial statement information to prevent audit delays in the future.

Inventory – Outstanding for One Year

Inventory management is an area of risk for government, given that there are a variety of items housed in many locations across the province. The nature of some of these items makes them inherently susceptible to the risk of theft or loss, such as automotive and mechanical parts, medical supplies, salt and sand, or weapons and ammunition.

Last year, we noted that a comprehensive inventory management manual had been delivered to the Department of Transportation and Infrastructure years before but was still not used. We are not aware of any alternative inventory management policies and processes in use by the Department of Transportation and Infrastructure.

We again recommend government implement an inventory management manual, so inventory management and count procedures are clearly documented.

Accounts Receivable – Outstanding for One Year

During the audit, we noted the total balance of accounts receivable related to the Consolidated Revenue Fund was $3.3 billion as of March 31, 2024. The total balance of allowance for doubtful accounts related to these receivables was $132.2 million.

Accounts receivable and the associated allowance for doubtful accounts should be regularly reviewed to identify balances which should be written off. The analysis reviewed as part of the annual audit found a significant portion of accounts receivable have been outstanding for several years and are fully included in the allowance for doubtful accounts. Yet, during the year, $7.1 million (0.21 per cent) in accounts receivable were written off. Two of the more significant areas with this type of allowance is court fines and income support overpayments. Court fines were $56.0 million as of March 31, 2024, with $43.3 million included in the allowance as past due (77 per cent). Income support overpayments were $111.6 million as of March 31, 2024, with $65.6 million included in the allowance as past due (59 per cent).

We again recommend government review the accounts receivable and the allowance for doubtful accounts to identify outstanding balances that should then be considered for write off.

Bank Reconciliations – Outstanding for One Year

The Office of the Comptroller General is responsible for nine active and significant bank accounts related to government disbursements and revenue transfers. Their guidance requires that all accounts be reconciled promptly each month.

Last year, we reported that four instances involving three major banks with outstanding reconciliations. During this year's audit, we again identified bank reconciliations not approved on a timely basis. We identified 29 instances affecting five bank accounts where bank reconciliations were not approved within 60 days. Allowing for the 10 days after month end for the general ledger to close, there were still 19 instances – an increase of 15 instances from last year - in which it took 60 or more days for the bank reconciliation to be approved.

We again recommend government ensure bank reconciliations are approved on a timely basis, as they represent a critical element in the system of internal control.

Offshore Royalties Carry Back of Decommissioning Costs – Outstanding for Multiple Years

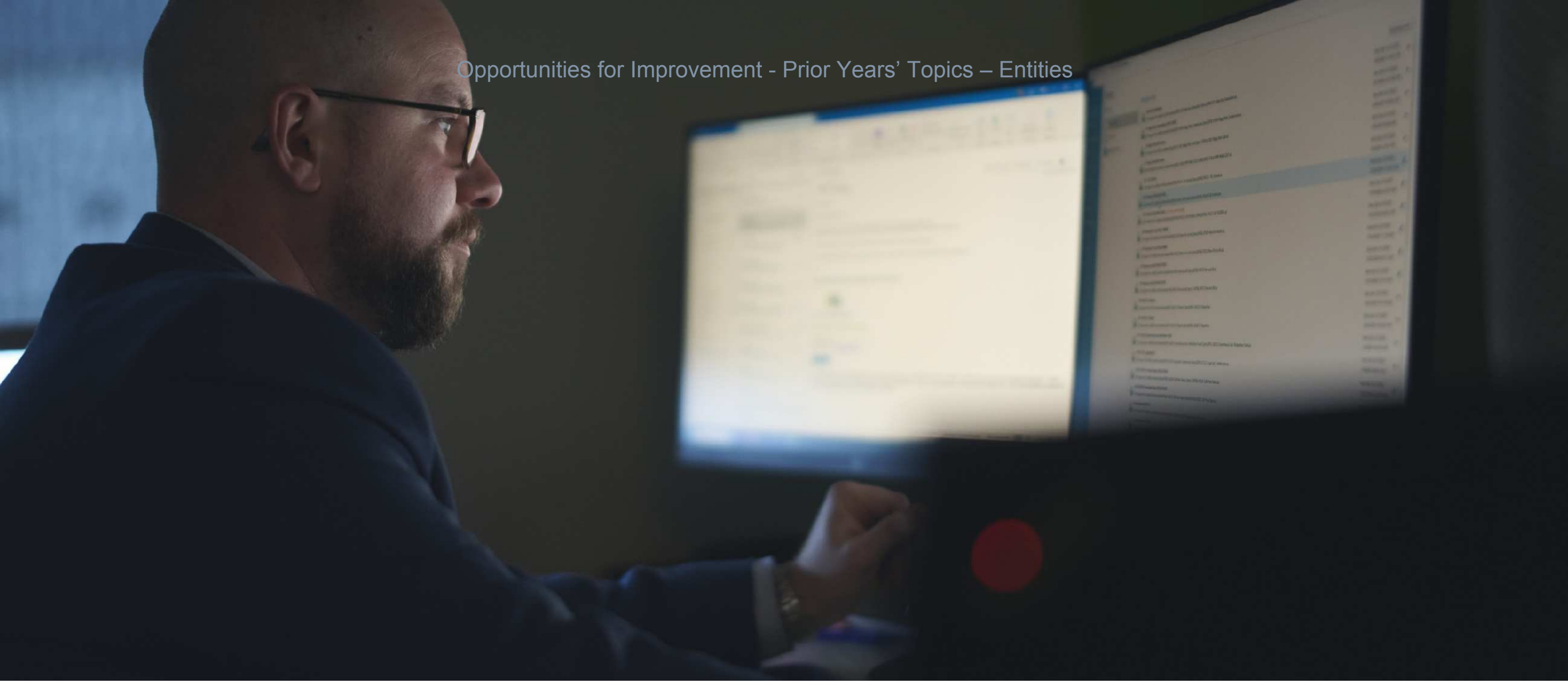
The Office of the Auditor General has repeatedly recommended government determine the impact the carryback of expected decommissioning costs would have on offshore royalties and ensure these costs are accounted for appropriately in the Public Accounts. Government indicated it would continue to work with the Department of Industry, Energy and Technology to review the current projects to determine if an estimate of the decommissioning costs can be determined; how these costs will factor into the royalty calculation; and whether there will be any carry back amounts. Further inquiries during the current audit indicated that government was still working with the department to determine what information could be obtained from operators to perform an estimation of these costs. As noted last year, the province could estimate the future liability for decommissioning costs from oil production facilities' operators given they disclose this information in their financial statements.

We again recommend government should conclude its work to determine the impact the carry back of expected decommissioning costs will have on offshore royalties. Given the latitude in the accounting standards, disclosure within the Public Accounts of a potential range of the related liability would be a reasonable action.

Completeness of the Government Reporting Entity – Outstanding for Multiple Years

In previous management letters, we recommended the province consolidate the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB). The rationale for this is based on Section 10 of the Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act. Specifically, it states that the Board consists of seven members, three to be appointed by the federal government, three to be appointed by the province and a chair who is to be jointly appointed by both the province and the federal government. In the Office of the Comptroller General's assessment of the C-NLOPB's status, it concluded that in theory, a scenario could exist whereby a board meeting with a majority of federally appointed members would control decision-making. We continue to disagree with this assessment, as the intent is clearly shared control. Furthermore, the decision by the Comptroller General to exclude the C-NLOPB results in the total assets, liabilities, revenues and expenses of the province being understated without cause.

We again recommend the C-NLOPB should be consolidated as a government partnership.



Prior Years' Topics – Entities

Newfoundland and Labrador Health Services

Fixed Asset Register – Outstanding for One Year

During the 2024 audit of Newfoundland and Labrador Health Services, it was again noted there were no fixed asset registers for the Eastern, Central, Western, and Labrador-Grenfell zones, to track tangible capital assets. While additions and disposals are calculated annually, tangible capital assets are not individually identifiable and do not include details, such as their date of acquisition, cost or identifying information. Without fixed asset registers, there is an increased risk that certain sections, such as disposals, amortization, and retirement obligations, are not recorded accurately or in a timely manner.

We again recommend Newfoundland and Labrador Health Services create and maintain a detailed, regularly updated list of all tangible capital assets, including key information such as descriptions, acquisition dates, costs, and useful life.

Periodic User Access Reviews – Outstanding for One Year

During the audit of Newfoundland and Labrador Health Services - Labrador-Grenfell Zone, it was again noted that, while periodic user access reviews are performed, documentation and approval of the completed review is not maintained. Ensuring documentation is maintained for periodic user access reviews mitigates the risk that some periodic user access reviews are missed and could lead to unauthorized access within the Meditech system.

We again recommend Newfoundland and Labrador Health Services ensure all periodic user access reviews are documented as they are completed.

General Information Technology Controls – Outstanding for One Year

During the audit of Newfoundland and Labrador Health Services additional general information technology (IT) control issues were identified. They include:

- User access was not always removed in a timely manner when employees were terminated. In addition, the last logon date for users was not available for some systems.
- The password policy identified in Eastern zone does not address password complexity, password history, or account lockouts after failed attempts.
- There was no backup and data recovery testing of systems.
- There was a lack of segregation of duties because there were individuals in financial reporting functions who maintained administrator privileges for some systems.

We again recommend that Newfoundland and Labrador Health Services review any IT findings and implement all recommendations in a timely manner.

Newfoundland and Labrador Legal Aid Commission

Password Policy – Outstanding for One Year

There continues to be an absence of a password policy to govern the creation and regular changing of passwords for Legal Aid's accounting system. Employee passwords are set by an administrator account, and new users are required to change their password on first login, but there is no requirement to change passwords at regular intervals in the future. There is also no policy that outlines the requirements for employees to create a strong password. Having a strong password policy helps reduce the risk of unauthorized access.

We again recommend the Legal Aid Commission develop an appropriate password policy.

Fixed Assets - Outstanding for One year

The Newfoundland and Labrador Legal Aid Commission has capital assets in its financial statements with a cost of $2.7 million, a large portion of which ($2.3 million) relates to office furniture and computer equipment. Some of these items on the listing are more than 20 years old. Given the passage of time it is likely that some of these assets are no longer in productive use or even in the Commission's possession. The lack of an accurate capital asset listing makes it difficult for the Commission to manage its assets.

We again recommend the Commission regularly review and update its list of tangible capital assets.

Newfoundland and Labrador Housing Corporation

Password Standards – Outstanding for One Year

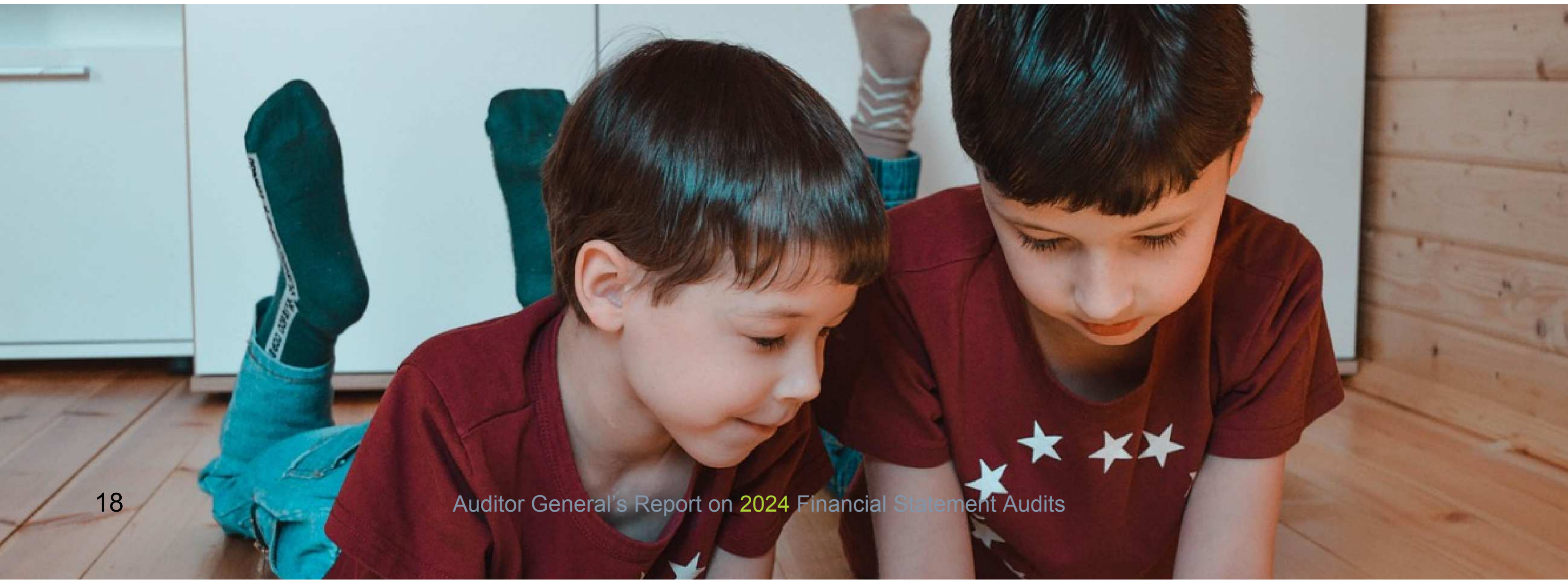
During the 2024 general information technology control procedures, it was again noted that the password settings enabled for a key system were not consistent with the Corporation's Password Standards document, which is required to be used as per the Corporation's Information Technology – Password Management Policy. Allowing passwords that are not compliant with the Corporation's policy increases the risk of unauthorized access.

We again recommend the Corporation ensure the current configuration of password settings in all of the Corporation's IT systems are consistent with its organizational password policy and standards are aligned to industry standards.

Privileged User Access and Access Review – Outstanding for One Year

During the general information technology control procedures, the office identified one user account who held inappropriate privileged level access to a database. While the Corporation completes a periodic access review of privileged access this review was not comprehensive of all the privileged accesses and missed the noted user account. The periodic review of user access for a different application was also not completed in a timely manner in accordance with the Corporation's policy.

We again recommend the Corporation complete the periodic user access reviews in a timely manner in accordance with Corporation policies.



New Topics - Public Accounts

Accounts Payable Reconciliation Process

During the audit, we tested the accounts payable reconciliation process to ensure its accuracy and completeness. According to the Office of the Comptroller General guidelines, this reconciliation process is supposed to be completed daily to ensure financial records are accurate, and that any differences are resolved quickly. However, when we sampled 30 random dates, we found on 23 per cent of those days, multiple days were reconciled at once. In one case, the reconciliation was not completed for an entire month.

Due to the infrequent nature of reconciliations, there were multiple instances where outdated information was attached as support for reconciliations, which affected the quality of support provided. The lack of timely reconciliation of the accounts payable module can lead to critical issues with the integrity of data within the financial management system.

We recommend the Office of the Comptroller General ensure accounts payable reconciliations are completed based on the timelines outlined by their own guidelines.

Income Support Overpayments

The Department of Children, Seniors and Social Development administers the Income Support Program. During this year's audit, it was found the accounts receivable for income support overpayments had increased to $111.6 million. This change marks a 64 per cent increase since 2019, making it the second largest accounts receivable balance in the Public Accounts (second only to amounts due from the Government of Canada). The allowance for doubtful accounts for these overpayments also increased to $66.2 million (59 per cent of the receivable balance).

Income support overpayments relate to funds paid to individuals who, at one time, were eligible for support, but due to circumstance changes, are no longer eligible. These overpayments are expected to be repaid, but the growing balance suggests the number of overpayments being made exceeds the amount being collected through the collections process. The allowance for doubtful accounts is based on the assumption that older accounts are less likely to be recovered (also known as aging). Methods for identifying overpayments has changed over the past several years; however, the formula for determining the allowance has remained the same. Without a formal review of the profile of the outstanding overpayments and the collection history, it is difficult to determine if the current formula is still reasonable.

Additionally, old accounts do not appear to be written off in a timely manner. The growing overpayment issue was commented on in last year's Auditor General's Report on the Province's 2023 Financial Statement Audits. These overpayments represent significant funds that could otherwise be used to support eligible individuals or other social programs. The department needs to consider ways to prevent overpayments, especially considering the inherent difficulty of collecting these amounts, and the fact that new overpayments continue to exceed collections by millions of dollars annually.

We recommend the Department of Children, Seniors and Social Development:

- **Implement preventative measures to ensure payments are only made to individuals who are eligible to receive them.**
- **Conduct an analysis of its income support overpayment balance to determine if the methodology for determining the allowance for doubtful accounts is still appropriate.**
- **Review its income support overpayments to identify amounts for which there is no reasonable expectation of collection and consider whether these should be submitted to Treasury Board for write off.**

Review of General Information Technology Controls

As part of the annual audit, and with the assistance of a professional advisory service, the Office completed a review of the general information technology (IT) controls for government's financial management, human resource management, and medical care plan systems. During the review, we identified eight control deficiencies across these systems, including one high-risk issue that affected all systems.

We communicated the details of the deficiencies to the relevant departments and provided recommendations for addressing each. Seven of the eight recommendations were fully accepted by the responsible department; one recommendation was not fully accepted, stating that a mitigating control was in place.

We recommend government ensure all general information technology control recommendations provided are addressed.

Amounts Due from Constituency Allowance Review

All amounts owing from former Members of the House of Assembly related to the constituency allowance situation in 2007 have been collected. As at March 31, 2014, $2.9 million was still owing from two individuals who were non-Members of the House of Assembly. The majority of this balance ($2.4 million) is related to one individual, who is deceased. There has been little effort to collect balances for a number of years, and consequently there has been little to no recovery on these accounts. Government has set up an allowance against the full amount of these receivables, as it is unlikely the outstanding amounts will be collected. Given the passage of time and lack of efforts to collect these amounts, their existence on the province's books as actual assets is questionable.

We recommend government perform a thorough review of the constituency allowance receivable and determine whether they should be considered for write off.

Early Learning Childhood Care Agreement

Under the Early Learning Childhood Care and Canada-Wide Early Learning Childhood Care Agreements, the province is required to submit an annual report showing the results attributable to the funding provided by Canada and audited financial statements of revenue received no later than six months after the fiscal year-end. As of March 31, 2024, the Department of Education has not submitted the required reports or financial statements for the past three fiscal years in the required time frame.

The late submissions have resulted in delayed payments of funds by the Federal Government under the agreements and has made it challenging to accurately calculate the amounts owed to, or from, the Federal Government under the Early Learning Childhood Care agreements and reported in the Public Accounts.

We recommend the Department of Education ensure all reporting requirements under federal agreements are completed by the required timelines, to avoid delays in funding and compliance with the terms of the agreements.

Financial Management Circulars

The Office of the Comptroller General is responsible to provide policy support and guidance to government departments. One example of such guidance is known as financial management circulars, which assist departments in handling financial operations. Circulars are designed to help clarify financial principles, which are legislated by the Financial Administration Act, and by policies and procedures approved by Cabinet or Treasury Board. During the audit, we found certain relevant circulars had not been updated in many years. Out of 29 circulars reviewed, 22 had not been updated since 2010 or earlier, and most updates for the remaining circulars were in 2020. Moreover, the circulars expected to be updated in 2013 to reflect new business processes, due to the update of the province's financial management system, have never been made.

Outdated policies can result in a lack of clarity on key financial procedures, increasing the risk of non-compliance; internal control weaknesses; potential inefficiencies in financial management processes; miscommunication; and impact the integrity of financial records. Failure to update policies in line with changing laws, regulations, or organizational practices may hinder the province's ability to respond effectively to new financial challenges.

We recommend the Office of the Comptroller General prioritize the periodic review and timely update of all financial management circulars.

New Topics – Entities

Newfoundland and Labrador Health Services

Lack of Cash Counts

During the audit of Newfoundland and Labrador Health Services – Eastern zone, the Office noted management had not performed any petty cash counts between the months of October 2023 and March 2024. Normally, a financial analyst would randomly select petty cash sheets generated by cash custodians and confirm them to the actual amount of petty cash on hand. Not performing cash counts creates a risk that cash could be misappropriated and overlooked in future periods.

We recommend Newfoundland and Labrador Health Services ensures surprise counts are completed regularly. Newfoundland and Labrador Health Services should also assess whether cash balances are needed to be held.

Missing Attendance Data

During the audit of Newfoundland and Labrador Health Services – Eastern zone, the Office noted payroll attendance data is not always completed or submitted to financial services in a timely manner. There were several instances where timesheets either could not be provided for periods selected for testing or were not signed by the appropriate supervisor. The Office also identified instances where timesheets for pay periods were approved after the pay period deadline, and after the audit request date. Without a timely and appropriate review and approval of timesheets, there is a risk that employees' pay will not match time worked.

We recommend Newfoundland and Labrador Health Services ensures all timesheets are approved by the appropriate personnel in a timely manner.

Outdated Allowance for Doubtful Accounts

During the testing of accounts receivable for Newfoundland and Labrador Health Services – Eastern zone, the Office noted the allowance for doubtful accounts was based on fixed percentages that were chosen over a decade ago. We could not conclude whether the estimates used are supported by current information.

We recommend Newfoundland and Labrador Health Services re-evaluate its calculation of allowance for doubtful accounts to ensure the estimates used are supported by current information.

Incorrect Direct Deposit Information

During the audit of Newfoundland and Labrador Health Services – Eastern zone, it was noted that, when updating direct deposit information, the bank transit and account numbers are entered manually by the clerk(s). This has led to two separate instances of payroll direct deposits being sent to unintended recipients. Both incidents went unnoticed for weeks before they were later rectified.

We recommend Newfoundland and Labrador Health Services implement a formal review process for direct deposit information changes requested by Newfoundland and Labrador Health Services employees.

Workers' Compensation Outstanding Balances

During the audit of Newfoundland and Labrador Health Services – Eastern zone, it was noted there are several workers compensation receivable balances that have been outstanding for many years. Given the length of time outstanding, there is a risk these balances would most likely be uncollectible by Newfoundland and Labrador Health Services. As a result, the workers' compensation receivable accounts may be overstated.

We recommend Newfoundland and Labrador Health Services establish a process to periodically review the age and collectability of workers compensation balances and ensure amounts deemed uncollectible are written off.

Authorization of Journal Entries

During the audit of Newfoundland and Labrador Health Services – Eastern zone, one journal entry was identified that was prepared and approved by the same individual. Allowing journal entries to be prepared and approved by a single individual may expose Newfoundland and Labrador Health Services to instances of fraud due to management override of controls.

We recommend Newfoundland and Labrador Health Services ensure all journal entries that are prepared for posting are thoroughly reviewed by a supervisor that is not the preparer.

Recording Accrued Liabilities

During the audit of Newfoundland and Labrador Health Services – Eastern zone, unrecorded accruals were identified through the testing of accounts payable. Additional procedures were performed and identified a likely error below the trivial threshold. As a result, no adjustments to the financial statements were requested. During the additional audit procedures, deficiencies were identified in the process of recording accruals.

We recommend Newfoundland and Labrador Health Services review its internal processes for recording invoices without purchase orders to ensure year end accruals are accurate.

Double Accrual of Contracts

During the audit of Newfoundland and Labrador Health Services – Labrador-Grenfell zone, it was noted that a contract for the installation of a new HVAC system was double-recorded, which resulted in an overstatement of tangible capital assets, accounts payable, and capital grant revenue, as well as an understatement of deferred revenue. The misstatement was corrected by management.

We recommend Newfoundland and Labrador Health Services ensure accruals are reviewed by staff after each payment to ensure the payment is being deducted from the original contract amount in the system.

Automatic Accruals

During the audit of Newfoundland and Labrador Health Services – Digital Health, two instances were noted where auto accruals were set up in Digital Health’s accounting system and were set to occur monthly. The two corresponding expenses were recorded separately from the auto accruals and resulted in a misstatement of expenses and accrued liabilities.

We recommend Newfoundland and Labrador Health Services review the automatic accrual process to ensure that the appropriate safeguards are in place to ensure future misstatements are prevented.

Meditech Systems Lack Required Capabilities

During the audit of Newfoundland and Labrador Health Services – Labrador-Grenfell zone, a detailed general ledger report from Meditech was requested for various audit procedures. Management was not able to provide this report because it led to the Meditech system crashing. As a result, the audit team had to perform additional substantive procedures, which led to significantly more time on the audit than was planned.

We recommend Newfoundland and Labrador Health Services work with their IT group throughout the 2025 year to ensure reports generated in Meditech are free from issue so they can be generated upon request.

General Information Technology Controls

During the audit of Newfoundland and Labrador Health Services additional general information technology (IT) control issues were identified. They include:

- There was a lack of a formal policy related to a specific invoice handling system
- Newfoundland and Labrador Health Services was unable to provide documentation for 17 samples to support the resolution of system incidents
- Newfoundland and Labrador Health Services was unable to provide documentation of test plans and results of tests conducted prior to the implementation of production changes for a system

We recommend Newfoundland and Labrador Health Services review any IT findings and implement all recommendations in a timely manner.

Provincial Advisory Council on the Status of Women - Newfoundland and Labrador

Credit Card Rewards Points and Audit Information Issues

The Office identified a redemption of credit card rewards points that was not recorded in the general ledger. The general ledger was corrected to record the transaction, but the Council was unable to provide some receipts for the purchases made. The Office was also unable to obtain evidence to determine whether all the prepaid credit cards, and the remaining gift cards that were purchased with the reward points, were used by the Council for business purposes.

We recommend the Council ensure adequate documentation is maintained to support Council purchases. As well, the Council should consider using normal purchasing processes for all transactions and ensure that if gift cards and prepaid credit cards are used, there are strong internal controls in place to ensure they are used for business purposes.

Corporate Charge Cards

The office noted that the Council is using a RBC credit card for administrative expenses and purchases. The government of Newfoundland and Labrador has a corporate card program which includes built in card controls and access to reporting on current spending which can enhance controls over current usage.

We recommend the Council consider participating in government's corporate card program.

Pooled Pension Fund

Lack of Acceptance of 2022 Financial Statements

Through the office's examination of meetings held by the Pension Investment Committee (PIC), no documentation was found in the minutes that the 2022 financial statements were approved by the committee.

We recommend the committee's approval of financial statements should be documented in meeting minutes.

Newfoundland and Labrador Housing Corporation

Server Patch Management

During the 2024 general information technology control procedures, it was noted that the Corporation's procedures require quarterly patches to be applied to servers. One server did not meet this quarterly requirement, being patched only once during the audit period. This server's operating system is end of life and only one security patch was provided by the producer during the year. End of life IT systems have a greater risk of security vulnerabilities being exploited, which in turn necessitates applying patches to those systems as they become available to mitigate that risk.

We recommend the Corporation document if no patches are available for a server on a quarterly basis and should assess the security risk associated with use of end-of-life IT systems within the Corporation.

Board of Directors' Standing Committees

During the 2024 audit, it was noted that the Audit, Finance, and Risk committee as well as the Governance, Strategic Planning and Programs committee did not meet as required per their terms of reference. Both committees' terms of reference include a frequency of meetings section which requires the committees to meet no less than four times per year, however the Audit, Finance, and Risk committee had two meetings, and the Governance, Strategic Planning and Programs committee had three meetings during the fiscal year ending March 31,2024. Both standing committees were created to support the Board of Directors' decision-making process and oversee their governance responsibilities, so the Board of Directors are able to achieve the mandate of the Corporation.

We recommend the Corporation ensure that the Board of Directors' standing committees are holding meetings in accordance with their applicable terms of reference.

Innovation and Business Investments Corporation

Formal Risk Assessment

During the audit it was noted that the Corporation does not have a formal documented risk assessment process in place.

We recommend the Corporation document a formal risk assessment process.

Newfoundland and Labrador Immigrant Investor Fund

Transfer of Funds

The Office identified an instance in which the Minister of Industry, Energy and Technology approved two significant transfers of funds to other Crown corporations. These transfers were initiated as part of the planned wind down of the Newfoundland and Labrador Immigrant Investor Fund Corporation.

The Minister was given authority to receive and disburse funds in the normal course of business under the Immigrant Investor Fund, in accordance with MC2005-0181 as per the Corporation's by-laws. While disposition of assets is an obligation of the Corporation in a wind down scenario, these two transfers would be considered outside the normal course of business, involved Supply as provided by the Legislature and did not fit the mandate of the Corporation in the Office's opinion.

The first payment of $3.94 million was made on March 5, 2024, to Newfoundland and Labrador Film Development Corporation; a second payment of $1 million was made on April 5, 2024, to Newfoundland Hardwoods Limited. Both requests were triggered by correspondence and documentation to the Department of Industry, Energy and Technology from the two respective government entities, who noted they had exhausted available Supply provided by the budget process and urgently needed the funds.

The Department of Industry, Energy and Technology received legal advice that the Minister had sufficient authority to approve these transfers as per the Corporation's Act, (the Minister is the sole shareholder of the Corporation). However, we note both transfer recipients are normally funded through appropriations made by the Legislature via the budget process. It would therefore be inappropriate for a crown entity to fund another crown entity because these transfers created Supply outside of the normal budgetary processes. We also note there are several mechanisms to deal with time-sensitive issues of Supply, including special warrants and transfers from contingency funds.

We recommend the Board of Directors ensure any winding down of the Corporation's remaining funds are approved as required in the Corporation's by-laws, as per direction of Cabinet and as required by the Financial Administration Act.

Heritage Foundation of Newfoundland and Labrador

Compensation Documentation

During the audit, the Office noted that documentation could not be located in support of compensation arrangements for a member of staff, including step increases. Normal salary progression on the management scale within government is in increments of three steps per year and entities are expected to follow this practice. The Foundation was unable to provide evidence that the Foundation's Board or Treasury Board had approved the alternative increases.

We recommend the Foundation implement controls to ensure new hires, salary changes, or step increments outside the normal government policy receive the proper written approval. The Foundation should also review the current matter with the Department of Tourism, Culture, Arts and Recreation, as well as Treasury Board Secretariat, to ensure positions are properly classified and future compensation arrangements are appropriately approved.

Tangible Capital Assets
During the audit, it was identified that the Foundation did not have an accurate, or up to date, tangible capital asset listing. The Foundation had costs, and associated amortization, included on the financial statements for assets that are not included on the asset listing and are likely no longer in service due to their age. All assets have been fully amortized, therefore there is no material impact on the financial statements.

We recommend the Foundation continue to review their tangible capital asset listing to ensure that it is up to date and accurate. The Foundation should also dispose of any assets identified that are no longer in service.

Accrued Leave
During the audit, errors were noted in the way accrued employee leave is carried forward to the next year. While the error was not material to the financial statements, it is resulting in incorrect leave balances for employees.

We recommend the Foundation ensure that leave balances are correctly carried forward from year to year.

Backup of Accounting Records
During the audit, it was noted that the accounting records of the Foundation are saved on a local hard drive with no back up to a server. These records are occasionally backed up to a thumb drive. This creates the risk of loss of accounting records in the event of a computer malfunction, human error or other action by those with access to these records.

We recommend the Foundation ensure that records are appropriately backed up.

Budgets
The Foundation prepares an annual budget for Board approval, in accordance with requirements of the Transparency and Accountability Act. During the audit, it was noted that there are certain programs of the Foundation which have no budget but do have annual expenditures. From an accountability standpoint, the Foundation should not be expending funds on programs which the Board did not approve in the budget process.

We recommend the Foundation should ensure that all programs are included in the budget process. If a new program is created during the year, an amended budget should be approved by the Board.

Chicken Farmers of Newfoundland and Labrador
Conflict of Interest
The Office identified an instance in which a Board member did not recuse themselves from a Board meeting as expected. The Board member’s conflict of interest form declared that they are a Board member of a specific organization, but the same Board member voted on a motion to approve a donation payment of $15,000 to that organization in December 2023. This is a perceived conflict of interest and as such, the Board member should not have voted on the approval of the donation as per conflict-of-interest guidelines. It is important for those charged with governance to be independent of Board decisions in which they have a perceived or real conflict of interest.

We recommend the Chicken Farmers of Newfoundland and Labrador ensure Board members recuse themselves from discussions and voting where there is a perceived or real conflict of interest.

Oil and Gas Corporation of Newfoundland and Labrador

Paid Leave Tracking

During the testing of payroll leave balances, it was determined leave used by several employees was not being properly tracked. As a result, the Corporation was unable to determine actual leave balances or if all employees had taken the minimum number of days required by government's Paid Leave Policy. Proper leave tracking is important to human resource management. In addition, requiring employees to use a minimum amount of leave annually serves as a fraud prevention control.

We recommend the Corporation ensure appropriate management of leave balances, including appropriate usage of the leave system to properly approve leave and monitor leave balances.

Tangible Capital Asset Schedule

The Corporation has tangible capital assets recorded in its financial statements with a cost of $10.0 million. During the review of the detailed tangible capital asset continuity schedules, it was determined that there were 109 assets that had a net book value of nil ($0). Given that these items have a net book value of nil, it is likely that some of these assets are no longer in productive use or even in the Corporation's possession. This reduces the usability of the tangible capital asset listing to accurately track all assets. These assets are fully depreciated and therefore there is no risk of material misstatement of the financial statements, however the lack of an accurate tangible capital asset listing makes it difficult for the Corporation to manage the assets for which it is responsible.

We recommend the Corporation regularly review and update its list of tangible capital assets.

Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador (French School Board)

Preparation of Year End Accounts

During the audit, the office received many adjusting entries after the initial general ledger listings and trial balance were provided. The large number of adjustments impacted audit efficiency significantly as it created a situation where work that has been completed and reviewed needs to potentially be revised. It can also affect audit work such as sampling and analysis.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador ensure accurate financial information be presented for audit.

Cheque Processing Controls

During the audit my office determine that cheques are printed by the Accounting Manager with electronic signatures on them, one of which is a board member's signature. The Assistant Director of Education – Finance and Administration reviews the cheques and initials the cheque stubs prior to them being released. However, it is possible for the Accounting Manager to print cheques and not present them to the Assistant Director for review prior to release. This could result in cheques not being properly reviewed before being released or fraudulent payments not being detected. The Board member whose signature is on the cheques is not a part of management and is not actively involved in the day-to-day operations. Unless Board members are intending to be involved with reviewing payments, it would be more appropriate for both cheque signatories to be members of management who are responsible for establishing an effective system of internal control.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador maintain a cheque log which is reviewed by the Assistant Director of Education - Finance and Administration to ensure that the numerical continuity of cheques is accounted for and that all cheques are properly approved. We also recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador change the electronic signature from the Board member to that of a member of management.

Lease Renewal

The Board leases space in one of its buildings to other tenants. It was noted during the audit that a lease for one tenant had expired shortly before year end. As of the completion of the audit, the lease still had not been renewed. As a result, the tenant has not paid any rent since the lease expired. Not having a signed lease agreement creates the risk of rent not being collectible or other disputes with the tenant.

We recommend that the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador conclude its work on the lease renewal and collect all outstanding rents.

School-Generated Funds

There are no formal policies in place surrounding the use and management of school-generated funds within the Board. There is also a lack of segregation of duties at the school level, as administration staff process purchases and approve financial transactions. There is also no formal and defined separation of duties between principals and administration staff in relation to the handling of school funds.

We recommend that the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador adopt a formal policy for managing school-generated funds, including initiation of purchases, review of the transactions, and making sure there is a proper segregation of duties.

Terminated Employees

During the testing of teachers' payroll, the Office noted a teacher was laid-off but not removed from payroll – they continued to receive a pay cheque for two months after their employment ended. This error resulted in an overpayment of approximately $3,700. The Board only became aware of the overpayment when the former employee contacted them to advise that they were still being paid. When asked about repayment, the former employee noted the money was already spent and they would not be able to repay the amount at that time. This amount is still outstanding, and no payment arrangements have been made.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador improve controls around the termination of employees and recover the amount from the former employee.

Employee File Access

During the review of payroll business processes, the Office noted that multiple employees (other than the Manager of Human Resources) had access to employee files. Employee files contain confidential information and there is a risk of privacy breach when there are inadequate access controls in place.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador limit access to employee files to appropriate personnel.

Support for Additions to Tangible Capital Assets

The Department of Transportation and Infrastructure manages large capital projects and certain repairs and maintenance for Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador. They also pay for many of these costs and then invoice the Board. During the audit, it was noted Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador does not receive support for third-party purchases made on their behalf by the department. The support is a crucial accountability control that ensures the expenditures are accurate and reasonable. Not having the ability to review this support could result in an error in the reporting of tangible capital assets.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador obtain support for capital purchases and repairs and maintenance expenditures made by the department.

Deferred Revenue

During the audit issues were noted with the deferred revenue balance. Issues noted included:

- Some funding agreements in support of the amounts were difficult to obtain causing problems with auditing the amounts.
- A duplicate payment from the Department of Education in 2021-22 for $182,000 was still being recorded as deferred revenue and had not been repaid. This was disclosed in the financial statements as a prior period adjustment.
- Some final reports required by Heritage Canada to support how funding has been spent have not been submitted. Some of these reports were due more than a year ago. As a result, it is unknown whether these amounts need to be returned to Heritage Canada. This demonstrates a lack of accountability for the use of these funds. Also, because the final status of these funds is unknown, it is possible that they could have been made available to fund other projects needed by the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador.

We recommend that supporting documentation for all grant funding be kept on hand to support deferred revenues. We also recommend that accountability reports required under funding agreements be submitted when they are due.

Budget

During the audit, the Office noted the annual budget was approved by the Board in November 2022, five months into the fiscal year. Delaying the preparation and approval of its budget can impact the Board’s ability to use the budget properly as an accountability and planning tool.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador ensure its budget is approved earlier in the fiscal year to increase its effectiveness as an accountability tool.

Fraud Management Policy

We noted the Board does not have a fraud management policy. Having a fraud management policy is an important part of the internal control framework. A policy would clarify roles and responsibilities of employees regarding fraudulent behaviour and outline processes to be followed if an employee were to suspect fraud had occurred. It is noted that the Government of Newfoundland and Labrador has a Fraud Management Policy which some other government entities have adopted.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador implement a fraud management policy.

Corporate Charge Cards

It was noted during the audit the Board is using Amex, CIBC, and RBC credit cards for travel expenses and purchases. The Government of Newfoundland and Labrador has a corporate card program which includes built in card controls and access to reporting on card spending which can enhance controls over card usage.

We recommend that the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador consider participating in government’s corporate card program.

Minutes

During the review of Board meeting minutes, the Office noted that minutes are not signed by a Board member to indicate the approval and finalization of the minutes.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador ensure all minutes are signed by a Board member to indicate approval.

Payroll System
It was noted the Accounting Manager is the only person with access to the payroll system. The Accounting Manager is responsible for processing payroll for non-teaching staff. This creates a risk of dependency and payroll processing delays if the Accounting Manager is unavailable.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador train another user on Ceridian in the event of the Accounting Manager's absence, so the entity has a back-up for payroll processing which reduces the risk of delays and dependency on one person.

General Information Technology Controls
During the audit of the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador additional general information technology (IT) control issues were identified. They include:

- There are inadequate password policies in place for the accounting system and network access.
- There is no policy in place for periodic user access review for financial reporting systems.
- System updates are not performed on a timely basis.

We recommend the Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador review any IT findings and implement all recommendations in a timely manner.

Newfoundland and Labrador Housing Corporation Federal Claims

Inadequate Landlord Rent Documentation
During the audit of the Canada Housing Benefit program under the National Housing Strategy and the Rent Supplement program under the Social Housing Agreement, we found inadequate documentation related to unit rent being charged by landlords. Regional housing officers are responsible to ensure information is obtained as part of the unit setup process, including a form completed by the landlord and written documentation from the landlord to confirm the rental rate. We sampled 23 payments made under the two programs and the Corporation was only able to provide support from a landlord for the rent being charged in two samples.

For the remaining 21 samples, housing officers were asked to confirm with landlords the current rent during the fiscal audit period, of which five samples had documentation issues. This leads to a risk that the subsidy payable by the Corporation may be miscalculated, resulting in an incorrect subsidy amount being paid to the landlord or tenant.

Under the Canada Housing Benefit program, the subsidy paid by the Corporation can be paid to either the tenant or landlord. Per discussions with the Corporation's officials throughout the audit, it was noted that the onus is on the tenant and/or landlord to advise the Corporation if the tenant has moved. The subsidy is portable and can be moved to different addresses. Therefore, there is a risk that the tenant may have moved to a cheaper rental unit but is still collecting a subsidy based on a more expensive rental unit.

As well, there is no policy stating that site visits must be performed to ensure that the tenant is still living at the address stated, or that the rental unit is not being shared with someone else. This creates a risk that the tenant or landlord can continue collecting a subsidy after a tenant has ceased to live there or receive more subsidy than which they would be entitled.

We recommend the Corporation ensure regional housing officers obtain a written agreement or signed confirmation outlining rental terms and conditions for each tenant from either the landlord or tenant to confirm the tenant's current address. Additionally, an annual landlord/tenant review process should be developed to ensure there are no changes to the agreed upon terms.

Rental Assistance Agreements

During the audit, improper documentation around rental agreements between the Corporation and the client was identified. Per discussions with the Corporation's officials, many of these agreements do not get signed and returned, and the unsigned copy is not placed on file. It was found that the Corporation was unable to provide an agreement for seven of 17 payment samples made under the Canada Housing Benefit program. The Corporation was able to provide all six payment samples under the Rent Supplement program. However, seven of the 16 agreements received had documentation issues.

Additionally, it was noted that the Corporation is not consistently tracking that the rental agreement was sent to the client, or noting additional follow-up attempts regarding the rental agreement.

We recommend the Corporation ensure that housing officers follow-up with clients to obtain current signed rental agreements. Rental agreements, along with any other correspondence with the client, should be kept in the Corporation's records manager.

Rent-Geared Income Review

The Office identified different regional housing manager review processes being followed in different regions of the province. The manager review process is not documented in a policy.

Without proper review processes and documentation for rent-geared income transactions, the Corporation risks overpaying or underpaying the tenant. During the audit, the Office found the following issues were not identified during the Corporation's review process of rent-geared-income:

- One of 17 samples under the Canada Housing Benefit program identified that the tenant's monthly income on the rent-geared income calculator was actually the tenant's annual income. The tenant was still paid the appropriate subsidy.
- In one of six samples under the Rent Supplement program, the tenant was overpaid $66 monthly, totalling $792 in the fiscal year. This is more than the rent-geared income calculator identified.
- In one of the six samples under the Rent Supplement program, an abatement amount did not have any supporting documentation on file.

We recommend the Corporation develop a consistent review process across all regions that includes a reviewer's checklist for all rent-geared income to ensure the appropriate information is recorded in NorthGate and documentation is kept in the Corporation's records manager.

Expense Tracking

During the audit of the Social Housing Agreement and National Housing Strategy claims prepared by the Corporation, there was difficulty determining the exact population that made up the expenses claimed under various claim categories. The general ledger detail amount and claim amount does not always match due to expenses being allocated differently for accounting purposes and claim purposes. This manual process may cause expenses to be missed from a claim or an ineligible expense be incorrectly claimed.

We recommend the Corporation create a report that has transaction details including items such as date, invoice, project, and description for each eligible claim.

Deficiencies in Change Management Process

While completing the general information technology control procedures, it was found that the Corporation's "Change Management Process" does not explicitly require business system owner approval for changes prior to implementation into the production environment, nor does it clearly define the required involvement of business users to test changes prior to implementation into the production environment.

Discussions with management indicated that business system owner approvals are generally expected prior to implementation, but may be evidenced by the change request itself, and that business user testing is required on a case-by-case basis, depending on the nature of the change. In the examined sample, we noted that while the appropriate approvals and testing internal to the Information Technology department were completed as required, the business system owner was not required to be involved in the change process after they submitted the initial request to the Corporation's Information Technology department and was only notified of the change once it was implemented into the production environment.

This could lead to changes being implemented without proper validation from those who are most familiar with business operations, or changes implemented without proper consideration of business needs, priorities, or potential impacts on operations.

We recommend the Corporation require business system owner approval before implementation of changes into the production environment and establish clear criteria for business user involvement in change management testing.

Office of the High Sheriff

Legislated Audit Deadline

Section 11 of the Sheriff's Act, 1991 requires that the accounts of the Office of the High Sheriff be audited but does not include a legislated deadline. Timely financial information is important for management and accountability purposes. Having a deadline in legislation may assist management in ensuring it has access to adequate resources for completion of annual financial statements.

We recommend that the Department of Justice and Public Safety should seek to amend the Sheriff's Act, 1991 to include a legislated deadline for completion of audited financial statements for the Office of the High Sheriff.

Stale-Dated Cheques

During the audit, it was noted that there were twenty seven cheques totalling $3,772 that had been outstanding for over a year as at March 31, 2020. As per Section 19 of the Sheriff's Act, 1991, amounts received in trust by the Sheriff for which the payee is unknown or cannot be located may be paid by the Sheriff to the Consolidated Revenue Fund. Section 13 of the Financial Administration Act further requires that public money be paid promptly to the Consolidated Revenue Fund.

We recommend the Office of the High Sheriff review the list of outstanding cheques and address stale-dated items including determining if any amounts are to be paid to the Consolidated Revenue Fund.

Trust Accounts Payable

As of March 31, 2020 there were trust fund receipts totalling $18,249 that were in accounts payable for more than a year, as the Office of the High Sheriff could not locate the person legally entitled to the funds. The Sheriff's Act, 1991 states that these amounts may be paid to the Consolidated Revenue Fund if the person legally entitled cannot be located. Section 13 of the Financial Administration Act further requires that, unless otherwise provided by statute, public money be paid promptly to the Consolidated Revenue Fund.

We recommend the Office of the High Sheriff review all undistributed trust account payable and determine if any amounts are to be paid to the Consolidated Revenue Fund.

Bank Fees and Earned Interest

Bank fees incurred on bank accounts owned by the Office of the High Sheriff are to be reimbursed to the High Sheriff through the Consolidated Revenue Fund. Interest earned on these bank accounts are to be paid to the Consolidated Revenue Fund as required by the Sheriff's Act, 1991. Section 13 of the Financial Administration Act further requires that public money be paid promptly to the Consolidated Revenue Fund.

During the audit, it was determined the Office of the High Sheriff did not request reimbursement from the Consolidated Revenue Fund for bank fees incurred. In addition, interest earned had not been remitted to the Consolidated Revenue Fund as of March 2023 in violation of section 13 of the Financial Administration Act.

We recommend the Office of the High Sheriff comply with the Sheriff's Act, 1991 and the Financial Administration Act, and pay the interest earned on the bank accounts to the Consolidated Revenue Fund. The Office of the High Sheriff should request, on a timely basis, reimbursements from the Consolidated Revenue Fund for bank fees incurred and deposit them promptly upon receipt.

Missing Signatures

During the audit it was found that monthly bank reconciliation stamps requiring two signatures were missing a signature from the reviewer of the reconciliations. As a result, there was no documented evidence of proper segregation of duties and approval around these reconciliations. A lack of segregation of duties and proper approvals increases the risk of fraud and error.

We recommend that the Office of the High Sheriff regularly review reconciliation stamps to ensure proper review and approval.

Missing Journal Entry Approval

During the audit it was found that journal entries requiring management approval were not supported with signed documentation. As a result, there was no evidence of the proper approval of journal entries. This increases the risk of fraud and error.

We recommend that the Office of the High Sheriff maintain documentation to support the proper approval of journal entries.

Topics Identified by External Auditors

Marble Mountain Development Corporation

Financial Statement Presentation – Outstanding for one year

The auditors of Marble Mountain Development Corporation again indicated that Canadian public sector accounting standards require financial statements to disclose the gross amounts of revenue and expenses – yet they noted the financial statements for the Corporation disclose net surplus/deficit for divisions.

The auditors again recommend management and those charged with governance update the financial statement presentation to meet current accounting standards.

Purchasing Policy – Outstanding for One Year

The auditors of Marble Mount Development Corporation again indicated the Corporation's Purchasing Policy, while based on the Public Procurement Act, has different limits for calls for bids and purchase documentation. In the capital asset sample, one of 13 purchases did not have proper approval in accordance with the Corporation's policy, as it was over $10,000 and purchased without a public call for bids. Also, while the Act requires notification to government as to why a public call for bids was not invited for purchases over $264,200, no such notification was submitted for two purchases over that amount.

The auditors also found that required documentation of three quotes of a fair and reasonable price were not provided for five samples. Also, one item in the samples had no purchase order, and all purchase orders except two did not have prior approval as required by the Corporation's Purchase Order Policy.

The auditors again recommend all policies should be followed by the Corporation's staff.

Gross Margins – Outstanding for One Year

The gross margin on food and beverage operations decreased 2 per cent from last year and was less than the usual before Covid. In 2023-2024 the gross margin was 53 per cent versus 60 per cent in 2018-2019. Staff indicated the reduction is likely due to staff turnover, price markups and spoilage.

The auditors again recommend staff track and document changes in markup and spoilage.

Contract Documentation – Outstanding for One Year

The auditors found that a contract to lease office space to a third party expired in 2017 with no extension or renewal. Another contract stipulated that audited financial statements be obtained from the third party, but they were not. In addition, various marketing contracts and employment contracts were not signed by all required parties. There was also no documentation of approval for the payment of an extra week's pay in lieu of notice for two employees.

The auditors again recommend all current contracts be signed by all parties, ensure they are enforced, and ensure responsibilities are clear.

Internal Control

A key internal control in the Corporation's purchase process is to have all cheques signed by two individuals with a review of the supporting documents. The auditor's review of a sample of cheques cleared through the bank identified three cheques signed by one person only.

The auditors recommend that all cheques be signed by two individuals as per the Corporations' standard procedures.

Inventory Management

During the inventory count it was identified that staff were using mountain bikes purchases by the Corporation. One bike was also missing and has not been found.

The auditors recommend controls over inventory be improved. All inventory should be secured in a locked room with one person in charge of oversight and access and all movement in and out of inventory should be logged.

Budget Approval

There was not much documentation of discussion or Board approval of the operating budget.

The auditors recommend that all budgets be documented in the minutes before the budget submission to government in October each year.

Dairy Farmers of Newfoundland and Labrador

Segregation of Duties – Outstanding for one year

The auditors of the Dairy Farmers of Newfoundland and Labrador again identified a significant control weakness related to segregation of duties. It was identified that, in documenting the financial reporting systems, all accounting functions essentially reside with a single individual. While it was acknowledged it is not always practical to segregate accounting duties effectively in small organizations, it is a fundamental principle of internal control to pursue that separation to the extent possible.

The auditors again recommend the Dairy Farmers of Newfoundland and Labrador review its policies and processes on an ongoing basis to determine if possibilities for segregation of duties exist.

Newfoundland and Labrador Sports Centre

Calculation of HST – Outstanding for one year

During the audit of Newfoundland and Labrador Sports Centre, it was determined that HST has not been reconciled to the General Ledger. The payable or refund is being applied to the HST collected on the sales accounts rather than being allocated to both the HST collected and the ITC accounts. The auditors note that a lack of reconciliation could result in HST reporting errors.

The auditors again recommend the Newfoundland and Labrador Sports Centre ensure that the general ledger accounts are cleared with HST returns are filed and ensure that HST is being calculated at the allowed amount.

HST Filing Delays

During the audit, the auditors noted there was a delay in the filing of several HST returns during the year.

The auditors recommend that overdue remittances be filed as soon as possible and HST remittances be filed annually before the filing deadline.

Timely Collection of Accounts Receivable

The auditors noted increases in over 30 days aged trade receivable, indicating that receivable collected are slow. This can result in more accounts being doubtful of collection and being written off.

The auditors recommend that the Centre should pursue timely collection of outstanding accounts.

Observations

During financial statement audit work, the Auditor General may identify areas requiring additional scrutiny or disclosure. The following observations are intended to promote accountability in government's management of public resources and encourage positive change in program and service delivery.

Financial Health of the Province

In the Public Accounts, government provides an unaudited financial statement discussion and analysis report, which gives an overview of the province's financial position, highlights key indicators, and outlines risk analysis. This report can assist in interpreting the province's Consolidated Summary Financial Statement information.

Key Indicators

The key indicators included in the analysis report are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice – Indicators of Financial Condition, and are meant to provide additional information on the province's financial condition, such as those related to:

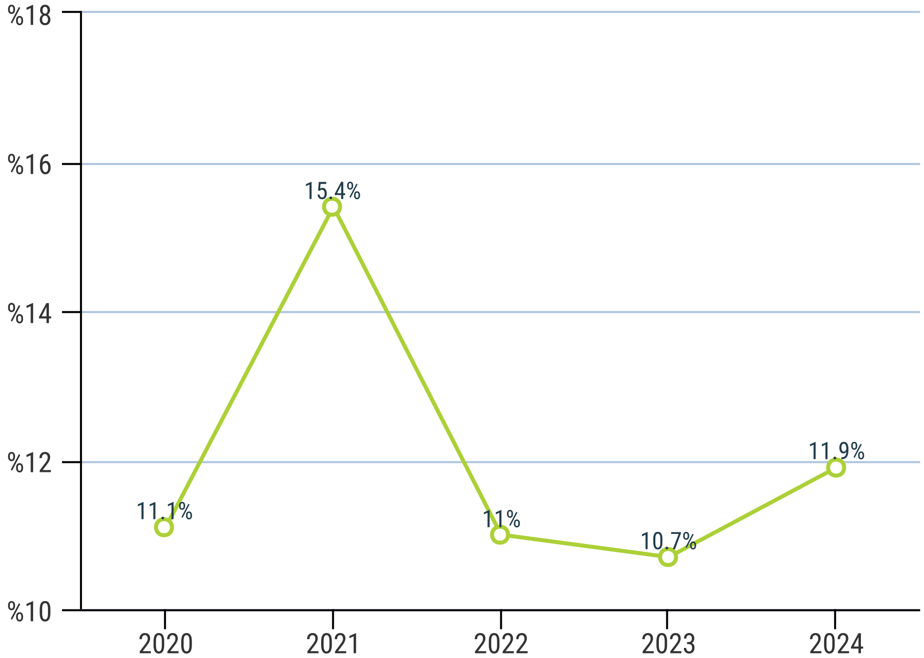
- Flexibility: ability to change government's debt burden or raise taxes within its economy to meet its existing financial obligations;
- Vulnerability: dependency on revenue sources outside government's control; and
- Sustainability: ability to maintain government's existing programs and commitments without having to increase debt or tax rates.

A selection of some of the key indicators relating to financial condition included in the Public Accounts follow. However, **no single indicator can provide a full picture of the province's financial health. The public is encouraged to review the many indicators and think about how they intersect when assessing the province's financial health.**

Five-Year Trend

Flexibility: The government's ability to change its debt burden or raise taxes within its economy to meet its existing financial obligations.

Figure 1 - Debt expense as a percentage of total revenue (%)



Source: Prepared using information from the 2024 Public Accounts

Debt expense as a percentage of total revenue represents the amount of expense that is attributable to debt related activities compared to total revenue received. It represents the province's capacity to fulfill outstanding debt obligations using its yearly revenue.

This indicator has increased by 7.2 per cent over the five-year period. The increase for 2023-24 is primarily driven by higher debt expenses and lower revenue compared to 2022-23.

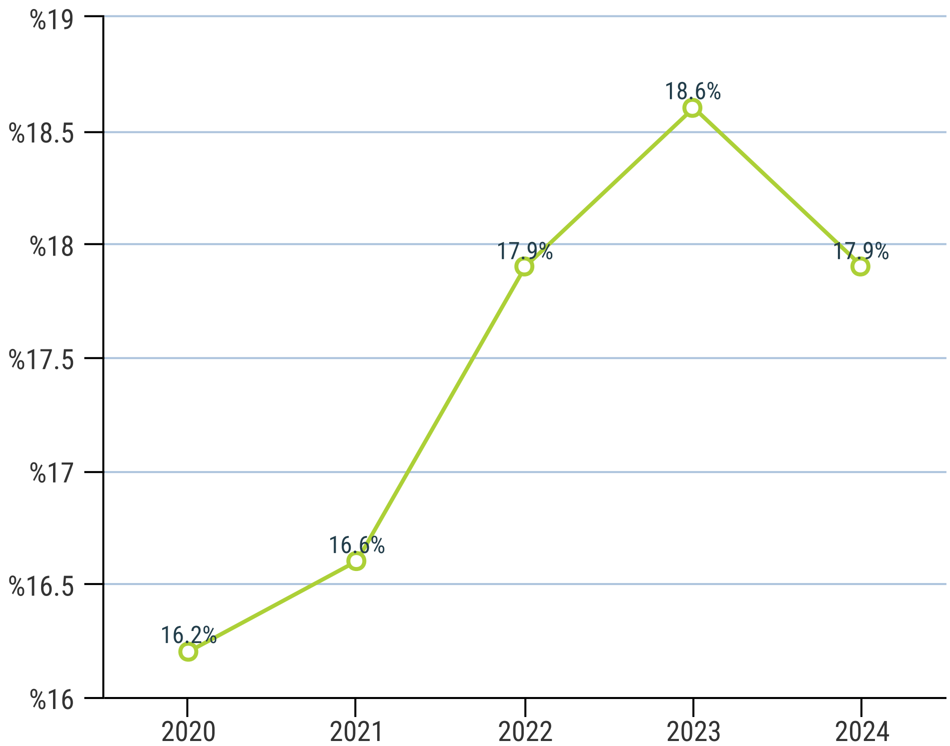
An increase in this indicator means that less revenues are available for other public services, as a larger percentage of revenues must be used to cover interest costs.

Own source revenues to gross domestic product (GDP) are a function of the revenue earned through taxes and business income of the province in relation to the economic activity of the province.

This indicator is up slightly from 2020 and has increased in each year from 2020 to 2023. However, this indicator decreased in 2024, which coincided with a decrease in provincial source revenue. An increase in this indicator overall compared to 2020 suggests reduced flexibility for a government to access own source revenues in the future.

This indicator must be considered in the context that Newfoundland and Labrador already has one of the highest per capita tax burdens in the country.

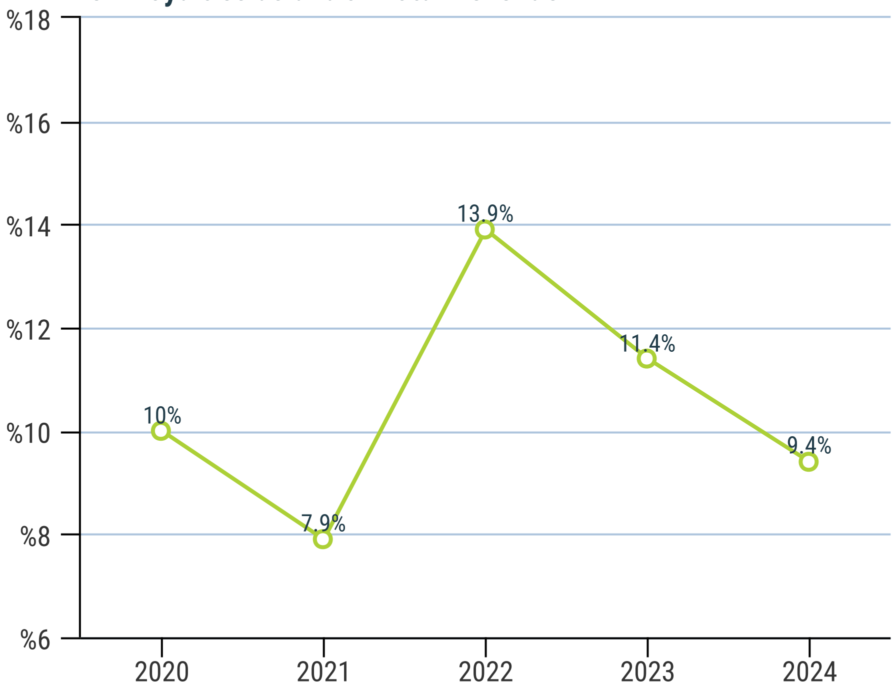
Figure 2- Own Source Revenues to GDP (%)



Source: Prepared using information from the 2024 Public Accounts

Vulnerability: The government's dependency on revenue sources outside its control.

Figure 3
Oil Royalties as a % of Total Revenue



Source: Prepared using information from the 2024 Public Accounts

Oil Royalties are revenue earned from oil and gas production and equity ownership, expressed as a percentage based on the amount that oil royalties contribute to the province's total revenue. This percentage demonstrates the province's reliance on oil royalties to sustain government operations.

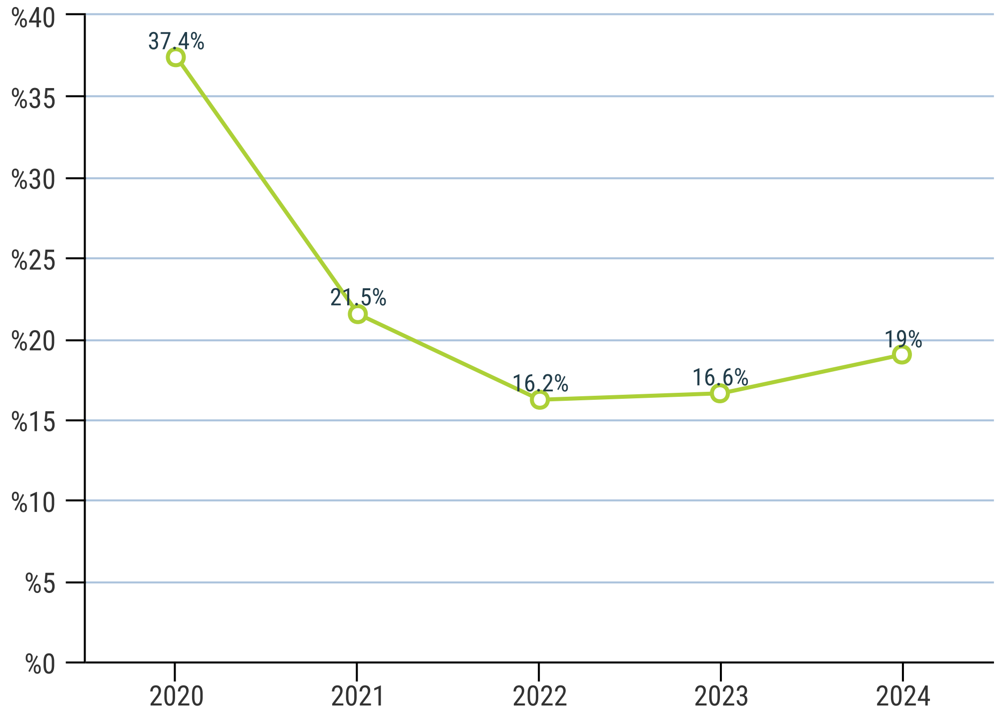
This indicator has remained relatively stable over the last five years except for 2021, when the oil and gas industry experienced a downturn.

Oil royalties, which are considered a vulnerable revenue source, remain a significant percentage of total revenue for the province.

Figure 4
Federal Transfers as a % of Total Revenues

Federal transfers are revenues received from the federal government, expressed as a percentage based on the amount federal transfers contribute to the province's total revenue. This percentage demonstrates the province's reliance on federal government assistance to sustain government operations.

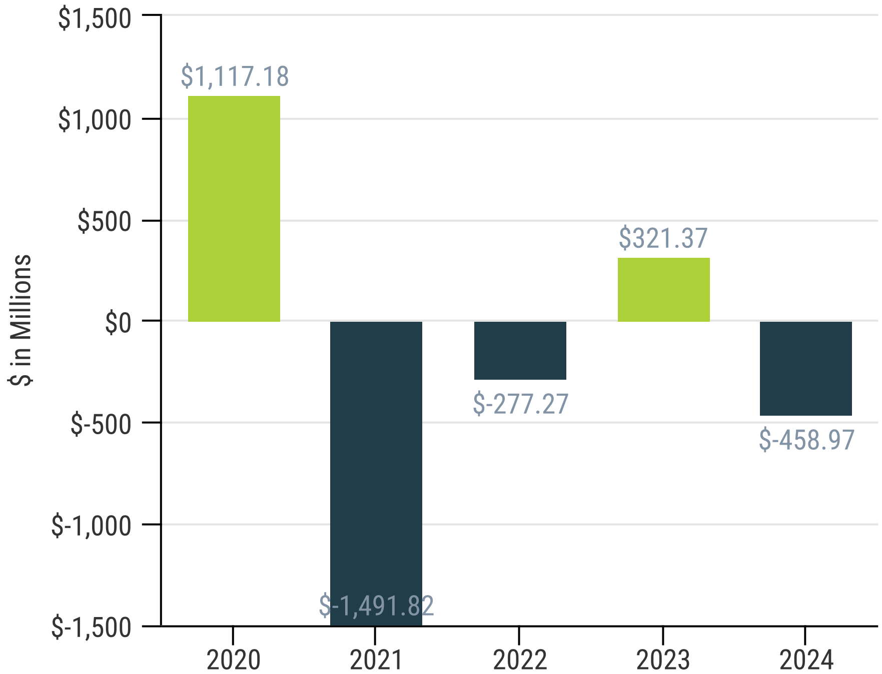
This indicator has remained stable over the past five years except for 2020, due to additional Federal Government COVID-19 funding.



Source: Prepared using information from the 2024 Public Accounts

Sustainability: The government's ability to maintain its existing programs and commitments without having to increase debt or tax rates.

Figure 5 - Annual Surplus (Deficit) ($ millions)



Source: Prepared using information from the 2024 Public Accounts

Annual surplus (deficit) is the revenue the province has generated in surplus (deficit) of expenses in the current year. The province has a surplus when revenues are greater than expenses and has a deficit when expenses are greater than revenues.

This indicator has had significant fluctuations during the five-year period. The deficit in 2024 was the result of decreases in revenues from taxation and offshore royalties, as well as increases in expenses for salaries and employee benefits.

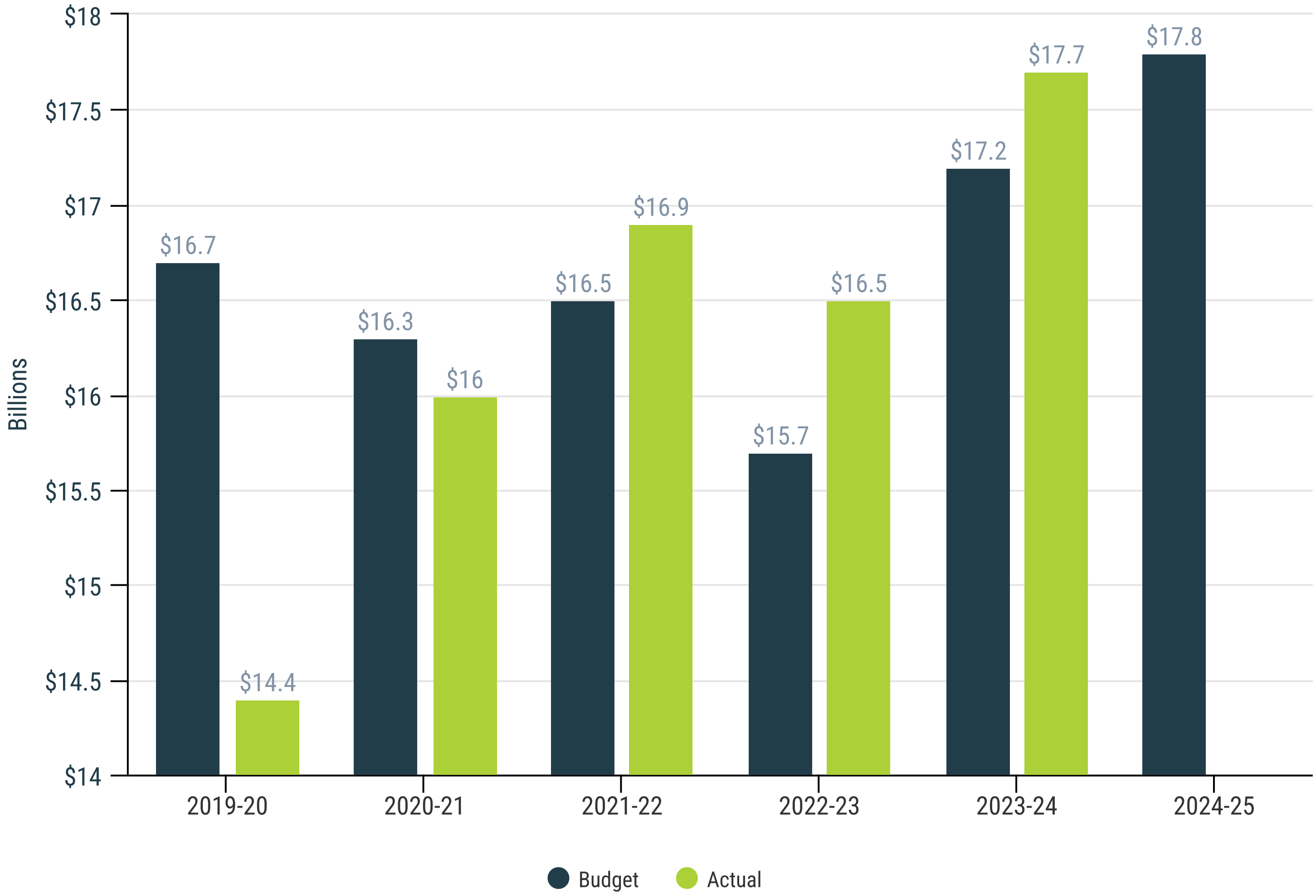
Sustainability and Net Debt

Net debt represents the amount that total liabilities (in simpler terms, what we owe) exceed financial assets (in simpler terms, what we have). When a jurisdiction is in a net debt position, it means they have spent more than they can afford to provide services and will need future revenues to pay for them. **Net debt is a key indicator of sustainability**; other debt related indicators include the composition of debt, the net debt to gross domestic product ratio, and net debt per capita.

The province continues to rely on borrowing to fund provincial services. Given the recent announcement of a potential new hydroelectric power deal with Quebec, it is possible future benefits will accrue to the province. While this possibility will hopefully improve the province's overall net debt position, there are still many unknowns, and it remains important to prudently manage spending and borrowing levels.

In the past 10 fiscal years (2014-15 to 2023-24), government has borrowed $17.8 billion dollars. During that period, the province's net debt increased by 72 per cent from $10.3 billion to its current $17.7 billion.

Figure 5 - Net Debt



Source: Compiled using information from the public accounts and information on the Department of Finance website.

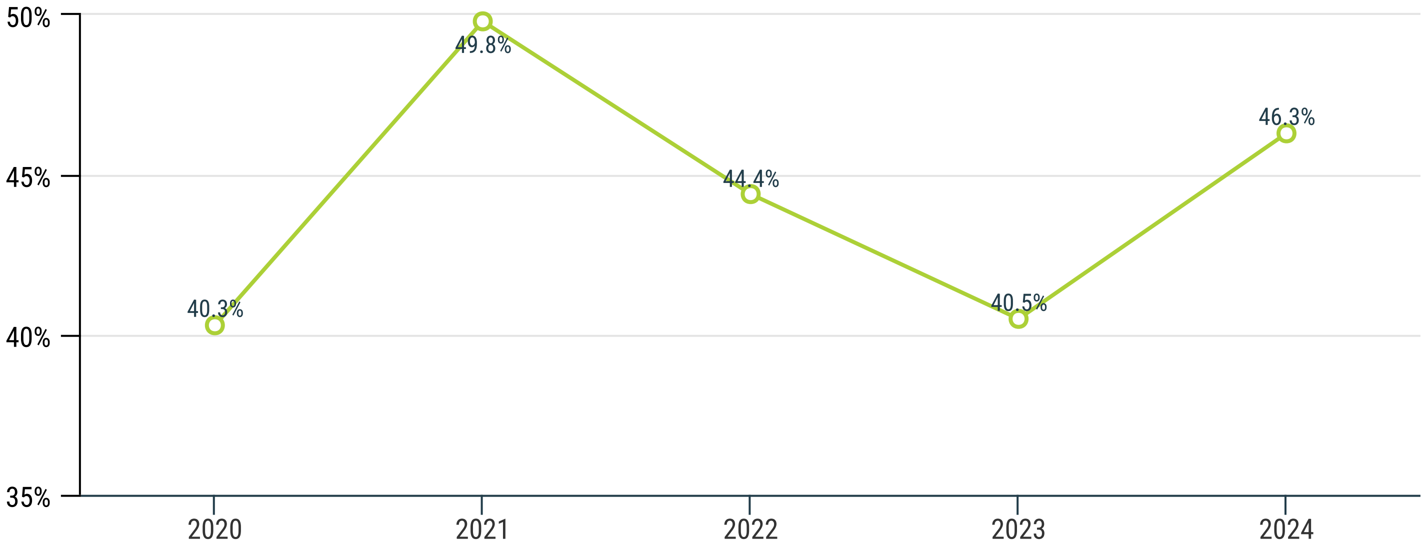
The province's net debt has increased by at least $1 billion each year, with a slight reduction in 2023. In the 2024 Public Accounts, the province reported a net debt of $17.7 billion. This was an increase of $1.2 billion from the prior year net debt of $16.5 billion - largely attributed to increased borrowing to fund the current levels of public service.

The province sets a net debt target when it tables its annual budget. Achieving this target ensures that government's borrowing levels remain aligned with its long-term economic and fiscal strategies of maintaining a sustainable debt profile. The province has not been meeting its net debt targets since 2021; the main contributor being the increased borrowing required to maintain spending levels.

As part of Budget 2024, government announced borrowing requirements for the 2024-25 fiscal year would be another $2.8 billion, for a net debt level of almost $18 billion. This amount represented 27 per cent of the total cash government expected to spend during the year. It appears government is again planning to spend beyond its current means.

The province, after year end, issued new foreign debt for the first time since 1993. As of January 2025, the province was holding $235 million (CAD) in foreign denominated debt. Holding foreign denominated debt adds risk to the debt portfolio because the province's debt is now vulnerable to changes in foreign exchange rates and may incur additional costs to operate outside the domestic market.

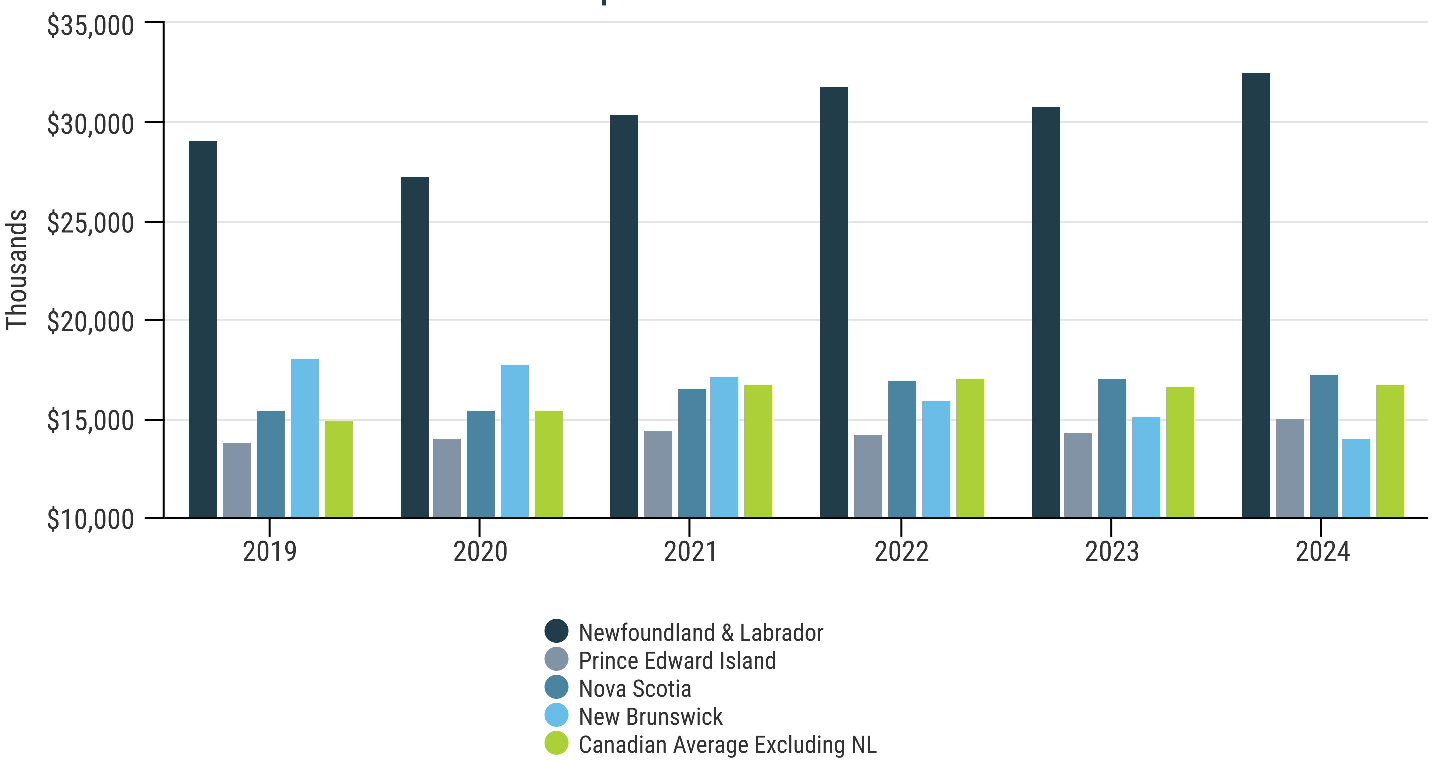
Figure 7 - Net Debt to Gross Domestic Product



Source: Prepared using information from the 2024 Public Accounts

The net debt to gross domestic product ratio measures a province's debt burden relative to the size of its economy; in other words, the extent to which government is leaning on economic output to carry its debt load. As shown in figure 7, **there has been an increase in this ratio in the current fiscal year, primarily due to increased spending and the related debt required to sustain it.** The ratio peaked in 2020-21, reflecting the economic slowdown resulting from the COVID-19 pandemic. **Over the past five years, the rate of increase in the provincial economy has been slower than the growth in net debt.** This fact means government may have to rely more heavily on future economic growth and the associated revenues to reduce current debt levels.

Figure 8
Net Debt Per Capita
With Comparison to Atlantic Provinces



Source: Prepared by the Office of the Auditor General using the population data as of March 31 from Statistics Canada and the fiscal year-end net debt figures from the Province's Public Accounts

Net debt per capita is calculated by taking the net debt and dividing it by the province's population. **Net debt per capita is a key indicator of sustainability because it reflects the debt burden effectively carried by each individual resident. Newfoundland and Labrador's net debt per capita hit a high in 2024 of $32,694, which is significantly higher than the 2024 average net debt per capita for Canadian provinces (excluding Newfoundland and Labrador), which was $16,823.** Over the past five years, Newfoundland and Labrador has consistently had the highest net debt per capita when compared to the other Atlantic provinces. **If the net debt grows faster than the population or the economy, it could signal future challenges in repaying debt.**

Risk Analysis

The Public Accounts discussion and analysis also includes a risk section, which provides information on the various forms of risk inherent in certain financial elements and financial markets. These risks include accounting and other estimates to record certain transactions; debt-related risks such as foreign exchange risk; interest rate risk; credit and liquidity risk; and commodity price and production risks.

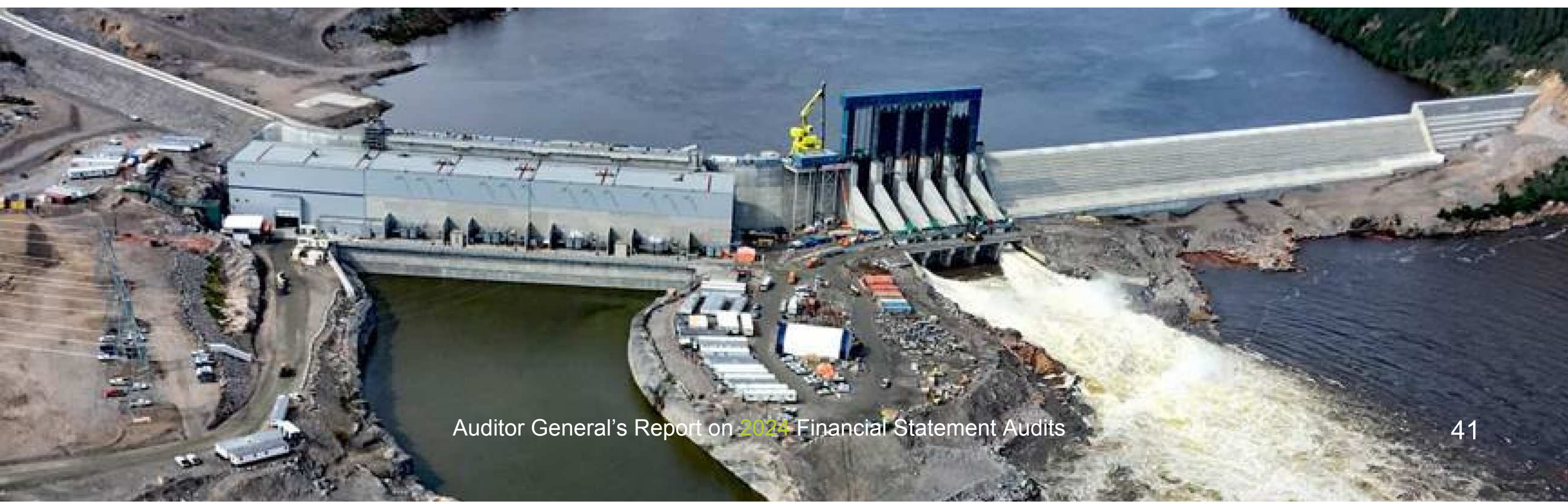
The report highlights key risks that have the potential to significantly impact the provincial's economy and fiscal position. We note three substantial risks:

1. **Muskrat Falls Project:** As stated in previous reports, the cost of the Muskrat Falls Project is ultimately borne through a combination of increased electricity rates, increased taxation/fees, or reductions in government spending. In May 2024, the province finalized its rate mitigation plan to maintain NL Hydro's increase in domestic electricity rates at an annual target of 2.25 per cent through to 2030. Any additional funding required to achieve that rate increase will come from NL Hydro's own sources to the extent possible. It is important to note the current rate mitigation plan only provides for a limit to rate increases up to and including 2030 and no plan for beyond 2030 has been finalized.

2. **Market Conditions:** As stated in previous reports, accelerated global inflation has resulted in cost-of-living increases becoming an even greater burden on a population with higher-than-average consumer debt (compared to the national average). While the lowering of interest rates by central banks will bring some relief, rates will need to continue to drop to have an impact on everyday purchasing and activities. Borrowing costs are beginning to decline as interest rates drop, but they remain at a significantly elevated level. Economic conditions have also caused investors to become more conservative, which has made it more difficult for startups and smaller companies to access capital to establish and/or expand.

3. **Demographic Factors:** Newfoundland and Labrador has the highest proportion of individuals over the age of 65 and the lowest proportion of children under the age of 14, compared to other Canadian jurisdictions. Last year, the province had the highest median age of 47.8 years and the highest average age of 45.7 years across Canada; this aging demographic has significant fiscal implications including increased demand for public services. Rural populations are both declining and getting older, with the need to provide high-quality services to a smaller and widely dispersed population continuing to challenge the province.

In my opinion, the province should consider the various indicators of financial health and potential risks when planning its current and capital spending. The province should also plan to become less exposed to the increased cost of borrowing through conscious strategies to reduce its debt.



Timing of the Consolidated Summary Financial Statements

The Financial Administration Act requires tabling of the Public Accounts before November 1 of the following fiscal year; for the year ended March 31, 2024, government satisfied this legislative requirement. However, Newfoundland and Labrador was the last province to table its public accounts this year:

Table 3
Public Accounts Audit Report Dates by Canadian Jurisdiction 2023-24

Jurisdiction	Audit Report Date for the Year Ended March 31, 2024
Alberta	June 18, 2024
Saskatchewan	June 18, 2024
Nova Scotia	July 18, 2024
British Columbia	August 15, 2024
Ontario	August 30, 2024
New Brunswick	September 10, 2024
Manitoba	September 25, 2024
Quebec	September 30, 2024
Prince Edward Island	October 7, 2024
Newfoundland and Labrador	October 23, 2024
Canada	December 9, 2024

Source: Public Accounts – all provinces and Canada

This result continues Newfoundland and Labrador's past trend of financial statements barely satisfying the statutory deadline, which is seven months after the end of the fiscal year.

Table 4
Newfoundland and Labrador Public Accounts Audit Opinion Dates 2016-17 to 2023-24

Year End	Statutory Deadline	Days After Year End	Audit Report Date	Days After Year End	Canadian Ranking
March 31, 2024	October 31, 2024	214	October 23, 2024	206	10th
March 31, 2023	October 31, 2023	214	October 27, 2023	210	9th
March 31, 2022	October 31, 2022	214	October 26, 2022	209	9th
March 31, 2021	October 31, 2021	214	October 22, 2021	205	9th (tied)
March 31, 2020	January 31, 2021	306	December 23, 2020	267	10th
March 31, 2019	October 31, 2019	214	October 18, 2019	201	10th
March 31, 2018	October 31, 2018	214	October 4, 2018	187	10th
March 31, 2017	October 31, 2017	214	September 29, 2017	182	9th (tied)

Source: Public Accounts – all provinces and Canada

A key characteristic of financial statement information is timeliness – that is, having actual results and financial information available before it loses its capacity to affect the evaluation of governance, performance, stewardship and sustainability. The less timely the Public Accounts is, the less useful it is in holding government and its management accountable for their decisions.

With a growing debt load and the province entering the European bond market, timely financial information is essential to users of the province's financial statements. Although the legislative deadline has been met each year, there is a need to improve on the timeliness of the Public Accounts release.

In 2017, the Financial Administration Act was amended to further strengthen accountability by requiring that, in the year of a general election, the Public Accounts be tabled no less than 15 days prior to the fixed election date. **In 2025, an election must be held by October 14, 2025. This date would require the Public Accounts to be tabled by September 29, 2025. Given past audit report dates, this may be a challenge to achieve.**

This Office has repeatedly recommended government consider legislative and business process changes to improve the timeliness of the release of Public Accounts. Specifically, the Financial Administration Act allows for the province's books to remain open for up to a month after year-end to facilitate invoice processing (a write-back period). This provision restricts the province by creating a one-month delay in starting to prepare the year-end financial statements.

Audits are designed with materiality thresholds in mind. The concept of materiality recognizes that financial information does not have to be 100 per cent accurate to be useful. This reality is essential to the timely preparation of financial information. Consideration of business process improvements, such as the utilization of consolidation thresholds, increased usage of estimates for nonmaterial balances, or less time assigned to correcting close-to-trivial errors, would result in time savings for the government in preparing and for the Office in auditing, resulting in a timelier release.

In my opinion, the province should strongly consider amendments to the Financial Administration Act and business process changes to reflect modern accounting and controllership practices. Even without legislative change, the province could materially improve the accountability and transparency that comes from the actual financial results being released sooner, such as:

- **utilization of consolidation thresholds;**
- **increased usage of estimates for nonmaterial balances; or**
- **less time assigned to correcting close-to-trivial errors.**

Newfoundland and Labrador Health Services Bonuses

Provincial retention and recruitment efforts have been established for healthcare professionals through a variety of monetary based incentives, beyond what is offered in collective agreements, to both retain current healthcare professionals and attract new candidates. The goal of these efforts is to improve access to primary healthcare and alleviate pressures on systems in understaffed areas. These efforts typically include a return-in-service commitment requirement varying from one to five years; under certain conditions, an individual may receive multiple bonuses and would fulfill the return-in-service commitments concurrently. Bonuses are paid out before an individual's yearly return-in-service commitment is fulfilled, with repayment due if a recipient fails to meet these obligations.

Bonus programs started in April 2022 and are the responsibility of the Department of Health and Community Services in conjunction with Newfoundland and Labrador Health Services. We examined bonus information from April 2022 to March 2024, with relevant information up to October 2024 where applicable; we note this information is unaudited.

Physicians and nurses are being considered for individual review compared to other healthcare professionals due to demand, critical function, and increased retention efforts made by the province for these positions. For the purposes of this report, nurses include registered nurses, licensed practical nurses, and nurse practitioners.

It is important to note the province is in the early stages of bonus implementation and that this topic will continue to be assessed in future financial statement audit processes. This report will form part of an ongoing series of analysis on bonus programs in the province.

Types of Bonuses Available

Various recruitment and retention bonuses were available to practicing physicians and nurses, as well as those looking to relocate to Newfoundland and Labrador to practice, including signing bonuses, incentives, retention bonuses, and start up incentives. Bonuses have varying payouts depending on if an individual has ties to the province. The criteria used by the Department of Health and Community Services to assess whether an individual qualified for the Come Home Incentive were:

- Born in Newfoundland and Labrador;
- Trained in Newfoundland and Labrador;
- Performed residency in Newfoundland and Labrador;
- Previously practiced in Newfoundland and Labrador; or
- Has other ties to Newfoundland and Labrador considered on a one-off basis, using professional judgement of the NLHS in the spirit and intent of the incentive.

Bonuses for Physicians

There were six types of bonuses for physicians available between July 6th, 2022, and September 5th, 2024:

- **Physician Signing Bonus Program**: The goal of the program was to improve access to primary health care as well as attracting and retaining healthcare professionals. The bonus was $100,000 for the Northeast Avalon area and $150,000 for other areas. There was also an additional $25,000 for difficult to fill positions. This bonus had a five-year return-in-service commitment.
- **Physician Recruitment Incentive Pilot**: This incentive was aimed at providing primary care or emergency department coverage in select underserved areas. The amount of this bonus was $150,000 for all Labrador-Grenfell zone areas and $100,000 to other select geographic areas and required a one-year service and can be renewed for a second year for an additional $100,000.
- **Come Home Incentive**: This incentive was aimed at attracting former Newfoundland and Labrador residents to return. The bonus amount was $100,000 for an individual with ties to Newfoundland and Labrador or $50,000 without ties and required a five-year service agreement.
- **Family Practice Start Up Program**: The goal of the incentive was to improve primary care in the province. Funds used for this program were designed to support a family doctor either opening a new practice or joining an existing one. Funds for this program included a start-up payment of $150,000 and an income guarantee amount of $198,724. This bonus required a five-year service agreement.
- **Family Care Team Incentive**: The goal of the program was to assist with the recruitment and retention of required personnel to fully operationalize Family Care Teams. Funding available with this program was $75,000 and at least one-year service commitment required.

- **Family Practice Retention Bonus:** This one-time $25,000 incentive was aimed at retaining family doctors and recognizing their efforts. To qualify, family physicians must have been in practice in the province for one full year as of March 1, 2023. Those with less than one year of service received a pro-rated portion of the bonus. This bonus had a one year return-in-service.

Bonuses for Nurses

There were four types of bonuses available for nurses, launched between October 4th, 2022, and May 26th, 2023. The fifth bonus program was a signing bonus initiative, reinstated in June 2022.

- **Long-Term Care Retention Bonus**: The goal of the incentive was to retain current employees, who were either registered nurses, nurse practitioners, or licensed practical nurses, to continue to work in the underserved long-term care sector. The bonus amount was $3,000 for registered nurse or nurse practitioner and $1,950 for licensed practical nurses, with a one-year return-in-service commitment.
- **Long-Term Care Recruitment Bonus**: The goal of the incentive was to attract more registered nurses, nurse practitioners, and licensed practical nurses from the public and within government to work in the underserved long-term care sector. The bonus amount was $8,000 for registered nurses/nurse practitioners and $5,200 for licensed practical nurses, with a one-year return-in-service commitment.
- **Come Home Incentive**: The incentive was aimed at attracting former Newfoundland and Labrador residents to return. The bonus amount was up to $60,000 for nurse practitioners with ties to Newfoundland and Labrador or $50,000 without ties. For registered nurses and licensed practical nurses, the bonus was $50,000 with ties or $25,000 without ties. The bonus required a three-year return-in-service commitment.
- **Nurse Practitioner Family Care Team Incentive**: The incentive was offered to nurse practitioners who committed to working within a Family Care Team. The bonus amount was $20,000, $30,000 or $40,000 depending on location. An additional incentive of $10,000 was provided to nurse practitioners working in select rural emergency room departments. This incentive required a one-year service commitment with the option to extend for a second year for an additional bonus.
- **Signing Bonus Program**: The incentive was designed to attract healthcare professionals such as licensed practical nurses, registered nurses, and nurse practitioners to underserved areas. The bonus amount ranged from $5,000-$20,000 with a one or two-year service agreement.

Physician Bonus Payouts

Between April 2023 and October 2024, government paid approximately $34.8 million in physician bonuses to 705 individuals. Of the total allocated funding, the Eastern-Urban region accounted for approximately 58 per cent of the total funding ($19.99 million) allocated to approximately 60.1 per cent of the total recipients (424). **The average payout per recipient increased sharply from $41,501 in 2023-24 to $95,733 in 2024-25.** This increase is primarily due to large physician signing bonuses with extended return-in service commitments in 2024-2025 relative to the prior year.

The number of recipients of physician bonus funding was 603 in 2023-2024; 102 bonuses have been paid up to October 2024 in the 2024-2025 fiscal year. We note that most of the physician funding includes multi-year service commitments, which would likely cause the data to be skewed to the initial years of project implementation.

The two largest bonus programs for physicians were the Family Practice Retention Bonus and the Physician Signing Bonus. The Family Practice Retention Bonus received the most funding of the incentives examined, with approximately $11.4 million paid since April 2023. The Physician Signing Bonus paid the second largest allocation of $11.1 million. Physician bonuses are summarized in the below tables:

Table 5
Physician Signing Bonuses by Zone
April 2023 - March 2024 and April 2024 - October 31, 2024

Zone	2023-2024 Fiscal Year			2024-2025 Fiscal Year to Date		
	Recipients	Total Paid	Average Payout	Recipients	Total Paid	Average Payout
Eastern Urban	370	15,261,876	41,248	54	4,730,000	87,593
Western Zone	97	3,921,667	40,430	9	960,000	106,667
Central Zone	74	3,501,249	47,314	15	1,549,717	103,314
Eastern Rural	42	1,617,500	38,512	6	670,000	111,667
Labrador-Grenfell	20	722,916	36,146	18	1,855,000	103,056
NL	**603**	**$25,025,208**	**$41,501**	**102**	**$9,764,717**	**$95,733**

Source: Department of Health and Community Services, Newfoundland and Labrador Health Services. Note: Physicians includes salaried and fee-for-service.

Table 6
Physician Signing Bonuses Summary by Type
Fiscal 2023-24 and to October 31, 2024

	2023-24 Fiscal Year		2024-25 Fiscal Year to Date	
Incentive	Recipients	Funding	Recipients	Funding
Family Practice Retention Bonus	467	11,095,208	14	345,000
Physician Signing Bonus	60	6,215,000	45	4,891,800
Come Home Year	55	5,070,000	20	1,820,000
Family Practice Start Up Grant	10	1,500,000	6	900,000
Physician Recruitment Incentive Pilot Project	8	845,000	15	1,707,917
Category A Emergency Department Incentive Program	2	200,000	-	-
Carbonear Incentive - Internal Medicine	1	100,000	-	-
Family Care Team Initiative	-	-	1	75,000
Difficult to Fill			1	25,000
Total	**603**	**$25,025,208**	**102**	**$9,764,717**

Note: Some incentives displayed in the table are broken up into subgroups based on how data is tracked.

Nurse Bonus Payouts

Between April 2022 and October 2024, government paid approximately $11.5 million in nursing signing bonuses to 668 individuals. Of the total allocated funding, the two eastern regions accounted for approximately $9.6 million across 1,216 recipients. These totals represent 59.7 per cent and 56.8 per cent respectively of the total funding and recipients across the province (including cumulative long-term care). **The average payout per recipient has fluctuated over the two-year timeframe from $17,155 (2023/2024) to $16,335 (2024/2025 year to date).** Given many bonuses were not implemented until late in the 2022-23 fiscal year, or sometime throughout 2023-24, variation is expected.

The difficult to recruit area incentive had a total payout $5,555,000 over 521 recipients. The average funding per recipient for this bonus was $10,662, with 63.5 per cent the recipients being registered nurses. Nursing bonus data is summarized in the below tables:

Table 7
Nursing Signing Bonuses by Zone
April 2022 – March 2024 and April 2024 to October 2024

Zone	Fiscal Year 2022-2023			Fiscal Year 2023-2024			Fiscal Year to Date 2024-2025		
	Recipients	Total Paid	Average Payout	Recipients	Total Paid	Average Payout	Recipients	Total Paid	Average Payout
Eastern Combined	56	1,313,000	23,446	250	3,497,000	13,988	158	2,371,000	15,006
Western	1	7,000	7,000	29	990,769	34,764	47	1,165,769	25,070
Central	4	39,000	9,750	30	675,000	22,500	51	543,000	10,647
Labrador-Grenfell	3	66,000	22,000	9	284,000	31,556	30	584,000	19,467
Eastern Rural	-	-	-	4	100,000	25,000	3	70,000	23,333
Eastern Urban	-	-	-	1	20,000	20,000	4	80,000	20,000
NL	**64**	**$1,425,000**	**$22,266**	**318**	**$5,446,769**	**$17,155**	**286**	**$4,663,769**	**$16,335**

Source: Newfoundland and Labrador Health Services.
Note: Nurses include nurse practitioners, registered nurses and licensed practical nurses. Nurse Practitioners were offered the opportunity to extend for another year with their Family Care Team Incentive bonus - the recipient numbers only include new recipients each year.

Table 8
Nursing Signing Bonuses by Type
April 2022 to October 2024

	2022-2023		2023-2024		2024-2025	
Incentive	**Recipients**	**Funding ($)**	**Recipients**	**Funding ($)**	**Recipients**	**Funding ($)**
Come Home Incentive	19	925,000	40	1,900,000	33	1,500,000
Difficult to Recruit Area Incentive	39	380,000	245	2,479,000	237	2,696,000
Nurse Practitioner Family Care Team Incentive	6	120,000	33	1,067,769	16	467,769
Total	**64**	**$1,425,000**	**318**	**$5,446,769**	**286**	**$4,663,769**

Source Newfoundland and Labrador Health services and the Department of Health and Community Services.

With respect to the long-term care bonus program, $4.3 million was paid as recruitment bonuses and $4.3 million as retention bonuses. While the funding was similar between the two bonuses aimed at long-term care, the number of recipients and average funding varied. The recruitment bonus had 867 recipients at an average bonus of $4,985. The retention bonus, which was the only program also available to personal care attendants, had 2,217 recipients at an average bonus of $1,947 - nearly half the funding directed at recruitment and retention in long-term care was paid to personal care attendants. The below chart summarizes long-term care bonus amounts between April 2022 and October 2024.

Table 9
Long-Term Care Bonuses by Occupation
April 2023 to October 2024

Occupation	# Recipients	$ Funding	$ Average
Registered Nurse	394	1,590,350	4,036
Licensed Practical Nurse	1080	3,029,950	2,806
Personal Care Attendant	1608	4,002,000	2,489
Nurse Practitioner	2	16,000	8,000
Total	**3,084**	**$8,638,300**	**$2,801**

Source: Department of Health and Community Services, Newfoundland and Labrador Health Services

Other Bonus Payout

The Foreign Credential Recognition Program was signed between the Governments of Canada and Newfoundland and Labrador in March 2024. The objective of the program was to improve the integration of skilled newcomers into the province's labour market; strengthen the foreign credential recognition assessment and capacity of the province; and to support pre-arrival of registered nurses from India to provide work experience to internationally educated individuals upon arrival.

The federal funding budgeted for this initiative was $5,141,635 over the 2023-2026 fiscal years. As of November 2024, there are 101 recipients of this federal funding that are actively residing in Newfoundland and Labrador:

- Eastern-Urban 5
- Eastern-Rural 17
- Central 33
- Western 36
- Labrador-Grenfell 10

Impact of Retention Efforts

Staffing Data - Physicians

Overall, it appears that the physician incentive programs may be having some degree of impact, in this early assessment. Staffing for general physicians decreased from 468 to 440 from 2022 to 2023. There was a 1.5 per cent increase in physicians employed within Newfoundland and Labrador Health Services – from 440 at March 2023 to 447 in March 2024 - which shows improvement in staffing levels. However, the level is still below the 2022 level of 468, primarily due to less physicians in the Eastern and the Labrador-Grenfell zones since 2022.

The overall decrease in full-time equivalent physicians was primarily due to fee-for-service physicians, who decreased from 375 in 2022 to 350 in 2024. There was an overall increase in salaried physicians in the same period, from 93 to 97. Staffing data for physicians is summarized in Table 10.

Table 10
General Practitioner Staffing Data

Occupation	Zone	As At March 2020	As At March 2021	As At March 2022	As at March 2023	As at March 2024
General Practitioners	**NL**	**495**	**484**	**468**	**440**	**447**
	Central	89	83	76	70	82
	Eastern Combined	300	305	297	285	276
	Labrador-Grenfell	31	29	24	18	18
	Western	75	67	72	67	71
Position Breakdown by Type						
General Practitioners –Salaried	**NL**	**124**	**115**	**93**	**87**	**97**
	Central	11	8	6	6	8
	Eastern Combined	65	68	51	53	57
	Labrador-Grenfell	23	23	18	12	13
	Western	25	16	18	16	19
General Practitioners – Fee-for-Service	**NL**	**371**	**369**	**375**	**353**	**350**
	Central	78	75	70	64	74
	Eastern Combined	235	237	246	232	219
	Labrador-Grenfell	8	6	6	5	5
	Western	50	51	53	52	52

Source: Department of Health and Community Services
Note: all counts represent a full-time equivalent physician position, meaning that multiple people could be occupying the role at one time.

Staffing Data - Nurses

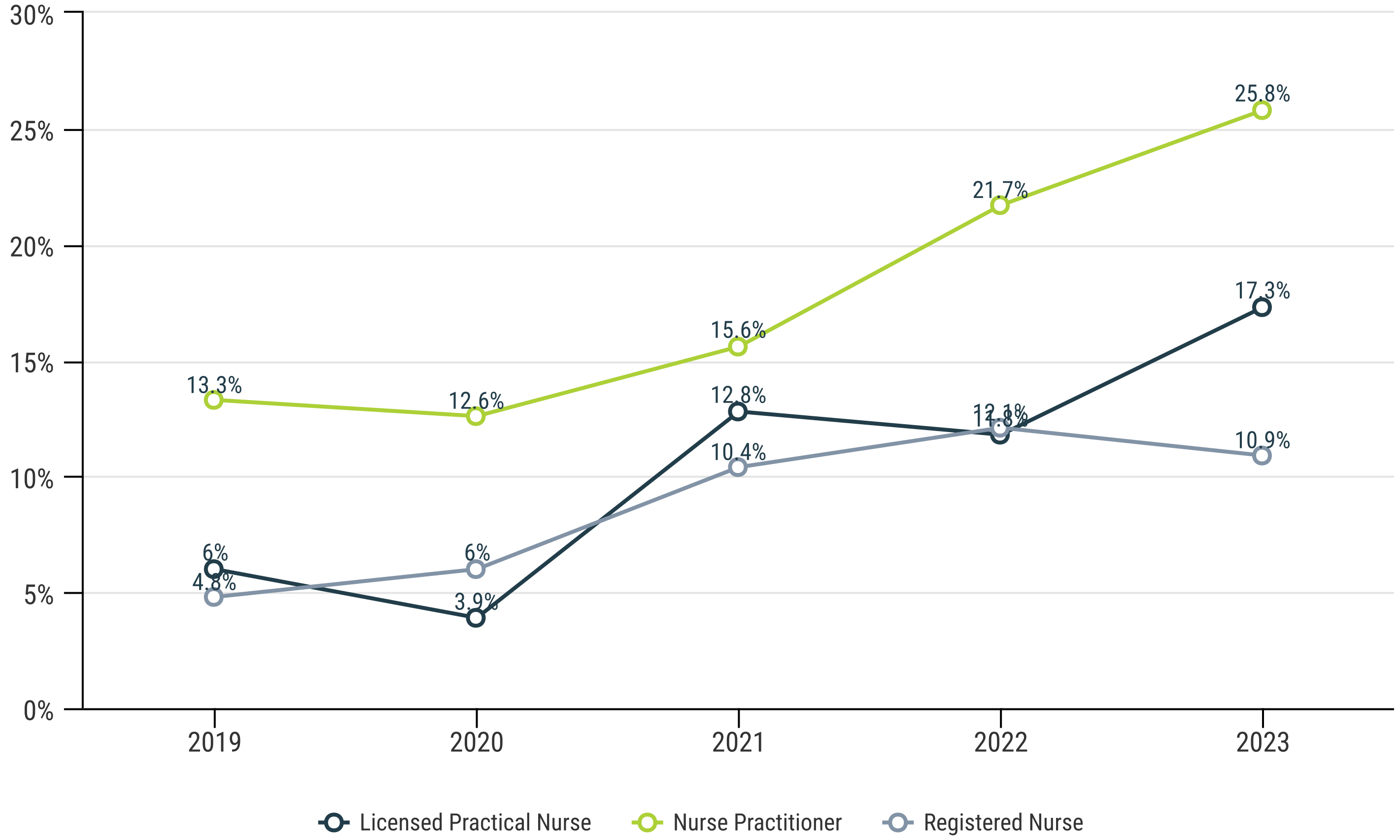
Overall, it appears that the nurse incentive programs may be having some degree of impact, in this early assessment. The nursing workforce is displayed in Table 11.

Table 11
Nurse Workforce

Occupation	Zone	Oct 2019 - Sept 2020	Oct-20	Oct-21	Oct-22	Oct-23	Change 2022-23
Licensed Practical Nurse	**NL**	**1,973**	**1,953**	**1,919**	**1,880**	**1,827**	**(53)**
	Central	439	422	423	395	379	(16)
	Eastern Combined	979	979	1003	977	951	(26)
	Labrador-Grenfell	162	163	164	174	162	(12)
	Western	393	389	329	334	335	1
Nurse Practitioner	**NL**	**150**	**167**	**173**	**206**	**224**	**18**
	Central	26	26	30	35	35	-
	Eastern Combined	80	92	96	113	126	13
	Labrador-Grenfell	24	25	25	27	24	(3)
	Western	20	24	22	31	39	8
Registered Nurse	**NL**	**4,912**	**4,991**	**4,990**	**5,035**	**5,186**	**151**
	Central	631	636	640	633	626	(7)
	Eastern Combined	3,155	3,186	3,236	3,272	3,402	130
	Labrador-Grenfell	342	363	370	371	401	30
	Western	784	806	744	759	757	(2)

While the workforce increased, the vacancy rate also increased. The largest increase noted came from nurse practitioners, with a vacancy rate of 21.7 per cent in October 2022 to 25.8 per cent in October 2023. The licensed practical nurse vacancy rate increased from 11.8 per cent to 17.3 per cent over the same period. Registered nurses experienced a vacancy rate decrease from 12.1 per cent to 10.9 per cent. Figure 9 illustrates these trends.

Figure 9
Workforce Vacancy per cent
October 2019 - October 2023



Monitoring

Since the inception of the recruitment and retention initiatives, there have been several monitoring and oversight efforts made:

- In 2019, as part of their 2020-2023 strategic plan, Labrador-Grenfell Regional Health Authority stated that they established a recruitment and retention subcommittee of the Board, to oversee development of a strategic plan for recruitment and retention of staff. The subcommittee was to ensure the delivery of services as well as monitoring and evaluation of the strategic plan.
- In 2021, the Central Regional Health Authority developed a Recruitment Steering Committee for recruitment and oversight.
- In January 2022, the government announced the establishment of the Provincial Health Professional Recruitment and Retention Office.

For many years, the four regional health authorities had a Human Resources Planning Subcommittee; it was dissolved in 2024 when the oversight was centralized within Newfoundland and Labrador Health Services.
The Department of Health and Community Services collects data from Newfoundland and Labrador Health Services regarding recruitment and retention initiatives monthly. The department also has a team dedicated to governance and evaluation for all incentive programs, with a report in progress evaluating each incentive program. When Treasury Board approved the various incentive programs, it included an evaluation report date for the specific incentive.

To date, the only report that has been submitted to Treasury Board in response to its request for evaluation, has been information related to the long term care recruitment and retention bonuses. It was due initially on September 30, 2023, but was not completed until January 20, 2025. At this early stage, it would appear monitoring is not being performed effectively.

Given the fact that most of the recruitment and retention bonuses examined are in early phases, it is difficult to draw any long-term conclusions about the effectiveness of these program and initiatives.

In my opinion, given the level of spending and the difficulties surrounding recruiting in the healthcare industry, government should make it a priority to monitor the effectiveness of the incentives discussed in this report.

Management of Salary Overpayments

A salary overpayment is an amount of money paid to an employee to which they are not entitled. Overpayments can happen for several reasons, including data input errors, incorrect information submitted to payroll for processing, or system errors.

Treasury Board Secretariat's Compensation and Payroll Services Division (Payroll Division) is responsible for administrating both the civil service and teachers' payrolls. As of February 2025, there were approximately 8,200 people being paid through the civil service payroll and 8,700 people through teachers' payroll.

We reviewed salary overpayments related to civil service payroll for the period March 31, 2019, to September 10, 2024; for teachers' payroll, we reviewed overpayments between March 31, 2019, to October 18, 2024. We note the analysis was completed using the division's data, which had not been audited by the Office.
Total salary overpayments outstanding were:

Civil service, as of September 10, 2024	$1,517,336
Teachers' payroll, as of October 18, 2024	$439,037
Total	**$1,956,373**

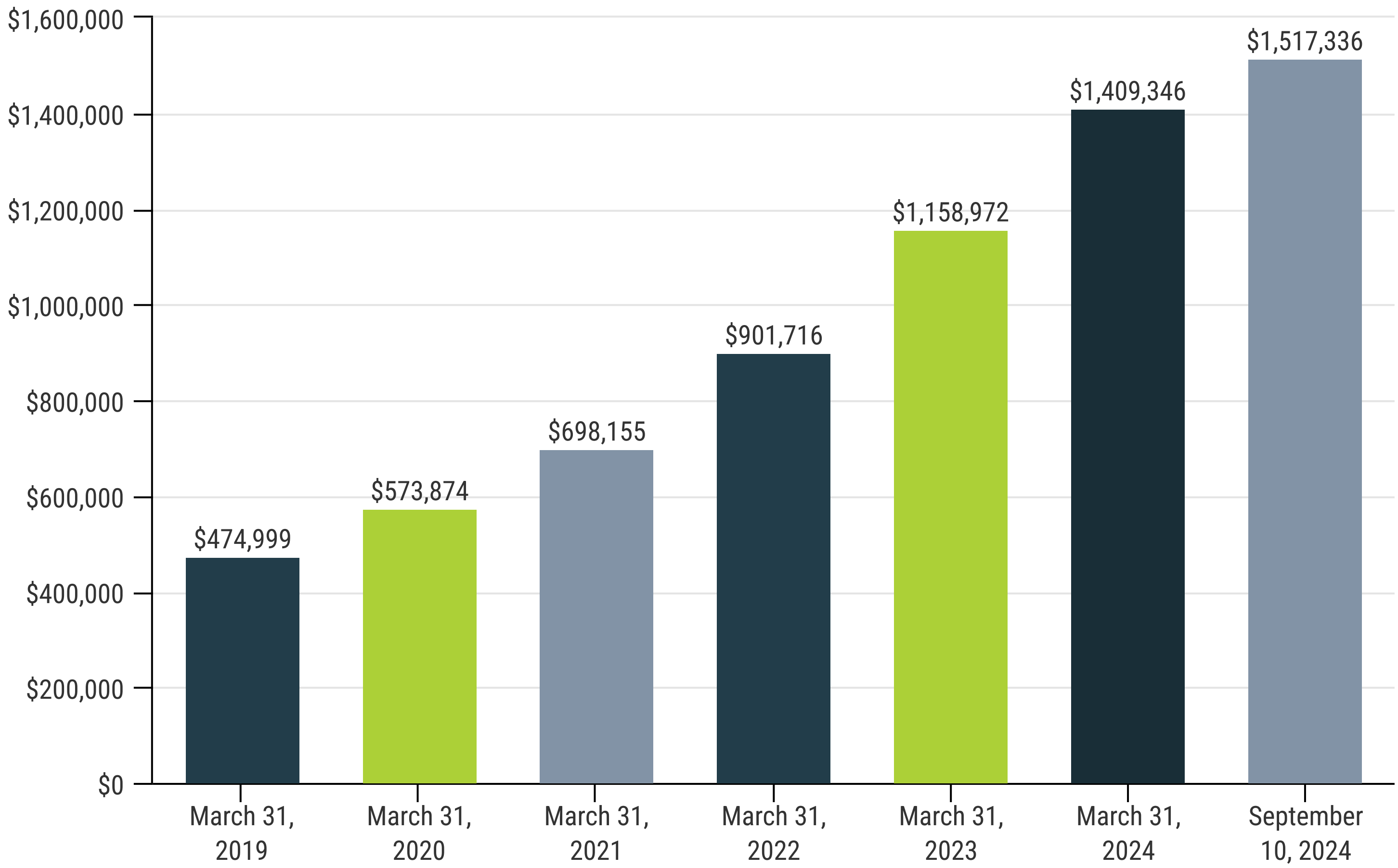
Total salary overpayments, worth almost $2 million, were made up of 1,064 cases, ranging from a few cents to almost $40,000 individually.

Civil Service Salary Overpayments

Growth of Outstanding Overpayments

Overpayments have continued to increase since 2019.

Figure 10 – Civil Service Payroll Overpayments Outstanding



Source: unaudited, compiled from data provided by Compensation and Payroll Services Division and from departmental public account submissions

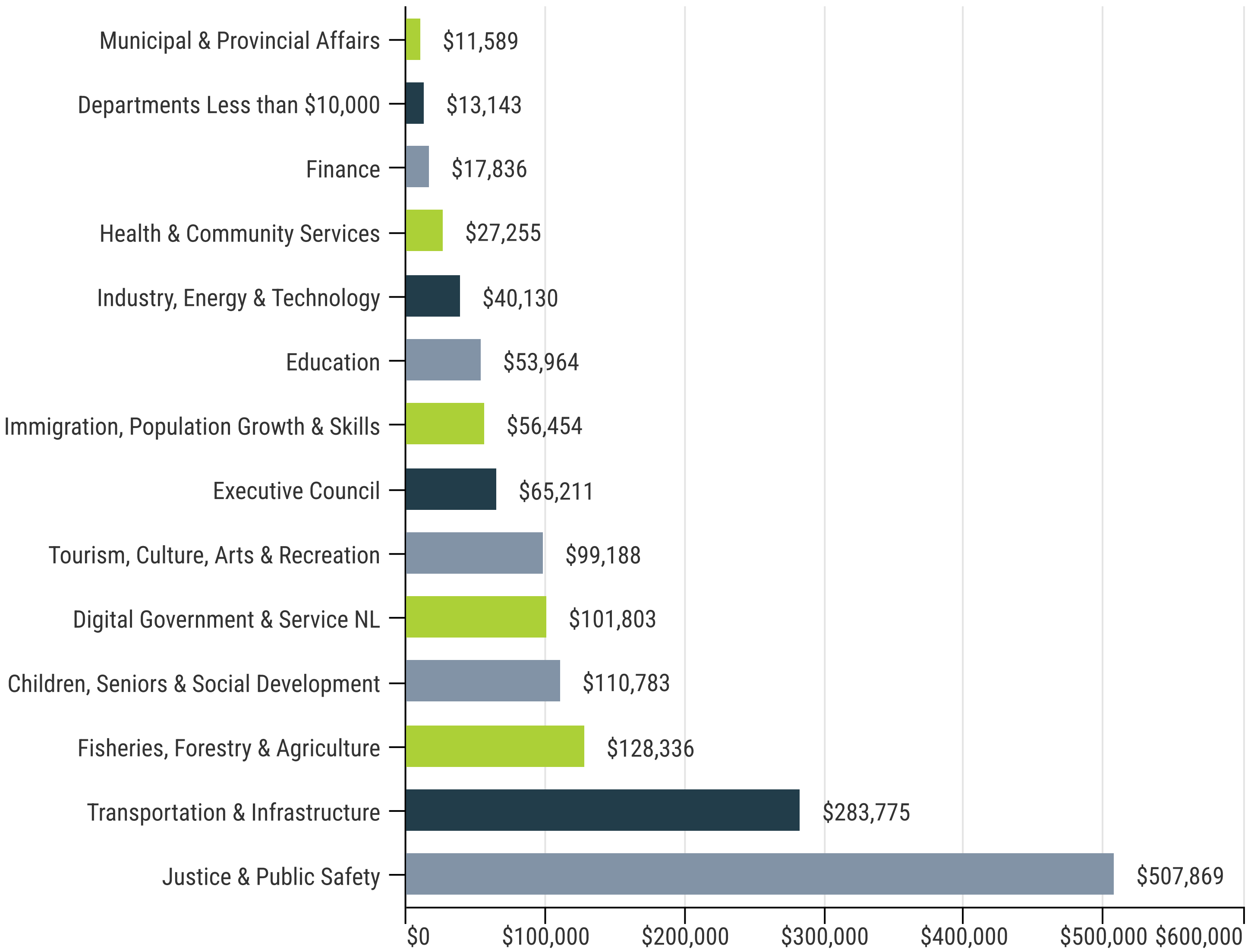
Since 2019, the balance of outstanding civil service salary overpayments has more than tripled, increasing by $1,042,337 (219 per cent); yet the number of people on civil service payroll increased by approximately two per cent for the same period. The increase in overpayments paired with comparatively little growth in staff on payroll indicates that a greater number of salary overpayments are occurring for government employees than before. These errors result in an administrative burden to government to administer and collect these amounts, as well as a financial burden to employees who must repay overpayments they did not create.

There was a total of 777 records related to salary overpayments. **For civil payroll, there were 232 records (30 per cent) totalling $358,767 that have been outstanding for more than five years; 60 records (8 per cent or $88,708) have been outstanding for more than 10 years.** We note one of these employees is still employed with government. The average balance outstanding of salary overpayments is $1,953.

Active employees account for 182 civil service overpayments (23 per cent or $394,449), while inactive employees account for 595 civil service overpayments (77 per cent or $1,122,887). Once an employee leaves the organization, collection becomes much more difficult.

We examined the highest outstanding salary overpayments and noted nine employees have an overpayment balance of more than $20,000 each, with the highest balance being $38,061. The total balance owing from these nine employees is $242,667. Three of these employees are still employed with government. Five of nine highest balances relate to the Department of Justice and Public Safety totalling $139,980.

Figure 11 - Overpayments by Department



Source: unaudited, compiled from data provided by Compensation and Payroll Services Division

Over half of the total civil service salary overpayments are contained within two departments - Justice and Public Safety (33 per cent) and Transportation and Infrastructure (19 per cent). Both departments have multiple divisions that require manual payroll processes that are done outside of government's payroll system. For example, some divisions use manual timesheets and manual leave tracking as well as a separate payroll subsystem. These manual processes require timely submissions to be entered into the system for payroll purposes, which likely leads to the increased proportion of salary overpayments relating to these departments.

The Payroll Division, through their tracking of salary overpayments, assign causes for overpayments. We note the causes assigned are based on the division's assessment and the Office did not verify their accuracy.

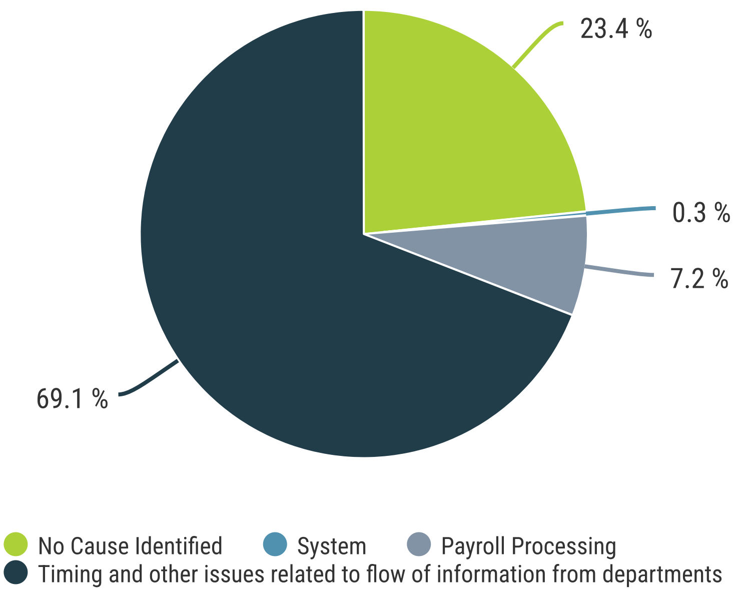
We do note some challenges with the accuracy and completeness of this tracking:

- Approximately 23 per cent (184 records) did not have a cause identified; and
- Data on the causes was prepared manually in a spreadsheet, using free text that may lead to inconsistency.

Examples of issues deemed to be a result of departmental issues include late notification of a change in employee status and overdrawn leave. Examples of Payroll Division issues include keying errors and unpaid leave not recovered before termination.

As of January 2025, there are 614 instances spanning several years, of unapproved civil service payroll registers – a key control in the accurate processing of payroll. This key control involves the review of bi-weekly payroll registers by departments for accuracy and completeness. In recent years, this process has been automated to make review more efficient and to allow the Payroll Division to monitor compliance with this control.

Figure 12
Causes of Civil Service Salary Overpayments



Source: unaudited, compiled from data provided from Compensation and Payroll Services Division.

Table 12
Outstanding Payroll Register Approvals by Fiscal Year

Fiscal Year	Number of Instances
2021	24
2022	82
2023	58
2024	125
2025	325
Total	**614**

Source: compiled from data provided by Payroll Division.

Analysis of this data identified 20 different individuals have 10 or more instances where they did not approve their employee's payroll within the required timeframe. The Payroll Division confirmed there is currently no process in place to report these instances of non-compliance. A lack of timely approval of payroll is a contributing factor to overpayments occurring and not being detected in a timely manner.

Collection of Overpayments
The Payroll Division of the Office of the Comptroller General is responsible for the collection of salary overpayments from active employees. Active employees will have overpayments recovered on a biweekly basis at a rate of five per cent per pay period, unless an alternative arrangement is agreed on. This rate means it can take up to 10 months for government to fully recover funds, with no interest being charged. Collection from inactive employees is generally handled by the Collections Services Division of the Department of Digital Government and Service NL.

As of October 10, 2024, there were 442 records (57 per cent) totalling $653,616 that had been forwarded for collection as they are no longer employed in the service. Once a person leaves employment, the ability to collect money owing decreases significantly.

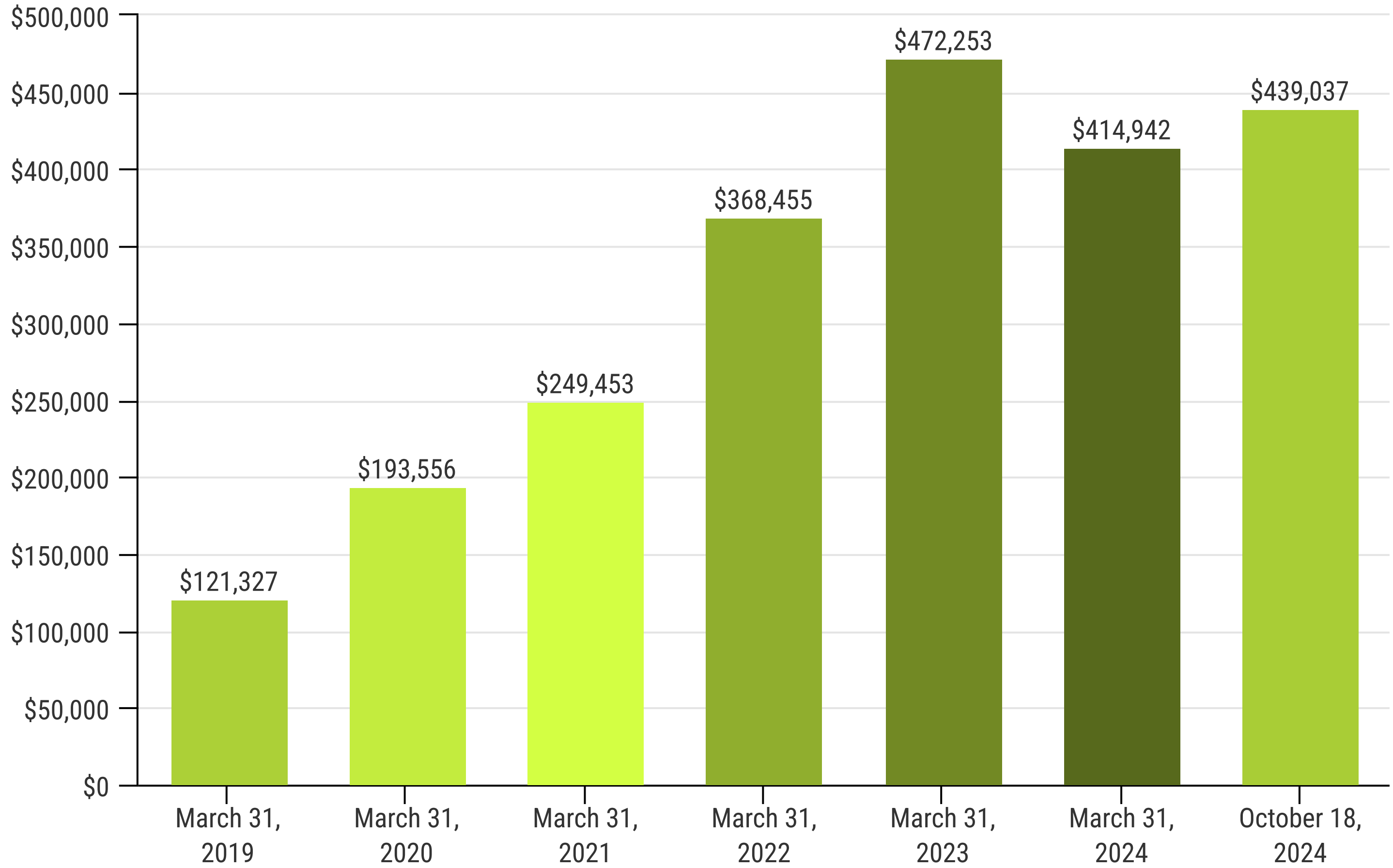
The review also identified overpayments related to deceased civil servants where no future collections will be pursued (three individuals totalling $11,260), outstanding from four to 12 years and not submitted for write-off. We also found 404 civil service records, totalling $825,656, that have not had any recovery recorded. The average age of these balances is approximately four and a half years old, with the oldest outstanding being 13 years.

Teachers' Payroll

The Payroll Division provides payroll services to both teachers and student assistants employed by NLSchools and Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador. Schools are responsible to enter certain payroll information in the Time Claims and Attendance System for payroll to be accurately processed.

Growth of Outstanding Overpayments
The balance of teacher salary overpayments has also been growing over recent years.

Figure 13 – Teachers' Payroll Overpayments Outstanding



Source: Unaudited, compiled from NLSchools Departmental Public Account Submissions and from data provided by Compensation and Payroll Services Division

Since 2019, the balance of teachers' salary overpayments has more than tripled, increasing by $317,710 (262 per cent). As of October 18, 2024, the balance outstanding related to teachers' payroll overpayments was $439,037.

There was a total of 287 teacher records that have salary overpayments. Full time teachers account for 249 records (87 per cent) and substitute teachers account for 38 records (13 per cent).

Of the total 287 employee records, **there were 28 records totalling $90,124 that have been outstanding for more than 5 years, representing 21 per cent of the total amount of outstanding overpayments. From the total teacher records outstanding, two records totalling $3,222 have been outstanding for more than 10 years.**

We examined the highest outstanding teachers' salary overpayments and noted 15 employees have an overpayment balance of more than $5,000 each, with the highest balance being $20,297. The total balance owing from these 15 employees is $130,984 - four of these employees are still employed with NL Schools.

Former teachers (inactive employees) account for 167 records (58 per cent) totalling $314,568. Active employees account for the remaining 117 records (41 per cent) totalling $118,552. There were three records (1 per cent), totalling $5,917, that did not have a payroll status assigned for the employee.

The average teachers' salary overpayment outstanding is $1,530.

<u>Causes of Salary Overpayments</u>
Like the civil service payroll, teachers' payroll overpayments are tracked by the Payroll Division and potential reasons are assigned to each overpayment. However, many overpayments did not have a cause identified. We note the causes assigned are based on the division's assessment and the Office did not verify the accuracy.

Delays by NLSchools in sending information to the Payroll Division represented 166 (58 per cent) of the total 287 records. There were also delays in entering accurate information in the Time Claims and Attendance System by individual schools, representing 34 records (12 per cent) of outstanding overpayments. NL Schools has noted that payroll processing deadlines present challenges in being able to provide information in the required timeframes.

<u>Collection of Overpayments</u>
For active teachers and student assistants, the collective agreement states the recovery process (article 23.07) shall be equally over a twelve month period or alternately agreed arrangement. For inactive teachers and student assistants, NLSchools sends a letter to the inactive employee outlining repayment options, as these individuals might not have future pay periods from which to recover the overpayment. When no further payments are due to the teacher or student assistant and no further agreement on collection can be reached, the account is to be transferred by NLSchools to the Collections Services Division for collection activity.

We found 186 records (65 per cent), totalling $311,540, have not had any recovery recorded.

In my opinion, government should review their processes for civil service and teachers' payroll to address the root causes of overpayments. Preventing and detecting salary overpayments must be timely, particularly for inactive or former employees, with reporting and monitoring used to improve accountability.

Modernization of the Financial Administration Act

The Financial Administration Act establishes the general financial management framework for government, including the role and authority of the Treasury Board. The Act also sets out the processes for key aspects of financial management within government such as budgeting, how public monies are collected and disbursed, as well as how borrowing and investing are done. The Act is the cornerstone legislation in the province with respect to financial management.

Age of Legislation

The Act was enacted in 1973 – over fifty years ago - with minimal updates to the Act since that time. While many general principles remain the same, there have been changes to financial management and comptrollership practices, leaving the current Act with outdated language and practices.

Each Canadian jurisdiction has its own financial administration act or similarly named legislation. Based on the review of legislation from other provinces, we have noted amendments have been made to reflect modern conditions. For example, legislation in Ontario has been amended each year from 2014 to 2024. Many amendments specify the treatment of accounting and finance topics such as non-monetary transactions, environmental remediation liabilities and conversion applications for loans, and investments in foreign currency. Ontario has also amended its legislation to enact greater control and accountability for commitments or other arrangements that increase provincial indebtedness.

There have also been amendments in Nova Scotia and British Columbia. Additionally, New Brunswick recently passed changes to its Financial Administration Act to better align with current government financial management practice and current public sector accounting principles. These changes provide greater clarity to roles and authorities set out in the Financial Administration Act and clarify the requirements for estimates and the use of special warrants.

Write Back Period

The province began preparing its Public Accounts using the accrual basis of accounting in the 1990’s. Prior to this, financial reporting was on a cash basis. The Financial Administration Act was written when this cash-based reporting was reflective of the needs of financial statement users of the time. The practice prescribed within section 23 of the Act allows for invoices or accounts received by the Comptroller General for payment within 30 days following the end of the fiscal year, to be charged back to that fiscal year. This has been informally referred to as the “write-back period”. This write-back period serves to assist in ensuring budget funds are utilized.

Newfoundland and Labrador is the only jurisdiction in Canada whose legislation allows for a write-back period. This results in the province’s books being kept open for 30 days after fiscal year-end and delays the preparation of the Public Accounts. As I have previously reported upon, Newfoundland and Labrador remain one of the last jurisdictions in the country to table its Public Accounts.

In my opinion, it is important for the Financial Administration Act to be modernized, to reflect current practices and terminology. A review of the Act could also provide opportunities to improve financial management across the government reporting entity, strengthen fraud and risk management practices as well as enhance financial reporting.

Fraud Reporting

Pursuant to section 20 of the Auditor General Act, 2021, the Auditor General must report to the Lieutenant-Governor in Council any situation that may involve the improper retention or misappropriation of public money, or any activity that could constitute an offence under the Criminal Code, or another act, which became evident during the audit process. The Act also requires that a list of the incidents reported to the Lieutenant-Governor in Council be attached to the annual report.

Incidents are discovered because of the audits or may be reported to the Auditor General by government and its agencies, boards, and commissions, in response to inquiries during the financial audits. In some instances, these cases may be voluntarily reported to the Auditor General throughout the year.

Since the last report, 683 incidents came to light through audits or were reported to the Office.

We were informed of numerous instances of attempted cheque fraud using remote deposit and there was a significant increase in instances of cheque fraud (582 incidents), with the majority related to one-time cheques issued through the Cost-of-Living program.

We are pleased to report that based on information provided by government, internal controls are in place to detect these instances, resulting in no loss to government.

However, there is still a risk. In instances where an individual cashes a cheque via remote deposit and then cashes the cheque again at a small business, for example, the business may be at risk of having to absorb the loss of the fraudulently cashed cheque.

In my opinion, eliminating the issuance of cheques in favour of direct deposit should be considered for any future benefit payment programs.

Additional instances of fraud by external parties included:

- **Income support received under false pretenses (89 instances);**
- **An attempt to intercept payments by government to a vendor;**
- **A potentially fraudulent receipt of funding under the Disaster Financial Assistance Arrangements program;**
- **A potential misappropriation of monies by a member of an organization who is in receipt of government funding;**
- **A contract nurse lying about credentials and stealing medication; and**
- **A personal care home not giving residents their personal allowance.**

These cases demonstrate severe breaches of trust. It is noted the Income Support program accounted for 125 (18 per cent) of all reported fraud cases. The issue of income support overpayments was discussed in the last annual financial statement report (February 2024). At that time, we cautioned government to take preventative measures to reduce the amount of income support overpayments, such as using direct deposit. A well-maintained fraud management program is essential to ensuring employees understand government's expectations regarding ethical behaviour. Considering noted instances of fraud from external sources, it is important that contractors, vendors and others who deal with government understand these expectations.

We also saw seven incidents involving government employees. These mainly involved inappropriate use of government credit cards and fraudulent claims under government's group insurance plan. In some cases, employees were disciplined because of investigations conducted. Generally, these incidents were not reported to the police but handled internally.

A true culture of zero tolerance for fraud requires more than just messaging. It must be reflected in government's dealings with internal and external parties. This means clear, consistent action when incidents of fraud are found. I encourage government to promote fraud awareness – and the consequences of such behaviour - regarding ethical behaviour to employees and external parties.

Appendix III contains a list of all incidents, which satisfies the reporting requirements under the Act.

Appendix I
About this Report

This report satisfies section 23 of the Auditor General Act, 2021 and ensures the Office of the Auditor General satisfies its legislative requirements of promoting accountability through its audit activities.

The Consolidated Summary Financial Statements (also referred to as the Public Accounts) provide the most complete information about the province's financial position and operating results. They are the principal means by which government reports on its accountability and management of public funds to the House of Assembly and the people of the province.

The Government of Newfoundland and Labrador (government), through the Office of the Comptroller General, is responsible for providing the House of Assembly with these financial statements, which are prepared in accordance with Canadian public sector accounting standards. The financial statements include a statement of responsibility which outlines government's responsibility for maintaining a system of internal control to provide reasonable assurance that transactions are properly authorized; assets are safeguarded; financial records are properly maintained; and financial statements are prepared that are free from material misstatement whether due to fraud or error. The Public Accounts also includes a financial statement discussion and analysis which is unaudited, and the Office does not express an opinion on this. However, the financial statement discussion and analysis provides commentary on the financial results and financial position of the province which is important for the people of the province to understand. A copy of the Consolidated Summary Financial Statements is available on the government's website.

The Office of the Auditor General (Office) audits and provides an opinion on the Public Accounts annually as required by section 17 of the Auditor General Act, 2021. These financial statements include all organizations in the government reporting entity. As of March 31, 2024, the government reporting entity was made up of government departments and the Legislature plus 38 entities (35 government organizations, two government business enterprises, and a proportionate share of a government business partnership), as listed in Schedule 15 of the Consolidated Summary Financial Statements.

Level of Assurance & Audit Procedures

The audit of the Consolidated Summary Financial Statements is designed to obtain reasonable, but not absolute, assurance that the Consolidated Summary Financial Statements, as a whole, are free of material misstatement. Reasonable assurance, as defined in Canadian generally accepted auditing standards, means that sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level to support the conclusion that the financial statements are free of material misstatement. The Independent Auditor's Report provides the opinion as required, signed by the Auditor General per her legislation.

We comply with Canadian Standard on Quality Management 1 and, accordingly, maintain a system of quality control that includes documented policies and procedures to ensure compliance with professional standards, ethical requirements and legal and regulatory requirements. We complied with the independence and ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of Newfoundland and Labrador.

The Office has an integrated system of quality management that provides reasonable assurance that engagements are performed in accordance with professional and Office standards and that engagement reports issued by the Office are appropriate in the circumstances.

The Office is committed to continually monitoring and improving the audit quality. The monitoring process includes internal file reviews completed by the Professional Practice and Innovation group, peer reviews completed by other legislative audit offices across Canada, and practice inspections completed by the Association of Chartered Professional Accountants of Newfoundland and Labrador.

Appendix II
Independent Auditor's Report

To the House of Assembly
Province of Newfoundland and Labrador

Report on the Audit of the Consolidated Summary Financial Statements
Opinion
I have audited the consolidated summary financial statements of the Province of Newfoundland and Labrador, which comprise the consolidated statement of financial position as at March 31, 2024, and the consolidated statements of change in net debt, operations, change in accumulated deficit, remeasurement gains and losses and cash flows for the year then ended, and notes to the consolidated summary financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated summary financial statements present fairly, in all material respects, the consolidated financial position of the Province of Newfoundland and Labrador as at March 31, 2024, and its consolidated results of operations, change in its net debt, change in its accumulated deficit, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion
I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Summary Financial Statements section of my report. I am independent of the Province of Newfoundland and Labrador in accordance with the ethical requirements that are relevant to my audit of the consolidated summary financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter
Without modifying my opinion, I draw attention to Note 24 to the consolidated summary financial statements which discloses certain details of government's rate mitigation plan.

Other Information
Management is responsible for the other information. The other information comprises the information in the Public Accounts of Newfoundland and Labrador, but does not include the consolidated summary financial statements and my auditor's report thereon.

My opinion on the consolidated summary financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated summary financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated summary financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Summary Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated summary financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated summary financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated summary financial statements, management is responsible for assessing the Province of Newfoundland and Labrador's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Province of Newfoundland and Labrador's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Summary Financial Statements
My objectives are to obtain reasonable assurance about whether the consolidated summary financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated summary financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated summary financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Province of Newfoundland and Labrador's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Province of Newfoundland and Labrador's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated summary financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Province of Newfoundland and Labrador to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated summary financial statements, including the disclosures, and whether the consolidated summary financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated summary financial statements to express an opinion on the consolidated summary financial statements. I am responsible for the direction, supervision, and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General

October 23, 2024
St. John's, Newfoundland and Labrador

Appendix III
Fraud Reporting to Lieutenant-Governor in Council

The primary responsibility for reporting fraud rests with department management or the entity in which the suspected fraud occurred. The instances of fraud included in this report came from a number of sources and are listed by relevant department in this appendix.

Department of Children, Seniors, and Social Development

- The department reported numerous instances of cheque fraud where individuals attempted to cash cheques more than once. All instances were detected as duplicates resulting in no loss to government. All instances were referred to the police. Details are as follows:

    - On March 14, 2024, the department reported twenty-nine instances.
    - On November 12, 2024, the department reported seven instances.

  We reported these matters to the Minister of Finance on February 20, 2025.

- The department reported income support overpayments related to amounts paid to clients under false pretenses, which were identified between March 31, 2024, and September 30, 2024. In December 2024, the department reported 89 clients with overpayments totaling approximately $2 million. For active clients, as per regulations, overpayments are recovered through a five per cent reduction in monthly basic benefits, or approximately $28 per month. Outstanding balances of former clients are collected through a number of mechanisms, including federal set-off. Such amounts are not typically referred to police. We reported this matter to the Minister of Finance on February 20, 2025.

Department of Fisheries, Forestry and Agriculture

- On June 28, 2024, the department reported an instance of suspected fraud with regards to excessive fuel usage for a grader unit, when compared to other units driving the same number of kilometers. Additional items, included in fuel purchases, were deemed excessive. A formal investigation was launched in January 2024 and because of the investigation, the department was unable to determine whether any fraud had occurred or if there had been any financial loss to government. We reported this matter to the Minister of Finance on February 20, 2025.

Department of Digital Government and Service NL

- On July 4, 2024, the department reported four instances of cheque fraud where individuals attempted to cash cheques more than once. All instances were detected as duplicates resulting in no loss to government. All instances were referred to the police. We reported this matter to the Minister of Finance on February 20, 2025.
- On July 4, 2024, the department reported the identification of a travel card holder, who had multiple instances of using their travel card for personal purchases since April 2023. The employee repaid the amount owing and was disciplined. There was no loss to government and the travel card was cancelled. This instance was not reported to police. We reported this matter to the Minister of Finance on February 20, 2025.

Department of Education

- On July 8, 2024, the department reported a fraudulent attempt to intercept a payment to a vendor. There was no loss to government. This instance was referred to the police by the vendor. We reported this matter to the Minister of Finance on February 20, 2025.

Department of Justice and Public Safety

- On July 3, 2024, the department reported an instance of suspected fraud regarding an individual who received assistance in April 2023 through the Newfoundland and Labrador Disaster Financial Assistance Program. The department filed a report with the RCMP, and the investigation is ongoing. We reported this matter to the Minister of Finance on February 20, 2025.

- On July 3, 2024, the department reported an instance of fraud relating to misuse of a courier by an employee. The division ended their contract and reported the matter to the Law Society of Newfoundland and Labrador. This instance was not reported to police. We reported this matter to the Minister of Finance on February 20, 2025.

- The Office became aware of attempted fraud against the Support Enforcement Division during the audit of their financial statements for the 2023-24 fiscal year. Eighteen cheques payable to three separate payees were deposited multiple times. Support Enforcement was fully reimbursed by the bank and there was no loss to government. All instances were reported to the police. We reported this matter to the Minister of Finance on December 6, 2024.

Department of Transportation and Infrastructure

- On July 17, 2024, the department reported two instances of the inappropriate use of a government-issued credit card. In March 2023, an employee made an expenditure (later deemed legitimate), but did not pay off the credit card for numerous months. In June 2024, another employee made inappropriate purchases. In both cases, the employees were disciplined and there was no loss to government. These incidents were not reported to police. We reported this matter to the Minister of Finance on February 20, 2025.

Treasury Board Secretariat

- On July 5, 2024, Treasury Board Secretariat's Public Accounts and Banking Services Division reported 524 instances of cheque fraud had occurred, with the majority relating to the approximately 400,000 cheques issued through the Cost-of-Living program. Instances included both duplicate and materially altered cheques, occurring across various departments; 482 of these fraudulent cheques were Accounts Payable cheques, while the remaining 42 were Long Term Assistance cheques. Two incidents related to Long Term Assistance were reported to police. Treasury Board Secretariat is working to establish a reporting process for these cases as opposed to reporting each individually. There was no loss to government. We reported this matter to the Minister of Finance on February 20, 2025.

- On July 5, 2024, Treasury Board Secretariat reported that in November 2023, they were informed of two instances of group insurance fraud revealed after a random audit. Both individuals were employees of the same entity. One employee made seven fraudulent claims for their spouse, the full amount has been recovered, there was no loss to government. The second employee, made six fraudulent claims. The employee expressed willingness to repay the funds, but the insurance provider has not made any recoveries. The case has been forwarded to collections to pursue recovery. Both instances were not reported to police, and we reported them to the Minister of Finance on February 20, 2025.

Newfoundland and Labrador Health Services

- On January 23, 2024, Newfoundland and Labrador Health Services reported an instance of potential fraud detected in September 2023. The operators of a personal care home were not providing residents with their monthly personal allowance, instead retaining the funds for supplies. There was no running balance maintained, and as a result, no stated total amount of potentially misappropriated funds or potential loss to government. We reported this matter to the Minister of Finance on February 23, 2024.

- The Office became aware of one instance of fraud during the 2023-24 audit of Newfoundland and Labrador Health Services. In November 2022, management of the former Central Regional Health Authority became aware of a contracted nurse who was seen placing medications in their lunch bag. The individual was dismissed, and the instance was reported to police and the College of Registered Nurses of Newfoundland & Labrador. It was determined that the individual did not hold any nursing credentials, as the license number they provided was owned by a nurse with a similar name. The individual was employed between August 19, 2022, through November 7, 2022. We reported this matter to the Minister of Finance on November 1, 2024.

Department of Immigration, Population Growth and Skills

- On September 6, 2024, the department reported an instance of suspected fraud by a career counselling and job placement service corporation. The board of directors of the corporation notified the department that there were irregularities in the organization’s bookkeeping, where significant funds were unaccounted for. The Board has been unable to contact the organization’s signing authority, the Executive Director. The department has since taken actions to limit the Executive Director’s access to funds, including removing the Executive Director’s access to the processing system. The Board has removed the Executive Director from accessing its bank accounts. The department indicated that it would start an audit of this file and work with the Office of the Comptroller General and police. We reported this matter to the Minister of Finance on February 20, 2025.

About Us

Vision

Promoting positive change and accountability in the public sector through impactful audits.

Mission

To promote accountability in government's management and use of public resources and encourage positive change in its delivery of programs and services.

Values

Above all else, the Office of the Auditor General must have independence, credibility and integrity. These are essential to everything we do and critical to our success. The Office of the Auditor General complies with professional and office standards to produce relevant and reliable audit reports. The Office of the Auditor General's independence of government, in fact, and in appearance, provides objective conclusions, opinions and recommendations on the operations of government and crown agencies. Our staff work in a professional and ethical manner, ensuring respect, objectivity, trust, honesty and fairness.

Office of the Auditor General Financial Audit Team

The Auditor General extends sincere thanks to her Financial Audit Team for their dedication, diligence, and patience over the past year. In addition to the Auditor General, Denise Hanrahan, CPA, MBA, ICD.D and Deputy Auditor General, Sandra Russell, CPA, the personnel involved in the planning, coordination and direction of the Office's financial statement audit program are led by Assistant Auditor Generals, Erica Peddle, CPA and Brian O'Neill, CPA. The Office can fulfill its mission due to the consummate commitment and professionalism of a dynamic team of professional auditors, including:

Marc Blake, CPA, Audit Principal	Michael Kennedy, CPA, Audit Senior
Adam Martin, CPA, Audit Principal	Kunal Laungani, CPA, Audit Senior
Tracy Pelley, CPA, Audit Principal	Leif Martin, CPA, Audit Senior
Jennifer Tuttle, CPA, Audit Principal	Erica O'Brien, CPA, Audit Senior
Andrew Way, CPA, Audit Principal	Curtis Parrell, Audit Senior
Colin Butler, CPA, Audit Manager	Brad Short, CPA, Audit Senior
Martin Cook, CPA, CISA, Manager of Audit Support and Innovation	Jonathan Williams, Audit Senior
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