Tabled by the Minister of Finance
K Handley Sorsoli
May 23, 2024

REPORT OF THE AUDITOR GENERAL

To the House of Assembly

Summary

For the Year Ended
31 March 2005

Newfoundland and Labrador

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Preface

This document is presented as a summary of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2005*. That Report contains approximately 560 pages of conclusions, commentary, recommendations and auditees' comments. This document contains summary information on each item included in the Report. When readers identify a topic of interest, we encourage them to read the relevant section in the Report.

Introduction

The *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2005* was prepared in compliance with Section 12 of the *Auditor General Act*. Section 12 requires that the Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2005* which was submitted to the Speaker of the House of Assembly and released on 29 November 2005.

A report on the operations of the Office of the Auditor General for the year ended 31 March 2005 was submitted to the Speaker and released on 23 January 2006.

Chapter 1

Reflections of the Auditor General

This Chapter provides an introduction to the Report as well as an overview of specific issues identified by the Auditor General relating to:

- inconsistent compensation practices among Government entities;
- financial and administrative practices at the Central West Health Corporation, the Royal Newfoundland Constabulary, Memorial University of Newfoundland, and the Municipal Assessment Agency;
- management practices over the Newfoundland and Labrador Prescription Drug Program;
- the use of secondments in filling positions at the Department of Education;
- licensing, monitoring and inspecting personal care homes;
- the lack of Province-wide coverage for land based 911 emergency response services;
- registering and inspecting petroleum storage systems and enforcing compliance with environmental legislation;
- measures used to monitor the Income Support Program;
- depletion of the Labrador Transportation Initiative Fund;
- Government's investment in Icewater Seafoods Inc. and in a manufacturing company; and
- management of Government's vacant/surplus properties.

Chapter 2

Comments on Audits and Additional Examinations

2.1 Inconsistent Compensation Practices

The Public Service Secretariat indicates that the public sector has approximately 41,000 employees located throughout direct Government, the health authorities, the school districts and various Government entities such as Memorial University of Newfoundland and Newfoundland and Labrador Hydro.

There are many examples of inconsistent compensation practices among these Government entities. These inconsistent compensation practices relate to such items as salaries and termination benefits, leave, overtime, travel allowances and employee computer purchase plans.

Of particular concern is that many of the inconsistencies relate to the more senior officials at the entities. Furthermore, in these instances the senior officials are often aware of the inconsistencies and in many instances (such as the school boards and hospital boards) even though they were told to stop such practices, they continue to take the higher benefits. From my discussions with many senior officials at Government entities I get the sense that these officials feel justified in their actions and have an attitude that -if the other board can do it then so can they.

My Office has been reporting inconsistencies in compensation practices among Government entities since the early 1990s and yet nothing seems to change. It is my opinion that the inconsistent compensation practices continue because there is no consequence of doing so.

On 2 June 1994, Cabinet directed that Treasury Board advise all Government entities including boards, agencies and commissions that they should comply with compensation practices established for Government departments.

However, adequate steps were not taken at the time to ensure that Government entities comply with Government compensation practices. Discussions with officials of Executive Council indicated that, with certain exceptions, there has been no clear policy direction on the extent of conformity required by boards, agencies and commissions with Government compensation practices.

Consequently, we continue to find numerous incidents of compensation practices in Government entities that are not consistent with the compensation practices established for Government departments.

Memorial University of Newfoundland and Newfoundland and Labrador Hydro have salary levels which are not consistent with those established for Government departments. Although Government and each of these entities use a job classification system, instances of higher pay for similar work (i.e. a compensation inconsistency) occur as a result of different compensation standards.

All departments, boards, agencies and commissions are using public money to compensate employees. Government is the ultimate employer of all public employees whether they work for Government departments or a Government entity. However, we continue to see that Government employees are not all compensated on a consistent basis. Furthermore, these inequities usually result in increased costs for Government.

2.2 Monitoring Agencies of the Crown

A major role of the Office of the Auditor General is to monitor Crown agencies and provide information to the House of Assembly. Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditors' report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

Of the 77 (2004 -84) entities required to prepare annual financial statements, 30 (2004 -31) were audited by our Office while 45 (2004 - 51) were audited by private sector auditors. Contrary to their governing legislation, the remaining 2 entities, the Memorial University Foundation and the Newfoundland and Labrador Occupational Therapy Board have never submitted audited financial statements.

As of 15 December 2005, we had not received the audited financial statements and management letter for 1 of the 45 entities audited by private sector auditors, the Literacy Development Council of Newfoundland and Labrador. For the majority of the remaining 44 entities, we did not receive the audited financial statements and management letters from the private sector auditors on a timely basis. On average, audits are completed and the auditors' reports signed within 3 months after the year-end. However, in most cases, our Office does not receive the financial statements and related management letters until another 4 months after the audit report date, and often only after follow-up by our Office.

The highlights from our review of audited financial statements and management letters of Crown agencies are presented in Part 2.2 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2005.*

2.3 Memorial University of Newfoundland

Memorial University of Newfoundland was founded in 1925 (as Memorial University College) and was granted university status in 1949. Today, the University's main campus and Marine Institute are located in St. John's, with other campus locations in Corner Brook (Sir Wilfred Grenfell College) and Harlow, England. Memorial is the largest university in Atlantic Canada, with 17,800 students engaged in full and part-time studies at under-graduate and graduate levels. Each year, the graduating class numbers in excess of 2,000 students. The University employs 950 full-time faculty and 850 sessional instructors, 2,300 administrative and support staff, plus 2,000 students in part-time jobs.

Conclusions from our review are as follows:

Board governance

The University is excluded from many of the requirements of the *Transparency and Accountability Act* (to be proclaimed). This *Act* is intended to hold Government departments and other Government entities accountable to Government and the House of Assembly.

Although my Office has been recommending for years that the University be included in the Province's Consolidated Summary Financial Statements, this has never happened. I am pleased to report, however, that Government approved consolidation of the University commencing with the 31 March 2006 Public Accounts.

The Chancellor, President, Chairperson of the Board of Regents, vice-presidents and other officers and employees of the University are not compellable to attend as witnesses before committees of the House of Assembly.

Other than approving the University's budget and reviewing other information in relation to Provincial funding, there has been little monitoring of the University's financial affairs by the Department of Education.

While a Strategic Framework was approved by the Board of Regents in 2000, it does not contain the comprehensive objectives and related performance indicators typically provided in such plans for use in assessing future progress. The University has started a new strategic planning process intended to set new goals and develop an integrated planning approach.

The University has established several Separately Incorporated Entities. These entities are controlled by the University and included in its consolidated financial statements; however, management agreements are not in place with all SIEs to address responsibilities and accountabilities.

Human resources

The University's compensation practices are not consistent with those of Government with regard to paying salaries, paying market differentials, paying administrative stipends, issuing forgivable loans, providing free course tuition, and subsidizing membership fees. Many of these benefits would not typically be available to employees in Government departments or other Government entities. These inequities usually result in increased costs and, therefore, less funds available within the University to fund programs.

Our review of human resources also indicated that the University's recruitment policies were not always complied with or compliance was not documented, the computer system used by the University for personnel and payroll purposes was not accurate, and there were inconsistencies in leave management processes and in pension plan requirements.

Revenue

The University had identified at least five instances between April 2002 and July 2004 relating to thefts of funds and missing deposits. One instance was noted in July 2004 where approximately $90,000 in funds was missing from student registration fees at the University's Marine Institute Offshore Safety and Survival Center. At the time of our review, the matter was under investigation by the Royal Newfoundland Constabulary. Resulting from these issues, the University engaged a firm of private sector auditors to conduct a cash management review. That review had not been completed at the time of our review.

Issues were also noted with inconsistent controls over revenue recording and with the lack of independent appraisals obtained in assigning values for charitable receipts issued for tax purposes. Such receipts relate to Gift-in-Kind donations received by the University.

Purchasing

Our review of purchases, travel claims, relocation expenses and other expenses identified issues related to non-compliance with the *Public Tender Act*, inadequate documentation, non-compliance with University policies, claims for ineligible expenses, and overpayments of travel claims.

In the area of travel expenses in particular, the nature and extent of the errors and overpayments identified during our review indicates that the review of travel claims by source faculties, departments and divisions is unsatisfactory and that subsequent review at the Financial and Administrative Services Division is not always detecting errors missed.

Of the 137 purchases sampled that were greater than $10,000, we found issues with 21. For example, there were 11 instances where the University claimed a sole source exemption when a tender could have been called and 3 instances where the University claimed an exemption for an emergency when a tender may have been able to be called or at a minimum the University could have obtained additional quotes.

The University also contravened the *Public Tender Act* in that the Minister of Government Services (since December 2004, the Government Purchasing Agency) was not always informed of *Public Tender Act* exceptions within 30 days of the acquisition of the goods or services. Therefore the House of Assembly was not informed of these exceptions as required under the *Act*. In addition, the forms required under the *Act* to be forwarded to the Minister of Government Services (since December 2004, the Government Purchasing Agency) to explain these exceptions were not approved by the President or his designate until well after the goods or services had been acquired.

Our review of the use of University procurement cards indicated weaknesses in monitoring card limits and usage, and purchases that were not made in compliance with established University policies.

Facilities management

Our review indicated concerns with management of the INCO Innovation Centre construction project as well as with vehicle fleet management, campus planning, maintenance (including deferred maintenance), and facilities management contracts.

Capital assets

While the University has a capital assets ledger, only items above $2,500 are required to be recorded. Given this limit, a significant quantity of items are not tracked in the system and consequently no control mechanism is in place to track these assets, many of which are more susceptible to theft than items costing over $2,500. As well, there is no formal policy and procedures manual in place to address how asset additions, transfers, disposals and other changes are to be handled and recorded. Also the University's capital asset ledger is not accurate.

There is no process in place for the periodic selection of auctioneering services relating to the disposal of University assets. In practice, one auctioneering services company has been used by the University whenever the disposal of assets is required.

2.4 Seconded Positions

The Department of Education has been seconding teachers to its program consultant positions since the early 1980's. As of January 2005 the Department had 246 employees, of which 32 (13% of all employees) were teachers seconded to fill program consultant positions at the Department.

The Department is not complying with its own secondment policy relating to teachers. For example: of the 32 seconded teachers at January 2005, 16 (50%) had been seconded for periods in excess of the Department's three-year limit; 7 (22%) had no contract in place; and 4 had been promoted to a management position, with 3 of the 4 promoted without a job competition being held.

The Department is contravening the spirit and intent of Government's recruitment process (i.e. the Merit Principle) by filling some seconded positions without a job competition. For example, of the 32 seconded teachers at January 2005, 19 (59%) were seconded without a job competition and 3 of the 19 were promoted to management positions, again without any job competition. As well, 1 seconded teacher who, although not in a seconded position as at January 2005 (i.e. not 1 of the 32), was transferred to a management position in the Department without a job competition, and another seconded teacher not in a seconded position as at January 2005 was seconded to a Departmental consultant position (i.e. non-management) in March 2001 and in September 2003 was appointed to the position on a permanent basis without a job competition.

The Department is not complying with Government's policy relating to payment of redundancy. In one instance, a Department employee was seconded to a position with a school board and was paid a redundancy amount of $82,323 when the seconded position at the board was declared redundant. The Department was involved in this redundancy decision and therefore knew that the employee would be declared redundant. In this case, the seconded employee should have been returned to their permanent position in the Department and no redundancy amount should have been paid.

Although the *Portability of Pensions Act* requires the transfer of pensionable service between various Government pension plans when an employee transfers to a new position, we found 6 instances where individuals on secondment, who were subsequently transferred to permanent positions, were permitted to continue to pay into a pension plan even though they no longer belonged to the group the plan was designed for. Pension plan transfers were not made in 3 instances by the Department, in 1 instance by the Executive Council, in 1 instance by a school board, and in 1 instance by the Newfoundland and Labrador Teachers' Association.

Contrary to Government's policy, during the year the Department paid approximately $82,000 to 9 management staff relating to salary differentials. There are two issues relating to these overpayments: first, Government policy only allows salary differentials to be paid based on positions which are classified on a job evaluation plan administered by Treasury Board -teaching positions are not classified on such a job evaluation plan, and second, by filling program consultant positions through secondments, the Department is paying these individuals more than the position value because of a bonus amount required by the Newfoundland and Labrador Teachers' Association collective agreement. Contrary to Government policy, the Department included the bonus amount which resulted in some of its management staff receiving a salary differential because of the inflated salary of their subordinates. The practice of paying salary differentials has been ongoing since the Department started seconding teachers into program consultant positions in the early 1980's.

The Department has overpaid one staff member a total of approximately $2,100 by incorrectly calculating retroactive salary payments.

2.5 Monitoring School Boards

Effective 1 September 2004, 9 of the 11 school boards in the Province were dissolved and 3 new boards were created resulting in four English language school boards and one French language school board. For the 2004-05 school year there were approximately 303 schools in the Province with a total enrolment of 79,439 students.

At 31 December 1996 when the 11 former school boards were created, there were approximately 445 schools in the Province with a total enrolment of 110,450 students.

As part of our work we continue to monitor the financial position and annual operating results of the school boards.

All five school boards had accumulated deficits as at 30 June 2005. The combined financial position of the five boards at 30 June 2005 shows total accumulated deficits of $110.0 million, a 5% increase from the $104.4 million reported in 2004. Included in the accumulated deficit is an amount of $103.6 million related to severance pay and leave accruals. The accumulated deficits will eventually have to be funded by Government. The Eastern Board accounted for $53.2 million or 48% of the total $110.0 million in accumulated deficits.

All 5 boards reported operating surpluses for the year ended 30 June 2005 totalling $6.8 million. Operating surpluses ranged from $295,000 to $2.7 million. Because of inconsistent reporting periods resulting from the restructuring of school boards, comparisons with prior years' financial results would not currently be meaningful. It will take a couple of years of consistent reporting of financial information before effective and meaningful comparisons can be performed.

Contrary to the *Schools Act, 1997*, two school boards did not submit their 2005-06 annual budgets to the Minister for approval by 4 March 2005 as required by the Minister. The budget for the Western Board was not submitted until 4 May 2005 and the budget for the Eastern Board was not submitted until 17 May 2005.

2.6 Petroleum Storage Systems

The Department of Environment and Conservation in co-operation with the Department of Government Services is responsible for the registration, inspection and monitoring of petroleum storage systems in the Province. Petroleum storage systems include above-ground and under-ground containers and related piping in a fixed location where gasoline or associated products are stored and would include

for example service stations, bulk plants, and used oil return facilities.

The Department of Environment and Conservation has estimated that there are approximately 7,000 petroleum storage systems in the Province to be registered and monitored. The Department has entered into a Memorandum of Understanding with the Department of Government Services whereby staff at the six Government Service Centres will provide registration, inspection and monitoring services.

Although Government has taken steps to determine the number and type of petroleum storage systems in the Province, improvements are required in registering and inspecting petroleum storage systems, and in enforcing compliance with environmental legislation. Without adequate systems and processes, the risk of environmental damage from petroleum fuel spills is increased. For example:

Registration deficiencies

Only 3,125 of the estimated 7,000 petroleum storage systems in the Province, required to be registered by 30 November 2004, were registered as at 12 October 2005. Furthermore, the information obtained through the registration process was not verified and has resulted in database errors.

Inspections not performed

Inspections are not always performed by the Government Service Centres with the frequency established in the *Inspection Frequency Guide for Fixed and Mobile Facilities/Operations*. Furthermore, the Department of Environment and Conservation could not provide information on how many of the 3,125 registered petroleum storage systems required inspection during 2004-05 and how many were inspected with the required frequency.

The information in the Department's database is not used to assess risk for purposes of scheduling inspections. As well, there is no formal system for tracking deficiencies identified during inspections.

We found that inspectors do not always perform verification of information provided by operators during the inspection process. Furthermore, when inspections are performed, there is no required supervisory review of inspection reports.

Since the departure, in October 2004, of the two inspection officers who perform inspections of used oil facilities, there have been no inspections of used oil facilities from October 2004 to March 2005, when we completed our review.

Issues not followed up

Issues identified during inspections are not always followed up. None of the Government Service Centres have a system which could be used to record issues identified during inspections and which could then be used for subsequent tracking.

Enforcement inadequate

Although the *Storage and Handling of Gasoline and Related Products Regulations, 2003* require that abandoned petroleum storage tanks (in disuse for more than 12 consecutive months or if declared to be abandoned by either the owner or the Minister) be removed and the area restored, the Government Service Centres have not been diligent in enforcing the removal of such abandoned tanks. Of 20 inspection files that we examined, none of the 24 abandoned tanks at 4 locations had been removed.

Although the *Environmental Protection Act* provides enforcement provisions, such as stop work orders, for facilities which have not registered petroleum storage systems as required, the Department of Environment and Conservation has not taken any such enforcement action.

2.7 Investment in Icewater Seafoods Inc.

In 2004, the Province agreed to provide $3.5 million in financial assistance to Icewater Seafoods Inc. relating to the fish plant in Arnold's Cove. In return, the Province, through the Newfoundland and Labrador Industrial Development Corporation (NIDC), would

receive 35,000 Preference II shares of the company. As part of this transaction, the Province, again through NIDC, received a groundfish quota from High Liner Foods Incorporated comprised of allocations for 9 groundfish species totaling 3,676 metric tonnes for 2004-05. In addition, the company agreed to pay NIDC a minimum annual lease fee of $50,000 relating to this quota.

Contrary to its policy of not providing loan guarantees and direct financial assistance to primary fish processing companies, Government effectively provided $3.5 million in financial assistance to Icewater Seafoods Inc. relating to the operation of the Arnold's Cove fish plant.

Contrary to Cabinet direction which stated that all carrying costs be recovered, Icewater is required to pay a minimum annual lease payment of $50,000 and will only approach the total carrying costs (estimated at approximately $200,000 annually) if the defined annual cash flow of Icewater reaches $2.5 million.

Government contravened the *Financial Administration Act* when, in 2004, it pre-committed $1.75 million in the Department of Finance for the 2005-06 fiscal year. In this instance, the pre-commitment related to an advance to a Crown agency (NIDC) to enable the agency to meet its funding requirements under a Subscription Agreement related to its investment in Icewater Seafoods Inc. The Department was not a signatory to the Subscription Agreement and the pre-commitment of funds to NIDC did not provide for goods or services to be provided to the Department. Therefore, the pre-commitment would not meet the requirement in the *Financial Administration Act* for *"...an agreement to be entered into for the purchase of goods or services to be delivered in a subsequent fiscal year."*

Government used a Crown corporation (NIDC) to provide the financial assistance in order to address concerns raised by the Federal Government relating to a provincial government holding a groundfish quota. Officials indicated that normally the financial assistance would have been provided through a Government department.

Without the required prior knowledge and approval of NIDC, Icewater Seafoods Inc. transferred a quota for 300 metric tonnes of halibut to a Newfoundland and Labrador based company.

Furthermore, contrary to Government's stated position NIDC gave the company approval to transfer another quota for 72 metric tonnes of halibut to Nova Scotia. Therefore, the primary processing was not performed in this Province.

2.8 Labrador Transportation Initiative Fund

In March 1997, the Government of Canada and the Government of Newfoundland and Labrador entered into an agreement where the Province would assume responsibility for operating marine freight and passenger services on and to the coast of Labrador in exchange for $340 million plus interest.

The Province received $347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. On 19 December 1997, the Province transferred $349.2 million, representing the $347.6 million plus accrued interest of $1.6 million, to the Labrador Transportation Initiative Fund (the Fund).

Although the Federal funding was provided to operate the Labrador ferry service in perpetuity, the Province decided that it could operate the ferries in perpetuity and also fund a portion of a Trans Labrador Highway. The concept was that a highway would reduce the use of the ferries and the resulting reductions in operating costs would be such that the Fund would be sufficient in perpetuity.

The Fund, after only 9 years, is expected to be depleted in 2007 and as such will not be sufficient to operate the Labrador ferry service in perpetuity because:

- $238 million has been spent and an additional $24.6 million is expected to be spent on the construction of Labrador highways. Therefore, approximately 63% of the Fund and earned interest will be used for highway related construction.

- Reductions in ferry operating costs expected from the increased use of the highway have not materialized. In fact, ferry operating costs (net of passenger and freight revenues) are increasing and in 2005-06 are expected to total approximately $17.7 million. In 2004-05 actual net ferry operating costs were $14.6 million.

After 2007, Government will have to fund the operations of the Labrador ferry service through its budgetary process -estimated at a net cost of approximately $18 million per year.

2.9 Monitoring Expenditures of the Consolidated Revenue Fund

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments.

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications.

The results of our review are presented in Part 2.9 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2005.*

2.10 Central West Health Corporation

The Central West Health Corporation (the Corporation) was established in 1994 and provides primary, secondary, and long term care to approximately 66,000 residents. These services are provided through the Central Newfoundland Regional Health Centre, 8 regional facilities and a number of clinics throughout the region. Effective 1 April 2005, the Corporation combined operations with the Central East Health Care Institutions Board and the Central Regional

Health and Community Services Board and operated as a regional health authority under the Province's restructuring of existing institutional and health and community services boards.

We have concerns with Central West Health Corporation's financial management practices. A lack of Corporation policy, as well as a lack of adherence to Government policy, has led to questionable transactions.

No approval to incur deficits

The Corporation incurred an annual operating deficit in two of the past five years and at 31 March 2004, had an accumulated deficit of $36.6 million, including $35.8 million in accrued severance pay, vacation pay accruals, amortization of capital assets, and amortization of capital contributions. Contrary to the *Hospitals Act*, although the Corporation requested approval from the Minister of Health and Community Services to incur annual operating deficits in 2001 and 2004, the Corporation never received approval to incur these deficits.

Compensation practices not consistent with Government policy

The Corporation's compensation practices are not consistent with Government's compensation practices. Examples of this include:

- There were 10 instances where seven employees received a total of $134,500 pay in lieu of taking 2,835.5 hours of paid leave.

- Management and non-bargaining staff were paid double time for overtime worked during the April 2004 public service strike. While the Corporation said this practice is common and in line with Newfoundland and Labrador Health Boards Association policy, Government policy is to pay overtime at time and a half. Our review of 8 management staff identified excess payments of $48,000.

- In one instance, $5,000 overtime pay for a senior employee was paid to the hospital foundation as a donation; the amount was not recorded on the employee's T4.

- A senior executive at the Corporation was paid a 1% salary differential above the Vice-President of Medical Affairs' salary. While the 1% differential is accepted practice, it is being incorrectly applied. The position of Vice-President of Medical Affairs cannot be considered the next highest paid position because it is not classified by Treasury Board's Classification and Pay Division, as is required by Government policy. Since January 2003, the Corporation has paid out approximately $92,373 in salary differential to this senior executive.

- The Corporation paid redundancy and severance of two years totaling $360,400, along with $51,003 for unused paid leave, when a senior executive was terminated in March 2005. However, Government policy states the maximum to be paid for redundancy and severance is 82 weeks. Factoring in termination benefits, the Corporation overpaid the employee a total of $167,533.

- When one of the Corporation's Vice-Presidents indicated their intent to resign in 2004 to undertake a private venture, they were entitled to 20 weeks of severance pay totaling about $35,000. However, the Corporation agreed to an arrangement where the employee would stay until health care restructuring in the region was complete. As a result, the Corporation had to pay this employee an additional $102,000 in redundancy pay on termination in February 2005. The Corporation says the employee was needed to assist with restructuring; however, the employee was on leave for 87.5 of the 137 days of the continuation period and was allowed to overdraw their leave by 48.5 days.

Expenditures unsupported and unauthorized

We found issues related to inadequate documentation, non-compliance with Corporation policy, inconsistencies with Government policy, and claims for ineligible expenses when we examined 58 executive, senior management and Board member travel claims, 13 relocation and recruitment expense claims, 20 medical education allowance claims, and Board expenditures. Examples include:

- From July 2003 to August 2004, one of the Corporation's Vice-Presidents claimed travel expenses totalling $5,900 for 11 trips to St. John's. Leave records indicate the employee was on paid leave at the time.

- Contrary to Government relocation policy, there were two instances where mortgage down payments were considered a moving expense, and there were other instances where items such as a wide-screen television, digital camcorder, global positioning system and mobile telephone were purchased and claimed as moving expenses. There were three instances where employees were provided amounts in excess of the $12,000 maximum.

- Without authority, the Corporation paid $10,000 to the hospital foundation on behalf of a senior employee in lieu of payments for professional development. The foundation issued a charitable receipt but the amount was not included on the employee's T4.

Public Tender Act *contravened*

The Corporation is contravening the *Public Tender Act* in that it does not always call public tenders for purchases greater than $10,000, does not always obtain three quotes or establish a fair and reasonable price for purchases of $10,000 and less, and does not correctly communicate exceptions being made.

Examples of contravention of the *Public Tender Act* include:

- Of the 20 purchases sampled that were greater than $10,000, 6 with a total contract value of $382,000 were not tendered and the House of Assembly was not informed of the exceptions.

- Of the 14 purchases sampled that were $10,000 or less, 4 purchases did not have either 3 quotes or documentation of a fair and reasonable price.

- Contract extensions were not always properly approved, tenders were not kept in a locked box until opened, and tenders were not stamped to document date and time of receipt.

2.11 Newfoundland and Labrador Prescription Drug Program

The Newfoundland and Labrador Prescription Drug Program (NLPDP) is operated by the Department of Health and Community Services and provides assistance in the purchase of pharmaceuticals and some related medical supplies to residents of the Province who qualify for benefit coverage. Drugs are dispensed mainly through the network of community pharmacies located throughout the Province. Assistance in the purchase of pharmaceuticals and some related medical supplies is provided to three main groups of residents: income support recipients, senior citizens and special needs patients.

In the last 9 years, the cost of the NLPDP has increased by 92%, or $48.7 million, from $53.2 million in 1997 to $101.9 million in 2005. During the same time, the number of clients decreased from 112,206 to 93,284 (a 17% decrease); however, the number of prescriptions increased from 2,131,526 to 2,677,369 (a 26% increase).

While new drug therapies, higher per capita drug usage and the Province's aging population are significant factors in the dramatic increase in drug costs, we are concerned that poor management practices are not ensuring that program costs are minimized. For example:

- Unlike other provinces there is no on-line, real-time claims system to provide necessary management information on a more timely basis.

- As a result of not having an on-line, real-time system, the Province is unable to take advantage of lower prices related to "deeming" drugs within therapeutic classes as having equal health benefits, thereby setting the price for that class at a lower or median level. Of the 19 drugs we sampled, the Province paid $754,000 more for 2 drugs than it would have had it deemed the drugs in this class as having equal health benefits and a set class price. Another Atlantic Province was able to take advantage of such lower prices because they had the required systems in place.

- Unlike other provinces, the Department does not have a program to educate doctors on new drugs and does not provide information to each physician on their pattern of prescribing drugs relative to their peers.

- Because of the lack of cooperation from pharmacies regarding the provision of client information, the Department's ability to audit a sufficient number of pharmacies is severely diminished. There are 275 pharmacies in the Province; however, only 6 audits have been undertaken since 2002 and only 1 (no problems identified) had been finalized. Audits are an important way of checking for potential problems such as over billing.

- While there are some system controls in place which are intended to ensure the accuracy of amounts paid for drugs, we found errors in amounts paid for 2 of 19 drugs that we sampled.

The NLPDP has a budget of approximately $100 million, which is larger than many Government departments. Yet the Program is the only one in Canada without specific legislation to guide its operations. We would expect such a framework to specify such things as the responsibilities and accountabilities of Government, pharmacies and doctors, as well as provide enforcement provisions. The presence of legislation would also provide information for the Members of the House of Assembly on the effectiveness of this Program.

Prescription drug abuse in the Province is documented at least as far back as 1988. There are two components to the drug abuse problem, i.e. client abuse and indiscriminate prescribing by physicians. The following outlines what was done to try and deal with prescription drug abuse.

The Client

The Department has a system in place to address "double doctoring". The main focus of the system is to restrict the use of a drug card to a single pharmacy. Our review identified that the Department currently only selects the top 20 clients determined by the number of different physicians visited and who also went to multiple pharmacies. The extent of the review may not be adequate since only 20 of the approximately 1,800 clients were selected. When we questioned as to why only 20 were selected, we were informed by one NLPDP official that the decision was based upon professional judgment and past experience, and determined as being adequate to detect abusers. However, we were informed by another NLPDP official that *"...the process is sometimes placed on a lower priority level as a result of workload issues"*. We also noted a comment in the final report of a Treasury Board/Pharmaceutical Services Joint NLPDP Review completed in 2004 that stated *"efforts were decreased during the operation of the Prescription Monitoring Program and have not yet returned to previous levels due to human resource constraints."*

We also found that cards are not always restricted by the Department of Human Resources, Labour and Employment (HRLE) on a timely basis. In 6 of the 20 samples we reviewed, it took between 49 and 90 days to have the card restricted.

The Physician

No substantive measures were introduced to deal with suspected indiscriminate prescribing by a relatively small number of general practitioners until the health and safety concerns related to OxyContin became public.

Our review indicated a number of issues regarding the utilization of prescription drugs under the Program. For example:

- 11 general practitioners were on the list of the top 10 prescribers of narcotics and other controlled drugs during the period 1 April 2002 to 31 March 2005. These physicians were writing from 25 to 50 times as many prescriptions for these drugs as most of their peers and accounted for approximately $560,000 (15%) of the approximately $3.7 million spent each year related to narcotics and other controlled drugs.

- The Department was not proactive in dealing with the small number of general practitioners suspected of indiscriminate prescribing.

  Although officials indicated that information on possible indiscriminate prescribing was provided to the Newfoundland Medical Board (now called the College of Physicians and Surgeons), the Board in the final OxyContin Task Force Report indicated that, due to the Board's interpretation of its legislation, *"...it is limited in its ability to fulfill its mandate of public protection"*.

It was not until the public outcry related to OxyContin abuse that Government amended the *Medical Act* to provide the Board with more comprehensive powers and requirements to deal with issues identified regarding such things as indiscriminate prescribing by doctors.

Lack of controls over drug cards provides the potential for drug abuse. This is particularly the case for the manual drug cards that are prepared in the various HRLE district offices when a client services officer issues cards after hours, or in emergency situations.

There are inconsistent criteria applied by HRLE and Integrated Health Authority (IHA) staff in issuing drug cards because of inconsistent policies for determining eligible client expenditures. We found one instance where a client was refused a drug card at a HRLE office but was approved for a card for the same time period at an IHA office.

2.12 Personal Care Homes

The *Health and Community Services Act* (the *Act*) provides that the Department of Health and Community Services has overall responsibility for governing personal care homes in the Province. The *Personal Care Home Regulations* (the *Regulations*) under the *Act* contain requirements relating to licensing, monitoring and inspecting these homes.

Licensed personal care homes are privately owned and operated facilities which provide residential accommodation to 5 or more adults who require care and assistance. Residents of these homes do not require daily services of professional staff such as physicians or nurses. They may, however, require assistance with their daily living activities such as bathing, dressing, or eating. As of November 2004 there were 93 personal care homes licensed in the Province with a total of 2,676 available beds, 2,139 of which were occupied.

Under the *Regulations*, applicants for licensing as a personal care home must have their premises inspected by an official of a Government Service Centre operated by the Department of

Government Services. The applicant must then have their application reviewed by a regional health and community services board with respect to personal care standards. If all standards are met, the regional board will issue a licence.

The Department of Health and Community Services is not doing an adequate job in determining whether the regional health and community services boards are complying with *Personal Care Home Regulations* and Departmental policies. This is evidenced by the fact that the Department does not require information relating to licensing, monitoring and inspecting. Instead, the Department receives monthly statistical reports which only show the number of beds (occupied, vacant, and subsidized), residents' level of care and whether a sprinkler system is in place.

The Department does not assess whether residents are receiving a consistent and adequate level of care. Residents are assigned a level of care by board staff using an assessment process which requires significant professional judgment. A Manager at the Department indicated that there are discrepancies in how the boards are assessing the level of care for the residents. Furthermore, a report prepared for the Department in 2004 stated that personal care home owners indicated that the "*...determination of the levels of care seem to be subjective and not a true representation of client care requirements.*" The Department does not review resident assessments to ensure consistency across the Province.

The Department has not established performance indicators which could be used to assess the effectiveness of the personal care home program in providing residents with the required care. As a result, the Department cannot conclude whether the personal care home program is producing the desired results.

The regional health and community services boards are not fully complying with the *Personal Care Home Regulations* and Departmental policies. Our review of the activities at the boards disclosed serious concerns relating to how personal care homes are licensed, monitored and inspected. Examples of deficiencies noted in our review of 24 homes during the period April 2002 to January 2005 indicated that:

- licensing standards were not enforced;
- monitoring of care standards require improvement; and
- annual fire and life safety, and environmental health inspections were not completed within the required annual time frame.

In July 2002, the St. John's Regional Health and Community Services Board decided that it could not approve the licence of a home which did not meet building standards for minimum room sizes. Based on a complaint, the Board determined in March 2003 that the home was operating without a licence. The home continued to operate without a licence and in June 2003 the Minister of Health and Community Services directed the Board to issue the licence to the home even though it did not meet licensing requirements. Based on this direction, the Board issued the licence in September 2003.

2.13 Monitoring Health and Community Services Boards

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and community services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation, respectively. The health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care, and immunization services. In addition, community service programs including Child Welfare, Community and Corrective Services, and Family Rehabilitative Services, are delivered under the health and community services boards.

Effective 1 April 2005, the four health and community services boards combined with the eight health care institution and integrated boards to establish four regional health authorities throughout the Province.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the four boards.

The overall financial position of the four boards has deteriorated every year since 2000-01. All four boards had unfunded liabilities as at 31 March 2005. The combined financial position of the four health and community service boards at 31 March 2005 shows total unfunded liabilities of $36.3 million, an 83% increase from the $19.8 million reported in 2000-01. The unfunded liabilities will eventually have to be funded by Government.

The St. John's Regional Health and Community Services Board accounted for $16.8 million or 46% of the total $36.3 million in unfunded liabilities. The largest increase in unfunded liabilities during the year was at the Western Regional Health and Community Services Board, where the total unfunded liabilities increased 71% from $3.5 million to $6.0 million.

During the year, two of the four boards had operating deficits totalling $5.9 million and two had surpluses totalling $1.0 million. For 2004-05, only one board, the St. John's Regional Health and Community Services Board, reported an annual operating deficit higher than the previous year.

Since 2000-01, total annual operating deficits have generally declined because Provincial funding has increased more than expenditures. For example, Provincial funding increased $47.1 million (28%) from $165.3 million in 2000-01 to $212.4 million in 2004-05. During this same period, program costs increased $40.5 million (25%) from $160.2 million in 2000-01 to $200.7 million in 2004-05.

At 31 March 2005, one of the health and community services boards, the St. John's Regional Health and Community Services Board, was in contravention of the *Financial Administration Act* in that the board had long-term debt totalling approximately $850,000 to entities outside of the government reporting entity without legislative authority.

2.14 Monitoring Health Care Institutions and Integrated Boards

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions and integrated boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards. The financial position of the boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding.

Effective 1 April 2005, the eight boards combined with the four health and community services boards to establish four regional health authorities throughout the Province.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the eight boards.

The overall financial position of the eight boards has deteriorated every year since 2000-01. All eight boards had unfunded liabilities as at 31 March 2005. The combined financial position of the eight boards at 31 March 2005 shows total unfunded liabilities of $453.6 million, a 24% increase from the $366.1 million reported in 2000-01. The unfunded liabilities will eventually have to be funded by Government.

The Health Care Corporation of St. John's accounted for $242.4 million or 53% of the total $453.6 million in unfunded liabilities. Six of the eight boards reported increases in the total unfunded liabilities for 2004-05.

During the year, six of the eight boards had operating deficits totalling $17.4 million and two had surpluses totalling $1.2 million. For 2004-05, two boards, the Central West Health Corporation and Western Health Care Corporation, reported an annual operating deficit higher than the previous year.

Since 2000-01, total annual operating deficits have generally declined because revenues have increased more than expenditures. Most notably, Provincial funding increased $201.0 million (29%) from $692.7 million in 2000-01 to $893.7 million in 2004-05. During this same period, total expenditures increased $187.7 million (23%) from $816.8 million in 2000-01 to $1,004.5 million in 2004-05.

2.15 Income Support Program

The Province's income support program is delivered by the Department of Human Resources, Labour and Employment (the Department) under authority of the *Income and Employment Support Act*. Since 2001, the Department has served an average of 36,334 cases each year.

Due to an increased emphasis on assisting clients to find and maintain employment, improved technology, and declining case loads the Department has reduced the number of district offices and has changed the manner in which it delivers its programs, particularly in the information it collects and the ways that clients can apply for, and continue receiving, income support. The Department made the requirement for home visits discretionary in the mid-1990's because they determined that home visits did not add significant value to ensuring that only eligible clients actually received benefits.

The Department has instituted integrity measures to ensure it has current and accurate client information on file and that errors are not made in approving applications for income support or in the continuing provision of income support.

While the Department has instituted a number of useful measures to monitor the Income Support Program, these measures are not being employed as effectively or thoroughly as they should be.

Weakness in Departmental structure

There are weaknesses with the Department's structure as it relates to the Income Support Program. Responsibility for ensuring appropriate income support payments are made to clients is divided

between the Eligibility Assurance Section (EAS) and the Internal Audit Division. The integrity measures of EAS are inter-related with and complimentary to audit activities and should be under single direction.

Interfaces not effectively performed

Interfaces refers to the practice of cross-referencing cases with other income programs (Federal and Provincial) to determine if clients are receiving income from other sources. In the past two years, 1,815 clients have either been suspended and/or had an overpayment set up as an account receivable ($1 million). We found that the interface process:

- is not always performed or acted upon in a timely manner; and
- does not include a formal process for communicating results to senior staff or Executive.

TEC not applied widely enough

The Telephone Eligibility Confirmation (TEC) process establishes a recipient's continued eligibility to receive income support and determines their interest in employment and/or training. In the last two fiscal years, there were records kept for telephone contact with 2,868 clients. Of this number, 2,471 interviews were completed. We found that while the TEC process works well to reveal errors, ultimately saving the Department money, it is not being applied widely enough. These are the results of the call program for the last two fiscal years:

- 206 of the 2,868 clients were not interviewed and were suspended from income support because they could not be contacted;
- There was no follow-up action for 191 of the 2,868 clients where some form of action was required;

- 45 of the 2,471 clients interviewed were suspended because they were not entitled to receive income support;
- $964,377 in savings was projected due to the suspensions;
- a further $24,255 in overpayments were identified; and
- personal information errors were identified.

Furthermore, there is no evidence that errors identified have been corrected in the Department's database.

Internal Audit Division does not audit district offices frequently enough

Based on a review of the Division's records, we found that divisional offices are not being audited frequently enough. Specifically:

- thirteen of the 28 district offices have not been audited since 2001-02;
- based on the current rate, district offices will only be audited every six or seven years; and
- audits the Division conducted in 2003-04 and 2004-05 revealed:
    - errors in payment of income support (14 overpayments and 1 underpayment in 256 items tested);
    - payment of income support without adequate documentation (eg: 4 of 38 medical transportation payments); and
    - errors in the Department's database (similar to errors detected by telephone eligibility confirmation).

Cycle reviews not completed in accordance with established frequency

The Department requires cases be regularly reviewed "to ensure information is current, and to confirm eligibility for income support." One of the procedures used is a cycle review, which consists of a mail out / mail back form. Forms are mailed to clients based on how long they have been receiving income support. We found that cycle reviews are not always completed in accordance with established frequency.

Investigations take too long to complete

An investigation can occur when an officer becomes aware that a client is receiving income support where there is no entitlement. We observed weaknesses in the Department's handling of investigations as follows:

- 482 investigations were outstanding at 28 February 2005, of which 205 were older than four months. Based on the Department's interpretation of the *Income and Employment Support Regulations* (that investigations must be completed within four months), the Department terminated the 205 cases. We could not determine if any would have led to suspensions or legal proceedings, and

- 39 cases approaching the four month mark are scheduled to be terminated in the new year.

We do not agree with the Department's interpretation of the *Regulations* whereby they terminate an investigation just because the investigation has not been completed within the required four month time frame.

Performance indicators not established for integrity measures

The Department has not established performance indicators which could be used to assess the effectiveness of the integrity measures which are designed to increase assurance that only eligible clients are receiving income support and that employment support is being provided to clients in cases where it would be beneficial.

2.16 Newfoundland and Labrador Housing Corporation Employee Computer Purchase Loan Program

Newfoundland and Labrador Housing Corporation provides its employees with computer purchase loans. Employees are required to provide proof of purchase to the Corporation for a loan to be advanced. The advance can be issued to either the employee or the vendor. The loans are then recovered through employee payroll deductions over a period not to exceed 36 months (defined in loan agreements between the Corporation and the employees). These loans bear interest at the Corporation's demand rate and the interest rate is adjusted semi-annually. The maximum loan is $5,000.

All departments, boards, agencies and commissions, for which Government is the ultimate employer, are using public money to compensate employees. Therefore, it would be reasonable to expect that similar compensation practices would be consistently applied. However, the employee computer purchase loan program offered by the Corporation is not available for employees in central government. As a result, this compensation practice is inconsistent with Government's compensation practices.

Offering this sort of loan program exposes the Corporation to unnecessary risk. To illustrate, the program was briefly suspended in 2004 when the Corporation discovered that an employee received a computer purchase loan even though a computer had not been purchased. In this case, it was determined that insufficient documentation was provided. Eventually, a senior official was terminated and two others were suspended.

Since 1989, the Corporation has advanced approximately $1 million to over 200 employees for 538 computer purchase loans. However, it has not determined the additional costs of administering the program such as staff time in administration, payroll and accounting.

2.17 Investment in a Manufacturing Company

Government has invested a total of $750,000 in a manufacturing company in the City of Mount Pearl.

Contrary to the recommendations of officials at the Department of Finance and the Department of Innovation, Trade and Rural Development (INTRD), a directive from the Premier's Office in December 2003 resulted in the manufacturing company being provided with a $300,000 loan in 2004. Officials cited issues such as:

- the loan would not be secured in that prior liens of other investors would have claim to the company's assets in the event of bankruptcy;
- the investment would not generate additional employment in the Province;
- a revised business strategy of the company was not advanced enough to determine if the company would be viable; and
- several other existing investors were not prepared to increase their investment.

Furthermore, officials were aware that this company had been experiencing financial difficulties since it commenced operations in 2001 and was unable to make any payments on the $450,000 loan which Newfoundland and Labrador Industrial Development Corporation (NIDC) provided in 2001. In fact, in 2003 the company requested and received Government approval to convert the NIDC loan to redeemable preference shares of the company. As a result, the company does not have to repay the $450,000 loan and the Province now holds 43,269 Class D redeemable preference shares of the company.

Officials at INTRD have determined that repayment of the $300,000 loan is doubtful and accordingly a provision for this expected loss has been recorded in the Province's financial statements for the year ended 31 March 2005.

At the time of our review in November 2005, the company was not in compliance with two conditions relating to the $300,000 loan:

- The company had not maintained the required employment level of 30 full-time equivalent employees in the Province. In December 2004, when the company had 22 full-time equivalents, it formally requested the required employment level be reduced. Although the 30 full-time employees is still a requirement of the loan, as of November 2005, the company only employed 17 full-time equivalents.

- The company had not provided Government with the required audited financial statements for the year ended 31 July 2005 and were a year late in providing the financial statements for the year ended 31 July 2004.

2.18 Royal Newfoundland Constabulary

The Royal Newfoundland Constabulary (RNC) operates under the authority of the *Royal Newfoundland Constabulary Act, 1992* and *Regulations*. The Chief of Police, appointed by the Lieutenant-Governor in Council, is responsible for the RNC's general control and administration, and reports to the Minister of Justice and Attorney General. The RNC's mission is to work with the people of Newfoundland and Labrador to foster safe communities by providing quality, professional, assessable, timely and fair police services to all. At 31 March 2005, there were 309 RNC members and 76 civilian staff at the RNC. The RNC polices three regions of the Province - the Northeast Avalon, Corner Brook, and Labrador West. The population of these regions is approximately 201,000 (2001 Census).

Planning and reporting

We found weaknesses in planning and reporting practices. This was evident in that:

- the long-term strategic plan expired in 2004 and has not been updated;
- a system to report on plan objectives has not been implemented;
- operational plans have not been developed for any of the 14 divisions;
- a multi-year training plan has not been developed and approved; and
- all quarterly quality reviews were not submitted by 7 of 14 divisions for 2004.

Human resource management

The RNC does not have a system in place to monitor the amount of time members spend on administrative tasks. Using fewer police resources to perform administrative tasks would free up members to perform core police functions. The RNC had hoped to achieve this objective by introducing the Integrated Constabulary Automated Network (ICAN) system; however, we found that the ICAN system is not being used to generate reports to determine if the objective is being met.

In 2002, the RNC purchased a Mobile Report Entry module, four lap top computers and related software for a total cost in excess of $52,000. These computers were to be used in police cars to allow members to save time by entering investigative information and preparing police reports directly. However, the computers were never installed in the police cars. Furthermore, the computers are still in storage and the RNC continues to pay annual software maintenance and support service fees of $3,600.

Two staffing areas need attention within the RNC: the ratio of members to civilian employees and the lack of performance evaluation systems. Currently, the RNC is using members to perform tasks that could be done by civilians.

Overtime costs continue to increase and represent a significant cost to the RNC. Overtime paid in the past three years and projected for 2005-06 is as follows: 2005-06 -$2,784,508 (projected by RNC); 2004-05 -$2,129,600 (plus $743,200 for April 2004 strike); 2003-04 -$1,132,350; and 2002-03 -$1,007,102.

Over 7,500 individual entries were not keyed into the RNC's Resource Utilization System (RUS) during 2004-05 and, as a result, employee detail reports from the system do not reflect all the overtime paid during 2004-05. In addition, Divisional or District Commanders are not submitting monthly summaries of their overtime expenditures to the Director of Finance and General Operations, as required. The RUS was expected to provide all necessary information for the RNC Executive to monitor and control overtime. However, RNC officials indicated that the RUS is unable to produce the required detailed reports to adequately monitor overtime. Therefore, overtime cannot be reviewed, monitored and controlled without the monthly summaries from the Divisional or District Commanders.

The issues of significant sick leave among members and the link between sick leave and overtime, both of which were identified as issues by the Department of Justice in March 2004, continue to be a concern. The average number of sick leave days used by members in 2004-05 was approximately 13 days (central Government average was 11.57 days for full-time permanent staff) and in that year sick leave costs totaled in excess of $800,000.

Purchasing and tendering

We found weaknesses in the RNC's purchasing and instances of non-compliance with legislation regarding financial controls and tendering. The following issues were identified:

- Contravention of the *Public Tender Act* in that it does not always call public tenders for purchases greater than $10,000 and does not always obtain either three quotes or establish a fair and reasonable price for purchases $10,000 and less.

- Contravention of the *Financial Administration Act* in 15 instances by ordering goods and services without encumbering funds.

- Purchase orders, providing the required authorization, are not being prepared until after the receipt of goods and services and related invoices.

- Examples where documentation to support payments was inadequate.

Information technology

The RNC is not complying with its own rules regarding information systems management. While there are clearly established policies and procedures in place to ensure the security of automated systems, these policies and procedures are not being followed.

Information management

Police investigation files are not being reviewed in a timely manner to ensure that all tasks associated with investigating and concluding files are carried out. At the time of our review, there were over 21,000 overdue diary dates (dates assigned to police investigation files to ensure that all tasks associated with investigating and concluding files are carried out as promptly as possible) on the Integrated Constabulary Automated Network system for the period January 1999 to December 2002.

The records sign-out database is used by the Information Management Division to record files removed from and returned to the Division. The database system is not accurate. For example, of the 40 files indicated as "overdue", we reviewed 20 and found that 12 were not with the member to whom the file was signed out and could

not be located. Furthermore, 6 of the 20 files were located in the Division; however, the database had not been updated.

Inventory

There are significant weaknesses over inventory of computers, quartermaster store items, and office furniture and equipment at the RNC. Although there are inventory control procedures to record acquisition, disposals and transfers, these procedures were not always complied with. For example, assets were not tagged, inventory counts were not performed, and inventory listings were either not maintained or inaccurate. During our testing the RNC could not account for all assets and in other instances assets were found in locations other than that indicated on the system.

There is no tracking and reporting of vehicle mileage, fuel consumption and maintenance for the 118 police vehicles. Furthermore, there are no policies covering preventive maintenance and replacement.

The Property Control Centre is used to store evidence which is found, seized or confiscated. We found that systems and controls at the Property Control Centre were not adequate. There were items on the inventory listing which could not be located, items examined which were not recorded on the inventory listings, and access to the area was not adequately restricted. Furthermore, although there are processes in place to ensure that evidence no longer required is disposed of, we found that this did not always occur and as a result, the area was unnecessarily cluttered. These significant weaknesses at the Property Control Centre could result in exposure to the RNC in that evidence is not properly safeguarded.

2.19 "911" Emergency Response Service

In 1972, Canada recognized the three-digit telephone number "911" as the "Universal Emergency Number" for citizens to request emergency assistance. The number is a nationwide telephone number that gives the public fast and easy access to a Public Safety Answering Point (PSAP) where the PSAP answers and routes the callers to the appropriate emergency responders.

The 911 service allows individuals to dial one three digit number to access any emergency services including medical, fire and police. Without the 911 service, an individual would have to either know or find the applicable emergency number and dial up to eleven digits to access these services.

Newfoundland and Labrador is the only Atlantic Province without Province-wide coverage for land based 911 emergency response services. Currently, only 40% of the Province's population and less than 10% of communities on the island portion of the Province have access to this 911 service. Furthermore, there is no land based 911 service in Labrador.

The 911 services currently operating in the Province are "basic" 911 services. In contrast, the other Atlantic Provinces have "enhanced" 911 services which use the telephone number of the calling party to capture information related to the location of the emergency. This is particularly significant where the caller's ability to communicate is impaired.

Without a 911 service, individuals can experience delays in contacting the appropriate emergency service since they have to either know or find the emergency number and dial up to eleven digits to contact emergency services in their area. There is an added risk for the traveling public who may not be aware that there is no land based Province-wide 911 service.

2.20 Municipal Assessment Agency

The Municipal Assessment Agency, a Crown-owned agency created in 1997, is the only source of residential and commercial property assessment services for 230 municipalities which levy property taxes. The exception is the City of St. John's, which performs its own assessments.

The Agency performs assessments on the following types of properties: approximately 122,000 residential, approximately 35,000 vacant land parcels, approximately 12,500 commercial/industrial and approximately 6,400 other properties. Mass appraisal techniques are used to assist in valuing properties. Mass appraisal provides that

properties with similar characteristics and circumstances are valued similarly. The Agency charges an annual fee to municipalities for assessment services.

The Agency is not assessing property values in a timely, complete and consistent manner. As a result, municipalities may not be receiving the most accurate and complete assessed property values to ensure they maximize their revenues.

We examined several aspects of the Agency's property assessment process, as well as its expenditures, and reached the following conclusions.

Property Assessment issues

According to the Agency's database at the time of our review, nearly half of the 20,055 properties sold during the period 2002 to 2005 were never inspected. It is important that these sales inspections be completed to assist in ensuring that the three year revaluations, which rely on market information, are accurate.

Contrary to policy, approximately 74% of inspections did not include an interior inspection of the property. A contributing factor to this situation is that there is no follow-up if the property owner is not home.

Staff at the Agency indicated that, as a result of the lack of guidance provided to assessors, there are inconsistencies in the completion of assessment forms. Therefore, properties are not always valued on a consistent and uniform basis.

The *Assessment Act* requires that all properties be visited for inspection at least once every 10 years. This portion of the *Act* became effective in 1998; therefore the Agency has until 2008 to ensure that all properties have been visited in 10 years. In accordance with the Agency's Data Tracking policy, these visits are exclusive of visits required for other purposes. To satisfy the requirements of this policy, the Agency has a plan in place to inspect 10% of properties each year, starting alphabetically by street in each municipality.

However, supplementary inspections and appeals inspections take precedence over the 10 year visits.

As the Agency has approximately 176,000 properties that would require inspection, it has inspected only 6% of the properties in 2005 instead of its target of 10%. Not achieving this target in any given year increases the risk that all properties will not be inspected by 2008 as required.

In addition to the review performed by assessment staff, the Agency also uses accepted statistical measures to determine whether assessed market values are accurate. When the Agency applied these statistical measures to the 49 municipalities in the Province which had sufficient property sales to apply the measures, it was revealed that:

- 5 municipalities had poor assessment quality;
- 4 municipalities lacked good appraisal uniformity in properties with similar characteristics; and
- 29 municipalities had high value properties under-appraised.

The Agency runs annual exception reports to identify database anomalies. For example, in December 2003, 3,243 anomalies were identified while in December 2004, 7,627 anomalies were identified. There was no indication, during our review, that these anomalies were being addressed.

Expenditure issues

Although the Agency has adopted Government's travel policy, we found instances of non-compliance. For example, during the period May 2003 to January 2005, we found:

- airfare and meals for spouses of Board members and employees, totalling $1,930 was claimed;

- "business lunches" totalling $301 were claimed when only Agency officials were present;

- expenses exceeded allowable limits by $982 for meal per diems; and

- meal per diems totalling $348 were claimed when meals were already provided.

In 2003, without the use of an objective means of evaluation such as the Province's *Consultant's Guidelines*, the Agency selected a consultant to design and implement a new management structure. Officials indicated that the consultant was selected as a result of previous work. This consultant received a total of $81,000.

Other instances of expenditures which were not consistent with Government policy included:

- Golf fees for staff and Board -$907;

- Liquor for Board conferences and staff golf functions -$505;

- Christmas dinners for Board (including spouses) -$3,952; and

- Christmas luncheons for staff -$305.

2.21 Vacant/Surplus Properties and Unused Space

The Department of Transportation and Works is responsible for managing and maintaining approximately 653,000 square metres of floor space in 900 Government-owned buildings and properties, including vacant/surplus properties and unused space.

The vacant/surplus properties inventory per region as at 31 March 2005 comprises 62 buildings within 27 sites. This inventory includes 5 buildings not classified as vacant but which have a significant amount of unused space. The estimated value of this space, were it to be replaced today, is over $183 million.

In our opinion, Government is not efficiently managing Government-owned vacant/surplus properties. Government does not have a long term strategy for the disposal or alternate use of Government-owned vacant/surplus properties. As a result, vacant/surplus properties continue to deteriorate while the Department incurs ongoing operational costs and increasing environmental remediation costs. More attention must be paid to timely environmental remediation of these sites and their subsequent disposal, re-use or re-sale. In particular we found:

Inaccurate inventory database

The Department's database on Government-owned buildings contains detailed information necessary for management. However, it is not kept current; at the time of our review in March 2005, the last inventory update began in September 2003 and was not completed until March 2004. We also found that the database was not accurate in that one vacant/surplus property was not included in the database, while in another instance a vacant/surplus property was recorded in the wrong category.

Operating costs

Government continues to incur significant annual operating costs for Government-owned vacant/surplus properties, with an annual average of over $573,000 for the last five years. Approximately $470,000 of the $573,000 average annual costs relates to the Grace, the old Janeway and the former College of the North Atlantic.

Environmental assessment and remediation costs

Our review showed the cost of restoring vacant/surplus properties for an alternate use or re-sale (through environmental remediation) can significantly increase when those buildings are not maintained. The accumulating costs can make negative assets out of otherwise re-usable properties.

Although environmental remediation and demolition costs have not been determined for all vacant/surplus properties, the Department has estimated the following:

- Environmental remediation: $5.87 million for nine vacant/surplus property sites; and

- Demolition costs estimated at $6.23 million for twelve vacant/surplus property sites.

Alternate uses

The Government does not have a process in place to deal with the timely disposal of vacant/surplus properties by finding alternate uses for them. For example: slow handling of an entrepreneur's request to take over the building site of the former Young Offenders' Institute in Whitbourne in 2001 resulted in losing an opportunity to dispose of a vacant/surplus property. Because the process took so long, the building deteriorated to an unacceptable condition and in 2003 the entrepreneur decided the building was no longer suitable for their business.

Likewise, the Government has not identified alternate uses for other vacant/surplus properties still suitable for occupancy. Some are being used for storage only.

Disposal strategies

The Department has not demonstrated, through planning and budgeting, a commitment to disposing of unwanted vacant/surplus properties. For example, in its budget submission for 2005-06, the Department included a listing of environmental remediation program requirements for 2005-06 as well as future requirements. However, this listing did not include all the costs identified to date for the environmental remediation and/or demolition of all of its vacant/surplus properties. The Department did include $2.0 million for future environmental assessments and remediation requirements but did not identify the vacant/surplus property sites to which these costs pertained.

Space allocation

Although Government started a process in late 2004 to determine if there is any existing unused space within existing leased or owned buildings (covering Government departments, agencies, boards and crown corporations) which could be better utilized, no savings had been realized to the time of our review.

Chapter 3

Update on Prior Years' Report Items

This year we continued a process whereby our recommendations are monitored and the results reported within two years of the original report date. This Chapter provides the results of this monitoring process relating to the recommendations contained in 2003 and prior *Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies.*

2.10 Central West Health Corporation

Introduction

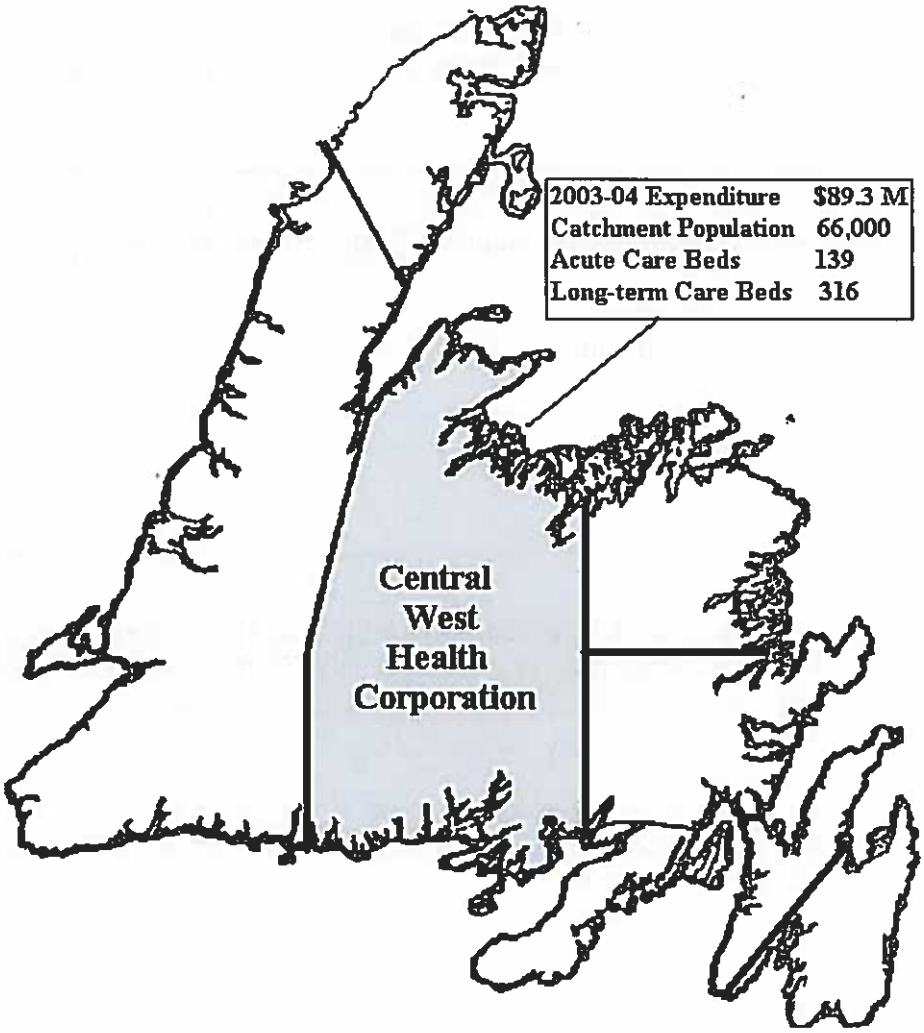
Mandate

The Central West Health Corporation (the Corporation) was established in 1994 and provides primary, secondary, and long term care to approximately 66,000 residents. These services are provided through the Central Newfoundland Regional Health Centre, 8 regional facilities and a number of clinics throughout the region.

Details as to the region covered by the Corporation are shown in Figure 1.

Figure 1

Central West Health Corporation Region



2.10 Central West Health Corporation

Amalgamation

Effective 1 April 2005, the Corporation combined operations with the Central East Health Care Institutions Board and the Central Regional Health and Community Services Board and operated as a regional health authority under the Province's restructuring of existing institutional and health and community services boards.

Audit Objectives and Scope

Objectives

The objectives of our review were to:

1. Review the financial position and operating results of the Corporation; and
2. Determine if expenditures are properly approved, monitored, controlled, and comply with the *Public Tender Act and Regulations*.

Scope

Our review, which we completed in March 2005, covered the fiscal years:

1. 2003-04
2. 2004-05 (up to January 2005)

Conclusions

Findings

In our opinion, there are concerns with Central West Health Corporation's financial management practices. A lack of Corporation policy, as well as a lack of adherence to Government policy, has led to questionable transactions.

Conclusions from our review relate to four aspects of the Corporation's finances: (1) Deficits, (2) Compensation Practices, (3) Expenditures, and (4) *Public Tender Act*.

2.10 Central West Health Corporation

1. No approval to incur deficits

The Corporation incurred an annual operating deficit in two of the past five years and at 31 March 2004, had an accumulated deficit of $36.6 million, including $35.8 million in accrued severance pay, vacation pay accruals, amortization of capital assets, and amortization of capital contributions. Contrary to the *Hospitals Act*, although the Corporation requested approval from the Minister of Health and Community Services to incur annual operating deficits in 2001 and 2004, the Corporation never received approval to incur these deficits.

2. Compensation practices not consistent with Government policy

The Corporation's compensation practices are not consistent with Government's compensation practices. Examples of this include:

Paid leave

There were 10 instances where seven employees received a total of $134,500 pay in lieu of taking 2,835.5 hours of paid leave.

Incorrect overtime payments

Management and non-bargaining staff were paid double time for overtime worked during the April 2004 public service strike. While the Corporation said this practice is common and in line with Newfoundland and Labrador Health Boards Association policy, Government policy is to pay overtime at time and a half. Our review of 8 management staff identified excess payments of $48,000.

Unrecorded compensation

In one instance, $5,000 overtime pay for a senior employee was paid to the hospital foundation as a donation; the amount was not recorded on the employee's T4.

Incorrectly applied salary differential

A senior executive at the Corporation was paid a 1% salary differential above the Vice-President of Medical Affairs' salary. While the 1% differential is accepted practice, it is being incorrectly applied. The position of Vice-President of Medical Affairs cannot be considered the next highest paid position because it is not classified by Treasury Board's Classification and Pay Division, as is required by Government policy. Since January 2003, the Corporation has paid out approximately $92,373 in salary differential to this senior executive.

Overpaid termination benefits

The Corporation paid redundancy and severance of two years totaling $360,400, along with $51,003 for unused paid leave, when a senior executive was terminated in March 2005. However, Government policy states the maximum to be paid for redundancy and severance is 82 weeks. Factoring in termination benefits, the Corporation overpaid the employee a total of $167,533.

2.10 Central West Health Corporation

Costly management decision

When one of the Corporation's Vice-Presidents indicated their intent to resign in 2004 to undertake a private venture, they were entitled to 20 weeks of severance pay totalling about $35,000. However, the Corporation agreed to an arrangement where the employee would stay until health care restructuring in the region was complete. As a result, the Corporation had to pay this employee an additional $102,000 in redundancy pay on termination in February 2005. The Corporation says the employee was needed to assist with restructuring; however, the employee was on leave for 87.5 of the 137 days of the continuation period and was allowed to overdraw their leave by 48.5 days.

3. Expenditures unsupported and unauthorized

We found issues related to inadequate documentation, non-compliance with Corporation policy, inconsistencies with Government policy, and claims for ineligible expenses when we examined 58 executive, senior management and Board member travel claims, 13 relocation and recruitment expense claims, 20 medical education allowance claims, and Board expenditures. Examples include:

- From July 2003 to August 2004, one of the Corporation's Vice-Presidents claimed travel expenses totalling $5,900 for 11 trips to St. John's. Leave records indicate the employee was on paid leave at the time.

- Contrary to Government relocation policy, there were two instances where mortgage down payments were considered a moving expense, and there were other instances where items such as a wide-screen television, digital camcorder, global positioning system and mobile telephone were purchased and claimed as moving expenses. There were three instances where employees were provided amounts in excess of the $12,000 maximum.

- Without authority, the Corporation paid $10,000 to the hospital foundation on behalf of a senior employee in lieu of payments for professional development. The foundation issued a charitable receipt but the amount was not included on the employee's T4.

2.10 Central West Health Corporation

4. Public Tender Act contravened

The Corporation is contravening the *Public Tender Act* in that it does not always call public tenders for purchases greater than $10,000, does not always obtain three quotes or establish a fair and reasonable price for purchases of $10,000 and less, and does not correctly communicate exceptions being made.

Examples of contravention of the *Public Tender Act* include:

- Of the 20 purchases sampled that were greater than $10,000, 6 with a total contract value of $382,000 were not tendered and the House of Assembly was not informed of the exceptions.
- Of the 14 purchases sampled that were $10,000 or less, 4 purchases did not have either 3 quotes or documentation of a fair and reasonable price.
- Contract extensions were not always properly approved, tenders were not kept in a locked box until opened, and tenders were not stamped to document date and time of receipt.

Findings and Recommendations

1. Deficit

Deficit increasing

The financial position of the Corporation has declined over the past five fiscal years. As at 31 March 2004, the Corporation had an accumulated deficit of $36.6 million, an increase of $16.1 million from the accumulated deficit of $20.5 million at 31 March 1999. Subsequent to our review, the Corporation's 2004-05 audited financial statements were released. For the 2004-05 fiscal year the Corporation reported an operating deficit of $4.5 million which increased the Corporation's accumulated deficit to $41.1 million at 31 March 2005.

Figure 2 shows the Corporation's annual deficits and accumulated deficits to 2004.

2.10 Central West Health Corporation

Figure 2

Annual and Accumulated Deficits
Years Ended 31 March
($ Millions)

	Opening	2000	2001	2002	2003	2004	Accumulated Deficit
Operating surplus (deficit)	0.7	0.2	(1.0)	0.2	0.0	(0.9)	(0.8)
Non-shareable deficit	(21.2)	(2.2)	(3.4)	(3.2)	(3.9)	(1.9)	(35.8)
Total annual deficit		(2.0)	(4.4)	(3.0)	(3.9)	(2.8)	
Accumulated deficit	**(20.5)**	**(22.5)**	**(26.9)**	**(29.9)**	**(33.8)**	**(36.6)**	**(36.6)**

Source: Audited Financial Statements

As the Figure shows, $35.8 million of the 2004 $36.6 million accumulated deficit is the result of non-shareable items such as severance pay accruals, vacation pay accruals, amortization of capital assets, and amortization of capital contributions. The remaining $0.8 million of the accumulated deficit relates to shareable operations.

Deficits not approved

For each of the fiscal years from 2000 to 2004, the Corporation approved a balanced budget. However, in 2001 and 2004, the Corporation exceeded its budget and incurred operating deficits of $1.0 million and $0.9 million respectively. Contrary to the *Hospitals Act*, although the Corporation requested approval from the Minister of Health and Community Services to incur annual operating deficits in 2001 and 2004, the Corporation never received approval to incur these deficits.

Budget not approved on timely basis

The Corporation's annual budgets are not being approved by the Department of Health and Community Services on a timely basis. For the 2003-04 and 2004-05 fiscal years, the Corporation's budgets were approved well into the respective fiscal year.

Budget submission and approved timelines

Fiscal Year	Budget Submission Deadline	Budget Submitted to Department for Approval	Budget approved by Department
2003-04	30 May 2003	3 June 2003	10 July 2003
2004-05	10 July 2004	12 July 2004	21 December 2004

2.10 Central West Health Corporation

Large unfunded liabilities

At 31 March 2004, the Corporation had total unfunded liabilities of $35.2 million. Figure 3 shows the Corporation's total unfunded liability for the last four years.

Figure 3

Unfunded liabilities
For the Fiscal Years
($ Millions)

	2000-01	2001-02	2002-03	2003-04
Cash	1.4	2.1	(0.9)	0.8
Accounts payable	(5.3)	(8.5)	(4.5)	(5.4)
Current long-term debt	(0.3)	(0.4)	(0.8)	(0.8)
Less: Net accounts receivable	2.5	6.0	3.5	3.7
Net liabilities	**(1.7)**	**(0.8)**	**(2.7)**	**(1.7)**
Long-term debt	(13.1)	(15.2)	(18.8)	(18.7)
Severance pay	(7.6)	(8.3)	(10.0)	(10.5)
Vacation pay	(3.4)	(3.8)	(4.2)	(4.3)
Total unfunded liabilities	**(25.8)**	**(28.1)**	**(35.7)**	**(35.2)**

Source: Audit Financial Statements

The $35.2 million in unfunded liabilities at 31 March 2004 will be affected by the results of current operations and the level of Government funding. If the Corporation has annual operating surpluses in the future, these surpluses can be used to fund the liabilities. However, if the Corporation has annual operating deficits, then the deficits, along with the unfunded liabilities, will eventually have to be funded by Government.

2. Accounts Receivable

For the fiscal years ending 2000 to 2004, the Corporation reported significant accounts receivable. At 31 March 2004, there was $3.8 million in accounts receivable. Figure 4 shows the accounts receivable for the last five years.

2.10 Central West Health Corporation

Figure 4

Accounts Receivable
31 March
($000's)

Accounts Receivable	2000	2001	2002	2003	2004
Doctors/Nurses/Employees	163	48	174	121	96
Patients	375	416	615	518	700
Long-term care residents	615	461	545	652	513
Due from Board Fund	0	230	0	(468)	510
Hospital Foundation	50	183	739	1,364	1,031
Provincial Government	1,173	644	3,402	384	69
Federal Government	126	418	695	847	479
Other	251	327	133	183	439
Total accounts receivable	**2,753**	**2,727**	**6,303**	**3,601**	**3,837**
Allowance for doubtful accounts	**(238)**	**(231)**	**(259)**	**(126)**	**(123)**
Net accounts receivable	**2,515**	**2,496**	**6,044**	**3,475**	**3,714**

Source: Audited Financial Statements
Note: The accounts receivable information reported in the audited financial statements has been re-grouped for report purposes

The Corporation is not adequately monitoring, reporting and collecting its accounts receivable.

As Figure 4 shows, the Corporation reported $700,000 in patient receivables at 31 March 2004. Our review of the patient receivables identified:

Incorrect ageing

$211,000 of the patient receivable balance was recorded in the Corporation's patient receivable system. At 31 December 2004, the patient receivable system reported $222,000 outstanding, of which $139,000 (or 63%) was over 151 days old. However, a review showed that $70,000 in credits were not properly aged. As a result, accounts aged 151 days or more were overstated by $70,000.

2.10 Central West Health Corporation

No declaration forms

A review of 7 accounts over $1,000 and 151 days or more in arrears identified 2 accounts (totalling $9,113) where declaration forms for out-of-province patients were not completed prior to patient discharge. Without this form, the Corporation cannot bill the other province's medical plan.

Billing errors

Workers compensation patients who return as non-workers compensation patients at a later date do not always have their patient coding changed upon admittance. As a result, workers compensation is incorrectly billed for the service. Furthermore, the Corporation does not send out follow-up invoices to workers compensation if an account is not paid. As a result, the incorrect billing is not detected.

Incorrect classification

$415,000 of the patient receivable balance was recorded in the Corporation's client receivable system. However, our review found accounts totalling $312,000 not related to patient services. For example:

- $231,000 related to an amount owing from the hospital foundation regarding an equipment purchase in January 2003.
- $42,000 related to a $64,000 no-interest loan to one doctor in June 2002. The account is being repaid at $1,100 per month.
- $35,000 was due from the Central Regional Health and Community Services Board for a paramedic training program.
- $4,000 related to an amount owing from one employee regarding a return in service agreement in December 2003. The employee resigned in 2004 and is repaying the balance at $125 per month.

Money owed from Foundation

At 31 March 2004, the Corporation reported $1,031,000 due from the South and Central Hospital Foundation. Our review identified:

- $231,000 owing from the Foundation was classified as patient receivables and not included in the $1,031,000. The total owing from the Foundation should have been reported as $1,262,000.
- $106,000 was related to recoverable salaries paid on behalf of the Foundation. At 31 March 2004, $50,000 was over two years old.
- $925,000 related to capital equipment purchases cost shared by the Foundation. At 31 March 2004, $687,000 was over a year old.

2.10 Central West Health Corporation

Money owed by employees and doctors

At 31 March 2004, the Corporation reported $96,000 owing from employees and doctors. Our review identified $12,250 related to the balance on a three-year return in service agreement for a physiotherapy student. In September 1999, the student received a training bursary of $21,000 for a three-year program and in January 2003 began working with the Corporation. At March 2004, the student had worked 15 months into the three-year agreement. The agreement stated that only 10% would be forgiven after 15 months; however, the Corporation had forgiven 42%. Therefore, the $12,250 receivable was understated and should have been reported as $18,900.

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3. Compensation Practices

Not consistent with Government compensation practices

During 2003-04, the Corporation spent $68.1 million, or 76%, of its $89.3 million in total expenditures on salaries and benefits. Our review disclosed that the Corporation's compensation practices are not consistent with Government policy with regard to:

A. Payment of paid leave

B. Overtime payment during strike action

C. Payment of salary differential

D. Termination benefits

Excess compensation paid to staff and payments made in advance of due dates reduces amounts available for program delivery.

A. Payment of paid leave

Paid leave payments inconsistent with Government policy

Government policy permits an employee who has more than 180 days paid leave to receive payment for up to 10 days per year as long as the employee's leave bank remains above 180 days. However, Corporation paid leave policy allows employees who have over 30 years of service and are older than 55 to receive payment for up to 40 days of paid leave per year, regardless of their leave bank balance. Therefore, this is not consistent with Government policy.

Our review identified 10 instances where 7 employees (executive, management and non-bargaining) received a total of $134,444 pay in lieu of taking 2,835.5 hours of paid leave. Paid leave by employee ranged from 143 hours (19 days) to 1,100 hours (147 days) as shown in the table. None of these employees had the 180 day leave bank balance required by Government policy.

Paid leave for April 2003 - January 2005

Employee	Date	Paid Leave		Amount
		Hours	Days	
1	April 2003	250	33	$ 11,153
2	June 2003	300	40	13,327
	March 2004	300	40	14,002
	February 2005	500	67	23,336
3	August 2003	250	33	8,745
4	September 2004	160	21	2,533
5	October 2004	157.5	21	11,003
	February 2005	525	70	36,678
6	November 2004	143	19	4,025
7	January 2005	250	33	9,642
Total		**2,835.5**	**377**	**$ 134,444**

Individual overpayment

In another instance, an employee who had a 180 day leave bank balance required by Government policy was paid for 65.6 days ($15,212), 55.6 days in excess of Government's 10 day annual limit.

B. Overtime payment during strike action

Overtime paid above Government policy

The Corporation paid employees (executive, management and non-bargaining) double time for overtime worked during the April 2004 public service strike. Corporation staff stated the policy is common throughout the health care system in the Province, and is in line with policy directions received from the Newfoundland and Labrador Health Boards Association. However, Government policy provides for the payment of overtime at time and a half, other than for statutory holidays when overtime is paid at double time.

2.10 Central West Health Corporation

The Corporation paid out or accrued overtime pay totaling $1.2 million related to the strike. Based on double time, the Corporation paid an estimated $300,000 in excess overtime pay. Our review of overtime paid to 8 employees (executive and management) during the strike identified $47,694 in excess overtime pay. The table summarizes these payments.

Excess overtime payments

Senior Employee	Overtime Hours	Payment at Double Time	Payment as per Government Policy	Excess Overtime
1	197.5	$ 34,955	$ 26,217	$ 8,738
2	239.0	43,746	32,809	10,937
3	156.0	14,624	10,968	3,656
4	230.0	21,560	16,169	5,391
5	151.25	14,180	10,635	3,545
6	236.0	20,182	15,137	5,045
7	175.75	15,950	11,962	3,988
8	274.0	25,576	19,182	6,394
Total	**1,659.5**	**$190,773**	**$143,079**	**$47,694**

Compensation not recorded on T4

A senior executive donated 50 hours of banked overtime hours, or approximately $5,000, to the hospital foundation. In May 2004, the Corporation paid the $5,000 to the hospital foundation, and reduced the employee's overtime bank by 50 hours. Our review found:

- The Corporation did not include the $5,000 on the employee's T4.
- The foundation issued a receipt in the employee's name in May 2004.

C. Payment of salary differential

Salary differential above Government policy

Government's salary differential policy states a manager receives 1% above the base salary of the highest classified management subordinate's pay scale.

The salary differential policy is not applicable:

- If either position is not officially classified on a job evaluation plan administered by Treasury Board's Classification and Pay Division; or

- When the subordinate is:
  - paid based on individual qualifications;
  - red-circled; or
  - paid higher than the regular rate of pay for the position.

A senior executive at the Corporation was paid a 1% salary differential above the Vice-President of Medical Affairs' salary, exclusive of any retention bonuses paid. However, the position of Vice-President of Medical Affairs is not officially classified. As such:

- the position should not be considered as the highest paid subordinate; and

- the salary differential should not be paid since the senior executive's salary is already 1% above the next highest paid subordinate.

Since 1 January 2003, the Corporation has, contrary to Government policy, paid $92,373 in salary differential to this senior executive.

Senior executive's salary differential payments

Effective Date	Salary based on 1% differential	Approved Salary per Point Scales	Annual Salary Differential	Calculated Overpayment
1 Jan 2003	$164,929	$124,761	$40,168	$20,084
1 July 2003	$164,929	$127,889	$37,040	18,520
1 Jan 2004	$172,565	$131,077	$41,488	41,488
1 Jan 2005	$180,200	$131,077	$49,123	12,281
Total				**$92,373**

In May 2000, the Department of Health and Community Services directed the Corporation to discontinue the senior executive's salary differential. The Corporation did not comply with the Department's direction and continued to pay the salary differential.

In addition to the salary differential of $41,488 in 2004 on the regular salary, the Corporation paid an additional $11,837 in salary differential on overtime earned during the April 2004 public sector strike and an advance payment for paid leave.

D. Termination benefits

Costly management decision

On termination of employment, Government policy allows severance payment up to a maximum of 20 weeks of pay one week for each year worked to 20 years. Furthermore, when a position is declared redundant, an employee is entitled to redundancy pay based on their age and years of service up to a maximum of 62 weeks. Therefore, an employee whose position is declared redundant may receive a maximum of 82 weeks pay.

During the summer of 2004, one of the Vice-Presidents indicated their intent to resign to undertake a private venture. This employee had over 20 years service with Government and therefore, was entitled to 20 weeks of severance pay totalling approximately $35,000.

Although the Corporation was aware of the planned restructuring of health boards, it agreed to an arrangement where the employee would remain with the Corporation until health care restructuring in the region was complete. As a result, when the employee's position was declared redundant, the Corporation had to pay this employee an additional $102,000 in redundancy pay (58 weeks) upon termination in February 2005.

Furthermore, from 3 August 2004 to 11 February 2005, although the Corporation indicated that the employee was needed to assist with the restructuring, the employee took 87.5 of the 137 working days for this continuation period in paid leave and, as a result, was available only 36% of the time. The employee only had 39 days of leave available during this period and on termination in February had overdrawn their paid leave balance by 48.5 days. Although the leave was recovered from the employee's termination benefits, Government policy does not permit leave to be taken in advance.

2.10 Central West Health Corporation

Contract not consistent with Government policy

Our review of one senior executive's employment contract indicated that the termination benefits were not consistent with Government policy.

The contract states that, if the employee is dismissed without just cause, an amount equivalent to 2 years (i.e. 104 weeks) remuneration (including continued coverage of all health benefits and pension benefits for that period) would be provided. The contract also states that, should the Corporation be restructured and the employee is no longer employed with the Corporation or the newly established entity, it would be regarded as dismissal without just cause.

On 31 March 2005, the Corporation terminated its contract with this executive employee. Their termination pay is summarized as follows:

Termination pay

Termination Pay	Number of periods	Amount paid by Corporation	Amount per Government policy	Overpayment
Severance pay	20 weeks	$ 69,308		
Redundancy pay	63 weeks	218,319		
Bridging to pension date*	21 weeks	72,773		
Total severance /redundancy	**104 weeks**	**360,400**	**$ 206,698**	**$ 153,702**
Unused paid leave	553 hours	51,003	37,172	13,831
Total termination benefits		**$ 411,403**	**$ 243,870**	**$ 167,533**

* Bridging amount paid bi-weekly up to pension date

The termination pay included an overpayment of $167,533 as follows:

- Government policy states the payment of redundancy is based on years of service and employee age up to a maximum of 62 weeks, and severance pay up to a maximum of 20 weeks, for a total of 82 weeks. However, based on its contract, the Corporation paid the senior executive 22 weeks (104 weeks 82 weeks) in excess of the maximum provided for under Government's redundancy policy.

  Furthermore, the Corporation calculated the redundancy and severance pay using the senior executive's annual salary, including salary differential. Since we have concluded the salary differential should not have applied, the properly calculated severance and redundancy on the 82 weeks, excluding the salary differential, should have been $206,698 and not the $360,400 paid. This amounts to an overpayment of $153,702.

In addition, in November 1993, this employee was paid severance of 11 weeks ($21,364) from previous employment at another Crown agency. There was no evidence this amount was repaid or adjusted in the current calculation as required under Government policy.

- The Corporation calculated the payment of unused paid leave using the senior executive's annual salary, including salary differential. Since we have concluded the salary differential should not have applied, the properly calculated payment of unused paid leave should have been $37,172. This amounts to an additional overpayment of $13,831.

4. Expenditures

Overview

For the year ended 31 March 2004 the Corporation spent about $19.6 million to purchase goods and services. We reviewed, for the period 1 April 2003 to January 2005:

A. Travel claims
B. Relocation expenses
C. Other expenses

We found issues with:

- inadequate documentation;
- non-compliance with Corporation policy;
- inconsistencies with Government policy; and
- claims for ineligible expenses.

A. Travel claims

Issues identified

During the 2003-04 fiscal year, the Corporation spent approximately $514,000 on travel. For the 9-month period ending 31 December 2004 in the 2004-05 fiscal year the Corporation spent $327,000. In our review of travel expenses, we examined 58 executive, senior management and Board member travel claims and found issues related to:

- inadequate documentation;
- non-compliance with Corporation and Government policy;
- claims for ineligible expenses; and
- travel expenses for a senior executive.

2.10 Central West Health Corporation

Inadequate documentation

Government and Corporation policy requires a travel claim be completed to support the reimbursement of all travel costs. Our review found:

- None of the 58 travel claims examined provided departure and arrival times to determine if proper meals rates were claimed.
- Travel claims did not always provide the purpose of travel to determine whether the travel was for legitimate purposes. 31 claims had vague reasons provided such as "administrative" or "meetings-St. John's" or "various meetings" while 2 claims had no reason provided.
- One senior executive's travel claim, submitted in December 2004, and covering the period June 2004 to December 2004, claimed $8,535 but could not be located at the time of our review.

Non-compliance with policy

Corporation policy requires employees to submit travel claims within two weeks of travel. Three senior managers submitted travel claims up to six months, three months, and one month after their travel (respectively).

Ineligible expenses

Five instances were identified where ineligible expenses were claimed:

- Two claims by one employee included restaurant charges for $39 and $15 even though the employee also claimed the per diem rate.
- One employee claimed a movie rental for $15.
- Two employees claimed the dinner meal rate even though they are noted as attending a dinner meeting for which another employee claimed $137.

Travel expense issues for a senior executive

One of the Vice-Presidents reported mileage from 1 May 2003 to 18 March 2004 of approximately 34,000 kilometres ($10,710) relating to 34 trips from Grand Falls-Windsor to and from St. John's. A number of concerns have come to light regarding this senior executive's travel expenses as follows:

- At the time of our review, there was no indication on the travel claims as to the purpose of the trip. Upon enquiry we were provided with explanations to support the travel.

- We identified 11 instances where Corporation records indicated this employee was on paid leave while on travel status and claimed travel expenses totalling $5,900.

- At the time of our review, in anticipation of the employee's termination, the Corporation reconciled the employee's travel claims dating back to 2002-03 and determined that the employee had been over-advanced by $9,881. The $9,881 was recovered from the employee's termination benefits.

B. Relocation expenses

Overview

The Corporation does not have written relocation expense reimbursement policies. It does, however, provide up to $12,000 for staff relocation expenses. Corporation officials indicated that:

- claims can be made for relocation of employees and their possessions (or purchasing items upon relocation if it is more cost efficient);

- expense claims must be supported with receipts; and

- employees must sign a two-year return of service agreement in return for the claim.

In reviewing relocation expenses, we examined 13 claims and identified issues with:

- inadequate documentation;

- payments in excess of the Corporation's $12,000 maximum; and

- inconsistencies with Government's relocation policy.

Inadequate documentation

Two relocation claims were paid the maximum of $12,000 even though they did not have adequate documentation to support the full $12,000 amount. One doctor moving from St. John's only provided support for $7,358, while the other doctor moving from Qatar only provided support for $2,510.

2.10 Central West Health Corporation

Payments in excess of the Corporation's $12,000 maximum

The Corporation reimburses the costs of relocating employees; however, some claims exceeded Government and Corporation policy:

- A nurse was paid $12,354 for moving from Alberta, $354 in excess of the maximum allowable claim of $12,000.
- A married couple was paid $29,097 for moving from St. John's, $17,097 in excess of the maximum allowable claim of $12,000. Both were employed with the Corporation; however, Government policy states married employees should be treated as one individual for claim purposes (i.e. a maximum $12,000 allowable claim for the couple).
- A married couple was paid $24,000 for moving from St. John's, $12,000 in excess of the maximum allowable claim of $12,000. Both were employed with the Corporation; however, Government policy states married employees should be treated as one individual for claim purposes (i.e. a maximum $12,000 allowable claim for the couple).

Non-compliance with Corporation policy

Corporation policy requires new employees to sign a two-year return of service agreement in return for reimbursing relocation expenses. However, service agreements were not always entered into with the individual:

- A return of service agreement could not be found for one doctor who moved in August 2002; however, staff said the individual had provided two years of service.
- Two doctors who began their service with the Corporation in May 2004 and August 2004, respectively, did not enter into a return of service agreement with the Corporation until after our review.

Inconsistencies with Government's relocation policy

Our review of reimbursements for relocating medical staff identified items not claimable under Government policy:

- The only support for a $24,000 claim for moving from St. John's ($12,000 each for a married couple) was a $50,000 receipt for a progress payment on the building of a house in Grand Falls-Windsor. As this type of payment is not eligible for reimbursement under the Government's policy, the payment was inappropriate.

- One $12,000 claim for a doctor moving from Nova Scotia included a $5,897 claim relating to a down payment on a house in Grand Falls-Windsor. As this type of payment is not eligible for reimbursement under the Government's policy, this portion of the $12,000 payment was inappropriate.

- Two claims included the purchase of items that were not claimable under Government policy. One doctor who moved from St. John's in August 2002 received $12,000 for relocation reimbursement expenses which included a claim for $3,312 for a wide-screen television, $1,638 for a digital camcorder, $1,146 for a global positioning system, and $265 for a mobile phone. Furthermore, the purchase dates for these items went to December 2003. Another doctor who moved from England and received $12,000 for relocation reimbursement expenses claimed $5,013 for the purchase of a wide-screen television.

C. Other expenses

Medical education allowances

While the Corporation does not have criteria in place to determine which expenditures are eligible for reimbursement relating to medical education allowances, Corporation officials indicated that $1,200 will be provided annually to medical staff for professional development purposes, with chief service providers given an increased allowance of $2,500. Our review of 20 claims indicated that:

- A duplicate payment for $1,200 was made to one doctor in March 2004. Subsequent to our inquiry, we were informed that the duplicate payment was recovered.

- One chief service provider was paid $5,700 for attending two conferences in 2003-04. This is $3,200 more than the $2,500 annual maximum for this position.

- One doctor was paid $1,800 during 2003-04 for 3 months accommodation while studying in Halifax. This is $600 more than the $1,200 annual maximum for this position.

2.10 Central West Health Corporation

Board Fund discretionary expenditures

The Corporation's Board Fund is used for discretionary spending. The Department of Health and Community Services' guidelines require Board funds be used for the benefit of health care, and not for personal benefit or gain of any employee. We found:

- In May 2004, $10,000 was paid to the hospital foundation on behalf of a senior executive. Although Corporation officials could not provide a copy of the employee's employment contract, they indicated that under the contract the amount was paid to the hospital foundation in lieu of annual $5,000 education allowance for a two year period. Without a contract, we could not confirm this condition or whether receipts should have been provided by the employee to support the education allowances paid.

  Also, although the hospital foundation indicated that a receipt was issued for $10,000 in the employee's name, the payment was not noted on the employee's T4.

- In December 2003 and December 2004, amounts of $1,507 and $1,841 were spent from Board funds respectively on Christmas dinners.

Retirement gifts

The Corporation has a policy of providing gifts to retiring staff based on years of service. This policy is not consistent with Government's policy regarding retirement receptions. Government's policy states that retirement-related expenses can only be provided for employees who are paid on the Executive Compensation Plan. The Corporation provided the following retirement gifts to individuals who were not on this plan.

Retirement gifts

Fund	Date	Retirees	Total	Gift Amounts
Operating	1 June 2004	6	$1,050	$125-$200
Operating	10 June 2004	1	150	$150
Board	25 Nov. 2004	1	329	$329
Board	30 Nov 2004	6	1,400	$100-$300
Board	8 Dec 2004	7	1,070	$120-$200
Total		**21**	**$3,999**	**$100-$329**

2.10 Central West Health Corporation

5. *Public Tender Act*

Overview

Whenever the Corporation acquires goods and services, the Corporation must comply with the requirements of the *Public Tender Act* and *Public Tender Regulations, 1998.*

This table summarizes the requirements of the *Public Tender Act.*

When goods and services cost . . .	Or a public work costs . . .	Then the Corporation must . . .
More than $10,000	More than $20,000	Invite tenders
$10,000 and less	$20,000 and less	• Obtain quotations from at least three legitimate suppliers, or • Establish for the circumstances a fair and reasonable price

The *Act* provides exceptions where tenders may not be required. In such cases, the Corporation must inform the Chief Operating Officer of the Government Purchasing Agency, who must submit a report to the House of Assembly for tabling.

No tendering for goods and services over $10,000

Our review included a sample of 20 purchases greater than $10,000 for the period 1 April 2003 to 31 December 2004. We used these samples to assess the Corporation's compliance with the *Public Tender Act* and *Regulations*. For the 20 purchases over $10,000:

- 6 purchases were not tendered (3 of the 6 purchases not tendered were deemed emergency purchases or sole source; however, the Government Purchasing Agency and therefore the House of Assembly was not informed);
- 11 purchases were tendered; and
- 3 purchases met one of the exception provisions and the House of Assembly was informed (tender exceptions not approved by the head of the government-funded body, i.e. the Chief Executive Officer).

2.10 Central West Health Corporation

Details on the 6 purchases not tendered are as follows:

Invoice Date	Amount (net of HST)	Description
September 2003	$78,400	**House for Doctor in Lewisporte** - No evidence of quotes or specifications to determine on what basis the house was selected.
March 2004	$38,770	**Two used vehicles** - Purchased from a company associated with a Board member. - No invoice available to support purchase amount - paid based on quotation. - Purchase not done through Corporation's Purchasing Department. - Quotation documents had to be obtained from the Ambulance department - no specifications were provided. - For one of the vehicles, the highest quote was selected.
November 2004	$16,705	**Used vehicle** - Purchased from a company associated with the same Board member. - Quotation received 7 days after other quotations. - Purchase not done through the Corporation's Purchasing Department. - Quotation documents had to be obtained from the Ambulance department - no specifications were provided and the lowest priced vehicle was purchased.
July 2003	$103,037	**Soil remediation** resulting from Botwood oil spill deemed to be an emergency purchase; however, the Minister of Government Services and therefore, the House of Assembly was not informed.
May 2004	$124,196	**Oil spill clean up** in Botwood deemed to be an emergency purchase; however, the Minister of Government Services and therefore, the House of Assembly was not informed.
November 2004	$21,087	**Six telescopes** deemed to be a sole supplier purchase; however, the Minister of Government Services and therefore, the House of Assembly was not informed.

2.10 Central West Health Corporation

Change orders not approved as required

The *Act* provides for extensions or change orders within the scope of the original contract up to:

- $15,000 for contracts under $100,000;
- $15,000 or 10% of the contract price, whichever is greater, for contracts over $100,000 and less than $500,000; or
- $50,000 or 5% of the contract price, whichever is greater, for contracts over $500,000.

These extensions or change orders require prior approval of the head of the government-funded body. Extensions or change orders above these limits must have the prior approval of the Board of Directors.

Our review identified three instances where extensions or change orders were not approved as required:

- A tender for $18,345 for concrete walkway repairs was extended to include an additional $6,679 in repairs without the CEO's approval.
- A tender for $184,490 for window replacement was increased by $4,000 for additional windows without the CEO's approval.
- In 2002, the Corporation entered into a 5-year contract for the cost of dialysis treatments on a cost per treatment basis of $63.50. In July 2004, the cost per treatment increased to $73.47 (as a result of a change in the dialysis machines to accommodate poor water quality). With monthly payments based on 740 treatments per month, this equals an additional annual cost of $88,533. The Board of Directors did not approve the change order as required.

Issues with goods and services under $10,000

Our review included a sample of 14 purchases that were $10,000 and less for the period 1 April 2003 to 31 December 2004. We used the sample to assess the Corporation's compliance with the *Public Tender Act* and *Regulations*. For the 14 purchases $10,000 or less we found:

- 4 purchases did not have the required 3 quotes or documentation that a fair and reasonable price was obtained;
- 7 purchases were tendered;

- 1 purchase was an existing contract; and
- 2 purchases had quotes requested.

Other weaknesses

The following weaknesses were also found with the tendering process:

Weakness	Consequence
Tenders not kept in locked box until opened.	Integrity and security of tender bids may be compromised.
Tenders not stamped with date and time received.	Ability to determine if bid was received on time compromised.
Explanations for not obtaining quotations not always documented.	Ability to explain why three quotes were not obtained compromised.

Recommendations

We recommend that the Corporation:

- *not incur deficits without the explicit prior approval of the Minister of Health and Community Services;*
- *ensure that its accounts receivable are properly classified and accurately aged;*
- *be consistent with Government compensation policies with regards to paid leave, overtime pay, salary differentials and termination benefits;*
- *monitor travel expenditures to ensure compliance with Corporation policy and consistency with Government policy;*
- *ensure relocation expense reimbursement is consistent with Government policy; and*
- *comply with the* Public Tender Act *and* Regulations.

Government should ensure that processes are in place to provide for timely budget approval.

2.10 Central West Health Corporation

Corporation's Response

During the 10 years of its existence, the Central West Health Corporation had the best financial record of any health board in the province. This was conveyed to the Corporation by ministers and senior officials within Government on a yearly basis. Year after year the Corporation had a break-even position in its annual operating budget. No other health care board in the province can make the same claim. Over the last 10 years the Department of Health and Community Services provided the Corporation in excess of $650 million for its operating expenditures. During that time frame the Board incurred an accumulated debt of $800,000 on its day to day operations. The accumulated debt for health boards in the province over the same time frame on its day to day operations is over $100 million.

Although the Central West Health Corporation received over eight per cent of the province's total health budget on a yearly basis, its debt is ***.8 per cent (less than one percent)*** *of the total provincial health care debt. This demonstrates the Corporation's outstanding financial management record and is a remarkable achievement in today's health care environment. External organizations such as the Canadian Council of Health Services Accreditation (a national body dealing with national health care standards) recognized this achievement for Central West during its November 2003 survey and congratulated the Corporation on its outstanding financial management. The Council noted on page 4 of its report..."There is exemplary management of financial resources". The Corporation believes that its practices have led to financial stability, improved access to patient care services, improved recruitment and retention of physicians and other health care professionals, and subsequently the best and widest possible provision of cost-effective health care services in the history of Central Newfoundland.*

No Approval to Incur Deficits

The Auditor General notes that the Corporation did not receive approval to incur deficits in 2001 and 2004. For each of these fiscal years the Corporation had developed a plan of action which would have resulted in a balanced budget. These plans of action were submitted to the Department of Health and Community Services. Some of the measures outlined in the Corporation's action plan were accepted, others were not. The Corporation received instructions from Government to carry on with existing service levels, even though this would result in an operating deficit. The fact that the Corporation did not receive explicit written approval from the Department to incur these deficits, even though approvals were requested, is a problem outside the control of any health board and is one that has to be dealt with by Government.

2.10 Central West Health Corporation

Compensation Practices Not Consistent with Government Policy

In his conclusions the Auditor General states that the Corporation's compensation practices are not consistent with Government's compensation practices.

Generally, the Corporation practices are in line with corporate policies. Health care corporations throughout Newfoundland and Canada have always had flexibility to develop policies separate from public service policies, including compensation policies.

Paid Leave:
The Auditor General notes that there were instances when employees received pay in lieu of taking paid leave hours. It is important to understand that paid leave is an earned entitlement of individuals and is accumulated for management employees similar to the way unionized employees accumulate annual leave through their collective agreements. Consequently, any paid leave provided to employees was leave that was owed to them.

Incorrect Overtime Payments:
During the Public Service Strike in April 2004, management and non-union employees received double pay for "overtime". A strike in health care is an extraordinary situation whereby management and non-union employees perform a wide array of duties outside of their normal duties to keep the organization operating 24 hours per day, seven days a week. The Corporation had no control over the strike, but had a responsibility to maintain a certain level of essential services during the strike. The Newfoundland and Labrador Health Boards Association has had a policy regarding health care corporations paying double overtime in strike situations going back as far as 1977. Senior officials within Government have been aware of this policy.

When the strike was over, Corporation officials, at the request of the Department of Health and Community Services, sent in the "overtime" accumulated by each employee. This "overtime" was reviewed and approved by Government and payments were made to employees accordingly. These payments were outside of the general operating budget of the Corporation, i.e., they were fully funded by the Department outside of its day-to-day budget. Every health care corporation in the province participated in this arrangement, and in excess of 1000 management and non-union employees throughout the province received the double "overtime" pay. Consequently, if there is an issue with this, it does not rest with the Corporation but with Government.

2.10 Central West Health Corporation

Incorrectly Applied Salary Differential:
The Auditor General states that, in his opinion, the Corporation incorrectly applied a one per cent salary differential within its senior executive based on his view that the position of Vice President of Medical Affairs was not classified officially by Treasury Board. In the Corporations opinion, the position of Vice President of Medical Affairs ***was classified*** *by Treasury Board based on the documentation the Corporation received from Treasury Board. As well, the Corporation is a legal entity established pursuant to the* Hospitals Act *and has the legislated authority to determine and pay the salary of its senior executive. This will be discussed more fully in the detailed findings and recommendations section of the report.*

Overpaid Termination Benefits:
The Auditor General indicated that termination benefits were overpaid to a senior executive when his position was declared redundant in March 2005 and he received a two-year payout, rather than the 82 weeks which is Governments maximum for redundancy and severance. The Corporation strongly objects to the use of the term "overpaid". The amount of money paid to the employee was in accordance with a termination payout in a legally binding contract that the Corporation had the authority to establish with its senior executive. Senior officials within Government were aware of the terms of this contract. More details will be provided in the detailed findings and recommendations section of the report.

Costly Management Decision:
In its 2004/05 budget Government announced the restructuring of health boards in the province. During the summer of 2004 this employee indicated to the organization that he did not wish to apply for any of the soon to be posted new positions within the new board and instead would opt for a redundancy package. In addition to the severance payout outlined by the Auditor General, employees are entitled to be paid for any accumulated leave they have on the books. Employees generally have the ability take their redundancy payout in a lump sum, a bi-weekly basis, or some combination of both.

In anticipation of the pending announcement and posting of the new positions, the organization agreed to allow the employee to start drawing down on their redundancy payout starting with the leave bank. The employee agreed to provide 2 days a week to the organization while waiting for the new jobs to be posted. This arrangement continued until mid September when the employee had used up his leave bank. There had been a delay in getting the new job posted so the employee agreed to provide 2 days a week to the organization. The organization agreed to continue to pay the employee on a bi-weekly basis with these payments to

be applied against the employee's severance. The organization recorded these payments by overdrawing the employee's leave bank. These payments were deducted by the organization from the employee's severance pay.

We disagree that this was a costly management decision. Rather, it was a decision that allowed the organization to continue to avail of the employees expertise and knowledge while at the same time actually saving money on the employee's salary. In addition, the severance payment to the employee was not an expense to the Central West Health Corporation. The organization received funding from the Department of Health and Community Services for this employee's severance as part of the more than $1.8 million the organization has received for redundance payout as a result of health board restructuring.

Expenditures Unsupported and Unauthorized

The Auditor General references expenditures that are unsupported and unauthorized. The relocation payments made to physicians basically were recruitment expenses. When physicians were given the $12,000 maximum as a recruitment incentive, they had the option of moving household effects or buying these household effects when they moved to the central region. The Corporation has had tremendous success with the recruitment and retention of physicians at a time when most health boards across the country are experiencing difficulties. In fact, many rural boards have had to decrease services as a result of the unavailability of physicians. The recruitment costs incurred by the Corporation were not significant, given this success with recruitment and retention. Sometimes judgment decisions have to be made with respect to incremental costs versus the availability of services to the public, and these incremental expenses were relatively small compared to the costs avoided in physician turnover, ongoing recruitment and locum payments for physician replacement.

The Auditor General also states that the Corporation paid $10,000 to the Hospital Foundation on behalf of a senior employee in lieu of payment for professional development and this was not included on the employee's T4. On two separate occasions the Corporation outlined to the Auditor General's staff the background regarding this payment. When the Foundation issued a charitable receipt in error to the senior employee, it was immediately returned to the finance department of the Corporation and destroyed. The employee in question did not claim this amount as a deduction under Charitable Expenses, and indicated his willingness to provide access to his personal tax returns to prove beyond any doubt that there was no financial benefit to the employee. Nor was there any public recognition given to this employee in the Foundation's newsletters,

publications, reports or on the Foundation's Donor Wall. The Foundation, and subsequently the patients who receive services through the Corporation's health facilities, were the beneficiaries of this donation.

Public Tender Act Contravened

The Auditor General indicates there were instances in which the Corporation contravened the Public Tender Act. *The Corporation appreciates the recommendations from the Auditor General with respect to "tightening up its tendering practices", and would like to note that no individual employed with the organization benefitted from these transactions. The Corporation was involved with over 30,000 transactions per year, and all were undertaken with the view of obtaining the best product or service available at the best price.*

Findings and Recommendations

The following comments relate to the findings and recommendations of the Auditor General:

Deficit:

Deficit Increasing:

The Auditor General notes that as of March 31, 2004, the Corporation had an accumulated debt of $36.6 million which is an increase over previous years. It is important to note that of this $36.6 million, $35.8 million is considered non-shareable and outside of the control of the Corporation. The non-shareable debt results from Government's policies, capital construction programs and employee benefits implemented by Government. The Corporation had control only over its shareable operating grant from Government or $800,000 of the $36.6 million. The non-shareable long-term debt of the Corporation consists of:

(a) Mortgages on nursing homes and cottages which the Corporation assumed in 1994.

(b) Approximately $10 million pertaining to the construction of a new Carmelite House. The Corporation assumed this debt at the request of Government so it would not have to show on Government's books.

(c) Items such as severance pay accruals, vacation pay accruals, etc. The long-term debt for these items increases with the size of the organization, e.g., the more employees the bigger the debt.

2.10 Central West Health Corporation

If one were to look at other institutional health care boards in the province in terms of long-term non-shareable debt, the amounts are significant, totaling over $424 million in 2003, up from $286 million in 2000.

It is unfair to characterize the total long-term care debt of a health care corporation by including both its non-shareable deficits and its operating deficits/surpluses. Increases in long-term non-shareable deficits are not the fault of the corporations. Corporations have control only of their shareable portion of the debt. In the case of the Central West Health Corporation this is a total of $800,000 on the $36.6 million reported by the Auditor General. ***As noted earlier, a total accumulated shareable debt of $800,000 on expenditures in excess of $650 million reflects an excellent financial record.*** *This operating debt is the result of the rapid growth of one program -- the dialysis program -- which was under-funded by Government.*

Deficits Not Approved:

As noted earlier, the Corporation requested approval from the Department of Health and Community Services to incur annual operating deficits in the 2001 and 2004 fiscal years. The Corporation did not receive explicit approval from the Government to incur these deficits. However, the Government did indicate that the Corporation could not proceed with all of the measures outlined in its plans of action for these two fiscal years in order to break even, thereby implicitly giving approval to the Corporation to incur these deficits.

Budgets Not Approved on Timely Basis:

The Corporation has no control over Government's delays in approving budgets on a timely basis. Consequently, this item and the one noted immediately above are issues to be dealt with directly by Government.

Accounts Receivable:

The Auditor General refers to the accounts receivable of the Corporation. In general terms, the Corporation collects over 85 per cent of its accounts receivable. Those that end up being written off as bad debts relate to patient accounts for programs such as ambulance services and long-term care. With respect to the $1,000,000 due to the Corporation from the South and Central Health Foundation, it should be noted that the Corporation collects 100 percent of its receivables from the Foundation. Under an agreement with Government the Corporation and the Foundation undertook a $4,000,000 capital campaign, $2,000,000 of which was provided by the Government, and the Foundation committed to solicit $2,000,000 from residents of Central Newfoundland and other areas of the province. The Corporation's practice was to purchase major priority medical equipment such as a CT scanner when needed and collect

payments from the Foundation as it completed its collection of pledges. There is usually a one to three year lag period from the time the equipment is purchased to the collection of pledges.

Compensation Practices:

Payment of Paid Leave:
The Auditor General indicates that there was payment of paid leave to employees in a manner not consistent with Government policy. Government policy allows up to 10 days pay as long as an individual has 180 days paid leave remaining in his/her bank. He notes one instance where an employee was paid for 65.6 days of leave which is in excess of Government's 10 day limit. The payments were made in accordance with the Corporation's own paid leave policies. ***It is important to note that no employee was paid more than what the employee had earned and was owed by the Corporation.*** *As a result of these payments, the Corporation actually saved money since the amounts paid out were at a lower hourly rate than the payout would be in subsequent years when the employee's hourly rates would likely be higher. Therefore, there is a cost-avoidance factor to be considered. It is also interesting to note that while the Auditor General expresses concerns about the long-term debt accruing to health boards for severance pay and vacation pay, concern is also expressed when a corporation pays out some of the paid leave accruals and thereby reduces this long-term debt.*

Overtime Payment During Strike Action:
The Auditor General references the overtime payments made to employees during strike action in April 2004. As noted earlier, these payments were made in accordance with the policy of the Newfoundland and Labrador Health Boards Association. This policy has been in place for more than 30 years and was known by senior officials within Government. The Auditor General references eight employees of the more than 1000 employees throughout the province in all health care corporations who received this payment. The payments were made to the Central West Health Corporation and others throughout the province after the Department of Health and Community Services requested, received, reviewed and then paid the overtime amount to these employees. These payments were made outside of the Corporation's annual operating budget and therefore did not impact the bottom line for the fiscal year.

Payment of Salary Differential

The Auditor General indicates that, in his opinion, the Corporation incorrectly paid a one per cent salary differential to a senior executive of the Corporation. He notes that the payment was incorrect since the subordinate position of Vice President of Medical Affairs was not officially classified. The Corporation strongly disagrees with the term "overpayment" and believes that it followed proper procedure and paid an appropriate and legitimate salary based on the following:

(a) *Under the terms of the* Hospitals Act *(An Act to Provide for the Management and Operation of Hospitals in the Province - June 1971), under which the Central West Health Corporation was constituted in 1994, the Corporation has the authority under Section 17 of the Act "Appoint an administrator of any hospital under its jurisdiction. . . . and other staff of any kind . . . and may provide such payment or other remuneration for them as it thinks fit". A copy of this Act was sent to the Corporation by Government when it was constituted in 1994. Consequently, the Corporation has the statutory right to enter into a contract and to determine compensation for its administrator and other staff. This legal authority supercedes policy. Over the years there was from time to time discussion by various ministers as to whether Government would propose an amendment to Section 17 of the legislation restricting a corporation's right to establish remuneration. This was never done.*

(b) *When the Corporation established its policy on remuneration, it did not do so in isolation. The Corporation policy of a one per cent salary differential for all of its management employees (unionized employees are covered by collective agreements) was based on Treasury Board's own policy for its executives which states as follows under Section 3.9: "Executives who are in a pay anomaly situation with a subordinate position will receive a wage differential of at least one per cent". There are no provisos or conditions attached to this policy. Its spirit and intent is that the one per cent differential applies.*

(c) *The Auditor General states that, in his opinion, the one per cent does not apply because the subordinate position of Vice President of Medical Affairs reporting to the senior executive was not officially classified by Treasury Board. The Corporation's opinion is that the position was classified by Treasury Board similar to the way it has classified other senior positions in the past. This opinion is based on the fact that over a period of years the Corporation has received copies of letters from Treasury Board*

indicating that it has approved the classifications with applicable salary scales for Medical Directors/Vice Presidents of Medical Affairs. As an example, on March 17, 2000, "Treasury Board circulated information to health corporations which states Treasury Board has approved the implementation of a revised Medical Directors Pay Plan effective 2000/04/01 (TBM 2000-072 refers). A copy of the revised plan is attached for your action". This plan outlines the categories of Medical Directors in the province and the pay ranges for Medical Directors in these categories.

On August 7, 2003 corporations were sent a memo from the Deputy Minister of the Department of Health and Community Services which stated: "Treasury Board, in accordance with TBM 2003-176, approved a new pay scale for Medical Directors in Health Boards". The pay ranges for Medical Directors for a three-year period were outlined in the details attached to the Deputy's letter. The definition of classification in collective agreements signed off by Treasury Board is... "Classification means the identification of a position by reference to a class title and pay range number". Based on the fact that Treasury Board established the classifications of Medical Directors and the pay ranges within these classifications, the Corporation contends that the positions of Medical Directors were in essence classified by Treasury Board similar to the way other senior positions were classified.

(d) Further, the Corporation did not attempt to hide its remuneration policy for management staff or its remuneration level for its senior executive. When the compensation policy was established and the senior executive's contract renewed in the spring of 2001, the Chair of the Health Corporation hand-delivered a copy of the contract and the Corporation's remuneration policy to the then-Minister of Health. The Chair also provided the information to the subsequent health minister. The Deputy Ministers of the Department at the time this information was provided to the ministers both subsequently became the most senior official of Government. At no time after the Corporation implemented the salary differential in June of 2001 (and notified the Department accordingly) did it receive any indication from Government that the salary differential was ineligible and should not be applied.

(e) *Every year the Central West Health Corporation submitted its annual operating budget to the Department of Health and Community Services. Every year during which the one per cent salary differential was paid, the Corporation outlined the salary plus the wage differential for the senior executive in the executive portion of the budget sent to the Department. The Department approved these operating budgets each year. At no time after the Corporation implemented the salary differential and reported it on an annual basis to the Department did the Department question or indicate to the Corporation that the salary differential was ineligible and should not be paid.*

Based on the factors noted above, the Corporation acted within its legal capacity pursuant to the Hospitals Act *to establish remuneration for its senior executive. The Corporation disclosed this information through the Board Chair to Ministers of Health and Community Services, and one would reasonably presume that the ministers would have disclosed this information to their deputies. The Corporation also disclosed this information in its yearly budgets to Government. At no time was any direction given to the Corporation that it should cease paying the one per cent differential to its senior executive after the salary differential was implemented in June 2001. Consequently, the senior executive was not overpaid any salary during his tenure with the Central West Health Corporation.*

Termination Benefits

Contract Not Consistent with Government Policy:
The Auditor General indicates that one senior executive's contract contained termination benefits which were not consistent with government policy. He indicates that the employee received a 2-year payout which was over and above the maximum amount authorized by Government for its employees, so therefore there was an overpayment of total termination benefits. The Corporation strongly objects to the use of the term overpayment. The Corporation did not do anything that was wrong or illegal, and the payout on termination merely reflects the difference between one payment process versus another. The Corporation wishes to make the following points:

(a) *Contracts are the norm for senior executives with health care corporations across the country, and have been for many years. In this case the payout was not a severance pay for the senior employee, but was a payout in accordance with a legally binding contract. A two-year payout is not uncommon for senior executives in any industry with 30+ years of service. The contract provisions for termination are not consistent with Government policy, otherwise there would be no need for a contract.*

(b) *The 82-week maximum that Government allows is not a fixed maximum. There have been instances where Government has allowed the payment of more than 82 weeks. For example, with the restructuring of school boards in 2004 some of the outgoing senior executives received two-years termination pay; there have been instances in the past where senior government employees have received more than 82 weeks termination pay; and with the recent restructuring in the health sector Government has permitted some employees to work a notice period of a year or more and still allow them to obtain 82 weeks severance pay. (Government policy generally allows for the provision of notice in lieu of severance pay, or severance pay in lieu of notice, but not both.)*

(c) *As noted above, the Corporation fully disclosed the senior executive's contract to Government, so Government was familiar with its termination provisions. It should be noted that when this senior executive was offered a senior position with the current government in 2004, Government's verbal offer indicated a provision that he could work with them on a seconded basis for three years, following which he could return to the new Health Authority in Central Newfoundland and receive a two-year termination payout based on his salary at the time of his proposed secondment which was the same salary used to calculate his termination pay on March 31, 2005.*

Expenditures

Travel Claims:

Inadequate Documentation:
The Auditor General notes that one senior executive's travel claim submitted in December 2004 and covering the period June to December 2004 claimed $8,535 but could not be located at the time of the review. When the Auditor General's staff initiated their review in January 2005, one staff member obtained the travel claims for all senior executives and photocopied them. The travel claim for this particular senior individual had been approved by the Corporation's Finance Department, a cheque was processed and a posting to the general ledger was completed. The approval and processing of the cheque could not be done without the travel claim being provided. It was several weeks later when the Auditor General's staff indicated they could not find this particular travel claim. A search was initiated within Financial Services to determine if it had been re-filed incorrectly; however, the original travel claim could not be found. The senior employee in question reproduced the travel claim for Financial Services and subsequently made it available again to the Auditor General's staff.

Travel Expenses Issues for a Senior Executive

The Corporation has reviewed the instances where the corporation had recorded the employee on paid leave. The Corporation will correct the errors in the recording of paid leave and reconcile the employee's paid leave bank.

This employee traveled on a regular basis and was provided with travel advances on a regular basis. These advances were recorded on the Corporation's books. At the request of the employee the Corporation recorded the advance payments with the travel claims to ensure any outstanding balances were recorded. This was carried forward and the outstanding amounts were deducted from the employee's termination benefits.

Relocation Expenses:

The Auditor General indicates that there were a few instances where the Corporation paid relocation expenses to physicians and these were not in accordance with Government's travel policy. The Corporation provides a $12,000 relocation expense to physicians. Physicians have the option of moving household effects with them or purchasing these household effects when they arrive at their new location. If two physicians are married to one another, the relocation expense is provided to both physicians. In two cases this was done because a specialist and a general practitioner who were married to one another were recruited and both established practices within the Grand Falls-Windsor area. These physicians provide a two-year return in service to the Corporation for the relocation allowance. The relocation allowance is one of the factors which has enabled the Corporation to improve its recruitment and retention of physicians. The Corporation has an excellent track record of recruiting and retaining physicians, particularly given the shortage of physicians across the country. Sometimes the Corporation has to make a judgment call regarding incremental costs over and above the $12,000 allowance, but this is more than offset by the savings in overall recruitment and provision of locum services.

Other Expenses:

In the Auditor General's report statements regarding the board fund discretionary expenditures indicate that in May of 2004 $10,000 was paid to the Hospital Foundation on behalf of a senior executive. This money was paid to the Foundation in lieu of an annual professional development fund for the executive which was provided to him following a special meeting of the Board of the Health Corporation in 1998. It was not part of the executive's original employee contract and this was indicated to the Auditor General's staff. The employee did not receive any benefit from this transaction. Although the Foundation issued a charitable receipt to the

employee, the employee realized this receipt was in error and returned it to the Corporation's Department of Finance, which then destroyed the receipt. No claim was made as a charitable donation for tax purposes, and the employee in question offered to provide his tax returns to the Auditor General's staff to verify this. There was no recognition of the employee in the Foundation's newsletters, publications, reports or on its Donor Wall. The beneficiary of this transaction was the Health Foundation, which uses donated money to acquire medical equipment for the benefit of residents and patients in the central area.

In the report it is noted that the Corporation paid out $1,507 and $1,841 in December 2003 and 2004 respectively on Christmas dinners. These dinners were provided to the ***volunteer members*** *of the Corporation in recognition of their significant contributions to the Corporation.*

Retirement Gifts:
The Auditor General notes that the Corporation provides retirement gifts to its employees. He further notes that this is not consistent with Government policy, which states that retirement-related expenses can only be provided for employees who are in Government's executive compensation plan. The Corporation's policy is to provide retirement gifts to ***all*** *employees based on years of service with the organization. The policy is not consistent with Government policy but has been in existence with the Corporation for many, many years. Similar corporations around the province have similar retirement policies.*

Public Tendering Act

Section 5 of the Auditor General's Report deals with the Public Tender Act. *On a yearly basis the Central West Health Corporation solicits quotations, tenders, etc., approximately 30,000 times. The Corporation appreciates the recommendations of the Auditor General regarding the public tendering legislation, and some of these have already been implemented. However, some commentary is necessary on some of the items noted in the report.*

Purchases Not Tendered:
It is noted that the Corporation purchased a house for a doctor in Lewisporte in September of 2003. The Corporation does not go to tender for the purchase of houses. Contact is made with representatives in the local real estate market. Arrangements are made to view all houses that are listed for sale in the local market, and the appropriate house is then selected and price negotiated - just as any individual buying a house would do. Prior experiences have proven that this will save thousands of dollars versus going the public tendering route.

Change Order Not Approved as Required:
The report identifies three instances where extensions or change orders were not approved as required. The extension of the tender for repairs to walkways and for the purchase of additional windows were both done with the knowledge of the CEO who delegated the necessary authority to the Chief Operating Officer of the Central Newfoundland Regional Health Centre to proceed as necessary.

It is also noted that the Corporation entered into a five year contract for the cost of dialysis treatment based on $63.50 per treatment and subsequently changed that to a cost per treatment of $73.47. The Board of the Corporation did not explicitly approve this change order; however, the Board of the Corporation was fully aware of the change. Issues associated with the dialysis program were among the most discussed issues at Corporation board meetings during its last five years.

Summary

The Corporation appreciates the recommendations of the Auditor General and notes that the Auditor General's report highlights areas where there are delineations from Government policy. It does not indicate whether these delineations are right, wrong or cost effective, etc but simply they are delineations from Government policy. Health care organizations throughout Newfoundland and Canada for the past 35 years have had authority to determine policies or to institute policies different than public service policies and have legislated authority to do things over and above regular Government departments. It should also be noted that rarely do health care organization receive from Treasury Board copies of circulars, policies, letters, etc outlining specific Government policy or indicating that boards are subject to specific policy. Similarly, employees who work with health care boards are not considered to be Government employees in many senses. They do not receive any service awards from Government, they do not participate in Government employee days, they are not eligible to participate in Government programs such as the Channing Fellowship, etc. If Government wishes to ensure that there is 100% consistency in both policy and pay levels between health boards, school boards, government employees, etc significant changes have to be made in the way these organizations conduct their business and in the way Government communicates to these boards.

2.10 Central West Health Corporation

Department of Health and Community Services' Response

With respect to government communication concerning the salary differential, please note the following. An official of Treasury Board sent a letter to the Newfoundland & Labrador Health Boards Association dated March 5, 2002 advising the wage differential does not apply to CEOs in relation to Medical Directors. Furthermore, on April 9, 2002 the Minister of the Department of Health and Community Services wrote Health Board Chairs regarding the previously noted letter.

I have also been advised by the former deputy minister that in 2001 a copy of the contract was not provided to officials within the Department of Health and Community Services and officials did not have knowledge of the contents of the contract. Repeated requests by officials of the Department for a copy of the contract were met with no response by the Board until 2002. At that time, faced with a binding contract entered into between the CEO and the Chair of the Board, it was clear that the CEO was legally entitled to the compensation in the contract even though the contract was contrary to government policy. In this specific case, the former Board knew that Department officials were not aware of the contents of the contract because requests were being made to obtain a copy.

With respect to the termination benefits issue, the Clerk of the Council has advised that the Government started the negotiation by rejecting the possibility that the two year payout should continue to exist if the incumbent took the new position in the government.

During the course of negotiations, government changed its offer and proposed a lower base salary over three years in order to fully offset the costs of the extra payout at the end of the period. Although an agreement could not be reached, Government's approach showed clearly that it could not condone the extra value of a two year payout.