

*House of Assembly  
Newfoundland & Labrador*



*Colonial Building  
1850-1959*

*Confederation Building  
1960-present*



**1st Report  
Standing Committee  
of  
Public Accounts  
48<sup>th</sup> General Assembly  
December, 2016**



**Standing Committee of Public Accounts**  
**House of Assembly, Newfoundland and Labrador**  
**48<sup>th</sup> General Assembly**

David Brazil, MHA, Conception Bay East – Bell Island, Chair

Derrick Bragg, MHA, Fogo Island – Cape Freels, Vice-Chair

Neil King, MHA, Bonavista

Pam Parsons, MHA, Harbour Grace

Barry Petten, MHA, Conception Bay South

Gerry Rogers, MHA, St. John's Centre

Scott Reid, MHA, St. George's - Humber



# Table of Contents

---

Introduction .....	iii
Witnesses.....	v
Part 3.1 – Memorial University of Newfoundland .....	1
Findings and Recommendations .....	14
Part 3.2 – Aquaculture Industry Support .....	17
Findings and Recommendations .....	25
Part 3.3 – Newfoundland and Labrador Energy Plan .....	27
Findings and Recommendations .....	31
Part 3.4 – Use of Government Vehicles .....	32
Findings and Recommendations .....	40



## Introduction

---

The Standing Committee of Public Accounts for the 48<sup>th</sup> General Assembly of the House of Assembly of Newfoundland and Labrador was struck on March 9, 2016. The Chair, David Brazil, M.H.A., and former Vice-Chair, Brian Warr, M.H.A. were elected on March 17<sup>th</sup>, 2016.

On July 25<sup>th</sup> Derrick Bragg, MHA was elected Vice-Chair, succeeding Mr. Warr who had been appointed Deputy Chair of Committees on May 19<sup>th</sup>. Neil King, MHA, was confirmed as a member of the Committee on November 16<sup>th</sup>, 2016.

The hearings on which this Report is based were conducted by the Public Accounts Committee of the 47<sup>th</sup> General Assembly which was precluded from reporting by the dissolution of October 15<sup>th</sup>, 2015. That committee comprised Jim Bennett, MHA, St. Barbe, Chair, Ray Hunter, MHA, Grand Falls-Windsor – Green Bay South, Vice-Chair as of December 9<sup>th</sup>, 2014, Eli Cross, MHA, Bonavista North, George Murphy, MHA, St. John's East, Tom Osborne, St. John's South (now Hon. Tom Osborne, MHA, Waterford Valley, Speaker), Kevin Parsons, MHA, Cape St. Francis, Vice-Chair until December 9, 2014 and Calvin Peach, MHA, Bellevue.

Pursuant to Standing Order 65(5), the Public Accounts Committee of the last General Assembly, in consultation with the Auditor General, selected for review at public hearings the following sections of his *Report to the House of Assembly on Reviews of Departments and Crown Agencies, December 2014*:

- Part 3.1 Memorial University of Newfoundland – Department of Advanced Education and Skills
- Part 3.2 Aquaculture Industry Support – Department of Fisheries and Aquaculture
- Part 3.3 Newfoundland and Labrador Energy Plan – Department of Natural Resources
- Part 3.4 Use of Government Vehicles – Department of Transportation and Works

The former Public Accounts Committee also held public hearings to consider the Report of the Auditor General entitled *Review of Humber Valley Paving Ltd. – Project Number 1-12PHP, September 2014*, carried out at the request of the Lieutenant Governor in Council.

The Public Accounts Committee of the 47<sup>th</sup> General Assembly met on the following occasions to discuss their agenda and other administrative matters:

January 30, 2015  
February 10, 2015  
March 10, 2015  
June 24, 2015  
October 21, 2015

That Committee held public hearings to review items from the *Report of the Auditor General on Reviews of Government Departments and Agencies- December 2014* and the Report entitled *Review of Humber Valley Paving Ltd. Project Number 1-2PHP* with representatives of the Departments or Agencies concerned and officials of the Office of the Auditor General as follows:



September 8, 2015 – Memorial University of Newfoundland  
September 9, 2015 – Humber Valley Paving Ltd. – Project 1-12PHP  
September 14, 2015 – Newfoundland and Labrador Energy  
September 15, 2015 – Use of Government Vehicles  
September 15, 2015 – Aquaculture Industry Support  
October 22, 2015 – Humber Valley Paving Ltd. – Project 1-12PHP

The current Committee decided to defer reporting on the hearings on the Humber Valley Paving Project in light of the possibility that Government will conduct an enquiry into the matter.

On behalf of its predecessor the Committee thanks the representatives who appeared at the hearings on behalf of their Departments and Agencies, and the Ministers for their answers to the Committee's written questions.

The Committee thanks as well the staff of the House of Assembly in the Clerk's Office, the Broadcast Centre and Hansard for their assistance.

The Committee is indebted to the Auditor General and his officials for their guidance.

Finally the Committee thanks the Speaker of the House of Assembly, the Honourable Tom Osborne, for his support and co-operation.

The Standing Committee of Public Accounts for the 48<sup>th</sup> General Assembly has the honour to present this its first report to the House of Assembly.

Respectfully submitted,



David Brazil, M.H.A.  
Chair  
December 8<sup>th</sup>, 2016



## **WITNESSES APPEARING BEFORE THE COMMITTEE:**

### **Office of the Auditor General**

Terry Paddon, Auditor General  
Sandra Russell, Deputy Auditor General  
John Casey, Audit Senior  
Adam Martin, Audit Senior  
Trevor McCormick, Audit Manager (A)  
Patrick Morrissey, Auditor  
Tracy Pelley, Audit Senior  
Scott Walters, Audit Manager  
Tony Wiseman, Auditor

### **Department of Advanced Education and Skills**

#### **Part 3.1 – Memorial University of Newfoundland**

Bob Gardiner, Assistant Deputy Minister (Advanced Studies)  
David Pike, Assistant Deputy Minister (Corporate Services)

### **Department of Fisheries and Aquaculture**

#### **Part 3.2 – Aquaculture Industry Support**

David Lewis, Deputy Minister  
Brian Meaney, Assistant Deputy Minister  
Dr. Daryl Whalen, Director, Aquatic Animal Health Division, Chief Aquaculture Veterinarian

### **Department of Natural Resources**

#### **Part 3.3 – Newfoundland and Labrador Energy Plan**

Charles Bown, Deputy Minister  
Paul Carter, Assistant Deputy Minister (Royalties and Benefits)  
Tracy English, Associate Deputy Minister  
Wes Foote, Assistant Deputy Minister (Petroleum Development)  
Paul Morris, Assistant Deputy Minister (Energy Policy)  
Tanya Noseworthy, Director of Policy and Strategic Planning

## **Department of Transportation and Works**

### **Part 3.4 – Use of Government Vehicles**

Lori Ann Companion, Deputy Minister

Gary Gosse, Assistant Deputy Minister (Transportation)

Paul Smith, Assistant Deputy Minister (Corporate Services)

Murray Adams, Manager of Equipment Support



## Part 3.1 – Memorial University of Newfoundland

### Summary of Auditor General's Findings

#### Introduction

Memorial University of Newfoundland (the University) was founded in 1925 as Memorial University College and was granted university status in 1949. The University is governed by the Memorial University Act. The University has a Board of Regents which is responsible for the management, administration and control of the property, revenue, business and affairs of the University.

During the Fall 2013 semester, the University had approximately 18,000 students enrolled in full and part-time studies at under-graduate, graduate levels and post-graduate (Medicine), and approximately 700 students enrolled in certificate and diploma programs.

#### Objectives

The objectives of our review were:

1. To determine whether the University was adequately monitoring its financial position and operations;
2. To determine whether recruitment and compensation practices were in accordance with University policy;
3. To determine whether and overtime were properly approved and monitored; and
4. To determine whether travel and relocation expenditures were approved and paid in accordance with University policy.

#### Scope

Our review was completed in April 2014 and covered the period April 1, 2011 to March 31, 2014.

## **Conclusions**

### **Objective 1**

The University has adequate processes in place to monitor its financial position and operations. As part of our review, we did note a number of findings.

### **Objective 2**

Overall, based on the samples reviewed, recruitment and compensation practices were in accordance with University policy. We did note a number of findings as a result of our review.

### **Objective 3**

Based on our review, leave and overtime were not being properly approved or monitored in accordance with University policy and procedures and collective agreements.

### **Objective 4**

Based on the samples reviewed, the University was approving and paying travel and relocation expenditures in accordance with University policy. We did note some findings.

## **Findings**

Our review of the University identified findings relating to:

- Financial Position and Operations
- Recruitment and Compensation
- Leave and Overtime
- Travel and Relocation

### **Financial Position and Operations**

1. The University reported an unrestricted net deficiency of \$106.3 million, an increase of 58% over nine years.
2. The liability for post-employment benefits has increased 67% over the past four years from \$119.0 million in 2010 to \$198.6 million in 2014.
3. The University reported a pension deficit of \$222.8 million at March 31, 2014.
4. The University's combined deficit as at March 31, 2014 totaled \$329.0 million.

5. The Province funds the University using a base-budget approach which uses the previous year's funding levels as a base amount which is amended for programming changes. This approach has inherent risks as annual funding is not directly linked to the University's capacity to deliver programs, registration/enrolment levels, or outputs.
6. University expenses have increased 85% over the past nine years. Cumulative expense growth for the Province over the corresponding period was 58%.
7. Since 2004, the number of employees at the University has grown by 23%, while the rate of growth in student enrolment has been 5%.
8. Provincial Government operational funding has more than doubled (113%) over the past nine years, from \$182 million in 2004-05 to \$388 million in 2013-14.
9. The Province spent \$193.4 million since 2005-06 to support a freeze on tuition at the University.
10. The University has the lowest tuition fees in Canada for a full-time study program.
11. In excess of \$112 million of the Provincial 2013-14 operating grant to the University effectively subsidizes students from outside the Province – an increase of \$80 million since the start of the tuition freeze.
12. The University had not recovered \$151,340 related to two employees from shared services agreements.
13. 52% of the 103 buildings and other infrastructure assets on the main campus of the University were 40 years of age or older as of February 2013.
14. The University identified that approximately \$144.8 million was needed to address urgent deferred maintenance over the next five years, and included \$30.2 million in its priority deferred maintenance list to the Provincial Government for the year ended March 31, 2013. Deferred maintenance funding for the year ended March 31, 2013 was only \$10 million, or 33% of the requested annual funding.
15. Nine University buildings, with Facility Condition Index costs totaling 54.2 million, did not have a detailed audit (inspection) completed by engineering consultants. Without these audits being completed, the University did not have accurate information to make informed decisions on capital planning and funding purposes.

16. Critical maintenance items were not being actioned in a timely manner.

### **Recruitment and Compensation**

17. Competition files did not always include all documentation as process.
18. Two contractual positions did not have competitions conducted. As a result, there was no documentation to support that the most qualified individual was hired for the position.
19. During 2012, the University employed 51 employees that were in receipt of a Provincial Government pension. The University does not restrict the hiring of Provincial Government pensioners.
20. There was inadequate documentation to support additional salary payments totaling \$117,000 paid to three employees.
21. Employee positions were not always classified, not classified in a timely manner, or assigned duties had changed significantly and a reclassification had not been undertaken. Positions not classified in accordance with a union agreement or through the University's classification process, could result in inappropriate compensation.
22. Bonuses were not always supported by established criteria, approved or paid in a timely manner.
23. Documentation was not always on file to support administrative stipends paid to non-academic employees.

### **Leave and Overtime**

24. There was a lack of documentation and effective monitoring of annual leave for academic employees to ensure leave usage and carry forward balances were properly recorded, approved, and monitored. In addition, there were inconsistent leave practices between faculties.
25. Annual leave for non-academic employees was not always approved, documented and recorded accurately.
26. Nineteen academic administrators were eligible for administrative leave for up to two years and 84 academic administrators were eligible for administrative leave for up to one year at full salary at the conclusion of their term as academic administrators for the purposes of full re-entry to

- the non-administrative aspects of academic life (teaching and research).
27. In one instance, the University Payroll Division was not notified when an administrative employee went on administrative leave to ensure the administrative stipend was not paid while the employee was on leave. This dean was overpaid \$8,154.
  28. One executive employee, who is on administrative leave effective September 2013, will be overpaid \$45,268 during 21 months of leave due the incorrect salary being used in calculating the employee's eligible administrative leave pay.
  29. Four professors retired immediately after taking their sabbatical leave, and as a result, the professors did not comply with the work requirements, as stipulated in the MUNFA collective agreement.
  30. The University does not have a formal management system in place for the reporting and monitoring of sick leave for academic employees. As such, the University could not provide sick leave cost or usage information for its academic employees. We also identified that each faculty was responsible for its own leave reporting and monitoring processes which resulted in inconsistent and inadequate record keeping.
  31. Employees were not always submitting the required leave forms and/or medical certificates, and leave was not always accurately recorded in the leave database for non-academic employees.
  32. Employees were incorrectly paid while on sick leave as University policy was not followed.
  33. The University has no policy in place to limit the total number of sick days per year an employee can be eligible for in any year or in aggregate during their employment except for the 60 consecutive calendar day (43 work days) requirement under the LTD plan.
  34. Our review identified instances of intermittent use of sick leave benefits but we found that the University did not have a policy on the monitoring and management of chronic absenteeism.
  35. Overtime documentation was not always completed to support the overtime, overtime was not always approved in advance of the overtime being worked and overtime forms were not always signed by the employee or the supervisor.

36. For the year ended March 31, 2012 approximately 573 management employees were eligible for an additional five days of vacation in lieu of being paid overtime. Our review identified 43 management employees that were paid an additional \$123,478 in overtime.

### **Travel and Relocation**

37. Executive and senior management employees were not required to complete and attach documentation that indicated the approval to travel or the estimated travel costs, to the travel claim. As a result, travel expenses could be incurred for travel that did not receive prior approval from the University.
38. Relocation expenses for 11 out of 13 employees reviewed totaling \$52,972, or 19% of total relocation expenses of \$281,767 examined, were approved by the respective Vice-President or their designate at amounts which exceeded that permitted by policy. Given the level of exceptions approved, it is possible that University policy needs to be revised.
39. All relocation expenditures were not recorded on a Staff Settlement Claim form which is signed by an employee to verify the expenditures. As a result, there is a risk the University may not recover 50% of total expenses paid, if an employee leaves within two years.

### **Recommendations**

1. The Province should review the Provincial funding model to determine if it is efficient and effective and includes such factors as the capacity of the University to deliver programs, program costs per student, enrolment and output results.
2. The Province should review the tuition freeze policy to ensure it is still meeting the objective of providing accessibility to education for students from Newfoundland and Labrador.
3. The University should ensure that recoverable amounts are collected in a timely manner.
4. The Province should consider a long term plan to address the University's ageing infrastructure and maintenance needs.
5. The University should ensure audits and inspections of infrastructure are completed to identify maintenance requirements, and that critical maintenance work is actioned in a timely manner.

6. The University should maintain adequate documentation in competition and personnel files to support personnel and payroll decisions.
7. The University should review their current policy regarding the hiring of Provincial Government pensioners.
8. The University should ensure all job positions are approved and classified.
9. The University should ensure employee leave and overtime is documented and approved in accordance with University policy and collective agreements.
10. The University should ensure employee leave and overtime is tracked and monitored.
11. The University should comply with the University's travel policies by ensuring travel is approved in advance and travel claims are properly submitted and approved.
12. The University should review its relocation policies to ensure they are appropriate given the current environment.
13. The University should record and approve all employee relocation expenses on a Staff Settlement Claim form.

## **Public Accounts Committee Review – Memorial University of Newfoundland**

---

### **Reference:**

Department of Advanced Education and Skills  
Part 3.1 of the Report of the Auditor General of Newfoundland and Labrador to the House of Assembly on  
Reviews of Departments and Agencies, December, 2014 pp. 5-57  
<http://www.ag.gov.nl.ca/ag/annualReports/2014AnnualReport/ARFall2014.pdf>  
Proceedings of the Public Accounts committee, September 8<sup>th</sup>, 2015  
<http://www.assembly.nl.ca/business/committees/ga47session4/2015-09-08PACAdvancedEducationandSkillsandMemorialUniversity.html>

## **SUMMARY OF EVIDENCE**

### **Opening remarks of Auditor General**

The Auditor General briefly described for the Committee the scope and objectives of the audit which had led to the report paragraph which covered the period April 1, 2011 to March 13, 2014:

The four objectives of the audit were 1) to determine whether the university was monitoring the its financial position and operations; 2) to determine whether recruitment and compensation practices were in accordance with policy; 3) to determine whether leave and overtime were properly approved and monitored and 4) to determine whether travel and relocation expenditures were approved and paid in accordance with policy.

The Auditor General concluded that 1) the University had adequate processes in place to monitor its financial position and operations; 2) recruitment and compensation practices were generally in accordance with university policy; 3) leave and overtime were not being approved in accordance with policy, procedures and collective bargaining agreements and 4) travel and relocation were paid and approved in accordance with university policy.

Notwithstanding the overall conclusions cited by the Auditor General he noted that there were a number of areas in which there was room for improvement in the operations of the university.

### **Opening remarks of Assistant Deputy Minister (Corporate Services), Department of Advanced Education and Skills**

The Assistant Deputy Minister (Corporate Services) informed the Committee that he and the Assistant Deputy Minister (Advanced Studies) were appearing at the request of Memorial University. The Committee had requested that officials of the University appear but as the ADM explained the *Memorial University Act*, subsection 38.2(3) exempts the University from appearing at a hearing of a Committee of the House of Assembly.

The Assistant Deputy Minister added that the University had provided answers to written questions which the Committee had sent to the President of the University. The ADM told the Committee that the Department accepted the Auditor General's recommendations and would work with the University to address the outstanding matters.

## **COMMITTEE ENQUIRY**

### **Absence of University representatives**

All Committee members were disappointed that Memorial University had not sent a representative to the hearing. It is the opinion of the Committee that an institution which is funded to a large extent by the taxpayer should be prepared to defend its stewardship of those funds before the Committee. One member pointed out that the University should demonstrate the transparency and accountability which is expected of other taxpayer-funded entities and for this reason should have sent a representative to the hearing. The Auditor General did

say, however, in response to a Member's question, that his officials had had the complete co-operation of the University when they carried out their review.

### **Financial Position and Operations**

The Committee heard that University expenses have increased 85% over the past nine years while the percentage growth in Provincial spending over the same period was 58%. An official stated that the increase is attributable to investments in the Faculties of Medicine, Nursing and Engineering and the Marine Institute and to increases in salaries in accordance with government policies.

The number of employees has increased by 23% in the same time period while the rate of growth in student enrolment is 5%. A Member questioned the disparity between the two rates of growth. The Assistant Deputy Minister (Corporate Services) informed the Member that the Standardized Patients programme accounted for 15.5% of the increase, and the above-noted targeted initiatives the remainder.

The Committee member asked if the University had a mechanism for monitoring whether the relationship between spending and growth is consistent. The ADM replied that Memorial is required to submit an annual report to Government and that government officials meet regularly with the President and Board of Regents to discuss such matters.

In response to a question about how the 67% increase in the University's liability for post-employment benefits is funded the Auditor General replied that eventually such expenses must be paid for either through a grant by Government or an increase in tuition fees.

The Auditor General in his report referred to inherent risks in the Province's base budget approach to funding the University. A member enquired of the witnesses how the University ascertains whether the funding is properly allocated given that there is no direct link to programmes, enrolment levels or outputs. A witness explained that the base budget is not accepted at face value as the University must submit an annual report and an audited financial statement to Government. The Committee heard that in the past fiscal year there had been a reduction in the operations budget as a result of which Memorial realized efficiencies and will continue to do so as the need arises.

The Auditor General noted in the report that \$112 million of the 2013-14 operating grant to the University applies to students from outside the Province, an increase of \$80 million since the start of the tuition freeze. An official added that there has been a decline in the enrollment of Newfoundland students at the University equivalent to the decline in the high school population in the Province while the number of students from outside the Province has increased.

A member of the Committee asked the officials whether the Province was taking action in response to the three recommendations of the Auditor General directed to Government:

that the Province should review the funding to determine its efficiency and effectiveness and the tuition freeze to ensure it is providing accessibility for Newfoundland and Labrador students and consider a plan to address the ageing infrastructure and maintenance needs of the University. (Recommendations 1, 2 and 4)

The Assistant Deputy Minister (AS) replied that the Department is reviewing the process by which it funds Memorial noting that the University is carrying out an efficiency review which will affect budget and funding decisions of Government.

The ADM stated that the proportion of Newfoundland and Labrador students attending the University has not changed and that Memorial's lower tuition in comparison with that of other universities continues to attract students from other Provinces and countries. Many of the students from other Provinces and countries remain for a period of time after they graduate. The Department anticipates that some of these students will settle here which would accord with the Province's Population Growth Strategy.

(For the response to Recommendation 4 see below under Facilities Management, p. 9)

The Report stated that the University's pension deficit was \$228.8 million as at 31 March, 2014.

A member enquired whether the University was taking any action to overcome this shortfall. An official replied that funding deficiencies in pension plans such as that of Memorial are not uncommon and that the deficit, attributable to the 2008-09 global financial crisis, will be amortized over fifteen years. The ADM (C S) informed the Committee that as of the end of the 2014-15 the deficit had declined to \$202 million.

The Auditor General, in replying to a member who asked whether the deficit that the University ran in 2013-2014 had been unavoidable, stated that the concern of his office was not whether or not the deficit had been avoidable but whether or not there were processes in place to identify, monitor and understand the University's financial position. The Auditor General said that it is clear that the University has such processes.

The Auditor General reported that the University had failed to recover \$151,340 related to two employees who were in shared services agreements with the Department of Health and Community Services in one case and Eastern Health in the other. An official told the Committee that the failure to recover the funds

resulted from a change in the relationship between the agencies and the University. The official informed the Committee that the University has recovered the amount owing from the Department of Health and Community Services and has invoiced Eastern Health for the remainder. In a written answer to a question about this matter the University stated that such arrangements were managed with due diligence and that the lapse was an oversight.

### **Facilities Management**

The auditors reported that half the buildings and other assets on the main campus of the University are older than 40 years of age. The University estimated that it needed \$144.8 million to address deferred maintenance over the next five years as of 31 March 2013 and had requested \$30.2 million in respect of its priority deferred maintenance for the year ended 31 March 2013. The funding provided was one-third of the amount requested for that year. As well nine buildings had not undergone a detailed inspection by engineering consultants.

The ADM (CS) told the Committee that the only building of the nine which had undergone the audit was the Earth Sciences Building which accounts for \$13 million of the \$54.2 million in Facility Index Costs applicable to the buildings. The University considers that it would not be cost effective to have the inspection done on the other (smaller) buildings.

In response to a question by a member the ADM stated that the university has identified \$7 million in urgent infrastructure requirements.

The ADM told the Committee, by way of update to the University's response to the Auditor General's recommendation relating to infrastructure, that the University has a plan which ranks its needs in order of priority, has stated that it has put some monies aside to address them and has committed to updating the multi-year infrastructure plan annually.

The Auditor General, in response to a question of a Committee member pointed out that the report findings related to the amount of funding available to address the infrastructure needs, not to the process for identifying the needs.

### **Recruitment and Compensation**

A member asked for an explanation of a finding regarding two contractual positions filled without the benefit of a competition. An Assistant Deputy Minister explained that as time was of the essence in filling the position it would not have been prudent to conduct a competition for the particular work to be done. The contracts were offered to persons known to be capable of doing the work although this was a departure from normal practice. When asked if this practice was in keeping with University hiring practice the ADM (AS) stated that the

University probably has such leeway pointing out that that Government allows for exceptions to its competition policy in certain specific circumstances.

### **Leave and Overtime**

According to the Auditor General there were weaknesses in the documenting and monitoring of the leave and overtime of academic employees, and inconsistencies in leave practice amongst faculties.

The Assistant Deputy Minister (AS) told the Committee that academic employees are responsible for informing their administrative heads of absences that have an impact upon their ability to perform their duties. The A D Minister (CS) explained to the Committee that the Dean responsible determines, in consultation with the employee, whether or not the absence is reasonable. The tracking of leave and overtime is done at the faculty level rather than through a centralized system. The Assistant Deputy Minister advised that a committee has been struck by the University to make recommendations regarding the attendance management process with a view to addressing the shortcomings of the system.

The Assistant Deputy Minister (CS) pointed out that the nature of the employment of academic personnel is different from that of non-academic employees, as the former do not typically work nine-to-five. The ADM told the Committee that the working arrangements of Memorial academic employees are consistent with those of other universities. The ADM informed the Committee that the University is not required to pay out leave carried over when a faculty member retires. The Committee heard that the University is reviewing the monitoring process and leave and overtime policies to ensure that there is consistency amongst faculties.

A member enquired about the action being taken, if any, to recover overpayments such as the \$8,154 stipend paid to a Dean who was on leave, and an overpayment of \$45,268 to be made to an employee on leave as a result of a miscalculation. An official told the Committee that the University had advised the Department that some of the overpayments had been recovered and that the University was in the process of recovering the others.

A member questioned the officials about an answer to a written question from the Committee regarding payments to management employees for overtime when they had received time off in lieu. The University stated in its reply that the payments were made in extraordinary circumstances. The ADM (CS) told the Committee that one of the extraordinary events to which the payments related was the relocation of students in residence during DarkNL.

In its written response to the Auditor General's finding of weaknesses in the approval, documenting and recording of non-academic employees' leave and overtime the University stated that it has "a rigorous and effective system for

approval and documentation” related to these entitlements. It appears to the Committee however that the system is not always used to its best advantage.

### **Travel and Relocation**

The auditors found several weaknesses in the travel and relocation processes namely approvals which were not required to be supported by documentation; relocation expenses which exceeded the amounts permitted by policy and the failure to record a claim signed by an employee to verify expenditures. The Committee enquired in writing of the University whether they had reviewed their senior management travel policies and whether they had taken steps to ensure that the policy was complied with. The Assistant Deputy Minister (AS) stated that the University would say that they had not failed to comply with their policies as these policies admit of exemptions.

The University, in a written response regarding senior management travel, stated that senior management employees are required to communicate their travel-related absences to their vice-president or president in advance of the trip and that the executive and senior management must ensure that expenses are reasonable.

The Auditor General in answer to a question from a Committee member stated that the travel approval was not always included in the documentation relating to reimbursements.

The ADM informed the Committee that there is a travel policy review scheduled for 2016.

The Assistant Deputy Minister (CS) told the Committee that the University has a created a new Staff Settlement Claim form which will record the information on relocation expenses paid to or for new employees.

### **Auditor General’s comments on responses of University**

When asked to comment on the responses of the University to the report recommendations the Auditor General stated that his office would do a formal follow-up in two years and that it would be premature for him to give a definitive answer. The Auditor General did agree with a Committee member that the responses they had received seemed rather vague. The Auditor General stated that given the almost half billion dollars the University receives annually from the Provincial Government it is incumbent on the institution to take seriously the auditors’ recommendations, in particular those relating to financial controls.

The Auditor General said that the University should put a process in place to ensure that academic leave is accounted for accurately, so that employees are

getting the leave to which they are entitled, and that the processes relating to leave should be consistent throughout the institution.

## FINDINGS

- At the hearing the majority of the members expressed disappointment at the University's response to the Committee's request that it appear to answer the Committee's questions. It is the Committee's opinion that all entities in receipt of public funding should be subject to the same requirements with respect to their stewardship of public monies. In 1992 the Public Accounts Committee presented a special report to the House respecting a similar response from the University to a call to give evidence at a public hearing. It was shortly thereafter that the *Memorial University Act* was amended to exempt the University from appearing before Committees of the House.

The Committee has canvassed other jurisdictions in the country and found that none has legislation which exempts educational institutions from answering to a committee of the legislature

- The Committee notes that of the four conclusions of the Report of the Auditor General were positive and that a committee has been struck to address the weaknesses referred to in the fourth. In respect of the positive findings regarding three categories the auditors reported however that there some areas in which there was room for improvement.
- The Committee finds that the growth in expenditure of the University in comparison with the provincial rate and in relation to the growth in enrolment is a concern and believes that it is incumbent on the University to ensure that measures are taken to control spending. The Committee believes that the base budget approach may no longer be the most effective tool for the University notwithstanding its compliance with the annual reporting requirement which requires it to submit an audited financial statement.
- The University's processes for documenting leave and overtime appear to be weak, and inconsistent within and amongst faculties. The Committee notes that the University has struck a committee to review the attendance management system. This review should address some of the weaknesses identified by the Auditor General in respect of leave and overtime.
- While the University has a multi-year plan and has identified its critical infrastructure needs it appears to the Committee that funding available to deal with this problem is inadequate.

- The University's processes for documenting leave and overtime appear to the Committee to be weak, and inconsistent within and amongst faculties. The Committee notes that the University has struck a committee to review the attendance management system. The Committee believes that this review should address some of the weaknesses identified by the Auditor General in respect of leave and overtime.
- The Committee notes that the Department of Advanced Education and Skills has accepted the recommendations of the Auditor General and has given an undertaking to work with the University to address the Auditor General's findings.
- The Committee further notes that the University is undertaking an efficiency review and that Government will consider the Auditor General's recommendation that the Province review the funding model for the University.
- The Committee further notes that the University
  - has recovered amounts owing for two shared services and will review processes to ensure that the oversight in this case does not recur;
  - has undertaken to review senior management travel and relocation policies;
  - has undertaken to review the practice of allowing employees, in exceptional circumstances, to receive compensation for overtime in addition to time off;
  - has undertaken to review the practice of allowing employees, in exceptional circumstances, to receive compensation for overtime in addition to time off;
  - has created a Staff Settlement Claim form which should address the risk found by the auditors that the University might not recover travel expenses due in the event an employee fails to complete two years of service;
  - acknowledges that competition and personnel files are sometimes incomplete, a weakness which officials say they intend to address
  - and

has struck a committee to review the attendance management system which review should correct some of the weaknesses identified by the Auditor General in respect of leave an over time.

## RECOMMENDATIONS

The Committee endorses the recommendations of the Auditor General and recommends further that Government

- consider using a zero based budget process for the University with a view to realizing economies through a fresh analysis of the institution's needs annually;
- continue to work with the University to ensure its deferred maintenance needs are met and
- carry out a review of Section 38.2 of the *Memorial University Act* which reads as follows:

### *Committees appearances*

**38.2** (1) *The purpose of this section is to confirm*

(a) *the customary autonomy of the university; and*

(b) *the existing practice of the Minister of Education in providing the committees of the House of Assembly with information respecting matters pertaining to the university to enable those committees to properly carry out their duties.*

(2) *Where a matter pertaining to the university, including a report of the auditor general under subsection 38(6), is referred to a committee of the House of Assembly, the committee shall conduct its examination of the matter through the Minister of Education.*

(3) *Where a committee of the House of Assembly conducts an examination of a matter pertaining to the university, the chancellor, the president, the chairperson of the board and the vice-presidents and other officers and employees of the university are not compellable to attend as witnesses before the committee.*

(4) *Where a committee of the House of Assembly conducts an examination of a matter pertaining to the university, a failure to respond to a summons by the committee does not constitute a contempt or breach of the privileges of the House of Assembly.*

**Paragraph 3.2 – Aquaculture Industry Support  
Department of Fisheries and Aquaculture**

**Summary of Auditor General’s Findings**

**Introduction**

The Department of Fisheries and Aquaculture (the Department), through its Aquaculture Branch (the Branch) has a mandate to promote, develop, encourage, protect, conserve and regulate the Province’s aquaculture sector. The Department provides financial support to the provincial aquaculture industry through various aquaculture support programs, including the Aquaculture Capital Equity Program (ACEP). ACEP was established by Government to assist with increasing the production of commercial aquaculture operations in the Province.

Under ACEP, the Department entered into Contribution and Shareholder Agreements (Agreements) with three Corporations that were undertaking finfish aquaculture operations in the Province. The Agreements specify the terms and conditions of the Province’s investment in each of the three Corporations.

The Department also funded the establishment of a Cod Aquaculture Demonstration Farm to assess the performance of Atlantic Cod under near-commercial rearing conditions and to determine the commercial potential for cod aquaculture in the Province.

**Objectives**

The objectives of our review were to determine whether the Department:

1. provided financial support to Corporations in accordance with established ACEP criteria;
2. was monitoring compliance with the terms and conditions of its ACEP investments; and
3. effectively monitored the completion of a Cod Demonstration Farm.

## **Scope**

Our review covered the period April 1, 2007 to March 31, 2013. We reviewed business plans and associated information submitted by Corporations in connection with applications where program funding was provided by Government. We also reviewed Government analysis of those business plans and held discussions with Government officials.

We completed our review in March 2014.

## **Conclusions**

### **Objective 1**

Financial support was not always provided in accordance with established criteria. We found that some program criteria were not clearly defined and therefore may not have been aligned with the program objectives.

### **Objective 2**

The Department is not adequately monitoring compliance with the terms and conditions of its ACEP investments.

### **Objective 3**

The Department did not monitor the completion of the Cod Demonstration Farm on a timely basis.

## **Findings**

Our review of Aquaculture Industry Support identified findings related to:

- Investments Approved under ACEP
- Monitoring the Terms and Conditions of ACEP Investments
- Cod Demonstration Farm

### **Investments Approved Under ACEP**

1. Government approved a \$10 million equity investment in Cold Ocean Salmon Inc (COSI) when the Corporation did not demonstrate a definite need for Government assistance as required by the established ACEP eligibility criteria.
2. The repayment terms and conditions which the Department negotiated for the \$10 million Provincial investment in COSI were favourable to the

- Corporation, with the potential for any repayment to be deferred for 25 years.
3. Government approved a \$5 million equity investment in Gray Aqua Group Ltd (GAGL) when the Corporation did not have a minimum private sector equity position of 20% of total assets.
  4. Government approved a second equity investment of \$5 million in GAGL in March 2012, when the Corporation had not demonstrated that it could complete the start-up of aquaculture operations in accordance with targets established in the business plan associated with Government's first equity investment of \$1 million in March 2009.
  5. The Department did not provide evidence that it evaluated the financial impact of shareholder plans to construct a processing plant in Hermitage on GAGL's ability to carry out the business plan associated with the \$5 million equity investment approved by Government.
  6. The Gray group of companies filed a proposal under the federal Bankruptcy and Insolvency Act following significant losses of market ready fish to disease. GAGL submitted a proposal to creditors which was accepted by a majority of the creditors and subsequently approved by the court on March 10, 2014. Government indicated that it will make no further investments in GAGL and is attempting to meet with the GAGL to determine the status of its \$4.8 million investment in GAGL. Government has established an allowance for the GAGL investment as being doubtful in the amount \$4.8 million.

### **Monitoring the Terms and Conditions of ACEP Investments**

7. The Department does not always receive the financial information that is required to be provided under the Contribution Agreements and does not have a systematic process to review the information it does receive. As a result, the Department has not effectively monitored the performance of the three Corporations which Government had invested \$22.8 million under ACEP.
8. The Department did not request, and GAGL and Northern Harvest Sea Farms Newfoundland Ltd. (NHSF) did not provide annual audited statements certifying the Corporation's equity investment and compliance with the terms of Agreements in connection with the Provincial investments. These annual statements are required under the terms and conditions of the Agreements. The Department indicated that this requirement was an error and that they were advised by the Department of Justice that this requirement could be waived without prejudice.

9. COSI did not provide the Department with the required annual auditor certified schedules stating that sufficient eligible capital expenditures had been incurred to allow an off-set of dividend payments to the Province totaling approximately \$404,000.
10. COSI was not entitled to off-set (not pay) dividends totaling approximately \$1.4 million as at December 31, 2012 because it did not meet all of its commitments under the Contribution Agreement. Specifically, COSI did not complete a hatchery as per the terms of the Agreement.
11. The Department did not adequately review the claims for payment that were submitted by Corporations in connection with Provincial contributions that were made under the Contribution Agreements. There were instances where the Department paid claims when invoice listings were not provided. When invoice listings were provided, the Department did not always carry out review, audit or inspection procedures.
12. The Department paid GAGL approximately \$550,000 when GAGL claimed a vessel in the amount of \$1.1 million that was not an eligible capital expenditure under the Contribution Agreement.

#### **Cod Demonstration Farm**

13. The Department did not monitor the completion of the Cod Demonstration Farm on a timely basis. Cooke Aquaculture Incorporated/Cold Ocean Salmon Inc did not provide the Department with their final report until October 2014, approximately 20 months after it was due.

#### **Recommendations**

1. The Department should ensure that ACEP criteria are developed that align with the objectives of the program.
2. The Department should clearly demonstrate and document that all ACEP eligibility criteria have been met before making recommendations to Cabinet for investment approval.
3. The Department should develop guidelines for the Aquaculture Capital Equity Program that ensure consistent and appropriate terms and conditions, including those related to share redemption and dividends payable.
4. The Department should ensure compliance with all terms and conditions of the Contribution Agreements.

5. The Department should review and document the results of its review of the quarterly financial statements and annual audited financial statements that are submitted by Corporations in accordance with the Contribution Agreements.

## **Public Accounts Committee Review – Aquaculture Industry Support**

---

### **Reference:**

Part 3.2 of the Report of the Auditor General of Newfoundland and Labrador to the House of Assembly on Reviews of Departments and Agencies, December 2014 PP. 59-88  
<http://www.ag.gov.nl.ca/ag/annualReports/2014AnnualReport/ARFall2014.pdf>  
Proceedings of the Public Accounts Committee September 15th, 2015  
<http://www.assembly.nl.ca/business/committees/ga47session4/2015-09-15PACFisheriesandAquacultureandAquacultureIndustrySupport.html>

## **SUMMARY OF EVIDENCE**

### **Opening remarks of the Auditor General**

The Audit of the Aqua Industry Support Programme focussed on the administration and monitoring of the investments made by Government in the Aquaculture industry.

The objectives of the audit were to ascertain whether the support complied with the stated criteria of the programme; whether the programme was monitored as required by the terms and conditions of the agreements and whether the Cod Demonstration Farm, funded by the Department, had been properly monitored.

While the Auditor General stated that he took no issue with the objective of the programme, that of giving an initial impetus to the aquaculture industry, he said that it appeared that the support provided did not align with that objective. One criterion was a company's need for government support. However the Auditor General thought that the financial position of the companies was such that they did not need support; rather support was made available in order to ensure the presence of a strong player as the industry was starting up. In addition the Auditor General found that there were weaknesses in the monitoring of compliance with terms and conditions of the agreements in respect of the financial information being provided.

The auditors found as well that the Department had not monitored the completion of the Cod Demonstration farm project in a timely fashion. The farm did not proceed according to plan because of low prices and elevated costs. The project was scaled back under a new agreement. Under that agreement the company

was to report on the viability of the project by a specified date. In the event the report was submitted almost 20 months after the appointed date.

### **Opening remarks of Departmental officials**

Officials of the Department of Fisheries and Aquaculture told the Committee that the Aquaculture Capital Equity Program had been successful despite a setback caused by disease in 2014. An official pointed out that the value of the industry which the Auditor General estimated at approximately \$120 million in 2012, was \$197 million in 2013. Officials expect a return to that status.

Regarding the Auditor General's comment about the rationale behind Government's investment in the industry an official explained that large companies in the aquaculture business have interests in different parts of the world and deal in many different species in jurisdictions which support potential investors. The availability of support, he stated, is a factor companies consider in making a decision about investing in a particular location.

An official stated that the Department appreciates the recommendations in the Report of the Auditor General and agrees that there is need for better management of the processes of receiving and vetting claims and ensuring that reports are submitted regularly.

As a result of the findings and recommendations of the Auditor General, an official told the Committee, the Department has created a policies and procedures manual and designated staff who will be required to manage the processes. Further the Department will go through the manual with clients to ensure they are aware of the requirements of the agreements. If necessary officials will bring the Departments of Finance and Justice into the discussions.

## **COMMITTEE ENQUIRY**

### **Investments Approved Under ACEP**

A Member questioned Department officials about the 25-year repayment schedule for a \$10 million investment made in one company. An official stated that the terms were more favourable than those of later agreements because Government was interested in encouraging investment but that the site of the project was unproven and the investment therefore considered risky.

A Member enquired whether the investments being made and the flexibility of the terms and conditions might be interfering with competition in the market place. An official replied that the terms are tailored to the variables of the projects, which dictate the financial terms and conditions necessary to make them viable namely whether the company already has fish in the water and infrastructure;

whether a company has cash flow and the length of time necessary to bring the product from start-up to market.

Members questioned the officials about the case of a \$5 million investment with a 6-year repayment schedule made when, in the opinion of the Auditor General, the company did not have the 20% equity specified in the agreement. Their equity position was 3%. An official replied that the Department had considered that smolt at a hatchery in another jurisdiction, owned by the company, amounted to equity. The official added that the company would have had more than 20% equity counting the smolt. At the time, the official explained, the best information the Department had at their disposal was that the smolt was equivalent to equity even if it appeared as something different on the balance sheet. The company, which sought bankruptcy protection and made a proposal to creditors, which was accepted, has since acquired new financing and is now solvent.

Since the release of the Report of the Auditor General two companies have received a contribution of \$2 million and \$8 million to be paid over four years, respectively. Members asked whether dividend payments were being made in accordance with agreements. An official stated that one company had been paying on schedule while one had requested a deferral because of business difficulties. The deferral has not yet been approved. When asked about the protection of the Province's contribution in the latter case an official explained that the Province's investment, being an equity investment, would not have priority.

The Auditor General reported an investment of \$5 million in a company when it had not demonstrated that it could complete the start-up of operations in accordance with the established criteria. An official stated that the reason for the delay was the company's inability to obtain sufficient stock in the first year. They did meet their target the next year the official stated.

With respect to a finding in the Report that the Department did not provide evidence that they had evaluated the financial effect of shareholder plans to build a processing plant on the company's ability to carry out a business plan associated with an investment of \$5 million an official stated that a meeting had been held to review the plan although they could not provide evidence to that effect. The Department were satisfied that the processing plant investment had no bearing on the \$5 million (ACEP) investment.

### **Monitoring the Terms and Conditions of ACEP Investments**

The Auditor General reported that the Department was not effectively monitoring the performance of the companies in which Government had made investments because they did not always receive the financial information required under the agreements. A Department official stated that while they could not demonstrate that they were receiving the information referred to they did receive the financial

statements quarterly and annually as required. The Department agreed that they needed to improve their financial systems to enable them to demonstrate that they were fulfilling requirements of agreements and monitoring financial processes effectively.

In response to the finding of the Auditor General that a company was not entitled to offset dividends because it had not complied with the requirement that it complete a hatchery an official informed the Committee that the company had complied with this requirement although they had exceeded the time frame stipulated in an amendment to the contract.

A Committee member questioned officials about the finding that the Department had paid a company in respect of a capital expenditure which was not an eligible capital expenditure under the Contribution Agreement. An official told the Committee that while the company had purchased a vessel from a related company, a type of transaction prohibited under the agreement, the Department had deemed the acquisition to be a legitimate business cost, had stated that there was nothing untoward about it and that the asset had been purchased at fair market value. The Auditor General noted that the Department was seeking advice on the matter from the Department of Justice.

A Committee member asked if the Department disagreed with the Report's findings. An official said that they did understand the auditors' interpretation of the criteria for eligibility for support under the ACEP but that they interpreted them differently, that the established criteria of the programme might not be what was intended, hence the apparent disparity between the requirements of the agreements and the objectives of the project.

A Member questioned the officials about the finding that the Department had not requested of two companies annual audited statements certifying the corporations' equity investment and compliance with certain agreements. An official explained that the requirement in question applied to investments made to offset dividends but in the investment referred to in the Auditor General's finding there was no request by the companies to offset dividends so the requirement was unnecessary and was included in error.

A Member questioned another case in which a dividend offset had been permitted although the required audit had not been carried out. An official explained that the company had been providing the information initially but had then informed Government that they would identify the expenditures in the course of the regular annual audit in order to avoid the expense of the additional audit. Government having reviewed the audited statements decided that the information was within the spirit if not the letter of the requirement and enabled them to make an informed decision.

In response to a question about the finding that claims for payment by Corporations relating to provincial contributions made under agreements were being paid when invoice listings were not provided an official explained that the Department did receive an auditor certificate indicating that the claim amount met the criteria. The contract did not require the detail of the invoices according to the official. The Auditor General said that the details were provided in some cases, not in others. He recommended that the certificates provide the details as a matter of course. The Department agreed and now includes the requirement for all claims.

A Member enquired whether guidelines had been amended to take into account the recommendations of the Auditor General respecting financial requirements. An official stated that the Department would review the matter.

The Department now ensures that its review of financial information is documented. An official explained that while the audited statements were regularly received and reviewed they may have been circulated by email so that department officials were not always able to demonstrate that had received and effectively managed information. The Department has changed procedures to ensure that they can demonstrate their compliance with requirements.

### **Changes made in procedures**

An official acknowledged that the management of the investments made in support of the aquaculture industry had been less than optimal. The official informed the Committee that In response the findings of the report the Department has created a policies and procedures manual. In addition a staff member has been assigned the task of managing the requirements of the agreements while another will ensure that the files are better managed using TRIM and a series of checklists. Reports and records will be easily tracked and available for review within the Department and by the Auditor General.

### **Auditor General concluding remarks**

The Auditor General in his concluding intervention stated that the creation of a policies and procedures manual was a good outcome to the audit process and that with regard to latitude in complying with terms and conditions of agreements officials should ensure that modifications are effected only with proper approval.

## **FINDINGS**

It appears to the Committee that there were a number of weaknesses in the way in which funding was provided to interested companies, and/or accounted for, under the programmes established to promote the aquaculture industry in the Province, for example:

- the generous re-payment terms for one investment made;
- the lack of clarity in some of the programmes' funding criteria;
- the lack of documentation relating to some transactions;
- the lack of documentation relating to the monitoring of performance once funding had been advanced;
- the failure to seek advice, when there is doubt about the propriety of a decision, before action is taken and
- inconsistency in the applications.

The Committee notes that the Department has acknowledged many of these weaknesses and has responded to the findings in the report of the Auditor General by creating a policies and procedures manual which will ensure that terms and conditions of agreements are complied with; has agreed that it must improve financial systems to ensure investments are properly monitored, terms and conditions are complied with and records are kept and can be made available to officials as needed; at the time of the hearing was reviewing the Recommendation of the Auditor General that departmental guidelines relating to the Aquaculture Capital Equity Programme in order to determine whether they should be amended and has suggested that the requirement that an applicant for funding under ACEP have a "definite need for Government financial assistance" might not be precisely what was intended when the programme was established.

## **RECOMMENDATIONS**

The Committee endorses the recommendations of the Auditor General and further recommends that the Department continue to ensure that the policies and procedures manual is kept current, followed consistently and where possible incorporates the advice of the Auditor General.

**Paragraph 3.3 – Newfoundland and Labrador Energy Plan**

**Department of Natural Resources**

**Summary of Auditor General’s Findings**

**Introduction**

The Newfoundland and Labrador Energy Plan (the Plan) was released in September 2007 and is defined by two objectives: protecting the environment and developing resources in the best long term interests of the people of the Province. The vision of the Plan is as follows:

*“To ensure our energy resources contribute to a vibrant and sustainable Newfoundland and Labrador where people are proud to live and work, the standard of living is high, and the environment is protected now and into the future; and to ensure that the people of Newfoundland and Labrador take pride and ownership in our energy resources and strategically develop them in such a way that returns maximum benefits to the Province for generations to come.”*

The Plan is long-term in nature and is based on underlying principles and goals that support the vision and which provided the framework that was used to develop the 107 individual policy actions.

Total expenditures related to the implementation of the Plan, as of March 31, 2014, were \$34 million.

**Objectives**

- The objectives of our review were to determine:
1. the progress made towards implementing and achieving the goals and objectives of the Plan; and
  2. whether the Department has systems in place to regulate, monitor and report on the implementation of the Plan.

**Scope**

Our review of the Plan covered the period from March 31, 2008 through to March 31, 2014. It included discussions with Department officials, a review of

documentation provided by the Department and an assessment of the implementation of the various policy actions. It also included a review of the systems in place to regulate, monitor and report on the implementation of the Plan. Our review was completed in October 2014.

## **Conclusions**

### **Objective 1**

The Department has made progress toward implementing and achieving the goals and objectives of the Plan.

### **Objective 2**

The Department does not have a system in place that facilitates regular reporting on the implementation of the Plan. Since the release of the Plan in 2007, no comprehensive progress report on the implementation of the Plan was made available to the public.

## **Findings**

1. The Department has made progress toward the implementation of the Policy Actions contained in the Energy Plan.
2. Despite a commitment to do so, there has been no comprehensive progress report on the implementation of the Plan as a whole released to the public.

## **Recommendation**

A complete report on the status of implementation and related outcomes of the Plan should be made available to the public.

## **Public Accounts Committee Review – Newfoundland and Labrador Energy Plan**

---

Reference:

Part 3.3 of the Report of the Auditor General of Newfoundland and Labrador to the House of Assembly on Reviews of Departments and Agencies, December 2014 PP. 89 – 102  
<http://www.ag.gov.nl.ca/ag/annualReports/2014AnnualReport/ARFall2014.pdf>  
Proceedings of the Public Accounts Committee, September 14<sup>th</sup>, 2015  
<http://www.assembly.nl.ca/business/committees/ga47session4/2015-09-14PACNaturalResourcesandNLEnergyPlan.html>

## **SUMMARY OF EVIDENCE**

### **Opening Remarks of Auditor General**

The Auditor General told the Committee that the objectives of the audit of the Newfoundland Energy Plan, released in 2007, were to determine what progress had been made in implementing the Plan's policies and to ascertain what systems were in place to monitor and report on the implementation of the policy actions in the plan.

The audit disclosed that the progress in implementing the plan was positive in that over 90 percent of the 107 policy actions identified in the Plan were proceeding toward completion.

The finding on the second objective was less positive as there had been no public reporting on the Plan since its 2007 release. The period covered in the audit was March 31, 2008 to March 31, 2014

The Auditor General recommended in the report that the Department issue a report on the status of the Plan's implementation and results.

### **Opening Remarks of Department of Natural Resources**

An official told the Committee that the Department had complied with the Recommendation of the Report having issued an Energy Plan Progress Report on May 11<sup>th</sup>, 2015 pointing out that ninety-four actions have been completed and the remainder are in the planning stage or long-term in nature. The official stated that the Department will report periodically on the Plan's implementation and will continue its normal reporting and monitoring of the activities related to the Plan.

## **COMMITTEE ENQUIRY**

The Committee took the opportunity to discuss the following matters with Department officials:

- the policy action in the 2007 plan to pursue the acquisition of the 8.5 percent federal investment in the Hibernia Project which the Government of Canada has not purchased despite having indicated that it was their policy to sell the interest;
- the policy regarding the purchase of up to 10 per cent equity in future gas and oil projects has been effected
- the policy of pursuing opportunities for locating manufacturing and fabrication of wind turbine components in the Province which has not

advanced since the initial RFPs although there could be additional calls for RFPs when the Maritime Link is in place;

- the policy regarding the installation of scrubbers and precipitators at Holyrood which was not pursued because it would not have been cost everything proceeds according to plan;
- the new combustion turbine at Holyrood which increases reliability of the system at peak usage times;
- the policy regarding the use of wind, small hydro and energy efficiency programmes which will not be pursued for the time being in light of the Muskrat Fall Project and the establishment of the Maritime Link which will enhance the ability to take advantage of wind power;
- the plan to take advantage of excess capacity on the Maritime Link through small hydro on the island and wind generation;
- the failure to spend the money budgeted on implementing the commitments in the 2007 Energy Plan in the years for which it was budgeted which was attributed to delayed implementation of some programmes/actions;
- the frequency of reporting, in light of the Auditor General's comments, which one Member suggested should be every six months; the Department agreed that more frequent reporting was necessary without specifying a time frame;
- the idea of doing open source geoscience in relation to the oil industry a practice which has been instituted in order to attract companies and inform the public.

Members also discussed with officials the prospectors' incentive programme and the status of prospecting in the Province generally; various measures relating to energy efficiency such as the EnerGuide programme, the Energy Efficiency Action Plan, the Turn Back the Tide campaign and the Residential Energy Efficiency Plan and the prospects for the extraction of natural gas from fields situated off the Labrador coast.

The Auditor General stated in response to a final question from a Member that he was satisfied that the sole recommendation of his report had been implemented.

## **FINDINGS AND RECOMMENDATIONS**

The Committee commends the Department for the progress made toward implementing the action items in the NL Energy Plan and recommends that the Department report regularly on the progress being made toward accomplishing their goals.

## **Part 3.4 – Use of Government Vehicles**

### **Department of Transportation and Works**

#### **Summary of Auditor General’s Findings**

##### **Introduction**

The Department of Transportation and Works (the Department) is responsible for monitoring and managing Government’s light vehicle fleet (the fleet). To fulfill this mandate, the Department created the Vehicle Fleet Management Branch (the Branch) under the Highway Maintenance and Support Division. The Branch is responsible for providing fleet management and vehicle maintenance services to Government on an economical basis and in accordance with established standards, to enable clients to deliver quality and efficient services to the public. The Department maintains an Equipment Management System (EMS), which is designed to track a variety of information about the light vehicle fleet such as age, operating costs and mileage.

Light vehicles are required to be operated and maintained according to the Vehicle Fleet Management Policy and Procedures Manual (the Policy Manual). The capital cost of the light vehicle fleet is estimated at \$31.2 million and the operating cost for the light vehicle fleet for 2012-13 was approximately \$8.6 million.

##### **Objective**

The objective of our review was to determine whether Government is effectively managing its light vehicle fleet.

##### **Scope**

Our review was completed in March 2014 and primarily covered the year ended March 31, 2013.

Our review included interviews with Departmental officials and an examination of relevant legislation, policies and procedures, database information and other documentation within the Department of Transportation and Works and selected client departments.

Our review focused on six major departmental users (client departments) of Government vehicles:

- Transportation and Works;
- Natural Resources;
- Justice and Public Safety;
- Environment and Conservation;
- Service NL; and
- Fisheries and Aquaculture.

In addition, our review focused on Transportation and Works as having overall responsibility for monitoring the light vehicle fleet.

## **Conclusion**

Our review indicated that the Government's light vehicle fleet is not being managed in an effective manner. Government lacks the necessary resources to monitor the available information to ensure that vehicles operate in an effective and efficient manner.

## **Findings**

Our review of the use of Government vehicles throughout Government departments identified issues relating to:

- Vehicle Fleet Monitoring
- Vehicle Fleet Operations
- Reporting and Accountability

### **Vehicle Fleet Monitoring**

1. The Branch is not maintaining an accurate and up to date inventory of vehicles. As a result, inventory reports generated from the EMS are not complete or accurate.
2. Client departments do not have access to the EMS and are unable to compare their inventory records to the EMS as required by the Policy Manual. As a result, there is no opportunity to adjust the inventory records in the EMS database to ensure completeness and accuracy based on client department comparison of their records with the EMS.

### **Vehicle Fleet Operations**

3. Vehicle log books are not properly maintained. As a result, the Branch is unable to use this information to monitor the usage of Government vehicles.

4. Log books are not submitted to the Branch by client departments, as
5. The EMS lacks the capacity to record detailed information entered from
6. Limited maintenance information is entered into the EMS. In addition, there is no monthly report generated on maintenance activity as required. As a result, the Department is not tracking or monitoring the adequacy of maintenance of the vehicle fleet to help ensure efficient vehicle operation and safety.
7. Departments are not submitting regular kilometer readings to the Branch as required. As a result, the Branch is unable to use this information for analysis and reporting purposes.
8. Fuel purchase data and mileage information are not compared for reasonability. In addition, an available report to monitor fuel purchase exceptions is not being utilized. As a result, fuel purchase data is not being used to monitor the fuel consumption of the fleet.
9. No analysis is made of fuel consumption for Government vehicles by the Branch. As a result, discrepancies are not being identified and followed up by the Branch. As well, inappropriate use of Government vehicles may go undetected.

#### **Reporting and Accountability**

10. The client departments are not providing the Branch with an annual list of employees that are authorized to park a Government vehicle at a private residence overnight as required. As a result, the Branch is unable to track personal use of Government vehicles.
11. The personal use of Government vehicles is not monitored and reported in accordance with policy. Government does not have a process in place to monitor.
12. The Vehicle Fleet Management Branch does not prepare an annual report fleet.
13. The Policy Manual has not been updated as required. As a result, the Policy Manual has lagged behind the needs of the Branch and the client departments in providing guidance to effectively manage the fleet.
14. Periodic audits of the fleet are not performed by the Branch. As a result, the Branch is unable to ensure client departments are complying with policy guidelines.

15. The handling of public complaints is not coordinated by the Branch. As a result, public complaints may not be properly addressed.
16. Although some reporting requirements are outlined generally in the Branch's Policy Manual, the Department has not established specific performance measures or detailed reporting requirements for the Branch. As a result, an effective planning and reporting process is not in place for the administration of Government vehicles and potential problems with the fleet are not being identified and corrected.

### **Recommendations**

1. The Department of Transportation and Works should assess who should have responsibility for monitoring the Government's light vehicle fleet and determine what those responsibilities should be.
2. The Department of Transportation and Works should assess the appropriate level of resources necessary to ensure the responsibility for managing Government's light vehicle fleet is adequately discharged.

## **Public Accounts Committee Review – Use of Government Vehicles**

---

Part 3.4 of the Report of the Auditor General of Newfoundland and Labrador to the House of Assembly on Reviews of Departments and Agencies. December 2014, pp. 103 – 128  
<http://www.ag.gov.nl.ca/ag/annualReports/2014AnnualReport/ARFall2014.pdf>  
Proceedings of the Public Accounts Committee September 15<sup>th</sup>, 2015  
<http://www.assembly.nl.ca/business/committees/ga47session4/2015-09-15PACNaturalResourcesandUseofGovernmentVehicles.html>

### **SUMMARY OF EVIDENCE**

#### **Opening remarks of Auditor General**

The Auditor General noted that the capital cost of the government light-vehicle fleet is \$31.2 and the operating cost \$8.6 million per annum. The Committee heard that the matter had been audited twice before and was selected this time as a follow-up to work done in the past. The objective was to ascertain if Government was managing the fleet effectively.

The conclusion was negative and the Auditor General suggested that weaknesses the auditors had found were attributable to insufficient resources in the Department of Transportation and Works and client departments.

The conclusion led to the recommendations that the Department determine whether the management of the fleet should be centralized, as it is now, or left

with the client departments and ascertain the level of resources necessary to manage the fleet effectively.

### **Opening remarks of the Deputy Minister**

The Deputy Minister told the Committee that in response to the Report recommendations the Department had introduced a number of measures (summarized in a document provided to the Committee) to address the weaknesses noted in the auditors' findings. The Deputy Minister advised that the Department

- has established a quarterly monitoring process and received the first report at the end of June, 2015;
- has filled a vacant position and added other resources to the programme;
- is piloting a process whereby two departments are doing their own data entry which process will eventually extend to all departments;
- has secured a commitment from each department to appoint a contact person who will liaise with the Department of Transportation and Works in order to ensure information flows regularly between the Department of Transportation and Works and other government departments;
- is in the process of assessing whether the management of the fleet should be the responsibility of the Department of Transportation and Works or another agency;
- will provide the appropriate resources to ensure the fleet is effectively managed and
- will revise the Department's policy and procedures manual.

The Deputy Minister told the Committee that the action being taken to ensure that data are regularly and consistently provided to the Department by partner departments, and the Department's enhanced analysis and auditing ability, will improve the monitoring and oversight of government vehicle use.

### **COMMITTEE ENQUIRY**

#### **Vehicle fleet monitoring and operations**

A Member asked how the Department can be sure if all vehicles are accounted for. An official explained that the Department relies on the partner departments to make information available. The official told the Committee that the

Department has now removed from the inventory vehicles which were reported as missing, in accordance with the recommendation of the Auditor General.

When asked if the Equipment Management System (EMS) was in need of revision an official said that EMS is a good system, that it has been updated and that, while the Fleet Management Branch (the Branch) has to rely on its contacts in partner departments to supply information, the Department of Transportation and Works (the Department) has made progress in analyzing and reporting information. The official told the Committee that the Department has copies of partner departments' logbooks.

In reply to a question about the monitoring of fuel consumption an official stated that as a result of the improvements that are being made in the system the Department will be able to identify and track purchasing/mileage anomalies and follow up on and correct them if necessary. As well, credit card suppliers provide Government with a monthly report on fuel usage and time of purchase, the official stated.

A member questioned officials about the discrepancies reported on between client department inventories and information in the EMS data. The Department could not explain the discrepancies except to say that in some cases the information in different categories could relate to the same vehicle; in others there could have been a keying entry error.

The Auditor General suggested that some information, such as notification of the disposal of a vehicle, might not have been relayed to the Department; that vehicle would then be recorded as missing in the report.

The Deputy Minister stated in response to a Member's question that there has not been any difficulty in gaining access to information in client departments as Deputy Ministers provide information when requested to do so.

The Auditor General made the following observations about the discrepancies found during the audit:

- the EMS is a good system but the data in the system are in need of improvement;
- the client departments will provide good data only if it is clear to them that the information is being used;
- the information provided must be robust, complete and current;
- while it is a good idea to have the client departments enter their own data there must be follow up if the data are not being entered in a timely fashion;

- the Department must analyze the data supplied by client departments.

The Auditor General cautioned that the root of the problems the auditors identified appeared to be a human resource deficit in the Department while those who were assigned the task of supplying information may have lacked the proper focus.

In reply to a Member's question about the logbooks, which the auditors had found to be poorly maintained, an official stated that the Department had issued memos to remind client departments of their responsibility to provide the logbook information to the Branch and when necessary followed up the memos with phone calls. The Deputy Minister stated that this approach was making a difference.

Regarding the completeness of the information provided to the Department on the vehicle fleet an official stated that while they may not have all the information on every vehicle the fact that they obtained the majority of the data in their first quarterly report was notable. An official stated that the Department intends to continue to follow up to make sure that they have the data they require on all their vehicles. An official pointed out that the Department has copies of the logbooks, the information necessary is in the logbooks and is available to the Department

The Deputy Minister said that the appointment of an administrative officer to fill a vacant position will enhance the Branch's data analysis capacity and that the Department is considering moving the position to the Strategic and Corporate Branch in order to avail of that branch's auditing and oversight expertise with a view to establishing more stringent processes.

The Deputy Minister stated that the provision of data to the Department by the partner departments would alleviate some of the difficulties which were discussed during the hearing.

A Member asked the Auditor General whether he thought the information in the EMS met the requirements of the effective management of the fleet. The Auditor General replied that the fact that certain information was not being transferred from log books to the system was not a fatal flaw, but that having the information in the system would make the process more efficient.

A Member questioned the Department about the safety of the fleet. The Committee learned that the Department inspects only its own vehicles. Other departments engage private providers to carry out the inspections.

There was some discussion about the finding that available data are not being used to monitor fuel usage. An official told the Committee that the finding related

to diesel purchases for ATVs, chain saws and the like that employees carried in their trucks. In some cases the driver would have left the special card used for such purchases at the depot and charged it incorrectly rather than return to the depot for the card. The official stated that departmental personnel were confident that there was nothing untoward at play. The Committee heard that the Department is trying to correct these practices as it understands the importance of ensuring that fuel should be charged appropriately. An official stated in answer to another question that the Department has the ability to track fuel use and cost for a specific vehicle.

A Member raised the question of the relative merits of ownership and rental for government vehicles in the context of the underutilization of vehicles to which the Report had alluded. An official informed the Committee that underutilized vehicles are for the most part those which have specific uses. The Committee heard that a cost benefit analysis had been carried out on the Department's fleet and submitted to Treasury Board. The direction to the Department which followed was to purchase rather than undertake long-term rentals.

A Member raised the matter of low-mileage underutilized vehicles in the fleet. An official agreed that the Department should not have such vehicles in the fleet and suggested that the matter is one that should be considered when the Department considers changes to the light vehicle policy.

There was some discussion of the personal use of government vehicles, in particular by employees who are permitted to park such vehicles at their residences overnight. An official explained that employees must have approval to park government vehicles at home and that the rules regarding this practice are well known: personal use of a government vehicle is not permitted. A Member suggested that it would be useful to affix an identification number and/or a telephone number to each vehicle so that a member of the public could register a complaint if it appears that government vehicles are being used for unauthorized purposes. An official said that the Department was considering that idea.

The Committee also discussed the costs associated with the repair of government vehicles. The Department of Transportation and Works repairs its own vehicles while other departments use private sector services an official told the Committee. It was suggested by a Member that it might be useful to do an analysis to determine whether it would be cost effective for Government to repair all government vehicles.

A Member questioned the Department about the differences in the cost of operating their vehicles amongst the various departments as shown in a graph in the report. An official said that the type of work for which the vehicles are being used would account for the operating cost differences. The Member suggested

that it might be worthwhile to analyze the cost/use information with a view to determining if there might be some areas in which savings could be effected.

The Auditor General stated, in response to a Member's question, that if the Department follows through on the improvements enumerated by the Deputy Minister it will have implemented the recommendations of his report.

The Deputy Minister told the Committee the Department is committed to making the requisite changes internally and informing client departments about how best to make use of the system as well.

## **FINDINGS**

It appears to the Committee that the Department of Transportation and Works has considered and taken action to in response to the findings of the Auditor General. The Department's reports that it has completed its plan of action in response to eight of the findings; will complete the plan in respect of three findings by the end of the 2015-16 fiscal year; will have addressed another three by the end of April 2016 and is in the process of addressing two. The Committee finds this to be a positive response and notes that the Auditor General has stated that if all actions are completed as planned the Department will have implemented the Report recommendations.

## **RECOMMENDATIONS**

The Committee recommends that the Department

- complete the elements of the action plan which were in progress at the time of the hearing;
- affix both an identification number and a telephone number in a prominent location to all departmental vehicles and
- carry out the revision of the policy and procedures manual as contemplated by the Deputy Minister and ensure the document is made available to all entities to which it applies.