

*House of Assembly  
Newfoundland & Labrador*



*Colonial Building  
1850-1959*

*Confederation Building  
1960-present*



**2<sup>nd</sup> Report  
Standing Committee  
of  
Public Accounts  
47<sup>th</sup> General Assembly**

**June 2014**



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

**Chair**

Jim Bennett, MHA, St. Barbe

**Vice-Chair**

Kevin Parsons, MHA, Cape St. Francis

**Members**

Eli Cross, MHA, Bonavista North

George Murphy, MHA, St. John's East

Tom Osborne, MHA, St. John's South

Calvin Peach, MHA, Bellevue

Keith Russell, MHA, Lake Melville

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## Introduction

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The Standing Committee of Public Accounts for the 47<sup>th</sup> General Assembly of the House of Assembly of Newfoundland and Labrador was struck on April 3, 2012. The Chair, Jim Bennett, M.H.A., and former Vice-Chair, David Brazil, M.H.A. were elected on April 26, 2012.

The following changes in the composition of the Committee have taken place during the current General Assembly: On January 23, 2014 Tom Osborne, MHA was appointed to the Committee; on February 3, 2014 Tracey Perry, MHA, and George Murphy, MHA were appointed and on February 26 Calvin Peach, MHA was appointed. Ms. Perry was elected Vice-Chair on February 18, 2014. On May 6, Keith Russell, MHA replaced Ms. Perry on the Committee and on May 21, 2014 Mr. Parsons was elected Vice-Chair.

David Brazil, MHA, Sandy Collins, MHA, Christopher Mitchelmore. MHA and Eddie Joyce, MHA were members of the Committee during most of the period to which this Report relates. On behalf of the Committee I thank these former members for their contribution to the Committee's work.

Pursuant to Standing Order 65(5), the Committee, in consultation with the Auditor General, selected the following sections of the Auditor General Report 2012 for review:

Part 3.2 – College of the North Atlantic, Department of Advanced Education and Skills

Part 3.7 – Centre for Health Information, Department of Health and Community Services

Part 3.8 – Western Regional Health Authority, Department of Health and Community Services and

Part 3.11 – Forest Industry Diversification Programme, Department of Natural Resources

In accordance with subsections 31(1), 31(2) and section 47 of the *House of Assembly Accountability, Integrity and Administration Act*, the Committee has met with the Clerk of the House of Assembly to review the Clerk's role as Accounting Officer. The Committee has also reviewed the Annual Report of the House of Assembly Management Commission as prepared by the Speaker of the House of Assembly pursuant to section 51 of the *House of Assembly Accountability, Integrity and Administration Act*.

The Committee met on the following occasions to discuss the report of the Auditor General, the Report of the Committee and other Committee matters:

May 10, 2013

May 16, 2013

January 24, 2014

January 31, 2014

February 24, 2014

April 14, 2014

May 21, 2014

The Committee held public hearings on the following dates to review items from the *Report of the Auditor General on Reviews of Government Departments and Agencies 2012* with representatives of the Departments or Agencies concerned and the officials of the Office of the Auditor General:

July 18, 2013 – Centre for Health Information

September 12, 2013 – College of the North Atlantic

October 15, 2013 – Centre for Health Information (continued)

October 16, 2013 – Western Regional Health Authority  
October 17, 2013 – Forestry Industry Diversification Programme  
February 18, 2014 – Forestry Industry Diversification Programme (continued)

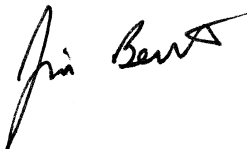
The Committee thanks the representatives who appeared at the hearings on behalf of their Departments and Agencies, and the Ministers for their answers to the Committee's written questions. The Committee thanks the staff of the Committee, the Clerk of the House of Assembly and the staffs of the Broadcast Centre, Hansard and the Clerk's office, 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 Ross Wiseman, M.H.A., for his continued support and cooperation.

The Standing Committee of Public Accounts has the honour to present this, its Second Report of the 47<sup>th</sup> General Assembly, to the House of Assembly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Bennett". The signature is written in a cursive style with a long, sweeping underline.

Jim Bennett, M.H.A.

Chair

June 2<sup>nd</sup>, 2014

## **Witnesses appearing before the Committee:**

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

Terry Paddon, Auditor General

Sandra Russell, Deputy Auditor General

Brad Sullivan, Audit Senior

Scott Walters, Audit Manager

### **Department of Natural Resources**

#### **Part 3.11 - Forestry and Agrifoods Agency**

Wade Bowers, ADM, Forestry Branch

Jim Evans, CEO, Forestry and Agrifoods Agency

Gary Forward, Industry Services Supervisor, Forestry Branch

Eric Young, Director, Forest Engineering and Industry Services, Forestry Branch

### **Department of Health and Community Services**

#### **Part 3.7 - Centre for Health Information**

Mike Barron, President and C.E.O.

Steve Clark, Vice President, Business Services and C.F.O.

Ray Dillon, Chair of the Board

Jim Janes, Chair of the Finance and Audit Committee

### **Department of Health and Community Services**

#### **Part 3.8 - Western Regional Health Authority**

Susan Gillam, M.D., President and C.E.O.

Devon Goulding, Vice President, Finance and Decision Support

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

#### **Report of the Auditor General 2012**

#### **Part 3.2 - College of the North Atlantic**

Ann Marie Vaughan, President

John Hutchings, Vice-President, Finance and Administration

Annette Morey, Manager of Internal Audit

Mary Tait, Executive Director of Human Resources

**Report of the Auditor General, Year Ended 31 March, 2013**

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**Paragraph 3.2 – Department of Advanced Education and Skills  
College of the North Atlantic**





## Introduction

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The Committee met on May 10th and 16th, 2013 to review the Report of the Auditor General 2012 and selected Part 3.2 – College of the North Atlantic for further investigation in light of the findings of the Auditor General and the Department's answers to written questions of the Committee. The following is a summary of the findings reported by Auditor General and the evidence and findings of the Committee arising out of the information provided by the witnesses at the public hearing.

### Auditor General's Findings

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#### Reference:

Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies 2012:  
<http://www.ag.gov.nl.ca/ag/annualReports/2012AnnualReport/AR2012.pdf> pp. 25-55

#### Executive Summary

During the 2012 fiscal year, the College of the North Atlantic (the College) employed 2,002 staff (1,265 instructional staff and 737 administrative and support staff) on a full or part-time basis. Of these, 478 were employed at the Qatar campus. For the fiscal year 2012, the College spent \$113.3 million on salaries and employee benefits.

The College Act, 1996 requires the College to make policies to govern the organization, administration and operation of the College that adhere to the personnel administrative procedures of the Province unless otherwise approved by the Minister of Advanced Education and Skills. In addition, the College is required to comply with the Public Service Commission Act which states that recommendations for appointments to and promotions within the public service shall be based on merit principles. Merit principles guide the recruitment and

selection process through fairness, equity, transparency, efficiency and effectiveness.

Our review of compensation and recruitment practices at the College identified issues relating to recruitment, file documentation and compensation.

### Recruitment

Our review of job competitions identified instances where:

- the required job analysis was not completed;
- positions were not always classified;
- positions were filled where the minimum qualifications were not met;
- it appeared qualified candidates were screened out from the interview and job competition;
- the Selection Board Report was not completed to support the decision;  
and
- upscale hiring was not appropriately approved.

### File Documentation

Our review also identified instances where the required documentation was not always on file. For example:

- assessment matrix forms not always completed or signed;

- reference check forms not on file;
- confidentiality statements not signed;
- appointment letters or contracts not signed;
- orientation checklists not completed;
- certificates of conduct not on file; and
- conflict of interest forms not complete.

#### Compensation

Our review identified issues with employee compensation, including relocation expenses, and employee leave and overtime. Specifically:

- relocation expenses were not always properly reimbursed to employees;
- employees had overdrawn their leave and overtime balances;
- documentation to support leave and overtime transactions were not always on file;
- overtime was not always approved in advance of overtime worked; and
- in one instance, termination benefits were paid out over 2 years to lessen taxes payable by an employee.

## **Public Accounts Committee Review**

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### **Reference**

Proceedings of the Public Accounts Committee September 12, 2013

[http://www.assembly.nl.ca/business/committees/ga47session2/2013-09-12\(PAC-CollegeoftheNorthAtlantic\).htm](http://www.assembly.nl.ca/business/committees/ga47session2/2013-09-12(PAC-CollegeoftheNorthAtlantic).htm)

### **SUMMARY OF EVIDENCE**

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

The Auditor General undertook the review of the College to determine if compensation and recruitment practices were in accordance with Government and College policies and procedures. The Office reviewed 23 recruitment files, eight being special hires, and a sample of 65 personnel files. The total number of employees is 2000. The auditor found deficiencies in job analysis, classification, qualification and screening in the area of recruitment. In the personnel files category there were weaknesses relating to the signing of contracts and conflict of interest forms. In reviewing compensation practices the auditor found problems relating to leave and overtime: leave balances which were carried forward incorrectly and overdrawn leave for example. In respect of overtime, the review identified weaknesses such as files from which information was missing and the like.

#### **Opening remarks of the President of the College of the North Atlantic**

The President of the College stated that the College welcomed the review of the Auditor General and went on to say that the College was committed to accountability and transparency. Ms. Vaughan informed the Committee that the College's internal audit division had taken on a number of tasks in order to address the weaknesses identified in the Report of the Auditor General. The President added that she believed that in its Human Resource practices the College had to be objective and accountable. The College has done some work and has a plan for addressing the deficiencies identified by the Auditor General. The College, in collaboration with the Public Service Commission, is working toward implementing a Quality Management System which will lead to ISO

certification. The system will strengthen records management and documentation the President told the Committee.

## **RECRUITMENT**

### **Job competitions - fairness of process**

A Committee member asked the President of the College, if, given the deficiencies identified and given certain rumours which had been circulating in the community, improper influence had been brought to bear on recruiters. The President stated that no one had suggested to her that there had been any such influence adding that she was nevertheless concerned about the conversation taking place on the matter. The President described the section of the Report relating to hiring processes as the most troubling. Ms. Vaughan told the Committee that the College had put measures in place to ensure the hiring process is fair and impartial. A College official explained that she was not aware of any case in which a person was hired because of a connection within the system. The official went on to explain that, whereas formerly the recruiters had been at different locations throughout the Province, now administrative recruitment is done out of St. John's and the recruitment for the various campuses is done by specific recruiters. The recruiters are not tied to the different campuses. The process has been reviewed thoroughly. The Talent Acquisition Director is involved continuously and all Public Service Commission rules are followed, College officials assured the Committee.

### **Positions not classified**

The Auditor General reported that three of seven positions which he had reviewed were not classified as required. The Human Resources Executive Director explained that one of the positions had been put in place for a particular project and is not a position they would normally have at the College. Officials are reviewing models across the country in order to establish the job description and classification for the position.

In the other two cases there were job descriptions for positions which were sometimes shared with a different position. The two different workloads have now been separated into two positions which the College is in the process of classifying.

The Committee was told that the College now has a Human Resources specialist whose sole responsibility is to manage the classifications and review and submit job descriptions for classification. The College is reviewing all positions to ensure they are consistent with job descriptions, and current.

### **Confidentiality statement not signed**

An official informed the Committee that as a result of the changes they had made to correct deficiencies, confidentiality statements would be included in employees' files as a matter of course. In the case of the Qatar campus, which has different requirements, the College will review the contract and make the necessary changes to address the Auditor General's concerns.

### **Candidates not adequately screened**

The review of the Auditor General identified a case in which three candidates, who appeared to have the qualifications and more experience than the person hired, had been screened out. The reason given for the selection was that the candidate hired had the most experience. However there was nothing in the file to support this contention.

A College official stated that this instance was the most troubling of the findings of the Auditor General as fairness in hiring is fundamental to the integrity of the College. The President told the Committee that the College had taken numerous steps to address this aspect of the hiring process.

### **Certificate of conduct not obtained**

The review of the Auditor General found that there was no certificate of conduct in the files of six employees although job advertisements require such documentation for successful candidates.

An official stated that she was not sure when the requirement had been instituted. It was suggested that it was possible that the documents were missing because long-term employees' files had not been updated. An official pointed out as well that not every position requires such a certificate. The Committee heard that the College now has a contract with a firm which will ensure the certificates are provided when required.

### **Conflict of interest forms not obtained**

The Report indicated that a number of employees, some of whom were in Qatar, did not have a conflict of interest form in their files. The Qatar employees have a conflict of interest clause in their contract but the requirements do not include all the matters covered by College policy. For employees whose files included a conflict of interest form, the form had not been signed annually on their anniversary date as required. The College now has a new contract for the Qatar employees. The President of the College indicated that they would review the contract to ensure the conflict of interest requirements are consistent with College policy.

The College advised that all new employees must sign the conflict of interest form which is placed in the file and confirmed by a secondary check of the documentation filed.

Regarding existing employees who had not signed the form an official could not confirm that all had been checked but the President undertook to ensure that a check of the older files would be done.



### **Minimum qualifications not met**

The auditor identified two cases in which a job posting did not require the minimum established qualifications. While officials indicated that permission had been obtained from the profession's accrediting organization, there was no documentation in the file to support the contention. An official explained to the Committee that in certain cases, in this instance in relation to tradespeople, there are different ways of obtaining the minimum requirements. The College's minimum qualification excluded some qualified candidates because they required the candidates to have gone through the CNA apprenticeship programme. The College had canvassed similar institutions across the country and found that the standard they had accepted in this instance was nationally accepted so the policy had been changed. Also, it is the Dean, in the area for which the candidate is hired, who must approve the hire, and this approval was given.. The Auditor General stated that the requirement at the time of the audit was different. An official stated that the next time the College recruits for a similar position the qualification requirement will be clear.

### **Interview answers not on file**

The staffing manual requires that the preferred answers to interview questions be kept on file. This was not done for nine of the files reviewed. The College advised that they had addressed this finding.

### **Assessment Matrix Form issues**

The Matrix Form, a scoring sheet, should be completed after an interview. In two instances the Form had not been prepared; in one instance the form had not been signed as having been prepared immediately after interview; in two instances the form had not been dated, and the score on the matrix did not match the score on the Selection Board Report.

An official agreed that the Matrix requirement had fallen by the wayside but that the forms were now being filled out as required. The evaluation system now

includes a review of the competition files to ensure all the documentation is in place.

### **Delays in competition process**

A member questioned officials about a case in which the competition had been long-drawn-out because the current employee had decided not to retire. Two of three candidates had met the requirements posted. The competition was cancelled, then the position was posted internally and externally. The new advertisement specified a designation that had not been a requirement of the original competition. The approved position description had not specified any particular designation. By specifying the designation the college had departed from the position description qualifications and may have limited the number of qualified candidates. The action taken may have created a negative perception of the objectivity of the process.

At the time of the competition, when the Director of Finance was expected to retire, the College had been reviewing the qualifications of its staff to ensure it had the staff in the Finance Division to meet its needs. The review had contributed to the delay in the process. In the event the College did not hire for the position.

### **References forms not on file**

The audit identified ten candidates whose files did not include the requisite references or documentation to show that the references had been checked. In some instances there was no reference check for the candidates recommended other than the top-ranked candidate. The explanation in that case was that there may have been a time constraint.

In its written response to the Report of the Auditor General the College stated that it did not require new references for existing employees who have been recommended for a competition provided the recruitment took place within a

reasonable period of time. A reasonable period of time, according to an official, would be two weeks. As for the cases in which there was only one reference on file, it is possible, it was suggested, that in an internal competition the immediate supervisor of the candidate, from whom a reference is required, was in a conflict of interest as a Selection Board member.

The College is now following required policies and procedures which do not admit of discretion.

### **Selection Board Report not adequate**

The review identified two files which did not include a Selection Board Report and some others which were incomplete. The officials assured the Committee that at the time of the hearing all the requirements were being met in respect of Selection Board Reports. The College did point out that the absence of a signature, for example, did not necessarily invalidate the process. The member who had questioned the process suggested that the absence of an element of the process might raise questions about its fairness.

### **Upscale hires not approved properly**

The audit identified a number of instances in which candidates had been hired at a pay scale higher than the rate stipulated in the collective agreement for the position, without the approval of the Chief Executive Officer in one case, of Treasury Board in the others.

The Vice-President explained that the College has a policy, in accordance with the legislation, which allows the President to hire people at a pay rate up to the top of the scale. The collective agreement also contemplates contractual hires at a rate over and above the salary scale in the agreement.

The President informed the Committee that the College has a well-defined process for upscale hiring which is consistently followed.

In its written response to the Report of the Auditor General a representative stated that the College would develop a policy on upscale hiring, in collaboration with the Public Service Commission, to take into account current labour market conditions. A spokesperson advised that the College had created a special form for upscale hires that requires the President's signature before the hiring can be processed.

## **COMPENSATION**

### **Reimbursement of relocation expenses**

An employee was underpaid for relocation expenses. The College found when they checked the documentation that the employee had not been underpaid. Rather, the information in the claim was unclear.

In another case an employee who was required to relocate as a condition of employment claimed relocation expenses relating to her former principal residence which included a legal expense, a mortgage penalty and a house appraisal. As the College relocation policy does not provide for reimbursement of refinancing expenses the reimbursement should not have been approved, in the opinion of the Auditor General.

In its written response to the Report of the Auditor General the College agreed that its policy does not contemplate the refinancing of a residence. However officials had approved the payment given that the College strives to achieve the most economical relocation options, as the costs were lower than they would have been if the employee had sold the house.

### **Employee leave and overtime**

In response to a member's question about the monitoring of leave and overtime the Executive Director of Human Resources told the Committee that the College had reviewed every instance mentioned in the Report of the Auditor General. The

College and recovered the amounts payable by setting up receivables from the employees or by recovering them from the employees' accrual for the current year. The Committee heard that every case has been dealt with and that there is now a process in place requiring all documentation relating to overtime to be signed, filed and updated. The system is manual but will eventually be electronic.

A Committee member questioned the overtime payments amounting to \$2.7 million for the College. The reason given was the contract training of employees of outside agencies, for which the College is compensated; systemic overtime for persons covering for workers who are off for various reasons and overtime which is needed when there are vacancies, which was the case in the time frame under discussion. The official suggested that the amount of overtime was not excessive given the College's budget of \$150 million.

### **Other leave issues**

The audit identified a case in which an employee requested that money owed for unused annual leave be paid over two taxation years to reduce tax consequences, to which request the College agreed although the such a practice was not in accordance with Government or College policy. An official acknowledged that the benefits had been paid in this way although they should not have been, and that the error had not been repeated.

An official stated that the College had addressed every leave problem noted in the Report.

### **Other**

A member enquired about the process for hiring recruiters. The Committee was told that the College makes sure candidates are trained in collaboration with the Public Service Commission. In order to Chair a selection committee a person must be a certified Chair. A College representative stated that the Director of

Talent Acquisition ensures that new recruiters are fully trained and that new hires would probably be aligned with an existing recruiter who would act as a mentor.

The College reviewed eleven randomly selected files out of seventy-nine, before the hearing, and found that every file included the required information.

In response to the Report the College has revised procedures and the revised documents have been circulated. The documentation includes a checklist and process maps to ensure that the staff are following the steps.

The President was asked if the College had engaged a third party to review its systems in light of the Auditor General findings. The President stated that the College had engaged a third party to help with the quality management system and that officials were working with the Public Service Commission with which they would discuss the Report findings.

## **FINDINGS AND RECOMMENDATIONS**

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### **FINDINGS**

The Committee finds, and notes that College officials have acknowledged, that there were numerous weaknesses in the processes and procedures in place at the time of the audit. Many of these deficiencies related to lapses or gaps in the documentation processes. The Committee finds, and again notes the concurrence of College representatives, that when the deficiencies concern hiring and competition processes the result can be the loss of confidence by the wider community in the integrity of the institution. The President of the College expressed her concern about conversations which were reportedly taking place about the College's hiring practices.

It appears to the Committee that the College is serious about making improvements to address the matters raised in the Report of the Auditor General and has already begun the process of instituting changes.

The Committee is satisfied that the recommendations of the Auditor General are being implemented given the College's responses to members' questions at the hearing.

## **RECOMMENDATIONS**

The Committee recommends that

- the College review the files of all employees to ensure their conflict of interest forms are on file and properly signed
- the College revise the contract for Qatar employees to make their conflict of interest conditions consistent with College policy;
- the College consider reviewing the collective bargaining agreement with respect to upscale hiring provisions given the current market conditions;
- continue its efforts to review and amend their processes and procedures where necessary to enable it to carry out its mandate effectively and in compliance with Government requirements.

**Paragraph 3.7 – Centre for Health Information  
Department of Health and Community Services**





## Introduction

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The Committee met on May 10<sup>th</sup> and 16<sup>th</sup>, 2013 to review the Report of the Auditor General 2012 and selected *Part 3.7 - Centre for Health Information* for further investigation in light of the Auditor General's Report and the answers of the Department of Health and Community Services to the written questions of the Committee. The following is a summary of the findings reported by Auditor General and the evidence and findings of the Committee arising out of the information provided by the witnesses at two public hearings.

### Auditor General's Findings

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#### Reference

Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies 2012  
<http://www.aq.gov.nl.ca/aq/annualReports/2012AnnualReport/AR2012.pdf> pp 165-199

Reference: Paragraph 3.7 – Centre for Health Information, Department of Health and Community Services, Report of the Auditor General 2012

The Report stated:

#### Executive Summary

The Newfoundland and Labrador Centre for Health Information (the Centre) is a Crown agency reporting to the Department of Health and Community Services (the Department). The Centre is responsible to the Minister of Health and Community Services through its Board of Directors (the Board). Board members are appointed by the Lieutenant-Governor in Council. The Centre is governed by the Centre for Health Information Act (the Act).

The Centre has a mandate to assist individuals, communities, health service providers and policy makers at federal, provincial and regional levels in making

informed decisions that enhance the health and well-being of persons in the Province.

The Centre is responsible for the development of a confidential and secure health information network, which will serve as the foundation for the Province's Electronic Health Record (EHR). There are five components to the EHR: client registry; provider registry; pharmacy network; picture archiving and communication system; and interoperable EHR/laboratories project.

Our review identified concerns with:

- compensation and recruitment practices; and
- governance.

#### Compensation and Recruitment Practices

The Centre uses public money to compensate employees. Government is, effectively, the ultimate employer of all public employees whether they work for a Government department or a Crown agency. Treasury Board has recently directed that, as an agency, the Centre is to ensure that certain of their compensation policies are consistent with Government policies. Our review of compensation and recruitment practices indicated concerns with:

- job competitions;
- upscale hiring;
- the Centre's pay structure;
- step increases;

- reclassifications;
- pay in lieu of notice;
- the Chief Executive Officer Contract of Employment;
- salary increases; and
- hiring of external consultants to fill employee vacancies.

#### Governance

The members of the Board are appointed by the Lieutenant-Governor in Council under the Act. This appointment directs that the Board shall exercise all of the powers and discharge all of the duties of the Corporation and administer and manage its business.

Our review of Board governance identified that:

- there was no current representative from the Department;
- the Lieutenant-Governor in Council had not appointed a new chairperson since September 2011; and
- the Centre has not established selection criteria for appointment to the Board.

## Public Accounts Committee Review

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### Reference

#### Proceedings of the Public Accounts Committee

[http://www.assembly.nl.ca/business/committees/ga47session2/2013-07-18\(PAC-CentreforHealthInformation\).htm](http://www.assembly.nl.ca/business/committees/ga47session2/2013-07-18(PAC-CentreforHealthInformation).htm)

[http://www.assembly.nl.ca/business/committees/ga47session2/2013-10-15\(PAC-CentreforHealthInformation-Continued\).htm](http://www.assembly.nl.ca/business/committees/ga47session2/2013-10-15(PAC-CentreforHealthInformation-Continued).htm)

## SUMMARY OF EVIDENCE

### Opening remarks of the Auditor General

The Auditor General opened the discussion with an overview of the matters his office had focussed on when carrying out its audit, namely compensation and recruitment, governance, and purchases of goods and services. The eight recommendations of the Auditor General report related to the first three matters only.

The Auditor General noted that while the Centre for Health Information (CFHI) was not subject to the *Public Service Commission Act*, one would have expected it to follow the spirit and intent of the *Act*.

The Auditor General commented on three areas, of several that he had identified, in respect of recruitment and compensation: pay structure, step increases and reclassifications.

In 2008 the Board of Directors approved a new classification and pay structure. Forty-five per cent of the resulting pay increases went to six employees and the rest to the remaining fifty-two. The weighting of the increases towards the more senior employees was one of the points noted in the Report of the Auditor General.

The second concern the Auditor General had was the fact that the new classification and pay structure had not been approved by the Minister of Health and Community Services.

The Auditor General also questioned the fact that although the Centre was using the Hay System of classification the CFHI salary levels were significantly higher than similarly classified jobs throughout Government. The Auditor General stated that, while there might be room for some discretion in arriving at salaries which are assigned a given point level, there should be some consistency in salary levels.

The Auditor General pointed out that while CFHI policy does allow the CEO to adjust salary steps in extraordinary circumstances, for retention purposes, such increases are inconsistent with Government policy.

Finally the Auditor General commented on the reclassification process the CFHI had gone through: When the Centre was established in 2007 all positions were classified. In 2008 they were reclassified retroactive to 2007. The Auditor General's review considered forty-three requests for reclassification after the original review and found that there was an 88 per cent success rate, which far exceeds the 20 per cent success rate in the core public service. The Auditor General suggested that it was unusual to see that level of reclassification in such a short period of time.

**Opening remarks of the Chair of the Board:**

The Chair sketched the history of the Centre from its establishment in 1996 to its incorporation as a Crown agency in 2007 and from then to its current status: The Centre is responsible for developing a secure Electronic Health Record (EHR) for the Province and is a national leader in the field . Among the components of the system which are in place or being implemented are client and provider registries, the Picture Archiving and Communication system, the provincial digital

diagnostic imaging system, the Pharmacy Network and the iEHR/Labs project. The Centre collaborates with health system partners to support other health system initiatives. The Centre played a role in carrying out analysis for the Cameron inquiry and in the response to the H1N1 epidemic for example. The Centre leverages Provincial investment to secure funding from the Federal Government and other organizations such as Canada Health Infoway which has committed \$73 million to its work. The Centre believes that there is the potential for further growth for the organization in the e-health and health information fields. The Chair stated that changes which were under way before the release of the Report of the Auditor General will address the concerns expressed in the Report and that since the release of the Report the Centre has taken measures to further these initiatives; In particular, the Centre has submitted a road map to the Department of Health and Community Services outlining its approach to aligning its policies with those of Government.

The discussion opened with an exchange between a Committee member and the officials of the Centre about the duties and responsibilities of the organization. An official explained that the Centre exists under its own legislation and reports to the Department of Health and Community Services. In respect of the decisions taken by the Board which are the subject of this hearing, the Chair of the Board stated that the Centre believed that it had the authority to carry out its mandate as it had without first seeking Government approval. The Board is appointed by Government and includes among its members a Government representative.

A member questioned the officials about a decision made by the Board, to which the Government representative on the Board had objected as he believed Government approval should be sought. The Centre officials believed that they had the authority to make the decision without Government approval, in the circumstances. The decisions related to establishing a salary pay scale that would enable the Centre to recruit the personnel it requires to fulfill its mandate.

## **Compensation and Recruitment Practices**

The Auditor General stated that there was an expectation that the Centre's compensation and recruitment practices would be consistent with those of Government, while acknowledging that the Centre did have autonomy under the legislation with respect to establishing policy. However this policy should align with the intent and spirit of the *Public Service Commission Act* in the opinion of the Auditor General.

It was pointed out by a Committee member that the Centre is funded by the taxpayer and should compensate employees at rates consistent with Government pay scales.

## **Job Competitions**

The Auditor General reported that in two cases of 13 reviewed there was no documentation to indicate that a job competition had been held for two Director positions; that there was insufficient documentation to support the competition process in 10 files and that Centre policy requires the recommendation of only one qualified candidate per position for referral to the CEO as against three as per the Public Service Commission Staffing Policy Manual. When questioned by a member about these weaknesses in the job competition process the CEO stated that the Centre was now conducting and documenting job competitions for all job postings. With regard to compensation policies being consistent with those of Government the CEO stated that the Centre had submitted its policies to Government for approval. The Centre is now following Government policy in recommending three candidates for referral to the CEO. The explanation given for the procedure the Centre had been following, that of recommending one candidate only it was the Centre's belief, supported by legal advice, that legislation permitted the Centre to establish its own policy. Also, officials maintained that when the Centre was being established the organization was under time constraints related to its ability to take advantage of federal funding



and it looked to personnel who possessed the skills necessary for the jobs within its own ranks.

In the case of ten files that the audit had identified which were lacking proper documentation, the CEO explained that the Centre was in a growth mode and that the assessments had been done at the front end even if they had not been documented. The Committee heard that assessments are now being documented exactly as the Auditor General recommended.

### **Upscale Hiring**

Committee members questioned officials about the finding of the Auditor General that the Centre had failed to follow its own policy in upscale hiring, citing a number of instances. Centre policy requires the organization to attempt to hire employees at step 1 on the scale. The CEO stated that the Centre always attempted to hire at step 1. However there was no documentation to support the contention that there had been an attempt to hire as required by the policy.

In the case of an individual upscale-hired on a referral by a human resources consultant there was no documentation to indicate that an effort had been made to determine whether one of thirteen candidates interviewed might have accepted the position at the same or a lower step on the scale.

In another case a candidate was upscale-hired at a level considerably higher than the level he was willing to accept. In two other cases candidates were hired at a level higher than permitted by Government although consistent with Centre policy.

The CEO told the Committee that there would be no further upscale hiring that was not in accordance with Government policy and pointed out that the practice had been discontinued early in the calendar year.

## **Centre Pay Structure**

The Auditor General in his opening comments summarized the history of the pay structure: The legislation which created the Centre was enacted in 2007. Positions that transferred from other entities came with their previous classifications which were then reviewed by the Hay Group. In 2008 the Board approved new classifications, which was normal. However the new system was not approved by the Minister. There was an increase of approximately two per cent in annual salaries as a result which in and of itself was not unusual. What was unusual was the weighting of the increases, as forty-five per cent went to six senior people, the balance to the other employees.

The auditors found as well that the positions with similar Hay point totals to positions in Government were allocated higher salaries than the Government positions. A member questioned the officials about the process for approving the pay structure.

The CEO pointed out that the Centre was a new entity and that it had used external consultants and the Atlantic Canada 80-20 ratio in establishing its rates which was consistent with best practice at the time. The rates were also consistent with those of other organizations in receipt of public funding such as RDC, Nalcor and Memorial University. The Centre had carried out its staffing processes as it had because of the environment in which it was working which required it to get the Centre up and running as quickly as possible. The personnel required were difficult to recruit and the Centre had to leverage funding, which was a time sensitive matter, in order to be able to carry out its mandate.

The CEO told the Committee that the Centre would thenceforth align completely with Government's compensation regime.

### **Step Increases**

The Auditor General pointed out that the CEO of the Centre is permitted by Centre Policy to adjust salary steps in extraordinary circumstances for retention purposes and that performance issues would constitute extraordinary circumstances. However, the Auditor General noted that this practice is inconsistent with Government policy.

The CEO told the Committee that it had submitted Board policies to Government for approval and that the Centre's policy language in respect of step increases would reflect the language of Government policy in the future.

### **Reclassifications**

The Auditor General informed the Committee that when the Centre was established in 2007 all positions were reviewed and reclassified between January and March 2008 retroactive to 2007.

The auditors found that from 2008 to 2012 there were 43 requests for further reclassification. 88 per cent of those requests resulted in a positive outcome. By way of comparison the Auditor General informed the Committee that the success rate of such requests in the core civil service is 20 per cent.

A Committee member suggested that the reclassifications were actually a means of increasing the salaries of certain individuals.

The CEO told the Committee that when these reclassifications took place the Centre was in a growth mode when time was of the essence in filling positions so that it could take acquire the funding it needed to carry out its mandate. Certain positions were reclassified to account for the complexity of the organization and added responsibilities of the positions. They had used existing employees, in some cases, rather than advertise the positions, because of their experience and expertise.

The Chair of the Board and the CEO told the Committee that the Center was now committed to following Government policies and procedures in all matters related to compensation and benefits.

### **Chief Executive Officer Contract of Employment**

The CEO was appointed in 2006 with a five-year contract at a salary of \$110,000. In 2009 the Board Chair in a letter to the Minister of Health and Community Services requested an amendment to the contract. In accordance with the original contract such a change required the approval of the Minister. The Chair of the Board was unable to provide the Auditor General with a copy of a response to the letter.

The CEO told the Committee that the salary had been established with the advice of external consultants, the executive and senior members of other public agencies on the Board, in recognition of the increasing size of the Centre and the complexity of its work. The changes had been implemented at the direction of the Board.

The Auditor General pointed out that his office had sent a copy of the Report to the Department as part of the validation process but that they had not received a response.

When asked if he had recused himself from voting on the salary motion the CEO said that he had. A Committee member pointed out that the minutes did not reflect the fact that the CEO had not voted. The CEO suggested that his recusal was not noted in the minutes as it was a given that he did not vote on compensation matters.

In response to a question of a Committee member the Auditor General stated that it would not be unusual for a CEO to attend Board meetings, even if not a

Board member, and to contribute to discussions about compensation but that he would not vote on such a matter.

The Chair told the Committee that in the future the Centre would follow Provincial Government policies and procedures in all matters related to compensation and benefits.

### **Salary Increases**

The Auditor General reported that Centre salaries were not consistent with Government salaries for similarly classified positions. While the Centre is entitled to establish its own policies and procedures the Auditor General posited that it is desirable that the Centre align itself in matters relating to public money with Government policies and procedures.

An official pointed out that the Centre was a new entity when the policies found by the Auditor General to be inappropriate were in effect. The Centre had established the salaries when it was new. The pay scales had been set based on the advice of external consultants and the Atlantic Canada 80/20 ratio and were consistent with best practice at the time. They were aligned with the compensation of such organizations as NALCO, Memorial University and the Rural Development Corporation all entities which received public funding.

The CEO informed the Committee that the Centre is now working with Government to re-evaluate its personnel. Of twenty-four compensation policies the Centre has submitted twenty to Government which are aligned with Government policy. The remaining four will be submitted when their re-evaluation is finished.

Officials informed the Committee that they were hopeful that they could retain or recruit the necessary personnel given the twenty percent increases to Government pay scales, their move from a project-based to an operational mode

and the existence of Government's market adjustment policy, which should enable the Centre to meet its retention and hiring requirements. The Board had been following its own strategy in order to address recruitment in a tight market.

### **External Consultants Hired**

The Auditor General reported that the Centre had engaged external consultants for significant periods of time at high daily rates and pointed out that outsourcing such work was not cost-effective.

The CEO explained that the Centre engages consultants in accordance with the *Public Tender Act* requirements. While the Centre uses in-house expertise when possible there are occasions, especially when it is in the middle of a project, when it has to go outside. This would be the case, when time is of the essence, when the Centre wants to mitigate the risk of failing to complete the project. The CEO added that the Centre had tried to recruit the capacity it needs in order to obviate the need to use external experts. In response to a question from a Committee member the CEO stated that the Centre always attempts to fill a vacancy with a permanent or temporary employee before contracting out and would continue this practice.

### **Governance**

The Auditor General reported that the Board of directors was not complying with the legislation in that there had been no representative of the Department on the Board for a period of time. The Board had failed to replace a chairman who had resigned and had failed to establish selection criteria to be considered by the Lieutenant Governor in Council when appointing Board members. The Chair of the Board told the Committee that the Centre had made the changes the Auditor General had recommended: There is now a permanent Chair; there is a representative of the Department of Health and Community Services on the Board and in accordance with a comment of the Auditor General, rather than a recommendation, the CEO is no longer a voting member of the Board.

## FINDINGS AND RECOMMENDATIONS

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It is clear from the information provided to the Committee at the hearings that the Centre for Health Information was following its own policies respecting the hiring and remuneration of its employees, which it is permitted to do, when the review was carried out by the Auditor General. The deficiencies found by the Auditor General were widespread in the organization, were numerous and many were not in accordance with or were in direct opposition to Government policy. The Committee agrees with the Auditor General's opinion, however, that notwithstanding the fact that the Centre has a certain amount of autonomy, the organization, which is in receipt of public funding, should align its policies with those of other Government-funded entities. Since the Minister of Health and Community Services advised the Centre in June of 2012 that the Centre must align certain of its policies with those of Government it is incumbent on the Centre to implement this directive. The Centre has accepted the recommendations of the Auditor General and officials have said that they have implemented or are in the process of making the required changes:

Officials have stated that

- there would be no further upscale hiring;
- the Centre would align completely with Government compensation policies including the compensation of the CEO;
- the Centre had submitted Board policies to Government for approval and that the Centre's policy language in respect of step increases will reflect the language of government policy;
- the salary levels are commensurate with those of other publicly-funded entities and the Centre is working with Government on a road map (which was to be completed in March 2013) to ensure that all policies are aligned with Government policies;
- the Centre attempts to hire internally before resorting to outside hires and

- the changes recommended by the Auditor relating to the governance of the Centre have been implemented.

The Committee looks forward to the biennial follow-up audit of the Centre by the Auditor General which will ascertain whether they recommendations have been implemented.

### **RECOMMENDATION**

The Committee recommends that the Centre complete the process of aligning its policies with those of core Government in respect of compensation and benefits.





**Paragraph 3.8 – Western Regional Health Authority  
Department of Health and Community Services**



## Introduction

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The Committee met on May 10<sup>th</sup> and October 16th, 2013 to review the Report of the Auditor General on Reviews of Government Department Agencies 2012 and selected Part 3.8 – Western Health Authority for further investigation in light of the Auditor General Report and the answers of the Department of Health and Community Services to written questions from the Committee. The following is a summary of the findings reported by Auditor General and the evidence and findings of the Committee arising out of the information provided by the witnesses at two public hearings.

### Auditor General's Findings

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**Reference:**

Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies 2012  
<http://www.ag.gov.nl.ca/ag/annualReports/2012AnnualReport/AR2012.pdf> pp.201-251

#### Executive Summary

The Western Regional Health Authority (the Authority) is responsible for the management and control of the operations of acute and long term care facilities as well as community health services in the western region of the Province of Newfoundland and Labrador. The Authority's geographical boundaries are from Port aux Basques southeast to Francois, northwest to Bartlett's Harbour, and on the eastern boundary north to Jackson's Arm. Within this geographical region, the Authority serves approximately 79,460 residents.

Our review identified issues relating to:

- human resource practices including recruitment, compensation, and monitoring and control of leave and overtime;

- the management and control of expenditures relating to travel, relocation and cell phones;
- non-compliance with the Public Tender Act; and
- the monitoring and control of capital assets and vehicle fuel credit cards.

## Human Resources

The Authority's human resource practices were not always consistent with those established by Government, hiring and compensation practices were sometimes either inconsistent or in excess of those approved by Government. In addition, we identified inadequate documentation in some competition and personnel files and compensation errors. For example:

### Recruitment

Our review of job competitions identified instances where employees were hired without an interview or ranking of candidates, and where there was incomplete documentation on file.

### Employee Compensation

Our review identified instances where:

- The required personnel documentation was not always on file;
- The Authority did not always comply with Government's and/or its own classification of position policies;

- The Authority did not always place employees on the correct step of the applicable pay scale or give employees the proper step progression;
- There were errors related to the determination of particular employees' compensation;
- The Authority made payments related to in-charge pay, car allowances, and education allowances that were not consistent with Government policy; and
- Severance pay was overpaid in both the 2011 and 2012 fiscal years.

#### Employment Contracts

The Authority did not have the current employment contract of the Chief Executive Officer approved by the Department of Health and Community Services and provided benefits to some physicians in excess of Government policy.

#### Other Human Resources Issues

Government policy states that preference should be given to hiring staff that are not in receipt of a Provincial pension. For the calendar year 2011 there were 47 employees being paid a pension and a salary from the Authority.

The Authority provided redundancy benefits in excess of Government policy.

#### Leave and overtime

Employee leave was not always approved, documented and recorded correctly. In addition, in some regions the Authority incurred high overtime costs.

## Expenditures and Tendering

### Travel and relocation

Reimbursement by the Authority for relocation expenses was not always consistent with Government's relocation policy and the required return-in-service agreements were not always prepared accurately, signed, and approved.

### Cell phones

The Authority was not adequately monitoring the usage and costs of its 519 cell phones and was not maintaining an inventory listing of cell phones or an up-to-date policy.

### Public Tender Act

The Authority did not always comply with the requirements of the Public Tender Act and Regulations.

### Capital Assets

Controls over the Authority's capital assets were not adequate which could result in missing assets not being detected.

The Authority did not adequately monitor the usage and associated costs of its 41 vehicles.

The Authority did not comply with its Residential Property guidelines on rental rates and signed lease agreements or regularly monitor its residential occupancy. As well, the Authority did not monitor non-owned and owned residential and non-residential lease agreements.

## **Public Accounts Committee Review**

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### Reference

Proceedings of the Public Accounts Committee October 16, 2013

[http://www.assembly.nl.ca/business/committees/ga47session2/2013-10-16\(PAC-WesternRegionalHealthAuthority\).htm](http://www.assembly.nl.ca/business/committees/ga47session2/2013-10-16(PAC-WesternRegionalHealthAuthority).htm)

### **SUMMARY OF EVIDENCE**

#### **Opening remarks of the CEO of the Western Regional Health Authority**

The Chief Executive Officer provided an overview of the history and current status of the Authority: Western Regional Health was formed in 2005, serves a population of 78,000 and has 3200 employees and 160 physicians. 73.5% of the Authority's budget is spent on patient care. Western Health inherited a \$31 million debt from its predecessor. In six of its eight years in existence the Authority has had a balanced budget and has reduced its debt to \$11.4 million, 63%

The Chief Executive Officer assured the Committee that the Authority takes the Auditor General's recommendations seriously and has taken steps to address the shortcomings found during the audit. It has established a working group to oversee the implementation of the recommendations. The CEO stated that the Authority had begun to make changes to its operations before the Auditor General had done his review: it had developed a health human resources review system, was aligning its policies and procedures with those established by Government and had improved internal controls. The Authority is also putting in place a process to ensure that interviews are conducted and the selection process complies with Government policy.

#### **Recruitment**

The Committee heard that the Authority had taken action to ensure recruitment files contain the required information: They have now developed a checklist and have given human resource staff recommendations and established processes to follow regarding the contents of files, in addition to relaying to them advice



received from the Public Service Commission on the matter. At the time of the hearing the Authority was planning to do an audit of a three-month period to ascertain if the files were in order.

### **Employee Compensation**

The Auditor General found that documentation was inadequate in some personnel files. Confidentiality forms were missing in some instances. The CEO advised that these forms are now being completed, and placed in files, for 97.8% of staff. Staff members who haven't signed the confidentiality oath are either call-in relief or on leave. Those employees have been advised that they would have to sign the form before returning to work.

There were cases in which documentation relating to employee qualifications was missing. The CEO told the Committee that the requirement to provide this information is on the checklist the Authority has developed.

In response to a question about the failure to carry out performance appraisals the CEO advised that all senior executive personnel have appraisals done annually and that the Authority is working on making improvements in this area. The Authority has simplified forms to this end and intends to make the matter a priority.

The Authority was paying car allowances to physicians and education allowances which were already recognized in pay scales, practices not in accordance with Government policy. The Committee was advised that these practices had been discontinued as had the provision of in-charge pay.

The review of the Auditor General found that the Authority had not been complying with Government's classification policy. The Committee was told that Western Health had implemented a classification job offer policy which had established guidelines to ensure all positions were classified.

The Authority is now rectifying the incorrect application of step progression. Officials are in the process putting in place an automated system which will make it unnecessary for employees to request their step progression. This system will be part of the Health and Human Resources Health Information System which will be used by the four health authorities in the Province. An Authority representative stated that the system should be in effect by the end of the fiscal year.

A member questioned the CEO on action taken on the recommendations of the Auditor General relating to recruitment and compensation. The Committee heard that recruitment practices were now in alignment with Government policy; compensation has been audited internally to ensure compliance with policy; the Authority is now auditing documentation against the checklist and job positions are approved by the Human Resource Secretariat as required.

### **Employment Contracts**

The Auditor General reported that when the contract of the CEO had expired on April 22<sup>nd</sup>, 2010 the Board Chair had extended it indefinitely by an amendment, pending the approval of a new contract. The CEO informed the Committee that her contract had been renewed and that in the interim the terms and conditions of the old contract had applied. A Member suggested that the Board should have approved, and documented the approval of, the extension. The CEO said that she would bring that recommendation to the Board.

The Auditor General reported that physician signing bonuses had been paid which were not in accordance with guidelines and a Memorandum of Agreement. The CEO advised that signing bonuses had been discontinued.

### **Other Human Resource Issues**

In the Report the Auditor General cited a Cabinet directive which requires that preference in hiring be given to persons not in receipt of a pension under various

Provincial pensions plans unless there is no other person qualified to fill the position and that exceptions to the policy be approved by Cabinet. The auditor's identified a number of persons receiving both pension and salary. The CEO informed the Committee that the Authority had not hired a permanent employee in receipt of a pension since the Auditor General's review although it had hired casual staff in this category when necessary. There is now a process in place which must be followed and officials continue to monitor such hiring.

A Committee member suggested to the CEO that the Authority should consider following the guidelines used by the Department of Education in hiring substitute teachers.

The Auditor General pointed out that the mechanism they adopt has to be practical: the process has to be one that gives unemployed persons a reasonable opportunity of employment but that the organization has to be able to operate.

In response to a question about the payment of benefits to an employee which was not in compliance with policy, the Vice President acknowledged that an error had been made, the error had been rectified and the policy had changed as a consequence.

### **Leave and Overtime**

The Auditor General identified weaknesses relating to approval, documentation and recording of overtime. The CEO informed the Committee that the Authority would implement an electronic scheduling system which would facilitate the leave request and approval process. Until the system is in place they will use leave slips. If the process is not followed the employee will not be paid. The Authority is now complying with policy in this matter.

### **Cell Phones**

The Auditor General commented on Western Health's need to improve the monitoring of cell phone usage and cost and to revise its cell phone policy, which is outdated. The Vice President, Finance acknowledged the validity of the Auditor General's findings on this matter. Western Health now has an electronic data base which tracks the cell phones. The Authority does audits regularly and has a much improved system, in the opinion of its officials.

### **Tendering of Goods and Services**

There were some instances reported by the Auditor General of failure to comply with certain provisions of the *Public Tender Act*. However the majority related to lack of documentation. The Committee and the Auditor General agreed that the violations were not serious. An official stated, however, that Western Health had made changes to tighten up the process and had communicated the amended requirements to the relevant employees.

### **Capital Assets**

In response to a question the Vice President, Finance told the Committee that the Authority did not have a Capital Asset ledger, which lack the auditors had identified as a weakness. The cost of establishing a ledger would be significant the Committee was told. However, the Authority does have a maintenance tracking system for its major equipment.

### **Motor Vehicles and Fuel Credit Cards**

A Committee member questioned Authority officials about their response to the Auditor General's findings relating to weak controls over vehicles and fuel purchases. The Authority advised that it is in the process of drafting policies relating to vehicle use and tracking and fuel purchases. Western Health has held off completing the process as it is waiting for Government to complete its strategic procurement process which will apply to Western Health. It is expected that that process will be finished in the near future.

## **Buildings, Furniture and Equipment**

A Committee member questioned the officials about insurance payments for properties which were no longer being leased. The Authority acknowledged the shortcoming and advised that it had made changes to ensure that there was better communication between persons responsible for insurance and those responsible for residential properties.

In respect of the housing inventory it was suggested that the Authority should consider looking for ways of deriving revenue from vacant units. The CEO said that she would bring the suggestion to the residential committee.

The auditors found that fuel tanks were not being registered as required. The Authority advise ethat they had rectified the errors once they had become aware of them,

The CEO was asked for her assessment of the progress made by the Authority since the review of the Auditor General. Dr. Gillam stated that the working group established to oversee the implementation of the report recommendations meets regularly and does an update on each item in the Auditor General report. While the group finds that some matters are more complex to deal with than others it is making progress. The Authority group has moved forward with auditing, and review processes. and expected to do an assessment on residential properties in the near future. Dr. Gillam stated that the Authority was committed to implementing the Auditor General recommendations.

## **FINDINGS AND RECOMMENDATIONS**

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### **FINDINGS**

The report of the Auditor General identified a significant number of matters which were in need of attention at the Western Health Authority. However the organization has acknowledged the need to make changes to address the recommendations and appears to have done so in respect of the majority of the weakness brought to its attention. The auditors noted that they had had a cordial relationship with the officials at Western Health who had answered all questions in a forthright manner. The Auditor General stated that in light of comments made by Authority officials at the hearing he expected to find that Western Health had made considerable progress in addressing the recommendations in the Report when his office does its follow-up review.

### **RECOMMENDATIONS**

The Committee recommends that the Authority continue its review and implementation of the recommendations of the Auditor General and that

- the board negotiate contracts with senior staff in a timely manner and that contract amendments be approved by the Board and minuted;
- the Authority consider setting up a detailed capital asset ledger;
- the Authority investigate the possibility of deriving income from using vacant residential and
- the Authority continue the work begun to improve the monitoring of cell phone usage and cost.



**Paragraph 3.11 – Department of Natural Resources  
Forestry Industry Diversification Programme**





## Introduction

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The Committee met on May 10th and 16th, 2013 to review the Report of the Auditor General 2012 and selected Part 3.11 – Forestry Diversification Program in light of the findings of the Auditor General and the Department's answers to written questions from the Committee. The following is a summary of the findings reported by Auditor General and the evidence and findings of the Committee arising out of the information provided by the witnesses at the public hearing.

### Auditor General's Findings

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#### Reference

Report of the Auditor General 2 to the House of Assembly on Reviews of Departments and Crown Agencies 2012  
<http://www.ag.gov.nl.ca/ag/annualReports/2012AnnualReport/AR2012.pdf> pp. 293-317

#### Executive Summary

The Forestry and Agrifoods Agency within the Department of Natural Resources (the Department) was responsible for administering the Forest Industry Diversification Program (the Program). The Program was established in 2008 to assist the forest industry to compete in the global economy and to identify and develop specific new products and market opportunities. The Program was to provide support for the stabilization of the forest industry including those existing operations which could provide satisfactory evidence of future viability and sustainability and encouraged the development, diversification and modernization of a sustainable forest industry in either the primary or secondary processing sectors.

As of March 31, 2012, the Department had provided a total of \$15.6 million in loans, equity and grants under the Program for four projects undertaken by three companies.

Our review identified that the Department did not always administer the Program in accordance with established guidelines or that Program guidelines were insufficient in other areas. Our review identified issues with regard to:

- Approval and Assessment of Applications;
- Payments; and
- Monitoring.

#### Approval and Assessment of Applications

We reviewed 3 approved projects and found a number of weaknesses in the approval and assessment process as follows:

- The application and business plan for Company A was incomplete and did not include required information regarding related companies, debts owing to the Province and a detailed market analysis.
- \$9 million in funding for Company A was approved even though the Department's assessment questioned the long-term viability of the project. In addition, the Department had not completed its assessment of the company's marketing plan for the approved project prior to \$8.9 million being provided to the company.
- The Department did not request Cabinet approval, as required, for a \$780,000 contribution to one project for Company B. Since the total contribution from the Program exceeded \$500,000, Cabinet approval was required.

- The Department approved funding of \$780,000 from the Program for a saw log production line although the technical diagnostic performed by an independent consultant did not include an assessment of this additional production line.

## Payments

Our review identified the following issues with the project funding and the payments made to the applicants:

- The Department did not always ensure that all sources of funding were confirmed or that the applicant's contribution was actually invested in the project prior to the disbursement of funds.
- The Department did not have adequate guidelines related to determining which expenditures were eligible under the Program. For example, the Department permitted the companies to submit invoices that were dated prior to the date the application was submitted and also prior to the date the funding agreement was signed.
- The Department reimbursed Company A approximately \$1 million related to claims that included the Harmonized Sales Tax (HST) on the invoices claimed. The HST was eligible for an input tax credit and was, therefore, recoverable from the Federal Government by the company. As a result, the Department paid the company approximately \$1.0 million that should not have been considered an eligible expense of the project.
- The Program guidelines did not include policies and procedures to address related party transactions to ensure that the transactions were at fair market value and, therefore, the Program contributions were reasonable.

- Although Program guidelines normally limit funding to 80% of a project's total cost, for two projects, the Program funding exceeded 80%. For one project the Department funded 100% of the total approved project costs and for a second project, the Department funded 84%.

### Monitoring

The Department was not adequately monitoring projects or business results to determine whether the applicants were in compliance with the terms and conditions of funding. Specifically, for Company A, additional debt was incurred and loans were provided to two related companies without written consent from the Department, as required.

The Department was not adequately monitoring each project outcome to determine if approved projects were a success or met the Program objectives. Specifically, the Program guidelines did not require applicants to report on the project final outcomes once the project was completed. Information such as the total project cost, employment generation, technologies created, economic benefits, or other performance measures were not captured and reported by the Department.

## Public Accounts Committee Review

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### Reference:

Proceedings of the Public Accounts Committee October 17, 2013 and February 18, 2014

[http://www.assembly.nl.ca/business/committees/ga47session2/pdfs/2013-10-](http://www.assembly.nl.ca/business/committees/ga47session2/pdfs/2013-10-17PACForestIndustryDiversificationProgram.pdf)

[17PACForestIndustryDiversificationProgram.pdf http://www.assembly.nl.ca/business/committees/ga47session2/2014-02-18\(PAC-FIDPContinued\).htm](http://www.assembly.nl.ca/business/committees/ga47session2/2014-02-18(PAC-FIDPContinued).htm)

## SUMMARY OF EVIDENCE

### Opening remarks of Departmental officials - background of the Forestry Diversification Programme

The projects on the Northern Peninsula which are the subject of this Part of the Report of the Auditor General s were funded in order to support the sawmilling industry which had experienced reverses. Corner Brook Pulp and Paper was no longer purchasing product from the area because it required a different species of wood from that available on the Northern Peninsula. In addition shipping costs from the area were not favourable. For those reasons Corner Brook Pulp and Paper was obtaining its raw product from areas closer to the mill. Government wanted to help sustain the 300 jobs on the Peninsula which depended on the forestry industry. The idea was to ensure that the sawmill industry, which is normally integrated with the pulp and paper industry, was independently sustainable. A Department official informed the Committee that the sawmill industry is now doing very well and has kept employment in the area at its traditional levels.

While the pellet plant is not operating at the moment officials say that they are optimistic about its future. The local market is improving: There are now approximately 1500 residential users and three industrial users in the Province. The industry has to contend with resistance to changing to new technology and concerns about stability of supply however. Also an official suggested it was probably naïve of the proponents, in making projections, to have factored in the

possibility that Government might change to pellet fuel for public buildings as fuel costs to Government are lower than those of private citizens.

## **APPROVAL AND ASSESMENT OF APPLICATIONS**

### **Application information incomplete**

An official told the Committee that the Department believed it had assessed the applications fully before any offer of funding was made although the original application might not have been complete. While money had also been released before the Department had received the final marketing plan officials had worked closely with the company in question ,and the Wood Pellet Association of Canada, and knew that the markets existed.

An official pointed out that the assessment of the applications was a three-step process which comprised a review and assessment by the committee struck to entertain proposals, a presentation of funding and a recommendation to Cabinet. The committee comprised officials from several Government Departments and agencies. The Minister of Natural Resources would have approved the projects for submission to Cabinet the Committee was told. Part of the process was a requirement for the proponent to carry out a mill diagnostic to evaluate the proposal. All information would have been included in the Cabinet paper including information on risks associated with the projects.

When asked why some of the processes which were necessary had not been followed an official stated that there was downturn in the economy and the industry and conditions were changing quickly. In those circumstances the Department was faced with the need to manage risk. While officials acknowledged that they could have obtained better information they believed that they had done the best they could in the prevailing circumstances.

### **Funding not properly approved**

The Auditor General reported that the Department had approved funding improperly when it had allowed funds already approved for a particular project to be transferred to another project to make up a shortfall in the second project.

The Department stated that officials believed that they did not require approval because one amount was below the limit for Cabinet approval and the other had been approved, albeit for a different project. The Auditor General maintained, when asked to comment, that the end result was a project larger in scope than originally proposed, exceeded the amount for which Cabinet approval was not required, and should have been submitted to Cabinet for approval.

### **Business plan incomplete**

Respecting the finding that the business plan for Company A was incomplete the Department informed the Committee that the information was provided during the presentation of funding step of the assessment process. The net worth statement which was missing from the original application was provided before the presentation of funding stage.

### **Marketing**

The Auditor General found that the marketing section of the business plan was weak. The Department agreed. An official stated that the Department knew from their own analysis what the market potential was but found that the plan submitted failed to address that potential so they requested more information from the company. In response to a Committee member's question a Department official stated that Cabinet would have been aware of the deficiency in the marketing plan. That is why the Department requested additional information.

The Auditor General noted that Company A's proposal did not address the costs of shipping and storage of their product which is a factor in the failure of the plant



to operate. The Department responded that the economics of the business had changed in the global market since 2008 such that the business plan would have to be changed to meet those conditions.

There was considerable discussion about the Departments' payment to Company A of a claim for HST to which they were not entitled as it was recoverable by the Company from the federal government. The Department acknowledged that this finding was accurate and that an error had been made. An official pointed out however that the Forestry Industry Diversification Project guidelines did not address the matter of inclusion/exclusion of taxes on total project costs. The reimbursement has been reinvested in the project. A Committee member suggested that the \$1 million HST reimbursement could not be considered a contribution of the proponent as it was not the company's money.

The Auditor General agreed that the company had received \$1 million more than they would have received if the HST had been identified earlier.

The Department does acknowledge that while it believed the assessment was rigorous there were oversights and there is a need to develop an accountability framework to measure progress made. The Department will take into consideration lessons learned and will adhere to all guidelines in the future..

The Auditor General responded to a member's question about his reaction to the comments of Department officials regarding measures taken and to be taken in response to the Auditor General's findings. Mr. Paddon pointed out that it would be difficult to comment since the programme has been discontinued, adding that he was not questioning their desire to make improvements.

### **Cost estimates lacking in scope**

The Auditor General reported that cost estimates were lacking in scope, that this had resulted in cost over runs and that in some cases only one estimate had been obtained. The Department agreed that there was room for improvement in this area. In the case of the estimate from one source only the official speculated that there was only one company which could provide the estimate. On the matter of the lack of scope of the estimates the official suggested that the complexity of the project would have been a factor in creating problems identified by the auditors in this area.

### **Payments - Eligibility of expenditures**

Concerning the guidelines for determining eligibility of expenditures under the programme an official stated that the Department had informed the proponent that certain expenditures might be eligible but made it clear that the proponent was assuming the risk that they might not be allowed. The reason for allowing these expenditures was the opportunity that arose, because of a downturn in the industry in Quebec, for the proponents to purchase equipment at a discounted rate. The Department assessed the invoices to ensure that the purchases were relevant to the project. Expenditures could be made only after the application had been approved. The Committee was told that the company was able to save in excess of a million dollars in the purchase of some equipment for the project which the Department believed to be good fiscal management.

A Committee member enquired if Cabinet would have been informed that expenditures had been made before the project had been approved. The Department explained that the proposal would have contained information on the total cost of the project but that matters such as funding eligibility would have been made later by the committee.

Company A was found to have claimed, and to have been paid, an amount which was also submitted to and paid by another Department. The Department agreed

that the claim had been paid twice in error. The final financial tracking of the project identified the mistake. The official added that there were approximately 1800 invoices to review on the part of the project in question.

### **Sources of funding not confirmed**

The auditor found that the Department had not always ensured that sources of funding were confirmed, or that the applicant's contribution had been invested before disbursement. An official acknowledged this to be the case. However, he told the Committee, the Department had allowed some flexibility because of the changing conditions in which they were operating. The Department stated that in the end the contributions had been made and sometimes exceeded.

A Committee member disputed this assertion, agreeing with the Auditor General's finding that much of the funding claimed as part of the contribution of the applicant related to amounts claimed for expenditures. The Auditor General had reported that the proposal for Company A had indicated an investment of \$458,000 by the proponent. The listing provided by the proponent to support the contribution (totalling \$399,885 as of May, 2011) included \$129,749 related to the purchase of equipment and a plant manager's salary, amounts that had been claimed, and allowed as eligible expenses by the Department. The subtraction of that amount reduced the amount contributed by the proponent to \$270,136. In addition, given the HST reimbursement to the Company for government-funded costs, it appeared that the Company had actually contributed none of its own funds. The Department however maintained that the proponent had contributed \$2.9 million. When asked about the supporting documentation for the contribution in excess of the amount in the proposal the Department stated that while it did not have a ledger it had a spreadsheet showing the expenditures for which there were invoices. An official informed the Committee that the Department had written verification from the proponent's accounting firm of the \$2.9 million spent over and above the original contribution.

The Auditor General also reported that there had been no written confirmation of the \$1.2 million potential contribution from ACOA. The ACOA contribution was reduced to \$444,000 after the project was approved.

The Department said that it could and would request the invoices in support of the proponent's contribution from the Company.

### **Wood inventory not being processed**

The Auditor General expressed concern about the amount of time being taken to process the wood inventory. The Committee was told that the integrity of the wood inventory depended on a number of variables but that the Department was confident that the wood on hand was still viable. When asked about audits an official stated that while they do not do formal audits they do monitor projects through site visits. Wood pellet companies have expressed interest in wood piles that are ten to fifteen years old.

### **Monitoring Program objectives**

A Committee member questioned whether the programme objectives had been met. An official suggested that they had in that there is a facility although there are challenges in respect of Company A, which the Department is addressing with the Company; the operations of the other sawmills have been improved; the businesses are competitive especially with their counterparts in the Maritimes and Eastern Canada and the improvements have sustained employment in the area. The Committee member agreed that in spite of missteps the industry was at a turning point.

An official said that while the he Department monitors the projects through contact with the proponents it would have to take a systematic approach in order to obtain a comprehensive perspective of the results. It was suggested that a sociological study would be the best approach and that it would have to be done

when the project is complete. An official stated that he thought it would be valuable to do such a study.

### **Additional debt incurred without consent**

Despite the fact that the monitoring procedures required by the agreements, application and offers of funding specified that changes to underlying conditions required departmental approval the Auditor General reported that Company A had increased its debt without prior written approval and that a related security agreement between the Province and Company had not been concluded when the loan agreement was signed. The Department agreed that it had been unaware of one of the debts incurred by the Company which officials acknowledged they should have known about. The agreement had still not been signed at the time of the hearing. The Committee were told that the ramifications for the Department were nil as the security had to be transferred to the federal agency making the loan.

### **Monitoring of project employment**

The Auditor General had found that the Department was not monitoring employment created and maintained to ascertain whether the projects were achieving their goals. The Department agreed that although it was in constant contact with the proponents it had not documented the effects on employment. An official stated that it would be valuable to carry out such an analysis.

### **Loan made without prior consent**

It is a condition of the Offer of Funding for Company A that the company was not permitted to make loans or investments in or on behalf of others without prior written consent of the Department. The Auditor General reported that Company A had made loans to companies owned in whole or in part by the principal of Company A. The Department stated that the transaction was a management fee paid to the other company which should have been identified as a receivable. The Auditor General said that he was not aware that that was the nature of the

payment. When asked if it was acceptable for one company to charge a related company a management fee the Auditor General replied that it was acceptable if there was legitimate work being done.

A Committee member questioned the character of the payment to the related companies. He suggested that it was disingenuous of the proponent to allow the Auditor General's comments on the matter to stand without comment until making the correction at the Public Accounts Committee hearing.

### **Cost overruns**

A Committee member asked why the final cost of the project had exceeded the estimates. The answer given was that the reduction in the ACOA grant was an important factor. The quotes on equipment which was imported from the USA were lower than the actual costs of purchase and transportation; Company A realized after the original proposal, which was for one pelletizer, was made that it would need two. That change added considerably to the cost.

### **Other**

The Department replied to a member's question about whether or not there was a purchase agreement in place for wood pellets. The Department advised that there was a term sheet which had been signed with a company in Europe but that there would be no agreement until pellets had been produced because contracts are based on the BTU value of the product.

When asked by a Committee member if the Department would do things differently another time an official stated that it would: in particular the Department would improve monitoring, would reallocate resources and would set up a better accountability framework.

A Committee member asked the Department whether there had been an analysis done of the cost of shipping the product from the plant. The Department stated

that the applicant had done an analysis. The member suggested that the Department should have done its own analysis given the investment being made by Government in the projects. Officials agreed in hindsight that they should have although at the time they found that the information provided by the applicant was consistent with other shipping costs.

### **Documentation requirements**

A Committee member posited that some of the weaknesses identified by the Auditor General related to “red tape” which companies must deal with when they wish to avail of public funding for their projects. The member asked if there were any plans to simplify the requirements while ensuring the necessary information is provided. The Department agrees that there is room for improvements in the application and approval process which would make the process more “user friendly”.

## **FINDINGS AND RECOMMENDATIONS**

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### **FINDINGS**

The view of the Committee accords with that of the Auditor General in that there appears to have been to be many weaknesses in the processes followed in administering the Forestry Diversification Programme. While the concept is a good one and there have been some improvements made to infrastructure the deficiencies in the processes leave room for doubt about the cost/benefit.

### **RECOMMENDATIONS**

The Committee recommends that the Department

- perform an analysis of the impact on the economy of the Northern Peninsula of the investments made under the Programme;
- review the administrative requirements for applicants for Government programmes in order to simplify the process;
- review the documentation in support of the contribution of the proponent of Company A;
- continue to explore storage and docking possibilities on the Northern Peninsula;
- develop an accountability framework which will enable officials compare programme objectives to outcomes in order to measure the progress/success of projects they fund, and continue to make visits to the pellet plant to ensure the project is properly secured and maintained.